MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2020

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note		March 31, 2020		December 31, 2019
ASSETS					
Cash and cash equivalents		$	156,515	$	118,973
Trade and other receivables	3		657,076		560,976
Inventories	4		531,802		383,682
Prepaid expenses and deposits			31,891		25,846
Income taxes recoverable			7,264		16,783
TOTAL CURRENT ASSETS			1,384,548		1,106,260
Property, plant and equipment	5		1,685,366		1,541,895
Right-of-use assets	6		199,719		188,378
Deferred tax assets			204,386		165,890
Intangible assets	7		57,387		54,787
Investments	8		36,406		37,085
TOTAL NON-CURRENT ASSETS			2,183,264		1,988,035
TOTAL ASSETS		$	3,567,812	$	3,094,295
LIABILITIES					
Trade and other payables	9	$	918,590	$	728,787
Provisions	10		26,916		8,584
Income taxes payable			3,332		7,477
Current portion of long-term debt	11		16,567		15,651
Current portion of lease liabilities	12		32,734		28,247
TOTAL CURRENT LIABILITIES			998,139		788,746
Long-term debt	11		854,640		765,922
Lease liabilities	12		187,791		174,105
Pension and other post-retirement benefits			81,066		63,789
Deferred tax liabilities			108,952		83,310
TOTAL NON-CURRENT LIABILITIES			1,232,449		1,087,126
TOTAL LIABILITIES			2,230,588		1,875,872
EQUITY					
Capital stock	14		658,948		661,422
Contributed surplus			43,053		42,449
Accumulated other comprehensive income			191,455		89,107
Retained earnings			443,768		425,445
TOTAL EQUITY			1,337,224		1,218,423
TOTAL LIABILITIES AND EQUITY		$	3,567,812	$	3,094,295

Contingencies (note 19)

Subsequent events (notes 8 and 11)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Terry Lyons" Director

Martinrea International Inc.

Interim Condensed Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts) (unaudited)

	Note	Three months ended March 31, 2020	Three months ended March 31, 2019
SALES		$ 872,706	$ 1,023,161
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(702,486)	(822,231)
Depreciation of property, plant and equipment and right-of-use assets (production)		(49,983)	(43,429)
Total cost of sales		(752,469)	(865,660)
GROSS MARGIN		120,237	157,501
Research and development costs		(9,453)	(9,289)
Selling, general and administrative		(57,408)	(60,858)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,871)	(3,465)
Amortization of customer contracts and relationships		(300)	(537)
Gain on disposal of property, plant and equipment		-	111
OPERATING INCOME		49,205	83,463
Share of loss of an associate	8	(700)	-
Finance expense	16	(9,462)	(9,796)
Other finance income (expense)	16	1,130	(14)
INCOME BEFORE INCOME TAXES		40,173	73,653
Income tax expense	13	(11,210)	(18,385)
NET INCOME FOR THE PERIOD		$ 28,963	$ 55,268

Basic earnings per share	15	$ 0.36	$ 0.66
Diluted earnings per share	15	$ 0.36	$ 0.66

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars, except per share amounts) (unaudited)

	Three months ended March 31, 2020	Three months ended March 31, 2019
NET INCOME FOR THE PERIOD	$ 28,963	$ 55,268
Other comprehensive income (loss), net of tax:		
Items that may be reclassified to net income		
Foreign currency translation differences for foreign operations	107,886	(28,038)
Cash flow hedging derivative and non-derivative financial instruments:		
Unrealized gain (loss) in fair value of financial instruments	(5,759)	2,038
Reclassification of loss to net income	195	371
Items that will not be reclassified to net income		
Change in fair value of investments	-	(776)
Transfer of unrealized gain on investments to retained earnings on change in accounting method	-	(4,314)
Share of other comprehensive income of an associate	26	-
Remeasurement of defined benefit plans	(5,749)	1,085
Other comprehensive income (loss), net of tax	96,599	(29,634)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 125,562	$ 25,634

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
BALANCE AT DECEMBER 31, 2018	$ 680,157	$ 42,016	$ 158,395	$ 270,981	$ 1,151,549
Net income for the period	-	-	-	55,268	55,268
Compensation expense related to stock options	-	314	-	-	314
Dividends ($0.045 per share)	-	-	-	(3,724)	(3,724)
Exercise of employee stock options	1,294	(372)	-	-	922
Repurchase of common shares	-	-	-	(2,464)	(2,464)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	1,085	1,085
Foreign currency translation differences	-	-	(28,038)	-	(28,038)
Change in fair value of investments	-	-	(776)	-	(776)
Transfer of unrealized gain on investments to retained earnings on change in accounting method			(4,314)	4,314	-
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	-	-	2,038	-	2,038
Reclassification of loss to net income	-	-	371	-	371
BALANCE AT MARCH 31, 2019	681,451	41,958	127,676	325,460	1,176,545
Net income for the period	-	-	-	125,953	125,953
Compensation expense related to stock options	-	881	-	-	881
Dividends ($0.135 per share)	-	-	-	(11,014)	(11,014)
Exercise of employee stock options	1,387	(390)	-	-	997
Repurchase of common shares	(21,416)	-	-	(10,088)	(31,504)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	(4,866)	(4,866)
Foreign currency translation differences	-	-	(41,157)	-	(41,157)
Share of other comprehensive income of an associate	-	-	(26)	-	(26)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	-	-	1,697	-	1,697
Reclassification of loss to net income	-	-	917	-	917
BALANCE AT DECEMBER 31, 2019	661,422	42,449	89,107	425,445	1,218,423
Net income for the period	-	-	-	28,963	28,963
Compensation expense related to stock options	-	604	-	-	604
Dividends ($0.050 per share)	-	-	-	(3,998)	(3,998)
Repurchase of common shares	(2,474)	-	-	(893)	(3,367)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	(5,749)	(5,749)
Foreign currency translation differences	-	-	107,886	-	107,886
Share of other comprehensive income of an associate	-	-	26	-	26
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(5,759)	-	(5,759)
Reclassification of loss to net income	-	-	195	-	195
BALANCE AT MARCH 31, 2020	$ 658,948	$ 43,053	$ 191,455	$ 443,768	$ 1,337,224

