# MARTINREA INTERNATIONAL INC.
# CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED DECEMBER 31, 2020

**Martinrea International Inc.**

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Martinrea International Inc. are the responsibility of management and have been prepared in accordance with International Financial Reporting Standards and, where appropriate, reflect best estimates based on management's judgment. In addition, all other information contained in the annual report to shareholders and Management Discussion and Analysis for the year ended December 31, 2020 is also the responsibility of management. The Company maintains systems of internal accounting and administrative controls designed to provide reasonable assurance that the financial information provided is accurate and complete and that all assets are properly safeguarded.

The Board of Directors is responsible for ensuring that management fulfills its responsibility for financial reporting, for overseeing management's performance of its financial reporting responsibilities, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Directors delegates certain responsibility to the Audit Committee, which is comprised of independent non-management directors. The Audit Committee meets with management and KPMG LLP, the external auditors, multiple times a year to review, among other matters, accounting policies, any observations relating to internal controls over the financial reporting process that may be identified during the audit, as influenced by the nature, timing and extent of audit procedures performed, annual consolidated financial statements, the results of the external audit and the Management Discussion and Analysis included in the report to shareholders for the year ended December 31, 2020. The external auditors and internal auditors have unrestricted access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors so that the Board may properly approve the consolidated financial statements for issuance to shareholders.

(Signed) *"Pat D'Eramo"*

Pat D'Eramo

President & Chief Executive Officer

(Signed) *"Fred Di Tosto"*

Fred Di Tosto

Chief Financial Officer

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**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Martinrea International Inc.

***Opinion***

We have audited the consolidated financial statements of Martinrea International Inc. (the Entity), which comprise:

- the consolidated balance sheets as at December 31, 2020 and December 31, 2019
- the consolidated statements of operations for the years then ended
- the consolidated statements of comprehensive income for the years then ended
- the consolidated statements of changes in equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditors' report.

***Existence and accuracy of tooling work in progress inventory***

*Description of the matter*

We draw attention to Notes 1(d), 2(f) and 5 of the financial statements. The Entity enters into tooling contracts, where tooling work in progress inventory that is internally developed includes directly attributable labour as well as overhead. The tooling work in progress and other inventory balance was $236.6 million. The Entity uses judgment in determining the appropriateness of costs included in tooling work in progress inventory.

*Why the matter is a key audit matter*

We identified the existence and accuracy of tooling work in progress inventory as a key audit matter. This matter was a significant risk. Evaluating the existence and accuracy of tooling costs in inventory required significant judgment related to the nature and amounts of costs capitalized. As a result, significant auditor judgment was required to evaluate the results of our procedures.

*How the matter was addressed in our audit*

The primary procedures we performed to address this key audit matter included the following:

For a sample of tooling contracts with work in progress inventory, we:

- Compared the costs capitalized to supplier invoices or internal records, as applicable
- Evaluated the accuracy of the amounts capitalized for labour and overhead cost allocations by comparing the underlying inputs to vendor invoices or payroll records
- Enquired with certain of the Entity's operational personnel who have direct oversight of these contracts

## *Other Information*

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

- the information, other than the financial statements and the auditors' report thereon, included in the Report to Shareholders filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the Report to Shareholders filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is W. G. Andrew Smith.

Vaughan, Canada
March 4, 2021

# Martinrea International Inc.

## Consolidated Balance Sheets

*(in thousands of Canadian dollars)*

| | Note | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | | $ | 152,786 | $ | 118,973 |
| Trade and other receivables | 4 | | 589,315 | | 560,976 |
| Inventories | 5 | | 492,659 | | 383,682 |
| Prepaid expenses and deposits | | | 23,550 | | 25,846 |
| Income taxes recoverable | | | 13,527 | | 16,783 |
| **TOTAL CURRENT ASSETS** | | | 1,271,837 | | 1,106,260 |
| Property, plant and equipment | 6 | | 1,615,197 | | 1,541,895 |
| Right-of-use assets | 7 | | 192,630 | | 188,378 |
| Deferred tax assets | 16 | | 195,538 | | 165,890 |
| Intangible assets | 8 | | 52,644 | | 54,787 |
| Investments | 9 | | 40,557 | | 37,085 |
| **TOTAL NON-CURRENT ASSETS** | | | 2,096,566 | | 1,988,035 |
| **TOTAL ASSETS** | | $ | 3,368,403 | $ | 3,094,295 |
| **LIABILITIES** | | | | | |
| Trade and other payables | 11 | $ | 967,952 | $ | 728,787 |
| Provisions | 12 | | 4,258 | | 8,584 |
| Income taxes payable | | | 13,230 | | 7,477 |
| Current portion of long-term debt | 13 | | 19,492 | | 15,651 |
| Current portion of lease liabilities | 14 | | 34,064 | | 28,247 |
| **TOTAL CURRENT LIABILITIES** | | | 1,038,996 | | 788,746 |
| Long-term debt | 13 | | 815,730 | | 765,922 |
| Lease liabilities | 14 | | 177,749 | | 174,105 |
| Pension and other post-retirement benefits | 15 | | 74,030 | | 63,789 |
| Deferred tax liabilities | 16 | | 86,174 | | 83,310 |
| **TOTAL NON-CURRENT LIABILITIES** | | | 1,153,683 | | 1,087,126 |
| **TOTAL LIABILITIES** | | | 2,192,679 | | 1,875,872 |
| **EQUITY** | | | | | |
| Capital stock | 17 | | 662,427 | | 661,422 |
| Contributed surplus | | | 43,860 | | 42,449 |
| Accumulated other comprehensive income | | | 96,645 | | 89,107 |
| Retained earnings | | | 372,792 | | 425,445 |
| **TOTAL EQUITY** | | | 1,175,724 | | 1,218,423 |
| **TOTAL LIABILITIES AND EQUITY** | | $ | 3,368,403 | $ | 3,094,295 |

**Commitments and Contingencies (note 24)**

**Subsequent Event (note 9)**

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Terry Lyons" Director

# Martinrea International Inc.

## Consolidated Statements of Operations

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

| | Note | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|---|
| **SALES** | | $ 3,375,286 | $ 3,863,659 |
| Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets) | | (2,748,804) | (3,090,966) |
| Depreciation of property, plant and equipment and right-of-use assets (production) | | (211,385) | (186,592) |
| Total cost of sales | | (2,960,189) | (3,277,558) |
| **GROSS MARGIN** | | 415,097 | 586,101 |
| Research and development costs | 19 | (28,911) | (38,035) |
| Selling, general and administrative | | (246,364) | (239,683) |
| Depreciation of property, plant and equipment and right-of-use assets (non-production) | | (15,953) | (14,729) |
| Amortization of customer contracts and relationships | | (1,835) | (2,082) |
| Gain (loss) on disposal of property, plant and equipment | | (543) | 932 |
| Impairment of assets | 10 | (85,783) | (18,502) |
| Restructuring costs | 12 | (8,170) | (8,165) |
| **OPERATING INCOME** | | 27,538 | 265,837 |
| Share of loss of an associate | 9 | (2,310) | (2,009) |
| Gain on dilution of investment in associate | 9 | 866 | - |
| Finance expense (including interest on lease liabilities) | 21 | (35,771) | (37,997) |
| Other finance expense | 21 | (5,633) | (786) |
| **INCOME (LOSS) BEFORE INCOME TAXES** | | (15,310) | 225,045 |
| Income tax expense | 16 | (12,007) | (43,824) |
| **NET INCOME (LOSS) FOR THE PERIOD** | | $ (27,317) | $ 181,221 |

| | | | |
|---|---|---|---|
| Basic earnings (loss) per share | 18 | $ (0.34) | $ 2.20 |
| Diluted earnings (loss) per share | 18 | $ (0.34) | $ 2.19 |

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Consolidated Statements of Comprehensive Income

*(in thousands of Canadian dollars)*

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **NET INCOME (LOSS) FOR THE PERIOD** | $ (27,317) | $ 181,221 |
| **Other comprehensive income (loss), net of tax:** | | |
| **Items that may be reclassified to net income (loss)** | | |
| Foreign currency translation differences for foreign operations | 3,900 | (69,195) |
| Cash flow hedging derivative and non-derivative financial instruments: | | |
| Unrealized gain in fair value of financial instruments | 2,715 | 3,735 |
| Reclassification of loss to net income | 1,002 | 1,288 |
| **Items that will not be reclassified to net income (loss)** | | |
| Change in fair value of investments | - | (776) |
| Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 9) | - | (4,314) |
| Share of other comprehensive loss of an associate (note 9) | (79) | (26) |
| Remeasurement of defined benefit plans | (8,413) | (3,781) |
| **Other comprehensive loss, net of tax** | (875) | (73,069) |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD** | $ (28,192) | $ 108,152 |

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.

## Consolidated Statements of Changes in Equity

*(in thousands of Canadian dollars)*

| | 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 | - | - | - | 181,221 | 181,221 |
| Compensation expense related to stock options | - | 1,195 | - | - | 1,195 |
| Dividends ($0.18 per share) | - | - | - | (14,738) | (14,738) |
| Exercise of employee stock options | 2,681 | (762) | - | - | 1,919 |
| Repurchase of common shares | (21,416) | - | - | (12,552) | (33,968) |
| Other comprehensive income (loss) net of tax | | | | | |
| Remeasurement of defined benefit plans | - | - | - | (3,781) | (3,781) |
| Foreign currency translation differences | - | - | (69,195) | - | (69,195) |
| Change in fair value of investments | - | - | (776) | - | (776) |
| Transfer of unrealized gain on investments to retained earnings on change in accounting method (note 9) | - | - | (4,314) | 4,314 | - |
| Share of other comprehensive loss of an associate | - | - | (26) | - | (26) |
| Cash flow hedging derivative and non-derivative financial instruments: | | | | | |
| Unrealized gain in fair value of financial instruments | - | - | 3,735 | - | 3,735 |
| Reclassification of loss to net income | - | - | 1,288 | - | 1,288 |
| **BALANCE AT DECEMBER 31, 2019** | 661,422 | 42,449 | 89,107 | 425,445 | 1,218,423 |
| Net loss for the period | - | - | - | (27,317) | (27,317) |
| Compensation expense related to stock options | - | 2,416 | - | - | 2,416 |
| Dividends ($0.20 per share) | - | - | - | (16,030) | (16,030) |
| Exercise of employee stock options | 3,479 | (1,005) | - | - | 2,474 |
| Repurchase of common shares | (2,474) | - | - | (893) | (3,367) |
| Other comprehensive income (loss) net of tax | | | | | |
| Remeasurement of defined benefit plans | - | - | - | (8,413) | (8,413) |
| Foreign currency translation differences | - | - | 3,900 | - | 3,900 |
| Share of other comprehensive loss of an associate | - | - | (79) | - | (79) |
| Cash flow hedging derivative and non-derivative financial instruments: | | | | | |
| Unrealized gain in fair value of financial instruments | - | - | 2,715 | - | 2,715 |
| Reclassification of loss to net income | - | - | 1,002 | - | 1,002 |
| **BALANCE AT DECEMBER 31, 2020** | $ 662,427 | $ 43,860 | $ 96,645 | $ 372,792 | $ 1,175,724 |

See accompanying notes to the consolidated financial statements.