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars, except per share amounts) (unaudited)

	Three months ended March 31, 2020	Three months ended March 31, 2019
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net Income for the period	$ 28,963	$ 55,268
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	53,854	46,894
Amortization of customer contracts and relationships	300	537
Amortization of development costs	2,818	3,128
Unrealized loss on foreign exchange forward contracts	108	583
Loss on warrants	-	581
Finance expense (including interest on lease liabilities)	9,462	9,796
Income tax expense	11,210	18,385
Gain on disposal of property, plant and equipment	-	(111)
Deferred and restricted share units expense (benefit)	(4,180)	2,132
Stock options expense	604	314
Share of loss of an associate	700	-
Pension and other post-retirement benefits expense	1,250	1,023
Contributions made to pension and other post-retirement benefits	(812)	(1,258)
	104,277	137,272
Changes in non-cash working capital items:		
Trade and other receivables	(1,537)	(112,987)
Inventories	(44,260)	16,067
Prepaid expenses and deposits	(1,891)	(2,952)
Trade, other payables and provisions	46,607	61,775
	103,196	99,175
Interest paid	(9,921)	(10,584)
Income taxes paid	(11,743)	(28,465)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 81,532	$ 60,126
FINANCING ACTIVITIES:		
Increase in long-term debt	56,428	81,420
Repayment of long-term debt	(4,090)	(4,081)
Principal payments of lease liabilities	(7,365)	(7,275)
Dividends paid	(3,612)	(3,817)
Exercise of employee stock options	-	922
Repurchase of common shares	(3,367)	(26,335)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 37,994	$ 40,834
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment (excluding capitalized interest)*	(74,054)	(77,418)
Business acquisition (note 2)	(26,044)	-
Cash acquired in business acquisition (note 2)	15,541	-
Capitalized development costs	(1,783)	(2,316)
Investment in NanoXplore Inc.	-	(14,999)
Proceeds on disposal of property, plant and equipment	266	483
NET CASH USED IN INVESTING ACTIVITIES	$ (86,074)	$ (94,250)
Effect of foreign exchange rate changes on cash and cash equivalents	4,090	(425)
INCREASE IN CASH AND CASH EQUIVALENTS	37,542	6,285
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	118,973	70,162
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 156,515	$ 76,447

*As at March 31, 2020, $38,484 (December 31, 2019 - $49,120) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables and provisions.

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc. (the "Company") was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems.

1. BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2019, except as outlined in note 1(e).

(b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2019.

(c) COVID-19 pandemic

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 a global pandemic and recommended various containment and mitigation measures. Since then, extraordinary actions have been taken by public health and governmental authorities across the globe to contain the spread of COVID-19, including travel bans, social distancing, quarantines, stay-at-home orders and similar mandates for many businesses to curtail or cease normal operations.

As a result of the COVID-19 global pandemic, in the middle of March, the Company's OEM customers essentially idled their manufacturing operations in regions around the world, other than China, where manufacturing operations were suspended in January and February, but resumed in March. Martinrea, along with essentially the rest of the automotive supply chain generally, followed its customers and also temporarily idled most of its manufacturing operations outside of China in March. This suspension of manufacturing operations and rapid dissipation of customer demand had a negative impact on the Company's financial results during the second half of March and continued into the second quarter. Although the potential magnitude and duration of the business and economic impacts of COVID-19 are uncertain, a phased restart of the Company's manufacturing facilities and dependent functions is currently expected to commence in May and June 2020, aligned with current OEM restart plans as OEMs prepare to begin producing vehicles again.

The COVID-19 pandemic is expected to have an adverse effect on our business, results of operations, cash flows and financial position however, the full impact cannot be determined at this time. The extent of the impact will depend on various factors, including the ultimate duration of the shutdowns, its impact on customers, the rate at which economic conditions, operations and demand for vehicles return to pre-COVID levels, any continued or future governmental orders or lock-downs due to this wave of COVID-19, or any future wave, and the potential for a recession in key markets due to the effect of the pandemic.

Use of estimates and judgments:

The preparation of the interim condensed consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, sales and expenses, and related disclosures with respect to contingent assets and liabilities. Actual results may differ from these estimates. As a result of the continued and uncertain economic and business impact of the COVID-19 pandemic, management has reviewed the estimates, judgments and assumptions used in the preparation of the interim condensed consolidated financial statements, including with respect to: the determination of whether indications of any asset impairment exist and the discount rates applied to the Company's pension obligations. Although no significant revision to such estimates, judgments, or assumptions were required for the first quarter of 2020, revisions may be required in future periods to the extent that the negative impacts on the business arising from COVID-19 continue or worsen. Any such revision (due to COVID-19 or otherwise) may result in, among other things, write-downs or impairment to assets, and/or adjustments to the carrying amount of accounts receivable and/or inventories, or to the valuation of deferred tax assets and/or pension assets or obligations, any of which could have a material impact on results of operations and financial position.

(d) Presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

(e) Recently adopted and applicable accounting standards and policies

Amendments to IFRS 9, Financial Instruments ("IFRS 9") and IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39")

On September 26, 2019, the IASB issued amendments for some of its requirements for hedge accounting in IFRS 9, Financial Instruments and IAS 39, Financial Instruments: Recognition and Measurement, as well as the related standards on disclosures, IFRS 7, Financial Instruments: Disclosures. The amendments are effective from January 1, 2020. The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by interest rate benchmark reform in the following areas:

- the 'highly' probable requirement,
- prospective assessments,
- retrospective assessments (for IAS 39), and
- eligibility of risk components.