# Martinrea International Inc.
## Consolidated Statements of Cash Flows
*(in thousands of Canadian dollars)*

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| **CASH PROVIDED BY (USED IN):** | | |
| **OPERATING ACTIVITIES:** | | |
| Net Income (loss) for the period | $ (27,317) | $ 181,221 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment and right-of-use assets | 227,338 | 201,321 |
| Amortization of customer contracts and relationships | 1,835 | 2,082 |
| Amortization of development costs | 11,807 | 13,779 |
| Impairment of assets (note 10) | 85,783 | 18,502 |
| Unrealized gain on foreign exchange forward contracts | (647) | (418) |
| Loss on warrants (note 9) | - | 251 |
| Finance expense (including interest on lease liabilities) | 35,771 | 37,997 |
| Income tax expense | 12,007 | 43,824 |
| Loss (gain) on disposal of property, plant and equipment | 543 | (932) |
| Deferred and restricted share units expense (note 17) | 8,588 | 8,224 |
| Stock options expense | 2,416 | 1,195 |
| Share of loss of an associate (note 9) | 2,310 | 2,009 |
| Gain on dilution of investment in associate (note 9) | (866) | - |
| Pension and other post-retirement benefits expense | 4,132 | 4,140 |
| Contributions made to pension and other post-retirement benefits | (5,602) | (4,751) |
| | 358,098 | 508,444 |
| Changes in non-cash working capital items: | | |
| Trade and other receivables | 26,605 | 12,824 |
| Inventories | (50,686) | 70,085 |
| Prepaid expenses and deposits | 4,349 | (3,700) |
| Trade, other payables and provisions | 91,780 | (80,492) |
| | 430,146 | 507,161 |
| Interest paid | (36,851) | (41,916) |
| Income taxes paid | (38,273) | (63,698) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | $ 355,022 | $ 401,547 |
| **FINANCING ACTIVITIES:** | | |
| Increase in long-term debt (net of additions to deferred financing fees) | 103,509 | 91,449 |
| Repayment of long-term debt | (43,462) | (30,575) |
| Principal payments of lease liabilities | (32,966) | (27,898) |
| Dividends paid | (15,628) | (14,943) |
| Exercise of employee stock options | 2,474 | 1,919 |
| Repurchase of common shares | (3,367) | (57,841) |
| **NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES** | $ 10,560 | $ (37,889) |
| **INVESTING ACTIVITIES:** | | |
| Purchase of property, plant and equipment (excluding capitalized interest)* | (288,590) | (284,011) |
| Business acquisition (note 3) | (26,531) | - |
| Capitalized development costs | (12,304) | (10,747) |
| Investment in NanoXplore Inc. (note 9) | (5,000) | (29,477) |
| Proceeds on disposal of property, plant and equipment | 476 | 6,166 |
| Upfront recovery of development costs incurred | - | 5,563 |
| **NET CASH USED IN INVESTING ACTIVITIES** | $ (331,949) | $ (312,506) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 180 | (2,341) |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | 33,813 | 48,811 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD** | 118,973 | 70,162 |
| **CASH AND CASH EQUIVALENTS, END OF PERIOD** | $ 152,786 | $ 118,973 |

*As at December 31, 2020, $61,207 (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 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements of the Company for the year ended December 31, 2020 were approved by the Board of Directors on March 4, 2021.

### (b) Presentation currency

These 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.

### (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, similar to others in the automotive supply chain, 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 business, results of operations, cash flows and financial position during the second half of March 2020 and for the second quarter ended June 30, 2020. Although the ultimate 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 commenced in May and June 2020, and continued into the second half of the year as OEMs began producing vehicles again. The ultimate business and economic impacts of COVID-19 will depend on various factors, including the possibility of future shutdowns, impact on customers and suppliers, 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 any future wave of COVID-19, and the potential for a recession in key markets due to the effect of the pandemic.

### (d) Use of estimates and judgments

The preparation of the 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 the related disclosures with respect to contingent assets and liabilities. Actual results may differ from these estimates.

As a result of the uncertain economic and business impacts of the COVID-19 pandemic, management has reviewed the estimates, judgments and assumptions used in the preparation of the consolidated financial statements, including the determination of whether indications of any asset impairment exist. As a result of this review, asset impairment charges and restructuring costs were recognized during the second quarter of 2020 as further explained in notes 10 and 12 of these consolidated financial statements. No such charges were recognized during the third or fourth quarters of 2020. Further revisions may be required in future periods depending on the extent of the negative impacts on the business arising from the COVID-19 pandemic, as it continues to evolve. Any such revisions (due to COVID-19 or otherwise) may result in, among other things, further asset impairments and restructuring costs, and/or adjustments to the carrying amount of trade and other receivables 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 result of operations and financial position.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about significant areas of estimation uncertainty that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (assumptions made are disclosed in individual notes throughout the financial statements where relevant):

- Estimates of the economic life of property, plant and equipment and intangible assets;
- Estimates involved in the measurement of lease liabilities and associated right-of-use-assets;
- Estimates of income taxes. The Company is subject to income taxes in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues, based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made;
- Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary difference or tax loss carry-forwards can be utilized. The recognition of temporary differences and tax loss carry-forwards is based on the Company's estimates of future taxable profits in different tax jurisdictions against which the temporary differences and loss carry-forwards may be utilized;
- Estimates used in testing non-financial assets for impairment including the recoverability of development costs. These estimates may include discount rates and long-term growth rates;
- Assumptions employed in the actuarial calculation of pension and other post-retirement benefits. The cost of pensions and other post-retirement benefits earned by employees is actuarially determined using the projected unit credit method prorated on service, and the Company's best estimate of salary escalation and mortality rates. Discount rates used in actuarial calculations are based on long-term interest rates and can have a significant effect on the amount of plan liabilities and service costs. The Company employs external experts when deciding upon the appropriate estimates to use to value employee benefit plan obligations and expenses. To the extent that these estimates differ from those realized, employee benefit plan liabilities and comprehensive income will be affected in future periods;
- Revenue recognition on separately priced tooling contracts: Tooling contract prices are generally fixed; however, price changes, change orders and program cancellations may affect the ultimate amount of revenue recorded with respect to a contract. Contract costs are estimated at the time of signing the contract and are reviewed at each reporting date. Adjustments to the original estimates of total contract costs are often required as work progresses under the contract and as experience is gained, even though the scope of the work under the contract may not change. When the current estimates of total contract revenue and total contract costs indicate a loss, a provision for the entire loss on the contract is made. Factors that are considered in arriving at the forecast loss on a contract include, amongst others, cost over-runs, non-reimbursable costs, change orders and potential price changes.
- Estimates used in determining the fair value of stock option and performance share unit grants. These estimates include assumptions about the volatility of the Company's stock, forfeiture rates, and expected life of the options/units granted, where relevant; and
- Estimates used in determining the fair value of derivative instruments associated with investments in equity securities. These estimates include assumptions about the volatility of the investee's stock and expected life of the instrument.

Information about significant areas of critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements relate to the following (judgments made are disclosed in individual notes throughout the financial statements where relevant):

- Acquisitions – at initial recognition, judgments are made for key assumptions in the purchase price allocation, fair value of the assets acquired and liabilities assumed, and inputs to the valuation of acquired property, plant and equipment. Valuations are highly dependent on the inputs used and assumptions made by management regarding the future performance of these assets and any changes in the discount rate applied.
- Accounting for provisions including assessments of possible legal and tax contingencies, and restructuring. Whether a present obligation is probable or not requires judgment. The nature and type of risks for these provisions differ and judgment is applied regarding the nature and extent of obligations in deciding if an outflow of resources is probable or not.
- Accounting for development costs – judgment is required to assess the division of activities between research and development, technical and commercial feasibility, and the availability of future economic benefit.

- Judgments in determining the appropriateness of costs included in tooling work in progress inventory;
- Judgments in determining the timing of revenue recognition for tooling sales.
- Judgments in determining whether sales contracts contain material rights; and
- The determination of the Company's cash generating units ("CGU") for impairment testing.

The decisions made by the Company in each instance are set out under the various accounting policies in these notes.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

### (a) Basis of consolidation

**(i) Subsidiaries**

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

**(ii) Transactions eliminated on consolidation**

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

**(iii) 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. Judgment 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.

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.

### (b) Foreign currency

Each subsidiary of the Company maintains its accounting records in its functional currency. A subsidiary's functional currency is the currency of the principal economic environment in which it operates.

**(i) Foreign currency transactions**

Transactions carried out in foreign currencies are translated using the exchange rate prevailing at the transaction date. Monetary assets and liabilities denominated in a foreign currency at the reporting date are translated at the exchange rate at that date. The foreign currency gain or loss on such monetary items is recognized as income or expense for the period. Non-monetary assets and liabilities denominated in a foreign currency are translated at the historical exchange rate prevailing at the transaction date.

**(ii) Translation of financial statements of foreign operations**

The assets and liabilities of subsidiaries whose functional currency is not the Canadian dollar are translated into Canadian dollars at the exchange rate prevailing at the reporting date. The income and expenses of foreign operations whose functional currency is not the Canadian dollar are translated to Canadian dollars at the exchange rate prevailing on the date of transaction.

Foreign currency differences on translation are recognized in other comprehensive income (loss) in the cumulative translation account net of income tax.

**(c) Financial instruments**

**(i) Financial assets and liabilities**

The Company recognizes financial assets and financial liabilities initially at fair value and subsequently measures these at either fair value or amortized cost based on their classification as described below:

Fair value through profit or loss (FVTPL):
Financial assets and financial liabilities purchased or incurred, respectively, with the intention of generating earnings in the near term, and derivatives other than cash flow hedges, are classified as FVTPL. This category includes cash and cash equivalents, and derivative instruments that do not qualify for hedge accounting. For items classified as FVTPL, the Company initially recognizes such financial assets on the consolidated balance sheet at fair value and recognizes subsequent changes in the consolidated statement of operations. Transaction costs incurred are expensed in the consolidated statement of operations. The Company does not currently hold any liabilities designated as FVTPL.

Fair value through other comprehensive income:
This category includes investments in equity securities. Subsequent to initial recognition, they are measured at fair value on the consolidated balance sheet and changes therein are recognized in other comprehensive income (loss). When an investment is derecognized, the accumulated gain or loss in other comprehensive income (loss) is transferred to the consolidated statement of operations.

Amortized cost:
The Company classifies financial assets held to collect contractual cash flows at amortized cost, including trade and other receivables.
The Company initially recognizes the carrying amount of such assets on the consolidated balance sheet at fair value plus directly attributable transaction costs, and subsequently measures these at amortized cost using the effective interest rate method, less any impairment losses.

Other financial liabilities:
This category is for financial liabilities that are not classified as FVTPL and includes trade and other payables and long-term debt. These financial liabilities are recorded at amortized cost on the consolidated balance sheet.

**(ii) Impairment of financial assets**

A forward-looking "expected credit loss" (ECL) model is used in determining the allowance for doubtful accounts as it relates to trade and other receivables. The Company's allowance is determined by historical experiences, and considers factors including the aging of the balances, the customer's credit-worthiness, and updates based on the current economic conditions, expectation of bankruptcies, and the political and economic volatility in the markets/location of customers.

**(iii) Derivative financial instruments not accounted for as hedges**

The Company periodically uses derivative financial instruments such as foreign exchange forward contracts to manage its exposure to changes in exchange rates related to transactions denominated in currencies other than the Canadian dollar. Such derivative financial instruments, as well as derivative instruments associated with investments in equity securities, are classified as FVTPL, initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at fair value with changes in fair value being recognized immediately in the consolidated statement of operations.

**(iv) Hedge accounting**

The Company uses derivatives and other non-derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates.

At the inception of a hedging relationship, the Company designates and formally documents the relationship between the hedging instrument and the hedged item, the risk management objective, and the strategy for undertaking the hedge. The documentation identifies the specific net investment or anticipated cash flows being hedged, the risk that is being hedged, the type of hedging instrument used, and how effectiveness will be assessed.

At inception and each reporting date, the Company formally assesses the effectiveness of these designated hedges.

*Cash flow hedges*

The Company hedges variability in certain cash flows of forecasted foreign currency sales due to fluctuations in foreign exchange rates.

The Company has designated these foreign currency sales as a cash flow hedge. In such hedges, to the extent that the changes in fair value of the hedging instrument offset the changes in the fair value of the hedged item, they are recorded in other comprehensive income (loss) until the hedged item affects profit or loss (i.e. when settled or otherwise derecognized). Any excess of the change in fair value of the derivative that does not offset changes in the fair value of the hedged item is recorded in profit or loss.

When a cash flow hedge relationship is discontinued, any subsequent change in fair value of the hedging instrument is recognized in profit or loss.

If the hedge is discontinued before the end of the original hedge term, then any cumulative adjustment to either the hedged item or other comprehensive income (loss) is recognized in profit or loss, at the earlier of when the hedged item affects profit or loss, or when the forecast item is no longer expected to occur.

*Net investment hedges*

The Company continues to use some portion of its US denominated long-term debt to manage foreign exchange rate exposures on net investments in certain US operations.

The change in fair value of the hedging US debt is recorded, to the extent effective, directly in other comprehensive income (loss). These amounts will be recognized in profit or loss as and when the corresponding accumulated other comprehensive income from the hedged foreign operations is recognized in profit or loss. The Company has not identified any ineffectiveness in these hedge relationships as at December 31, 2020.

**(d) Property, plant and equipment**

**(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the cost of material and labour and other costs directly attributable to bringing the asset to a working condition for its intended use.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Certain tooling is produced or purchased specifically for the purpose of manufacturing parts for customer orders, which are either a) not sold to the customer, or b) paid for by the customer on delivery of each part, without the customer guaranteeing full financing of the costs incurred. In accordance with IAS 16, Property, plant and equipment, this tooling is recognized as property, plant and equipment. It is depreciated to match the lesser of estimated useful life and life of the program.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within profit or loss.

The Company capitalizes borrowing costs directly attributable to the acquisition, construction or production of qualifying property, plant and equipment as part of the cost of that asset, if applicable. Capitalized borrowing costs are amortized over the useful life of the related asset.

**(ii) Subsequent costs**
The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Maintenance and repair costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

**(iii) Depreciation**
Depreciation is recognized in profit or loss over the estimated useful life of each item of property, plant and equipment, since this period most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Depreciation is recorded on the following bases and at the following rates:

| | **Basis** | **Rate** |
|---|---|---|
| Buildings | Declining balance | 4% |
| Leasehold improvements | Straight-line | Lesser of estimated useful life and lease term |
| Manufacturing equipment | Declining balance and straight line | 7% to 20% |
| Tooling and fixtures | Straight-line | Lesser of estimated useful life and life of program |
| Other | Declining balance and straight line | 20% to 30% |

Land is not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if appropriate.

**(e) Intangible assets**
The Company's intangible assets are composed of customer contracts acquired in previous acquisitions and development costs.

**(i) Customer contracts and relationships:**
Customer contracts and relationships have a finite useful life and are amortized over their estimated economic lives of up to 10 years on a straight-line basis which is consistent with the contract value initially established upon acquisition.

**(ii) Research and development:**
Development activities involve a plan or design for the production of new or substantially improved products and processes. Development costs are capitalized only if:

- the development costs can be measured reliably,
- the product or process is technically and commercially feasible,
- the future economic benefits are probable, and
- the Company intends and has sufficient resources to complete the development and to use or sell the asset.

Capitalized development costs correspond to projects for specific customer applications that draw on approved generic standards or technologies already applied in production. These projects are analyzed on a case-by-case basis to ensure they meet the criteria for capitalization as described above. Development costs are subsequently amortized over the life of the program from the start of production. Amortization of development costs is recognized in research and development costs in the consolidated statement of operations.

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred.

**(f) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other direct costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads, including depreciation, based on normal operating capacity. In the case of tooling work in progress inventory that is internally developed, cost includes directly attributable labour as well as overhead.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In determining the net realizable value, the Company considers factors such as yield, turnover, expected future demand and past experience. Impairment losses are recognized on the basis of net realizable value.

**(g) Leases**

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether the contract: involves the use of an identified asset; provides the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use; and provides the right to direct the use of the asset.

A right-of-use asset and lease liability are recorded on the date that the underlying asset is available for use, representing the commencement date.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that are tied to an index or rate defined in the contract;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably likely to exercise; and
- lease payments under an optional extension if the Company is reasonably certain to exercise the extension option, and early termination penalties required under a termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether or not it will exercise a purchase, extension or termination option. When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset is initially measured at cost, consisting of:

- the initial measurement of the lease liability, adjusted for any lease payments made at or before the commencement date;
- any initial direct costs incurred; and
- an estimate of costs to dismantle and remove the underlying asset or restore the site on which it is located; less
- any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the asset or the end of the lease term. The lease term consists of the non-cancellable period of the lease; periods covered by options to extend the lease, when the Company is reasonably certain to exercise the option to extend; and periods covered by options to terminate the lease, when the Company is reasonably certain not to exercise the option. The right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability as described above.

*Short term and low-value leases*
The Company has elected to not recognise right-of-use assets and lease liabilities for short-term leases (i.e., those leases that have a lease term of twelve months or less) and leases with assets of low value (i.e., those assets with a fair market value of less than US$5,000). The expenses associated with such leases are recognized in the consolidated statement of operations on a straight-line basis over the lease term.

*Variable lease payments*
Certain leases contain provisions that result in changes to lease payments over the term in relation to market indices quoted in the contract. The Company reassesses the lease liabilities related to these leases when the index or other data is available to calculate the change in lease payment.

Certain leases require the Company to make payments that relate to property taxes, insurance, or other non-rental costs. These costs are typically variable and are not included in the calculation of the right-of-use asset or lease liability, but are recorded as an expense in cost of sales in the consolidated statement of operations in the period in which they are incurred.

**(h) Investments in Associates and Joint Ventures**
Associates are entities over which the Company has significant influence, but not control, on financial and operating policy decisions. Significant influence is assumed when the Company holds 20% to 50% of the voting power of the investee, unless qualitative factors overcome this presumption. Similarly, significant influence is presumed not to exist when the Company holds less than 20% of the voting power of the investee, unless qualitative factors overcome this presumption.

Entities over which the Company has significant influence are accounted for under the equity method. The investment is initially recognized at cost. The carrying amount is subsequently increased or decreased to recognize the Company’s share of profits or losses of the associate after the date of acquisition or when significant influence begins. The Company’s share of profits or losses is recognized in the consolidated statement of operations, and its share of other comprehensive income or loss of the associate is included in other comprehensive income or loss.

Unrealized gains on transactions between the Company and the associate are eliminated to the extent of the Company’s interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in the level of the Company’s equity interest in an associate are recognized in the consolidated statement of operations. Where the associate increases its equity through share issuances, the Company records its share of such increase in its investment in the associate on the consolidated balance sheet.

The amounts included in the financial statements of the associate are adjusted to reflect adjustments made by the Company, when using the equity method, such as fair value adjustments made at the time of acquisition.

At the end of each reporting period, the Company assesses whether there is any objective evidence that its investment is impaired. If impaired, the carrying value of the Company’s share of the underlying assets of the associate is written down to its estimated recoverable amount and charged to the consolidated statement of operations.

The Company has an equity interest in one associate, NanoXplore Inc., as further described in note 9.

**(i) Impairment of non-financial assets**
The carrying amounts of the Company’s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. Fair value less costs to sell is the amount obtainable from the sale of an asset or CGU in an arm’s-length transaction between knowledgeable, willing parties, less the costs of disposal. Costs of disposal are incremental costs directly attributable to the disposal of an asset or CGU, excluding finance costs and income tax expense. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to the carrying amounts of the assets in the unit (group of units).