The adoption of the amendments to these standards did not have a material impact on the interim condensed consolidated financial statements in the current or comparative periods.

Amendments to IFRS 3, Business Combinations

On October 22, 2018, the IASB issued amendments to IFRS 3, Business Combinations that seek to clarify whether a transaction results in an asset or a business acquisition. The amendments apply to businesses acquired in annual reporting periods beginning on or after January 1, 2020.

The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. If a preparer chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.

The adoption of the amendments to this standard did not have a material impact on the interim condensed consolidated financial statements in the current or comparative periods.

IFRS 3, Business Combinations

For every business combination, the Company identifies the acquirer, which is the combining entity that obtains control of the other combining entities or businesses. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Company takes into consideration potential voting rights that currently are exercisable. The acquisition date is the date on which control is transferred to the acquirer. Judgement is applied in determining the acquisition date and determining whether control is transferred from one party to another.

Measuring goodwill:

In a business combination, the Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquired entity, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as at the acquisition date.

Consideration transferred includes the fair values of the assets transferred, including cash, liabilities incurred by the Company to the previous owners of the acquiree, and equity interests issued by the Company. Consideration transferred also includes contingent consideration and share-based payment awards exchanged in the business combination. Payments that effectively settle pre-existing relationships between the Company and the acquiree, payments to compensate employees or former owners for future services, and a reimbursement of transaction costs incurred by the acquiree on behalf of the Company are not accounted for as part of the business combination.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

Transaction costs that the Company incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, are excluded from acquisition accounting, and are expensed as incurred.

Contingent liabilities:
Contingent liabilities that are present obligations that arose from past events are recognized at fair value at the acquisition date.

2. ACQUISITION

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa S.A, de C.V. The Company acquired certain assets and liabilities in Mexico and 100% of the outstanding shares of entities in the other jurisdictions. The operations acquired by the Company specialize in a wide variety of metal forming technologies, including chassis components such as cradles, control arms, and trailing arms; body components such as side rails, A and B pillars, door beams, wheel housing and bumpers; and several other components such as fuel tanks. The operations also have some leading edge technologies in multi-material joining further promoting Martinrea's lightweighting strategies. The acquisition adds six manufacturing facilities to the Martinrea footprint, including facilities in Germany, the United States, Mexico, South Africa, and two in China. The largest customers of the acquired business are Daimler, BMW, Volkswagen and Audi.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3, Business Combinations, with the results of operations consolidated with those of the Company effective March 2, 2020 and has contributed incremental sales of $28,674 and an operating loss of $1,318 for the three months ended March 31, 2020.

The preliminary purchase price for the transaction was US $19,500 ($26,044), inclusive of working capital less cash on hand, and on a debt free basis. The preliminary purchase price is subject to certain adjustments post-closing to be finalized over the coming months.

The purchase price allocation has been done on a preliminary basis taking into account all relevant information available at the time these interim condensed consolidated financial statements were prepared.

The preliminary fair values of assets acquired and liabilities assumed in the acquisition are as follows:

		USD		CAD
Current assets (includes cash of US $11,636)	$	114,730	$	153,233
Property, plant and equipment		14,436		19,281
Current liabilities (excluding current portion of lease liabilities and provisions)		(69,312)		(92,574)
Provisions		(19,455)		(25,984)
Lease liabilities		(4,197)		(5,605)
Pension and other post-retirement benefits		(5,066)		(6,766)
		31,136		41,585
Less: Cash on hand		(11,636)		(15,541)
Net preliminary consideration	$	19,500	$	26,044

The preliminary purchase price allocation is subject to change and may be subsequently adjusted to reflect final valuation results and finalization of the purchase price.

Included in SG&A expense is a total of $1,547 of acquisition related costs recognized as an expense in the three months ended March 31, 2020.

3. TRADE AND OTHER RECEIVABLES

		March 31, 2020		**December 31, 2019**
Trade receivables	$	631,976	$	542,409
Other receivables		25,100		18,149
Foreign exchange forward contracts not accounted for as hedges (note 18(d))		-		418
	$	657,076	$	560,976

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 18.

4. INVENTORIES

	March 31, 2020	December 31, 2019
Raw materials	$ 190,070	$ 144,570
Work in progress	53,399	41,976
Finished goods	55,256	38,956
Tooling work in progress and other inventory	233,077	158,180
	$ 531,802	$ 383,682

5. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2020			December 31, 2019		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 141,647	$ (25,947)	$ 115,700	$ 130,272	$ (23,203)	$ 107,069
Leasehold improvements	77,694	(47,836)	29,858	74,634	(45,243)	29,391
Manufacturing equipment	2,444,859	(1,261,517)	1,183,342	2,279,905	(1,158,116)	1,121,789
Tooling and fixtures	39,871	(34,651)	5,220	37,419	(32,287)	5,132
Other assets	69,271	(39,746)	29,525	66,732	(37,149)	29,583
Construction in progress	321,721	-	321,721	248,931	-	248,931
	$ 3,095,063	$ (1,409,697)	$ 1,685,366	$ 2,837,893	$ (1,295,998)	$ 1,541,895

Movement in property, plant and equipment is summarized as follows:

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress	Total
Net as of December 31, 2018	$ 107,560	$ 28,841	$ 922,859	$ 6,460	$ 32,513	$ 383,219	$ 1,481,452
Additions	-	-	-	-	-	312,511	312,511
Disposals	(1,526)	(68)	(3,498)	-	(33)	(109)	(5,234)
Depreciation	(3,929)	(4,363)	(153,905)	(1,071)	(7,260)	-	(170,528)
Impairment	-	(1,116)	(4,038)	-	(732)	(1,140)	(7,026)
Reclassification to right-of-use assets	-	-	(445)	-	-	-	(445)
Transfers from construction in progress	10,105	7,184	406,646	11	6,230	(430,176)	-
Foreign currency translation adjustment	(5,141)	(1,087)	(45,830)	(268)	(1,135)	(15,374)	(68,835)
Net as of December 31, 2019	107,069	29,391	1,121,789	5,132	29,583	248,931	1,541,895
Additions	-	-	-	-	-	63,964	63,964
Additions from acquisition (note 2)	-	-	-	-	-	19,281	19,281
Disposals	-	-	(224)	(10)	-	(32)	(266)
Depreciation	(977)	(1,218)	(42,030)	(250)	(1,816)	-	(46,291)
Transfers from construction in progress	2,010	260	27,753	-	447	(30,470)	-
Foreign currency translation adjustment	7,598	1,425	76,054	348	1,311	20,047	106,783
Net as of March 31, 2020	$ 115,700	$ 29,858	$ 1,183,342	$ 5,220	$ 29,525	$ 321,721	$ 1,685,366

(in thousands of Canadian dollars, except per share amounts) (unaudited)

6. RIGHT-OF-USE ASSETS

	March 31, 2020			December 31, 2019		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	$ 221,521	$ (37,958)	$ 183,563	$ 201,944	$ (29,991)	$ 171,953
Leased manufacturing equipment	21,916	(7,290)	14,626	20,360	(5,460)	14,900
Leased other assets	2,887	(1,357)	1,530	2,552	(1,027)	1,525
	$ 246,324	$ (46,605)	$ 199,719	$ 224,856	$ (36,478)	$ 188,378

	Leased buildings	Leased manufacturing equipment	Leased other assets	Total
Net as of December 31, 2018	$ -	$ -	$ -	$ -
Initial recognition of right-of-use assets upon transition to IFRS 16	207,651	14,226	1,909	223,786
Reclassification from property, plant and equipment upon adoption of IFRS 16	-	445	-	445
Additions	372	6,311	608	7,291
Depreciation	(24,540)	(5,331)	(922)	(30,793)
Lease termination	(252)	(51)	-	(303)
Impairment	(6,462)	-	(10)	(6,472)
Foreign currency translation adjustment	(4,816)	(700)	(60)	(5,576)
Net as of December 31, 2019	$ 171,953	$ 14,900	$ 1,525	$ 188,378
Additions	1,330	162	44	1,536
Lease modifications	5,883	-	-	5,883
Depreciation	(5,950)	(1,368)	(245)	(7,563)
Foreign currency translation adjustment	10,347	932	206	11,485
Net as of March 31, 2020	$ 183,563	$ 14,626	$ 1,530	$ 199,719

7. INTANGIBLE ASSETS

	March 31, 2020			December 31, 2019		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	$ 62,691	$ (61,128)	$ 1,563	$ 61,512	$ (59,759)	$ 1,753
Development costs	159,968	(104,144)	55,824	148,945	(95,911)	53,034
	$ 222,659	$ (165,272)	$ 57,387	$ 210,457	$ (155,670)	$ 54,787

(in thousands of Canadian dollars, except per share amounts) (unaudited)

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2018	$ 3,999	$ 66,932	$ 70,931
Additions	-	10,747	10,747
Amortization	(2,082)	(13,779)	(15,861)
Impairment	-	(2,487)	(2,487)
Upfront recovery of development costs incurred	-	(5,563)	(5,563)
Foreign currency translation adjustment	(164)	(2,816)	(2,980)
Net as of December 31, 2019	1,753	53,034	54,787
Additions	-	1,783	1,783
Amortization	(300)	(2,818)	(3,118)
Foreign currency translation adjustment	110	3,825	3,935
Net as of March 31, 2020	$ 1,563	$ 55,824	$ 57,387

8. INVESTMENTS

	March 31, 2020	December 31, 2019
Investment in common shares of NanoXplore Inc.	$ 36,406	$ 37,080
Warrants in NanoXplore Inc.	-	5
	$ 36,406	$ 37,085

As at March 31, 2020, the Company held 30,199,800 common shares of NanoXplore Inc. (“NanoXplore”) representing an approximate 25% equity interest in NanoXplore (on a non-diluted basis). NanoXplore Inc. is a publicly listed company on the TSX Venture Exchange trading under the ticker symbol GRA. It is a manufacturer and supplier of high volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions.

The Company applies equity accounting to its investment based on NanoXplore’s most recently publicly filed financial statements, adjusted for any significant transactions that occur thereafter and up to the Company’s reporting date which represents a reasonable estimate of the change in the Company’s interest.

	Investment in common shares of NanoXplore
Net balance as of December 31, 2019	$ 37,080
Share of loss for the period	(700)
Share of other comprehensive income for the period	26
Net balance as of March 31, 2020	$ 36,406

Subsequent to the quarter end, on April 2, 2020, the Company acquired an additional 3,846,200 common shares in NanoXplore pursuant to a private placement offering at a price of $1.30 per common share for an aggregate purchase price of $5,000. The Company continues to maintain an approximate 25% equity interest in NanoXplore.

As at December 31, 2019 the Company held 205,900 outstanding warrants in NanoXplore at an exercise price of $2.30 per share. These warrants expired in March 2020 unexercised.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

9. TRADE AND OTHER PAYABLES

	March 31, 2020	December 31, 2019
Trade accounts payable and accrued liabilities	$ 914,200	$ 728,000
Foreign exchange forward contracts not accounted for as hedges (note 18(d))	108	-
Foreign exchange forward contracts accounted for as hedges (note 18(d))	4,282	787
	$ 918,590	$ 728,787

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 18.