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(j) Pensions and other post-retirement benefits**

The Company's liability for pensions and other post-retirement benefits is based on valuations performed by independent actuaries using the projected unit credit method. These valuations incorporate both financial assumptions (discount rate, and changes in salaries and medical costs) and demographic assumptions, including rate of employee turnover, retirement age and life expectancy.

The liability for pensions and other post-retirement benefits is equal to the present value of the Company's future benefit obligation less, where appropriate, the fair value of plan assets in funds allocated to finance such benefits. The effects of differences between previous actuarial assumptions and what has actually occurred (experience adjustments) and the effect of changes in actuarial assumptions (assumption adjustments) give rise to actuarial gains and losses. The Company recognizes all actuarial gains and losses arising from defined benefit plans immediately through other comprehensive income (loss) and transferred directly to retained earnings.

**(k) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the Company expects some or all of the provision to be reimbursed, the reimbursement is recognized as a separate asset when reimbursement is virtually certain. Commitments resulting from restructuring plans are recognized when an entity has a detailed formal plan and has raised a valid expectation with those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features.

When the effect of the time value of money is material, the amount of the provision is discounted using a rate that reflects the market's current assessment of this value and the risks specific to the liability concerned. The increase in the provision related to the passage of time is recognized through profit and loss in other finance income (expense).

**(l) Revenue recognition**

The Company recognizes sales from two categories of goods: production (including finished production parts, assemblies and modules), and tooling. Revenue for these goods is recognized at the point in time control of the goods is transferred to the customer.

Control of finished production parts, assemblies and modules transfers when the goods are shipped from the Company's manufacturing facilities to the customer. Control of tooling transfers when the tool has been accepted by the customer. For certain tooling contracts for which the customer makes progress payments in advance of obtaining control of the tool, the Company recognizes a liability for the progress payments until the performance obligation is complete. Such payments from the customer generally do not contain a financing component.

**(m) Finance expense**

Finance expense is comprised of interest expense on long-term debt and lease liabilities and amortization of deferred financing costs. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

**(n) Other finance income (expense)**

Other finance income (expense) comprises interest income on funds invested, changes in the fair value of derivative financial instruments not accounted for as hedges and unrealized foreign exchange gains and losses reported on a net basis. Interest income (expense) is recognized as it accrues in profit or loss, using the effective interest method.

**(o) Income tax**

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, with respect to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(p) Guarantees**

A guarantee is a contract (including indemnity) that contingently requires the Company to make payments to the guaranteed party based on (i) changes in an underlying interest rate, foreign exchange rate, equity or commodity instrument, index or other variable, that is related to an asset, liability or equity security of the counterparty, (ii) failure of another party to perform under an obligating agreement or (iii) failure of a third party to pay indebtedness when due.

Guarantees are fair valued upon initial recognition. Subsequent to initial recognition, the guarantees are remeasured at the higher of (i) the amount determined in accordance with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets* ("IAS 37") and (ii) the amount initially recognized less cumulative amortization.

**(q) Stock-based payments**

The Company accounts for all stock-based payments to employees and non-employees using the fair value-based method of accounting. The Company measures the compensation cost of stock-based option awards to employees at the grant date using the Black-Scholes-Merton option valuation model to determine the fair value of the options. The stock-based compensation cost of the options is recognized as stock-based compensation expense over the relevant vesting period of the stock options.

**(r) Earnings (loss) per share**

The Company presents basic and diluted earnings (loss) per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees.

**(s) Segment reporting**

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' operating results are regularly reviewed by the Company's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**(t) Deferred Share Unit Plan**

On May 3, 2016, a Deferred Share Unit Plan (the "DSU Plan") was established as a means of compensating non-executive directors and designated employees of the Company and of promoting share ownership and alignment with the shareholders' interests. Non-executive directors of Martinrea are automatically required to participate in the DSU Plan while employees may be designated from time to time, at the sole discretion of the Board of Directors.

Vesting conditions may be attached to the DSUs at the Board of Directors' discretion. DSU Plan participants receive additional DSUs equivalent to cash dividends paid on common shares. DSUs are paid out in cash upon termination of service, based on their fair market value, which is defined as the average closing share price of the Company's common shares for the 20 days preceding the termination date.

DSUs are considered cash-settled awards. The fair value of DSUs, at the date of grant to the DSU Plan participants, is recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the DSUs are fair valued at the end of every reporting period and at the settlement date. Any change in the fair value of the liability is recognized as compensation expense in profit or loss.

**(u) Performance and Restricted Share Unit Plan**

On November 3, 2016, as subsequently amended, a Performance and Restricted Share Unit Plan (the "PRSU Plan") was established as a means of compensating designated employees of the Company and promoting share ownership and alignment with the shareholders' interests. Under the PRSU Plan, the Company may grant Restricted Share Units ("RSUs") and/or Performance Share Units ("PSUs") to its employees. The Company shall redeem vested RSUs or vested PSUs on their Redemption Date (as specified in the PRSU Plan) for cash. The RSUs and PSUs are redeemed at their fair value as defined by the PRSU Plan; in addition, PSUs must meet the performance criteria specified in the PRSU Plan. The vesting conditions are determined by the Board of Directors or as otherwise provided in the PRSU Plan.

The fair value of PSUs and RSUs at the date of grant to the PRSU Plan participants, determined using the Monte Carlo Simulation model in the case of PSUs, are recognized as compensation expense over the vesting period, with a liability recorded in trade and other payables. In addition, the RSUs and PSUs are fair valued at the end of every reporting period and at the settlement date. Any change in fair value of the liability is recognized as compensation expense in profit or loss.

**(v) 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 standard 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 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 ("IFRS 3") 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 consolidated financial statements in the current or comparative periods.

*Amendments to Hedge Accounting Requirements – Interbank Offered Rates ("IBOR") Reform (Phase 1)*

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 Standard on disclosures, IFRS 7 Financial Instruments: Disclosures in relation to Phase 1 of IBOR Reform and its Effects on Financial Reporting project. The amendments modify specific hedge accounting requirements to allow entities to assume that the interest rate benchmark on which the hedged cash flows and the cash flows of which the hedging instrument are based on, are not altered as a result of IBOR reform. The amendments are effective for annual periods beginning on or after January 1, 2020. The adoption of the amendments to this standard did not have a material impact on the consolidated financial statements in the current or comparative periods.

*Accounting for Government Grants and Disclosure of Government Assistance*

The Company recognizes income from government grants, in accordance with IAS 20, Accounting for Government Grants and Disclosure of Government Assistance ("IAS 20"), only when there is reasonable assurance that the entity will comply with the conditions attaching to them and the grants have been or will be received. The grants are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes as expenses the related costs for which the grants are intended to compensate. IAS 20 provides an accounting policy choice to present grants related to income as part of profit or loss under a separate caption or as a deduction of the related expense. The Company has chosen to present these grants as a deduction from the related expense in the consolidated statement of operations.

The governments of various jurisdictions in which the Company has operations have approved legislation to assist businesses adversely impacted by COVID-19 with the intent of preventing job losses and better position companies to resume normal operations following the crisis. For the second, third and fourth quarters of 2020, the Company determined that it qualified for certain of this government assistance primarily in Canada and Germany for subsidies designed to offset the wages and related social costs of both inactive employees (i.e. those on temporary layoff but still on the Company's payroll) and active employees. Amounts recognized related to inactive employees were disbursed by the governments to the Company as reimbursement for amounts paid by the Company to the employee. For the year ended December 31, 2020, the Company had recognized $20,319 related to inactive employees in both Germany and Canada, and $19,513 in subsidies related to active employees in Canada. These amounts are not repayable and were recognized as a deduction of the related expenses recorded in cost of sales and selling, general and administrative expenses of $35,102 and $4,730, respectively, for the year ended December 31, 2020.

## 3. 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, with the results of operations consolidated with those of the Company effective March 2, 2020. The acquired operations contributed incremental sales of $303,397 and an operating loss of $21,334 for the year ended December 31, 2020 (including $2,196 of restructuring costs).

The purchase price for the transaction was US $19,864 ($26,531), inclusive of working capital less cash on hand, and on a debt free basis.

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

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

| | USD | CAD |
|---|---|---|
| Current assets (includes cash of US $11,636) | $ 107,167 | $ 143,131 |
| Property, plant and equipment | 35,071 | 46,841 |
| Current liabilities (excluding current portion of lease liabilities and provisions) | (79,195) | (105,771) |
| Deferred tax liabilities (net) | (7,760) | (10,364) |
| Provisions | (19,659) | (26,258) |
| Lease liabilities | (4,124) | (5,507) |
| | 31,500 | 42,072 |
| Less: Cash on hand | (11,636) | (15,541) |
| Final net consideration | $ 19,864 | $ 26,531 |

Included in selling, general and administrative expense are transaction costs related to the acquisition totaling $2,489 for the year ended December 31, 2020.

## 4. TRADE AND OTHER RECEIVABLES

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Trade receivables | $ 568,839 | $ 542,409 |
| Other receivables | 18,003 | 18,149 |
| Foreign exchange forward contracts not accounted for as hedges (note 23(d)) | 647 | 418 |
| Foreign exchange forward contracts accounted for as hedges (note 23(d)) | 1,826 | - |
| | $ 589,315 | $ 560,976 |

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 23.

## 5. INVENTORIES

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Raw materials | $ 168,321 | $ 144,570 |
| Work in progress | 48,608 | 41,976 |
| Finished goods | 39,096 | 38,956 |
| Tooling work in progress and other inventory | 236,634 | 158,180 |
| | $ 492,659 | $ 383,682 |

## 6. PROPERTY, PLANT AND EQUIPMENT

| | December 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 | $ 171,501 | $ (27,355) | $ 144,146 | $ 130,272 | $ (23,203) | $ 107,069 |
| Leasehold improvements | 75,148 | (48,025) | 27,123 | 74,634 | (45,243) | 29,391 |
| Manufacturing equipment | 2,496,782 | (1,350,004) | 1,146,778 | 2,279,905 | (1,158,116) | 1,121,789 |
| Tooling and fixtures | 36,496 | (32,491) | 4,005 | 37,419 | (32,287) | 5,132 |
| Other assets | 72,432 | (43,396) | 29,036 | 66,732 | (37,149) | 29,583 |
| Construction in progress | 264,109 | - | 264,109 | 248,931 | - | 248,931 |
| | $ 3,116,468 | $ (1,501,271) | $ 1,615,197 | $ 2,837,893 | $ (1,295,998) | $ 1,541,895 |

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

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 (note 10) | - | (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 | - | - | 2,303 | - | 1,779 | 299,311 | 303,393 |
| Additions from acquisition (note 3) | 23,106 | - | 23,735 | - | - | - | 46,841 |
| Disposals | - | - | (726) | (10) | (218) | (65) | (1,019) |
| Depreciation | (4,844) | (4,647) | (177,073) | (861) | (7,943) | - | (195,368) |
| Impairment (note 10) | - | - | (73,573) | (425) | (295) | (1,804) | (76,097) |
| Transfers from construction in progress | 21,873 | 1,824 | 250,424 | 226 | 6,018 | (280,365) | - |
| Foreign currency translation adjustment | (3,058) | 555 | (101) | (57) | 112 | (1,899) | (4,448) |
| Net as of December 31, 2020 | $ 144,146 | $ 27,123 | $ 1,146,778 | $ 4,005 | $ 29,036 | $ 264,109 | $ 1,615,197 |

**7. RIGHT-OF-USE ASSETS**

| | December 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 | $ 233,434 | $ (55,150) | $ 178,284 | $ 201,944 | $ (29,991) | $ 171,953 |
| Leased manufacturing equipment | 24,630 | (11,656) | 12,974 | 20,360 | (5,460) | 14,900 |
| Leased other assets | 3,351 | (1,979) | 1,372 | 2,552 | (1,027) | 1,525 |
| | $ 261,415 | $ (68,785) | $ 192,630 | $ 224,856 | $ (36,478) | $ 188,378 |

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

Movement in right-of-use assets is summarized as follows:

| | | 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 (note 10) | | (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 | | 15,242 | | 3,143 | | 643 | | 19,028 |
| Lease modifications | | 16,445 | | 90 | | - | | 16,535 |
| Depreciation | | (25,169) | | (5,828) | | (973) | | (31,970) |
| Impairment (note 10) | | (451) | | - | | - | | (451) |
| Foreign currency translation adjustment | | 264 | | 669 | | 177 | | 1,110 |
| Net as of December 31, 2020 | $ | 178,284 | $ | 12,974 | $ | 1,372 | $ | 192,630 |

## 8. INTANGIBLE ASSETS

| | December 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 | $ | 61,403 | $ | (61,403) $ | - | $ | 61,512 | $ | (59,759) $ | 1,753 |
| Development costs | | 151,203 | | (98,559) | 52,644 | | 148,945 | | (95,911) | 53,034 |
| | $ | 212,606 | $ | (159,962) $ | 52,644 | $ | 210,457 | $ | (155,670) $ | 54,787 |

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 (note 10) | | - | | (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 | | - | | 12,304 | | 12,304 |
| Amortization | | (1,835) | | (11,807) | | (13,642) |
| Impairment (note 10) | | - | | (707) | | (707) |
| Foreign currency translation adjustment | | 82 | | (180) | | (98) |
| Net as of December 31, 2020 | $ | - | $ | 52,644 | $ | 52,644 |

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

## 9. INVESTMENTS

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Investment in common shares of NanoXplore Inc. | $ | 40,557 | $ | 37,080 |
| Warrants in NanoXplore Inc. | | - | | 5 |
| | $ | 40,557 | $ | 37,085 |

NanoXplore Inc. ("NanoXplore") 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.

Prior to January 11, 2019, the Company's investment in NanoXplore was accounted for at fair value based on publicly-quoted stock prices, with the change in fair value recorded in other comprehensive income (loss). Effective January 11, 2019, the Company's investment in NanoXplore is now being accounted for using the equity method. Upon transition to the equity accounting method of the Company's investment in NanoXplore on January 11, 2019, the Company transferred unrealized fair value gains of $4,314 from other comprehensive income (loss) to retained earnings.

Subsequent to January 11, 2019, on July 31, 2019, the Company exercised 2,750,000 of outstanding warrants of NanoXplore. The warrants had an exercise price of $0.70 per share for total consideration paid to NanoXplore of $1,925. At the time of the exercise, the warrants, representing derivative instruments fair valued at the end of each reporting period, had a fair value of $1,952, which was transferred to the NanoXplore investment balance in addition to the consideration paid.

On September 9, 2019 the Company acquired an additional 10,000,000 common shares in NanoXplore pursuant to several private agreements. Of the 10,000,000 common shares, 5,474,669 were acquired at a price of $1.20 per share for an aggregate purchase price of $6,570 and 4,525,331 of the common shares were acquired at a purchase price of $1.30 per share for an aggregate purchase price of $5,883.

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.

As at December 31, 2020, the Company held 34,045,954 common shares of NanoXplore representing a 23.3% equity interest in NanoXplore (on a non-diluted basis), a decrease from 24.3% after NanoXplore converted an aggregate principal amount of $10,000 of convertible subordinated debentures into common shares, during the fourth quarter of 2020. This dilution resulted in a deemed disposition of the Company's ownership interest in NanoXplore resulting in a recorded gain on dilution of $866.

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 |
|---|---|---|
| Opening cost base of investment on January 11, 2019 | $ | 22,685 |
| Additions to investment including commissions | | 16,430 |
| Share of loss for the year | | (2,009) |
| Share of other comprehensive loss for the year | | (26) |
| Net balance as of December 31, 2019 | $ | 37,080 |
| Additions to investment | | 5,000 |
| Gain on dilution of investment in associate | | 866 |
| Share of loss for the year | | (2,310) |
| Share of other comprehensive loss for the year | | (79) |
| Net balance as of December 31, 2020 | $ | 40,557 |

As at December 31, 2020, the stock market value of the shares held by the Company was NanoXplore is $142,653.

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

The warrants in NanoXplore represent derivative instruments and are fair valued at the end of each reporting period using the Black-Scholes-Merton option valuation model, with the change in fair value recorded through profit or loss. A loss of $251 was recognized for the year ended December 31, 2019 recorded in other finance income (expense) in the consolidated statement of operations. As at December 31, 2019, the Company held 205,900 outstanding warrants in NanoXplore at an exercise price of $2.30 per share and a fair value of $5. These warrants expired in March 2020 unexercised.

Subsequent to the year ended December 31, 2020, on February 12, 2021, NanoXplore completed a public offering of 11,500,000 common shares for gross proceeds of $46,000. In a separate transaction on February 12, 2021, the Company purchased 1,000,000 common shares from NanoXplore's President and Chief Executive Officer for consideration of $4,000. Subsequent to these transactions, the Company's ownership interest decreased to 22.2%.

## 10. IMPAIRMENT OF ASSETS

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| North America | $ | (72,159) | $ | - |
| Europe | | (1,280) | | - |
| Rest of the World | | (12,344) | | (18,502) |
| Total Impairment | $ | (85,783) | $ | (18,502) |

The Company evaluates its non-financial assets and CGUs for impairment whenever events or circumstances indicate the value of an asset or CGU is not recoverable.

The significant reduction in volumes and industry production projections as a result of the COVID-19 global pandemic negatively impacted the recoverable amount of certain of the Company's production-related assets and also changed the expected usage of certain other assets. As a result, during the second quarter of 2020, the Company completed an analysis of its asset base and concluded there existed certain indicators of impairment for specific assets and CGUs. Accordingly, the Company tested these assets and CGUs for recoverability using projected sales and cash flows modelled from industry production projections. Based on the results of this testing, during the second quarter of 2020, the Company recorded impairment charges on property, plant and equipment, right-of-use assets, intangible assets and inventories across its three operating segments totaling $85,783, including specific assets that are no longer expected to be redeployed or transferred to other facilities. The charges related to assets and CGUs across various jurisdictions in the Company's segments, including the United States, Slovakia, China and Brazil. For the specific assets that are no longer expected to be redeployed or transferred, the impairment charges are based on the estimated salvage value of the assets. For the CGUs, the impairment charges were recorded where the carrying amount of the CGUs exceeded their estimated recoverable amounts.

During the second quarter of 2019, the Company recorded impairment charges on property, plant, equipment, right-of-use assets, intangible assets and inventories totaling $18,502 related to an operating facility in China included in the Rest of the World operating segment. The impairment charges resulted from lower OEM production volumes on certain light vehicle platforms being serviced by the facility, representing a significant portion of the business, causing the Company to complete an analysis of strategic alternatives. The impairment charges were recorded where the carrying amount of the assets exceeded their estimated recoverable amounts, including consideration where specific assets can be transferred to other facilities.

## 11. TRADE AND OTHER PAYABLES

| | | December 31, 2020 | | December 31, 2019 |
|---|---|---|---|---|
| Trade accounts payable and accrued liabilities* | $ | 967,952 | $ | 728,000 |
| Foreign exchange forward contracts accounted for as hedges (note 23(d)) | | - | | 787 |
| | $ | 967,952 | $ | 728,787 |

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 23.

* Included in Trade accounts payable and accrued liabilities are contract liabilities related to advance consideration received from customers for tooling contracts, summarized below, for which revenue is recognized when the tool has been accepted by the customer.

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

| | | Contract Liabilities (Advance tooling consideration from customers) |
|---|---|---|
| Net as of December 31, 2018 | $ | 106,755 |
| Amount of opening balance recognized as tooling sales during the year | | (103,735) |
| Advance cash consideration received during the year | | 15,579 |
| Net as of December 31, 2019 | $ | 18,599 |
| Additions from acquisition (note 3) | | 42,026 |
| Amount of opening and acquired balance recognized as tooling sales during the year | | (30,063) |
| Advance cash consideration received during the year | | 101,276 |
| Net as of December 31, 2020 | $ | 131,838 |

## 12. 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 year | | (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 | | 8,170 | | 662 | | 8,832 |
| Additions from acquisition (note 3) | | 26,258 | | - | | 26,258 |
| Amounts used during the year | | (38,320) | | (1,295) | | (39,615) |
| Foreign currency translation adjustment | | 1,038 | | (839) | | 199 |
| Net as of December 31, 2020 | $ | 1,360 | $ | 2,898 | $ | 4,258 |

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

**(a) Restructuring**

Additions to the restructuring provision in 2020 totaled $8,170 and represent employee-related severance resulting from a reduction in the Company's workforce globally in response to the COVID-19 global pandemic. Of the total addition to the restructuring provision, $6,573 relates to North America, $984 to Europe and $613 to the Rest of the World.