10. PROVISIONS

	Restructuring	Claims and Litigation	Total
Net as of December 31, 2018	$ 2,073	$ 3,320	$ 5,393
Net additions	8,165	3,500	11,665
Amounts used during the period	(5,860)	(2,166)	(8,026)
Foreign currency translation adjustment	(164)	(284)	(448)
Net as of December 31, 2019	4,214	4,370	8,584
Net additions	-	32	32
Additions from acquisition (note 2)	25,984	-	25,984
Amounts used during the period	(6,245)	(554)	(6,799)
Foreign currency translation adjustment	(356)	(529)	(885)
Net as of March 31, 2020	$ 23,597	$ 3,319	$ 26,916

Based on estimated cash outflows, all provisions as at March 31, 2020 and December 31, 2019 are presented on the interim condensed consolidated balance sheets as current liabilities.

11. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 18.

	March 31, 2020	December 31, 2019
Banking facility	$ 807,411	$ 716,452
Equipment loans	63,796	65,121
	871,207	781,573
Current portion	(16,567)	(15,651)
	$ 854,640	$ 765,922

Terms and conditions of outstanding loans, as at March 31, 2020, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	March 31, 2020 Carrying amount	December 31, 2019 Carrying amount
Banking facility	USD	LIBOR + 1.70%	2022	$ 481,559	$ 390,830
	CAD	BA + 1.70%	2022	325,852	325,622
Equipment loans	EUR	1.05%	2024	24,747	24,505
	CAD	3.80%	2022	21,612	23,594
	EUR	1.40%	2026	16,535	15,872
	EUR	1.36%	2021	605	858
	EUR	0.26%	2025	285	266
	BRL	5.00%	2020	12	26
				$ 871,207	$ 781,573

On July 23, 2018, the Company's banking facility was amended to extend its maturity date and enhance certain provisions of the facility. The primary terms of the amended banking facility, with a syndicate of ten banks, include the following:

- a move to an unsecured credit structure;

(in thousands of Canadian dollars, except per share amounts) (unaudited)

- improved financial covenants;
- available revolving credit lines of $370 million and US $420 million;
- available asset based financing capacity of $300 million;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to US $200 million;
- pricing terms at market rates and consistent with the previous facility;
- a maturity date of July 2022; and
- no mandatory principal repayment provisions.

As at March 31, 2020, the Company has drawn US $344,000 (December 31, 2019 – US $301,000) on the U.S. revolving credit line and $328,000 (December 31, 2019 - $328,000) on the Canadian revolving credit line. At March 31, 2020, the weighted average effective interest rate of the banking facility credit lines was 3.4% (December 31, 2019 - 3.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at March 31, 2020.

Deferred financing fees of $2,148 (December 31, 2019 - $2,378) have been netted against the carrying amount of the long-term debt.

Future annual minimum principal repayments as at March 31, 2020 are as follows:

		Scheduled principal repayments		**Scheduled amortization of deferred financing fees**		**Carrying amount of outstanding loans**
Within one year	$	17,488	$	921	$	16,567
One to two years		17,286		921		16,365
Two to three years		823,583		306		823,277
Three to four years		9,062		-		9,062
Thereafter		5,936		-		5,936
	$	873,355	$	2,148	$	871,207

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2018	$	740,717
Drawdowns		74,847
Loan proceeds		16,602
Repayments		(30,575)
Amortization of deferred financing fees		921
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16		(457)
Foreign currency translation adjustment		(20,482)
Net as of December 31, 2019	$	781,573
Drawdowns		56,428
Repayments		(4,090)
Amortization of deferred financing fees		230
Foreign currency translation adjustment		37,066
Net as of March 31, 2020	$	871,207

In light of the COVID-19 pandemic, the Company has enhanced its liquidity position by exercising the accordion feature incorporated in its banking facility and entered into a new loan agreement. The exercise was completed subsequent to the quarter-end on April 17, 2020, and increased the revolving credit lines available to the Company by another US $200,000 ($280,000), at interest rates approximately 25 basis points higher than the Company's existing credit lines.

On April 30, 2020, the Company finalized an equipment loan in the amount of € 6,600 ($10,286) repayable in monthly installments starting in 2021 over three years at a fixed annual interest rate of 2%.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

12. LEASE LIABILITIES

The Company enters into lease agreements for land and buildings, manufacturing equipment and other assets as a part of regular operations as a means of efficiently utilizing capital and managing the Company's cash flows.

Movement in the Company's lease liabilities is summarized as follows:

		Total
Net as of December 31, 2018	$	-
Initial recognition of lease liabilities upon transition to IFRS 16		228,623
Reclassification of equipment loans to lease liabilities upon adoption of IFRS 16		457
Net additions		7,580
Principal payments of lease liabilities		(27,898)
Termination of leases		(309)
Foreign currency translation adjustment and other		(6,101)
Net as of December 31, 2019	$	202,352
Net additions		1,536
Lease modifications		5,883
Additions from acquisition (note 2)		5,605
Principal payments of lease liabilities		(7,365)
Foreign currency translation adjustment and other		12,514
Net as of March 31, 2020	$	220,525

The maturity of contractual undiscounted lease liabilities as at March 31, 2020 is as follows:

		Total
Within one year	$	41,306
One to two years		38,125
Two to three years		33,655
Three to four years		31,254
Thereafter		116,818
Total undiscounted lease liabilities at March 31, 2020	$	261,158
Interest on lease liabilities		(40,633)
Total present value of minimum lease payments	$	220,525
Current portion		(32,734)
	$	187,791

13. INCOME TAXES

The components of income tax expense are as follows:

		Three months ended March 31, 2020		Three months ended March 31, 2019
Current income tax expense	$	(15,624)	$	(18,518)
Deferred income tax recovery		4,414		133
Total income tax expense	$	(11,210)	$	(18,385)

(in thousands of Canadian dollars, except per share amounts) (unaudited)

14. CAPITAL STOCK

Common shares outstanding:	Number		Amount
Balance as of, December 31, 2018	82,631,105	$	680,157
Exercise of stock options	115,500		1,294
Balance as of, March 31, 2019	82,746,605	$	681,451
Exercise of stock options	114,500		1,387
Repurchase of common shares under normal course issuer bid	(2,600,025)		(21,416)
Balance as of, December 31, 2019	80,261,080	$	661,422
Repurchase of common shares under normal course issuer bid	(300,185)		(2,474)
Balance as of, March 31, 2020	79,960,895	$	658,948

The Company is authorized to issue an unlimited number of common shares. The Company's shares have no par value.

Repurchase of capital stock

During the first quarter of 2020, the Company purchased for cancellation an aggregate of 300,185 common shares for an aggregate purchase price of $3,367, resulting in a decrease to stated capital of $2,474 and a decrease to retained earnings of $893. The shares were purchased for cancellation directly under the Company's normal course issuer bid (NCIB).

In light of the COVID-19 pandemic, the Company has temporarily suspended the repurchase of common shares under the NCIB, to be reassessed at a later date.

Stock options

The following is a summary of the activity of the outstanding share purchase options:

	Three months ended March 31, 2020			Three months ended March 31, 2019		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of period	3,010,700	$	12.57	2,430,700	$	11.46
Granted during the period	100,000		14.35	20,000		13.19
Exercised during the period	-		-	(115,500)		7.98
Balance, end of period	3,110,700	$	12.63	2,335,200	$	11.65
Options exercisable, end of period	1,541,700	$	11.05	1,545,200	$	10.77

The following is a summary of the issued and outstanding common share purchase options as at March 31, 2020:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$7.00 - 8.70	378,700	2010 - 2012	2020 - 2022
$10.40 - 12.63	852,000	2012 - 2014	2022 - 2024
$13.19 - 16.06	1,880,000	2015 - 2020	2025 - 2030
Total share purchase options	3,110,700		

The table below summarizes the assumptions on a weighted average basis used in determining stock-based compensation expense under the Black-Scholes-Merton option valuation model. The Black-Scholes-Merton option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's stock options are not transferable, cannot be traded and are subject to vesting and exercise restrictions under the Company's black-out policy which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The key assumptions, on a weighted average basis, used in the valuation of options granted are shown in the table below:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Expected volatility	33.24%	36.67%
Risk free interest rate	1.66%	2.19%
Expected life (years)	5.0	4.9
Dividend yield	1.23%	1.36%
Weighted average fair value of options granted	$ 4.09	$ 3.82

For the three months ended March 31, 2020, the Company expensed $604 (2019 - $314), to reflect stock-based compensation expense, as derived using the Black-Scholes-Merton option valuation model.

Deferred Share Unit ("DSU") Plan

The following is a summary of the issued and outstanding DSUs as at March 31, 2020 and 2019:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Outstanding, beginning of period	246,114	174,574
Granted and reinvested dividends	-	-
Redeemed	-	-
Outstanding, end of period	246,114	174,574

At March 31, 2020, the fair value of all outstanding DSUs amounted to $1,733 (March 31, 2019 - $2,202 and December 31, 2019 - $2,741). For the three months ended March 31, 2020, DSU compensation expense/benefit reflected in the interim consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $1,008 (2019 - expense of $396), recorded in selling, general and administrative expense.

Unrecognized DSU compensation expense as at March 31, 2020 was $303 (March 31, 2019 – nil and December 31, 2019 - $532), and will be recognized in profit and loss over the next three years as the DSUs vest.

Performance Restricted Share Unit ("PSU" and "RSU") Plan

The following is a summary of the issued and outstanding RSUs and PSUs for the three months ended March 31, 2020 and 2019:

	RSUs	PSUs	Total
Outstanding, December 31, 2018	289,210	289,210	578,420
Granted and reinvested dividends	25,274	25,274	50,548
Redeemed	-	-	-
Outstanding, March 31, 2019	314,484	314,484	628,968
Granted and reinvested dividends	228,133	228,133	456,266
Redeemed	(77,304)	(77,304)	(154,608)
Cancelled	(13,498)	(14,500)	(27,998)
Outstanding, December 31, 2019	451,815	450,813	902,628
Granted and reinvested dividends	18,522	18,522	37,044
Redeemed	-	-	-
Cancelled	-	-	-
Outstanding, March 31, 2020	470,337	469,335	939,672

The RSUs and PSUs granted during the three months ended March 31, 2020 and 2019 had a weighted average fair value per unit of $13.10 and $12.68, respectively, on the date of grant. For the three months ended March 31, 2020, RSU and PSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $3,172 (2019 - expense of $1,736), recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at March 31, 2020 was $2,556 (March 31, 2019 - $3,144 and December 31, 2019 - $5,835) and will be recognized in profit and loss over the next two years as the RSUs and PSUs vest.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The key assumptions used in the valuation of PSUs granted during the three months ended March 31, 2020 and 2019 are shown in the table below:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Expected life (years)	2.78	2.80
Risk free interest rate	0.95%	1.56%

15. EARNINGS PER SHARE

Details of the calculations of earnings per share are set out below:

	Three months ended March 31, 2020			Three months ended March 31, 2019		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	80,121,301	$	0.36	83,364,186	$	0.66
Effect of dilutive securities:						
Stock options	159,914		-	222,185		-
Diluted	80,281,215	$	0.36	83,586,371	$	0.66

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

For the three months ended March 31, 2020, 2,497,000 options (2019 - 1,107,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

		Three months ended March 31, 2020		Three months ended March 31, 2019
Debt interest, gross	$	(7,867)	$	(9,390)
Interest on lease liabilities		(2,141)		(1,580)
Capitalized interest - at an average rate of 3.7% (2019 - 3.7%)		546		1,174
Finance expense (including interest on lease liabilities)	$	(9,462)	$	(9,796)

		Three months ended March 31, 2020		Three months ended March 31, 2019
Net unrealized foreign exchange gain	$	1,035	$	496
Unrealized loss on warrants		(5)		(581)
Other income, net		100		71
Other finance income (expense)	$	1,130	$	(14)

17. OPERATING SEGMENTS

The Company is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization. The Company's products include a wide array of products, assemblies and systems for small and large cars, crossovers, pickups and sport utility vehicles.