Additions to the restructuring provision in 2019 totaled $8,165 and represent employee-related severance resulting from the rightsizing of certain operating facilities. Of the total addition to the restructuring provision, $1,679 relates to North America and $6,486 to the Rest of the World.

**(b) Claims and litigation**

In the normal course of business, the Company may be involved in disputes with its suppliers, customers, former employees or other third parties. Where the Company has determined that there is a probable loss that is expected from claims or litigation related to past events, a provision is recorded to cover the related risks associated with these disputes. To the best of the Company's knowledge, there are no claims or litigation in progress or pending that are likely to have a material impact on the Company's consolidated financial position.

Additions to the claims and litigation provision in 2019 totaled $3,500, of which $2,310 resulted from a true-up of the provision related to certain employee-related matters in the Company's operating facility in Brazil.

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

## 13. 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 23.

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Banking facility | $ 773,772 | $ 716,452 |
| Equipment loans | 61,450 | 65,121 |
| | 835,222 | 781,573 |
| Current portion | (19,492) | (15,651) |
| | $ 815,730 | $ 765,922 |

Terms and conditions of outstanding loans, in Canadian dollar equivalents, are as follows:

| | Currency | Nominal interest rate | Year of maturity | December 31, 2020 Carrying amount | December 31, 2019 Carrying amount |
|---|---|---|---|---|---|
| Banking facility | USD | LIBOR + 2.25% | 2022 | $ 427,646 | $ 390,830 |
| | CAD | BA + 2.25% | 2022 | 346,126 | 325,622 |
| Equipment loans | EUR | 1.05% | 2024 | 20,239 | 24,505 |
| | CAD | 3.80% | 2022 | 15,555 | 23,594 |
| | EUR | 1.40% | 2026 | 14,454 | 15,872 |
| | EUR | 2.00% | 2023 | 10,265 | - |
| | EUR | 0.00% | 2028 | 389 | - |
| | EUR | 1.36% | 2021 | 290 | 858 |
| | EUR | 0.26% | 2025 | 258 | 266 |
| | BRL | 5.00% | 2020 | - | 26 |
| | | | | $ 835,222 | $ 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;
- improved financial covenants, including a maximum net debt to trailing twelve months EBITDA ratio of 3.0x;
- 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.

In light of the COVID-19 global pandemic, the Company enhanced its liquidity position by exercising the accordion feature incorporated in its banking facility, as noted above, and amended such facility. The exercise was completed 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 June 24, 2020, the Company amended its lending agreements with its banking syndicate to provide enhanced financial covenant flexibility on a present and go forward basis. The amendment in essence provides that the Company's calculation of its most basic financial covenant, the net debt to trailing twelve months EBITDA ratio, for the four quarters up to and including the first quarter of 2021, would exclude EBITDA from the second quarter of 2020 and instead will be based on the annualized total of the remaining three quarters (i.e. the sum of the three quarters divided by three fourths). As a result, the impact of the COVID-19 related shutdown of the industry, and most of the Company's operations, occurring during the second quarter of 2020, would be ignored for the purpose of financial covenant calculations under the Company's lending arrangements. The amendment resulted in projected incremental borrowing costs to the Company of approximately 25 basis points on all outstanding debt under the revolving credit lines.

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

As at December 31, 2020, the Company had drawn US $336,000 (December 31, 2019 - US $301,000) on the U.S. revolving credit line and $348,000 (December 31, 2019 - $328,000) on the Canadian revolving credit line. At December 31, 2020, the weighted average effective interest rate of the banking facility credit lines was 2.8% (December 31, 2019 - 3.9%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at December 31, 2020.

Deferred financing fees of $1,874 (December 31, 2019 - $2,378) have been netted against the carrying amount of the long-term debt.

On July 2, 2020, the Company finalized an eight-year equipment loan in the amount of €972 ($1,514) repayable in bi-annual installments commencing in 2024 at a fixed annual interest rate of 0.0%.

On April 30, 2020, the Company finalized a three-year equipment loan in the amount of €6,600 ($9,958) repayable in monthly installments commencing in 2021 at a fixed annual interest rate of 2.0%.

On January 30, 2019, the Company finalized a six-year equipment loan in the amount of €10,900 ($16,602) repayable in monthly installments commencing in 2020 at a fixed annual interest rate of 1.40%.

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

| | | **Scheduled principal repayments** | | **Scheduled amortization of deferred financing fees** | | **Carrying amount of outstanding loans** |
|---|---|---|---|---|---|---|
| Within one year | $ | 20,829 | $ | (1,337) | $ | 19,492 |
| One to two years | | 796,914 | | (537) | | 796,377 |
| Two to three years | | 10,757 | | - | | 10,757 |
| Three to four years | | 4,988 | | - | | 4,988 |
| Thereafter | | 3,608 | | - | | 3,608 |
| | $ | 837,096 | $ | (1,874) | $ | 835,222 |

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 | | 94,424 |
| Loan proceeds | | 10,339 |
| Repayments | | (43,462) |
| Deferred financing fee additions | | (1,254) |
| Amortization of deferred financing fees | | 1,758 |
| Foreign currency translation adjustment | | (8,156) |
| Net as of December 31, 2020 | $ | 835,222 |

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

## 14. 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 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 | | (6,101) |
| Net as of December 31, 2019 | $ | 202,352 |
| Net additions | | 19,028 |
| Lease modifications | | 16,496 |
| Additions from acquisition (note 3) | | 5,507 |
| Principal payments of lease liabilities | | (32,966) |
| Foreign currency translation adjustment | | 1,396 |
| Net as of December 31, 2020 | $ | 211,813 |

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

| | | Total |
|---|---|---|
| Within one year | $ | 41,782 |
| One to two years | | 37,268 |
| Two to three years | | 34,410 |
| Three to four years | | 28,873 |
| Thereafter | | 104,448 |
| Total undiscounted lease liabilities at December 31, 2020 | $ | 246,781 |
| Interest on lease liabilities | | (34,968) |
| Total present value of minimum lease payments | $ | 211,813 |
| Current portion | | (34,064) |
| | $ | 177,749 |

## 15. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

The Company has defined benefit and non-pension post-retirement benefit plans in Canada, the United States and Germany. The defined benefit plans provide pensions based on years of service, years of contributions and earnings. The post-retirement benefit plans provide for the reimbursement of certain medical costs.

The plans are governed by the pension laws of the jurisdiction in which they are registered. The Company's pension funding policy is to contribute amounts sufficient, at minimum, to meet local statutory funding requirements. Local regulatory bodies either define minimum funding requirements or approve funding plans submitted by the Company. From time to time the Company may make additional discretionary contributions taking into account actuarial assessments and other factors. Actuarial valuations for the Company's defined benefit pension plans are completed based on the regulations in place in the jurisdictions where the plans operate.

The assets of the defined benefit pension plans are held in segregated accounts isolated from the Company's assets. The plans are administered pursuant to applicable regulations, investment policies and procedures and to the mandate of an established pension committee. The pension committee oversees the administration of the pension plans, which include the following principal areas:

- Overseeing the funding, administration, communication and investment management of the plans;
- Selecting and monitoring the performance of all third parties performing duties in respect of the plans, including audit, actuarial and investment management services;

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

- Proposing, considering and approving amendments to the defined benefit pension plans;
- Proposing, considering and approving amendments of the investment policies and procedures;
- Reviewing actuarial reports prepared in respect of the administration of the defined benefit pension plans; and
- Reviewing and approving the audited financial statements of the defined benefit pension plan funds.

The assets of the defined benefit pension plans are invested and managed following all applicable regulations and investment policies and procedures, and reflect the characteristics and asset mix of each defined benefit pension plan. Investment and market return risk is managed by:

- Contracting professional investment managers to execute the investment strategy following the investment policies and procedures and regulatory requirements;
- Specifying the kinds of investments that can be held in plans and monitoring compliance;
- Using asset allocation and diversification strategies; and
- Purchasing annuities from time to time.

The pension plans are exposed to market risks such as changes in interest rates, inflation and fluctuations in investment values. The plans are also exposed to non-financial risks in the nature of membership mortality, demographic changes and regulatory change.

Information about the Company's defined benefit plans as at December 31, 2020 and 2019, in aggregate, is as follows:

**Accrued benefit obligation:**

| | Other post-retirement benefits | Pensions | December 31, 2020 | Other post-retirement benefits | Pensions | December 31, 2019 |
|---|---|---|---|---|---|---|
| Balance, beginning of year | $ (40,088) | $ (79,905) | $ (119,993) | $ (39,241) | $ (69,264) | $ (108,505) |
| Benefits paid by the plan | 1,720 | 3,064 | 4,784 | 1,426 | 2,871 | 4,297 |
| Current service costs | (103) | (2,298) | (2,401) | (110) | (1,864) | (1,974) |
| Interest costs | (1,217) | (2,250) | (3,467) | (1,492) | (2,508) | (4,000) |
| Actuarial gains (losses) - experience | 227 | (737) | (510) | 2,596 | (670) | 1,926 |
| Actuarial gains (losses) - demographic assumptions | (880) | (1,732) | (2,612) | 740 | (156) | 584 |
| Actuarial gains (losses) - financial assumptions | (2,590) | (8,141) | (10,731) | (4,753) | (10,425) | (15,178) |
| Settlements and other payments | - | - | - | - | 163 | 163 |
| Foreign exchange translation | 323 | (232) | 91 | 746 | 1,948 | 2,694 |
| Balance, end of year | $ (42,608) | $ (92,231) | $ (134,839) | $ (40,088) | $ (79,905) | $ (119,993) |

**Plan Assets:**

| | Other post-retirement benefits | Pensions | December 31, 2020 | Other post-retirement benefits | Pensions | December 31, 2019 |
|---|---|---|---|---|---|---|
| Fair value, beginning of year | $ - | $ 56,204 | $ 56,204 | $ - | $ 47,238 | $ 47,238 |
| Contributions paid into the plans | 1,720 | 3,882 | 5,602 | 1,426 | 3,325 | 4,751 |
| Benefits paid by the plans | (1,720) | (3,064) | (4,784) | (1,426) | (2,871) | (4,297) |
| Interest income | - | 1,776 | 1,776 | - | 1,874 | 1,874 |
| Administrative costs | - | (40) | (40) | - | (40) | (40) |
| Remeasurements, return on plan assets recognized in other comprehensive income | - | 2,510 | 2,510 | - | 7,642 | 7,642 |
| Foreign exchange translation | - | (459) | (459) | - | (964) | (964) |
| Fair value, end of year | $ - | $ 60,809 | $ 60,809 | $ - | $ 56,204 | $ 56,204 |
| **Accrued benefit liability, end of year** | **(42,608)** | **(31,422)** | **(74,030)** | **(40,088)** | **(23,701)** | **(63,789)** |

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

Pension benefit expense recognized in profit or loss:

| | Other post-retirement benefits | Pensions | Year ended December 31, 2020 | Other post-retirement benefits | Pensions | Year ended December 31, 2019 |
|---|---|---|---|---|---|---|
| Current service costs | $ 103 | $ 2,298 | $ 2,401 | $ 110 | $ 1,864 | $ 1,974 |
| Net interest cost | 1,217 | 474 | 1,691 | 1,492 | 634 | 2,126 |
| Administrative costs | - | 40 | 40 | - | 40 | 40 |
| Net benefit plan expense | $ 1,320 | $ 2,812 | $ 4,132 | $ 1,602 | $ 2,538 | $ 4,140 |

Amounts recognized in other comprehensive income (loss) (before income taxes):

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Actuarial losses | $ (11,343) | $ (5,026) |

Plan assets are primarily composed of pooled funds that invest in fixed income and equities, common stocks and bonds that are actively traded. Plan assets are composed of:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Equity | 81.9% | 81.9% |
| Debt securities | 18.1% | 18.1% |
| | 100.0% | 100.0% |

As at December 31, 2020 and 2019, all investments in the plan are at Level 2 on the fair value hierarchy, as defined in note 23.

The defined benefit obligation and plan assets are composed by country as follows:

| | Year ended December 31, 2020 | | | | Year ended December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | USA | Germany | Total | Canada | USA | Germany | Total |
| Present value of funded obligations | $ (41,540) | $ (33,808) | $ - | $ (75,348) | $ (34,765) | $ (31,510) | $ - | $ (66,275) |
| Fair value of plan assets | 36,223 | 24,586 | - | 60,809 | 33,405 | 22,799 | - | 56,204 |
| Funding status of funded obligations | (5,317) | (9,222) | - | (14,539) | (1,360) | (8,711) | - | (10,071) |
| Present value of unfunded obligations | (25,553) | (18,800) | (15,138) | (59,491) | (24,136) | (17,640) | (11,942) | (53,718) |
| Total funded status of obligations | $ (30,870) | $ (28,022) | $ (15,138) | $ (74,030) | $ (25,496) | $ (26,351) | $ (11,942) | $ (63,789) |

There are significant assumptions made in the calculations provided by the actuaries and it is the responsibility of the Company to determine which assumptions could result in a significant impact when determining the accrued benefit obligations and pension expense.

Principal actuarial assumptions, expressed as weighted averages, are summarized below:

**Weighted average actuarial assumptions**

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Defined benefit pension plans: | | |
| Discount rate used to calculate year end benefit obligation | 2.1% | 2.8% |
| Mortality table | CPM 2014, Pri 2012 Blue collar w/MP-2020 | CPM 2014, Pri 2012 Blue collar w/MP-2019 |
| Other post-employment benefit plans: | | |
| Discount rate to calculate year end benefit obligation | 2.3% | 3.0% |
| Mortality table | CPM 2014, Pri 2012 Blue collar w/MP-2020 | CPM 2014, Pri 2012 Blue collar w/MP-2019 |
| Health care trend rates: | | |
| Initial healthcare rate | 6.5% | 5.5% |
| Ultimate healthcare rate | 4.2% | 4.2% |

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

*Sensitivity of Key Assumptions*

In the sensitivity analysis shown below, the Company determines the defined benefit obligation using the same method used to calculate the defined benefit obligations recognized in the consolidated balance sheet. Sensitivity is calculated by changing one assumption while holding the others constant. The actual change in defined benefit obligation will likely be different from that shown in the table, since it is likely that more than one assumption will change at a time, and that some assumptions are correlated.

| | | **Impact on defined benefit obligation December 31, 2020** | | **Impact on defined benefit obligation December 31, 2019** | |
|---|---|---|---|---|---|
| **Pension Plans** | Change in assumption | Increase in assumption | Decrease in assumption | Increase in assumption | Decrease in assumption |
| Discount rate | 0.50% | Decrease by 7.6% | Increase by 8.6% | Decrease by 7.5% | Increase by 8.5% |
| Life Expectancy | 1 Year | Increase by 3.4% | Decrease by 3.4% | Increase by 3.2% | Decrease by 3.3% |
| **Other post-retirement benefits** | | | | | |
| Discount rate | 0.50% | Decrease by 6.2% | Increase by 6.9% | Decrease by 6.0% | Increase by 6.6% |
| Medical costs | 1 Year | Increase by 11.2% | Decrease by 9.4% | Increase by 11.8% | Decrease by 9.8% |

## 16. INCOME TAXES

The components of income tax expense are as follows:

| | | **Year ended December 31, 2020** | | **Year ended December 31, 2019** |
|---|---|---|---|---|
| Current income tax expense | $ | (46,503) | $ | (67,292) |
| Deferred income tax recovery | | 34,496 | | 23,468 |
| Total income tax expense | $ | (12,007) | $ | (43,824) |

Taxes on items recognized in other comprehensive income (loss) or directly in equity were as follows:

| Deferred tax charge on: | | **Year ended December 31, 2020** | | **Year ended December 31, 2019** |
|---|---|---|---|---|
| Employee benefit plan actuarial gains | $ | 2,930 | $ | 1,245 |
| Foreign currency items | | 1,978 | | 124 |
| | $ | 4,908 | $ | 1,369 |

**Reconciliation of effective tax rate**

The provision for income taxes differs from the result that would be obtained by applying statutory income tax rates to income before income taxes. The difference results from the following:

| | | **Year ended December 31, 2020** | | **Year ended December 31, 2019** |
|---|---|---|---|---|
| Income (loss) before income taxes | $ | (15,310) | $ | 225,045 |
| Tax at Statutory income tax rate of 26.5% (2019 - 26.5%) | | (4,057) | | 59,637 |
| Increase (decrease) in income taxes resulting from: | | | | |
| Utilization of losses previously not benefited | | (543) | | (54) |
| Tax audit settlements and changes in estimates | | (1,368) | | (340) |
| Revaluations due to foreign exchange and inflation | | 3,807 | | (3,498) |
| Rate differences and deductions allowed in foreign jurisdictions | | (7,302) | | (3,405) |
| Current year tax losses not benefited and withholding tax expensed | | 17,271 | | 6,261 |
| Recognition of previously unrecognized deferred tax assets | | - | | (17,418) |
| Stock-based compensation and other non-deductible expenses | | 4,199 | | 2,641 |
| | $ | 12,007 | $ | 43,824 |
| Effective income tax rate applicable to income before income taxes | | (78.4%) | | 19.5% |

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

The movement of deferred tax assets are summarized below:

| | Losses | Employee benefits | Interest and accruals | PPE and intangible assets | Other | Total |
|---|---|---|---|---|---|---|
| December 31, 2018 | $ 86,138 | 16,211 | 24,064 | 10,222 | 8,719 | 145,354 |
| Benefit (charge) to income | 22,017 | 1,463 | (4,482) | 4,237 | 2,981 | 26,216 |
| Benefit (charge) to other comprehensive income | - | 1,245 | - | - | (988) | 257 |
| Translation and other items | (3,621) | (411) | (934) | (705) | (266) | (5,937) |
| December 31, 2019 | 104,534 | 18,508 | 18,648 | 13,754 | 10,446 | 165,890 |
| Benefit (charge) to income | 3,447 | 842 | 22,671 | 757 | (4,360) | 23,357 |
| Benefit to other comprehensive income | - | 2,930 | - | - | 4,030 | 6,960 |
| Additions from acquisition (note 3) | 538 | - | - | 1,227 | 159 | 1,924 |
| Translation and other items | (1,576) | 31 | (902) | 34 | (180) | (2,593) |
| December 31, 2020 | $ 106,943 | $ 22,311 | $ 40,417 | $ 15,772 | $ 10,095 | $ 195,538 |

The movement of deferred tax liabilities are summarized below:

| | PPE and intangible assets | Other | Total |
|---|---|---|---|
| December 31, 2018 | $ (74,469) | $ (9,901) | $ (84,370) |
| Charge to income | (2,461) | (287) | (2,748) |
| Benefit to other comprehensive income | - | 1,112 | 1,112 |
| Translation and other items | 2,353 | 343 | 2,696 |
| December 31, 2019 | (74,577) | (8,733) | (83,310) |
| Benefit (charge) to income | 12,268 | (1,129) | 11,139 |
| Charge to other comprehensive income | - | (2,052) | (2,052) |
| Additions from acquisition (note 3) | (12,288) | - | (12,288) |
| Translation and other items | 1,151 | (814) | 337 |
| December 31, 2020 | $ (73,446) | $ (12,728) | $ (86,174) |

| | |
|---|---|
| Net deferred asset at December 31, 2019 | $ 82,580 |
| Net deferred asset at December 31, 2020 | $ 109,364 |

The Company has accumulated approximately $602,597 (December 31, 2019 - $487,369) in non-capital losses that are available to reduce taxable income in future years. If unused, these losses will expire as follows:

| Year | |
|---|---|
| 2021-2025 | $ 32,083 |
| 2026-2040 | 448,042 |
| Indefinite | 122,472 |
| | $ 602,597 |

Deferred tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

Deferred tax assets include tax credits of $5,807 (December 31, 2019 - $5,936).

A deferred tax asset of $68,536 in the United States (December 31, 2019 - $51,127) has been recorded in excess of the reversing taxable temporary differences. Income projections support the conclusion that the deferred tax asset is probable of being realized and, consequently, it has been recognized.