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented on a geographic basis between North America, Europe and Rest of the World.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The accounting policies of the segments are the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2019 and recently adopted and applicable accounting standards and policies as disclosed in note 1(d) of these financial statements. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

The following is a summary of selected data for each of the Company's operating segments:

	Three months ended March 31, 2020			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income**
North America				
Canada	$ 121,966	$ 25,715	$ 147,681	
USA	278,486	9,147	287,633	
Mexico	289,834	22,705	312,539	
Eliminations	(39,933)	(20,392)	(60,325)	
	$ 650,353	$ 37,175	$ 687,528	$ 48,632
Europe				
Germany	101,882	5,927	107,809	
Spain	38,496	1,301	39,797	
Slovakia	10,122	2,169	12,291	
	150,500	9,397	159,897	37
Rest of the World	23,641	4,218	27,859	536
Eliminations	(2,018)	(560)	(2,578)	
	$ 822,476	$ 50,230	$ 872,706	$ 49,205

	Three months ended March 31, 2019			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income**
North America				
Canada	$ 160,337	$ 3,569	$ 163,906	
USA	313,957	36,485	350,442	
Mexico	306,149	61,889	368,038	
Eliminations	(45,524)	(25,725)	(71,249)	
	$ 734,919	$ 76,218	$ 811,137	$ 71,125
Europe				
Germany	118,268	16,231	134,499	
Spain	41,435	2,091	43,526	
Slovakia	13,135	1,079	14,214	
Eliminations	-	(1,844)	(1,844)	
	172,838	17,557	190,395	15,287
Rest of the World	21,003	2,329	23,332	(2,949)
Eliminations	(1,507)	(196)	(1,703)	
	$ 927,253	$ 95,908	$ 1,023,161	$ 83,463

18. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, investments, trade and other payables, long-term debt, and foreign exchange forward contracts.

Fair Value

IFRS 13, Fair Value Measurement, provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The following table summarizes the fair value hierarchy under which the Company's applicable financial instruments are valued:

	March 31, 2020			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 156,515	$ 156,515	$ -	$ -
Foreign exchange forward contracts not accounted for as hedges (note 9)	$ (108)	$ -	$ (108)	$ -
Foreign exchange forward contracts accounted for as hedges (note 9)	$ (4,282)	$ -	$ (4,282)	$ -

	December 31, 2019			
	Total	**Level 1**	**Level 2**	**Level 3**
Cash and cash equivalents	$ 118,973	$ 118,973	$ -	$ -
Warrants in NanoXplore (note 8)	$ 5	$ -	$ 5	$ -
Foreign exchange forward contracts not accounted for as hedges (note 3)	$ 418	$ -	$ 418	$ -
Foreign exchange forward contracts accounted for as hedges (note 9)	$ (787)	$ -	$ (787)	$ -

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

March 31, 2020	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Financial assets at amortized cost**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 657,076	$ -	$ 657,076	$ 657,076
	-	-	657,076	-	657,076	657,076
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(914,200)	(914,200)	(914,200)
Long-term debt	-	-	-	(871,207)	(871,207)	(871,207)
Foreign exchange forward contracts not accounted for as hedges	(108)	-	-	-	(108)	(108)
Foreign exchange forward contracts accounted for as hedges	-	(4,282)	-	-	(4,282)	(4,282)
	(108)	(4,282)	-	(1,785,407)	(1,789,797)	(1,789,797)
Net financial assets (liabilities)	$ (108)	$ (4,282)	$ 657,076	$ (1,785,407)	$ (1,132,721)	$ (1,132,721)

December 31, 2019	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Financial assets at amortized cost**	**Amortized cost**	**Carrying amount**	**Fair value**
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 560,558	$ -	$ 560,558	$ 560,558
Warrants in NanoXplore (note 8)	5	-	-	-	5	5
Foreign exchange forward contracts not accounted for as hedges	418	-	-	-	418	418
	423	-	560,558	-	560,981	560,981
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(728,000)	(728,000)	(728,000)
Long-term debt	-	-	-	(781,573)	(781,573)	(781,573)
Foreign exchange forward contracts accounted for as hedges	-	(787)	-	-	(787)	(787)
	-	(787)	-	(1,509,573)	(1,510,360)	(1,510,360)
Net financial assets (liabilities)	$ 423	$ (787)	$ 560,558	$ (1,509,573)	$ (949,379)	$ (949,379)

The fair values of trade and other receivables and trade and other payables approximate their carrying amounts due to the short-term maturities of these instruments. The estimated fair value of long-term debt approximates its carrying amount since it is subject to terms and conditions similar to those available to the Company for instruments with comparable terms, and the interest rates are market-based.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

Risk Management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk, and currency risk. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated basis.

(a) Credit risk

Credit risk refers to the risk of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, trade and other receivables, and foreign exchange forward contracts.

Credit risk associated with cash and cash equivalents is minimized by ensuring these financial assets are placed with financial institutions with high credit ratings.

The credit risk associated with foreign exchange forward contracts arises from the possibility that the counterparty to one of these contracts fails to perform according to the terms of the contract. Credit risk associated with foreign exchange forward contracts is minimized by entering into such transactions with major Canadian and U.S. financial institutions.

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 34.8%, 27.4% and 12.3% of its production sales for the three months ended March 31, 2020 (2019 - 31.4%, 30.4%, and 13.7%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at March 31, 2020 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 0.5% of total trade receivables for all periods and movements in the period were minimal.

The aging of trade receivables at the reporting date was as follows:

		March 31, 2020		December 31, 2019
0-60 days	$	605,673	$	521,354
61-90 days		12,979		13,094
Greater than 90 days		13,324		7,961
	$	631,976	$	542,409

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At March 31, 2020, the Company had cash of $156,515 (2019 - $118,973) and banking facilities available as discussed in note 11. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

On April 17, 2020, in light of the COVID-19 pandemic, the Company enhanced its liquidity position by exercising the accordion feature incorporated in its banking facility as further described in note 11.

A summary of contractual maturities of long-term debt is provided in note 11.

(c) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk as a significant portion of the Company's long-term debt bears interest at rates linked to the US prime, Canadian prime, one month LIBOR or the Banker's Acceptance rates. The interest on the bank facility fluctuates depending on the achievement of certain financial debt ratios, and may cause the interest rate to increase by a maximum of 1.0%.

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The interest rate profile of the Company's long-term debt was as follows:

	Carrying amount	
	March 31, 2020	December 31, 2019
Variable rate instruments	$ 807,411	$ 716,452
Fixed rate instruments	63,796	65,121
	$ 871,207	$ 781,573

Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $1,895 (three months ended March 31, 2019 - $1,762) on the Company's consolidated financial results for the three months ended March 31, 2020.

(d) Currency risk

Currency risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in the foreign exchange rates. The Company undertakes revenue and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in foreign currency exchange rates. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

At March 31, 2020, the Company had committed to the following foreign exchange contracts:

Foreign exchange forward contracts not accounted for as hedges and fair valued through profit or loss

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$ 46,570	1.3995	1
Buy Mexican Peso	$ 17,935	22.8600	1

The aggregate value of these forward contracts as at March 31, 2020 was a pre-tax loss of $108 and was recorded in trade and other payables (December 31, 2019 - pre-tax gain of $418 recorded in trade and other receivables).

Foreign exchange forward contracts accounted for as hedges and fair valued through other comprehensive income

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	$ 51,930	1.3141	45

The aggregate value of these forward contracts as at March 31, 2020 was a pre-tax loss of $4,282 and was recorded in trade and other payables (December 31, 2019 - pre-tax loss of $787 recorded in trade and other payables).

The Company's exposure to foreign currency risk reported in the foreign currency was as follows:

March 31, 2020	USD	EURO	PESO	BRL	CNY
Trade and other receivables	$ 323,685	€ 72,530	$ 72,233	R$ 34,792	¥ 135,355
Trade and other payables	(370,108)	(151,589)	(361,395)	(30,931)	(124,719)
Long-term debt	(344,000)	(27,058)	-	(46)	-
	$ (390,423)	€ (106,117)	$ (289,162)	R$ 3,815	¥ 10,636

December 31, 2019	USD	EURO	PESO	BRL	CNY
Trade and other receivables	$ 295,696	€ 60,033	$ 58,203	R$ 29,107	¥ 122,567
Trade and other payables	(351,949)	(91,126)	(258,786)	(27,642)	(118,925)
Long-term debt	(301,000)	(28,501)	-	(80)	-
	$ (357,253)	€ (59,594)	$ (200,583)	R$ 1,385	¥ 3,642

(in thousands of Canadian dollars, except per share amounts) (unaudited)

The following summary illustrates the fluctuations in the exchange rates applied during the three months ended March 31, 2020 and 2019 and as at December 31, 2019:

	Average rate		Closing rate	
	Three months ended March 31, 2020	Three months ended March 31, 2019	March 31, 2020	December 31, 2019
USD	1.3176	1.3328	1.3999	1.2984
EURO	1.4561	1.5173	1.5585	1.4561
PESO	0.0696	0.0682	0.0596	0.0686
BRL	0.3147	0.3516	0.2740	0.3230
CNY	0.1890	0.1955	0.1983	0.1864

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at March 31, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three months ended March 31, 2020 and 2019 by the amounts shown below, assuming all other variables remain constant:

	Three months ended March 31, 2020	Three months ended March 31, 2019
USD	$ (3,693)	$ (4,255)
EURO	(213)	(1,256)
BRL	202	208
CNY	(118)	163
	$ (3,822)	$ (5,140)

A weakening of the Canadian dollar against the above currencies at March 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Capital risk management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with complementary acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and retained earnings, and debt.

The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

In addition to debt and equity the Company may use leases as additional sources of financing. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

19. CONTINGENCIES

Contingencies

The Company has contingent liabilities relating to legal and tax proceedings arising in the normal course of its business. Known claims and litigation involving the Company or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks. Although the outcome of the proceedings in progress cannot be predicted, the Company does not believe they will have a material impact on the Company's consolidated financial position. However, new proceedings may be initiated against the Company as a result of facts or circumstances unknown at the date of this report or for which the risk cannot yet be determined or quantified. Such proceedings could have a significant adverse impact on the Company's financial results.

Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately $56,991 (BRL $208,010) including interest and penalties to March 31, 2020 (December 31, 2019 - $66,977 or BRL $207,353). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling $23,454 at some point through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

20. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's interim condensed consolidated balance sheet. At March 31, 2020, the amount of the off-balance sheet program financing was $30,493 (December 31, 2019 - $22,212) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2019 or 2020. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.