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

Deferred tax assets have not been recognized in respect of the following items:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Tax losses in foreign jurisdictions | $ 46,518 | $ 21,800 |
| Deductible temporary differences in foreign jurisdictions | 2,820 | 3,313 |
| Other capital items | 188 | 188 |
| | $ 49,526 | $ 25,301 |

Deferred tax is not recognized on the unremitted earnings of foreign subsidiaries to the extent that the Company is able to control the timing of the reversal of the temporary differences, and it is probable that the temporary differences will not reverse in the foreseeable future. The temporary difference in respect the amount of undistributed earnings and other differences including the outside basis difference of foreign subsidiaries is approximately $813,308 at December 31, 2020 (December 31, 2019 - $737,616).

Future changes in tax law in any of the jurisdictions the Company has a presence in could significantly impact the Company's provision for income taxes, taxes payable, and deferred tax asset and liability balances.

## 17. CAPITAL STOCK

| Common shares outstanding: | Number | Amount |
|---|---|---|
| Balance as of December 31, 2018 | 82,631,105 | $ 680,157 |
| Exercise of stock options | 230,000 | 2,681 |
| 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 |
| Exercise of stock options | 333,200 | 3,479 |
| Repurchase of common shares under normal course issuer bid | (300,185) | (2,474) |
| Balance as of December 31, 2020 | 80,294,095 | $ 662,427 |

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).

During 2019, the Company purchased for cancellation an aggregate of 2,600,025 common shares for an aggregate purchase price of $31,506, resulting in a decrease to stated capital of $21,416 and a decrease to retained earnings of $10,088. The shares were purchased for cancellation directly under the NCIB.

In light of the COVID-19 global pandemic, the Company suspended the repurchase of common shares. The NCIB expired at the end of August 2020.

**Stock options**

The Company has one stock option plan for key employees. Under the plan, the Company may grant options to its key employees for up to 9,000,000 shares of common stock with option room available calculated in accordance with the terms of the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with the stock option plan and the policies of the Company. The options have a maximum term of 10 years and generally vest between zero and five years.

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

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

| | Year ended December 31, 2020 | | | Year ended December 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 | 870,000 | | 14.60 |
| Exercised during the period | (333,200) | | 7.43 | (230,000) | | 8.34 |
| Cancelled during the period | - | | - | (60,000) | | 13.32 |
| Balance, end of period | 2,777,500 | $ | 13.25 | 3,010,700 | $ | 12.57 |
| Options exercisable, end of period | 1,564,500 | $ | 12.55 | 1,974,700 | $ | 11.55 |

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

| Range of exercise price per share | Number outstanding | Date of grant | Expiry |
|---|---|---|---|
| $7.00 - 8.70 | 45,500 | 2011 - 2012 | 2021 - 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 | 2,777,500 | | |

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.

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

| | | Year ended December 31, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| Expected volatility | | 33.24% | | 33.24% |
| Risk free interest rate | | 1.66% | | 1.66% |
| Expected life (years) | | 5.0 | | 5.0 |
| Dividend yield | | 1.23% | | 1.23% |
| Weighted average fair value of options granted | $ | 4.09 | $ | 4.09 |

For the year ended December 31, 2020, the Company expensed $2,416 (2019 - $1,195), 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 December 31, 2020 and 2019:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Outstanding, beginning of period | 246,114 | 174,574 |
| Granted and reinvested dividends | 137,188 | 104,062 |
| Redeemed | (52,011) | (32,522) |
| Outstanding, end of period | 331,291 | 246,114 |

The DSUs granted during the years ended December 31, 2020 and 2019 were granted to non-executive directors and certain designated employees, and had a weighted average fair value per unit of $8.62 and $12.22, respectively, on the date of grant. At December 31, 2020, the fair value of all outstanding DSUs amounted to $4,069 (December 31, 2019 - $2,741). For the year ended December 31, 2020, DSU compensation expense reflected in the consolidated statement of operations, including changes in fair value during the year, amounted to $2,103 (2019 - $1,269), recorded in selling, general and administrative expense.

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

Unrecognized DSU compensation expense as at December 31, 2020 was $983 (2019 - $532) and will be recognized in profit or 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 year ended December 31, 2020 and 2019:

| | RSUs | PSUs | Total |
|---|---|---|---|
| Outstanding, December 31, 2018 | 289,210 | 289,210 | 578,420 |
| Granted and reinvested dividends | 253,407 | 253,407 | 506,814 |
| 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 | 103,631 | 103,631 | 207,262 |
| Redeemed | (203,834) | (202,745) | (406,579) |
| Cancelled | (9,437) | (9,181) | (18,618) |
| Outstanding, December 31, 2020 | 342,175 | 342,518 | 684,693 |

The RSUs and PSUs granted during the years ended December 31, 2020 and 2019 had a weighted average fair value per unit of $11.79 and $12.25, respectively, on the date of grant. For the year ended December 31, 2020, RSU and PSU compensation expense reflected in the consolidated statement of operations, including changes in fair value during the year, amounted to $6,485 (2019 - $6,955), recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at December 31, 2020 was $3,481 (December 31, 2019 - $5,835) and will be recognized in profit or loss over the next three years as the RSUs and PSUs vest.

The key assumptions, on a weighted average basis, used in the valuation of PSUs granted during the years ended December 31, 2020 and 2019 are shown in the table below:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Expected life (years) | 2.34 | 2.35 |
| Risk free interest rate | 0.36% | 1.59% |

## 18. EARNINGS PER SHARE

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

| | Year ended December 31, 2020 | | | Year ended December 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Weighted average number of shares | | Per common share amount | Weighted average number of shares | | Per common share amount |
| Basic | 80,141,721 | $ | (0.34) | 82,486,531 | $ | 2.20 |
| Effect of dilutive securities: | | | | | | |
| Stock options | - | | - | 152,140 | | (0.01) |
| Diluted | 80,141,721 | $ | (0.34) | 82,638,671 | $ | 2.19 |

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 year ended December 31, 2020, 2,777,500 options (2019 - 2,397,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

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

## 19. RESEARCH AND DEVELOPMENT COSTS

| | | Year ended December 31, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| Research and development costs, gross | $ | 29,408 | $ | 35,003 |
| Capitalized development costs | | (12,304) | | (10,747) |
| Amortization of capitalized development costs | | 11,807 | | 13,779 |
| Net expense | $ | 28,911 | $ | 38,035 |

## 20. PERSONNEL EXPENSES

The consolidated statement of operations presents operating expenses by function. Operating expenses include the following personnel-related expenses:

| | Note | | Year ended December 31, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|---|
| Wages and salaries and other short-term employee benefits | | $ | 879,586 | $ | 916,385 |
| Expenses related to pension and post-retirement benefits | 15 | | 4,132 | | 4,140 |
| RSU and PSU compensation expense (including changes in fair value during the year) | 17 | | 6,485 | | 6,955 |
| DSU compensation expense (including changes in fair value during the year) | 17 | | 2,103 | | 1,269 |
| Stock-based compensation expense | 17 | | 2,416 | | 1,195 |
| | | $ | 894,722 | $ | 929,944 |

## 21. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

| | | Year ended December 31, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| Debt interest, gross | $ | (29,747) | $ | (36,041) |
| Interest on lease liabilities | | (8,740) | | (8,302) |
| Capitalized interest - at an average rate of 2.8% (2019 - 4.0%) | | 2,716 | | 6,346 |
| Finance expense (including interest on lease liabilities) | $ | (35,771) | $ | (37,997) |

| | | Year ended December 31, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| Net unrealized foreign exchange loss | $ | (6,056) | $ | (1,109) |
| Unrealized loss on warrants (note 9) | | (5) | | (251) |
| Other income, net | | 428 | | 574 |
| Other finance expense | $ | (5,633) | $ | (786) |

## 22. 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 offerings 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 among 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.

The accounting policies of the segments are the same as those described in the significant accounting policies in note 2 of the consolidated 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.

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

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

| | Year ended December 31, 2020 | | | | |
|---|---|---|---|---|---|
| | **Production Sales** | **Tooling Sales** | **Total Sales** | **Property, plant and equipment and Right-of-use assets** | **Operating Income (loss)** |
| North America | | | | | |
| Canada | $ 472,436 | $ 135,840 | $ 608,276 | $ 289,206 | |
| USA | 972,827 | 64,723 | 1,037,550 | 470,577 | |
| Mexico | 1,085,832 | 77,063 | 1,162,895 | 642,615 | |
| Eliminations | (145,245) | (126,256) | (271,501) | - | |
| | $ 2,385,850 | $ 151,370 | $ 2,537,220 | $ 1,402,398 | $ 60,323 |
| Europe | | | | | |
| Germany | 475,141 | 49,780 | 524,921 | 200,144 | |
| Spain | 112,858 | 3,353 | 116,211 | 133,047 | |
| Slovakia | 37,421 | 5,359 | 42,780 | 14,415 | |
| Eliminations | - | (36) | (36) | - | |
| | 625,420 | 58,456 | 683,876 | 347,606 | (38,187) |
| Rest of the World | 158,719 | 10,059 | 168,778 | 57,823 | 5,402 |
| Eliminations | (13,121) | (1,467) | (14,588) | - | - |
| | $ 3,156,868 | $ 218,418 | $ 3,375,286 | $ 1,807,827 | $ 27,538 |

| | Year ended December 31, 2019 | | | | |
|---|---|---|---|---|---|
| | **Production Sales** | **Tooling Sales** | **Total Sales** | **Property, plant and equipment and Right-of-use assets** | **Operating Income (loss)** |
| North America | | | | | |
| Canada | $ 602,199 | $ 46,878 | $ 649,077 | $ 224,006 | |
| USA | 1,087,505 | 205,731 | 1,293,236 | 534,802 | |
| Mexico | 1,208,099 | 147,891 | 1,355,990 | 582,074 | |
| Eliminations | (168,522) | (63,429) | (231,951) | - | |
| | $ 2,729,281 | $ 337,071 | $ 3,066,352 | $ 1,340,882 | $ 227,145 |
| Europe | | | | | |
| Germany | 415,542 | 41,496 | 457,038 | 167,075 | |
| Spain | 152,698 | 10,099 | 162,797 | 135,197 | |
| Slovakia | 49,387 | 5,664 | 55,051 | 16,684 | |
| Eliminations | - | (2,755) | (2,755) | - | |
| | 617,627 | 54,504 | 672,131 | 318,956 | 44,875 |
| Rest of the World | 118,146 | 14,524 | 132,670 | 70,435 | (6,183) |
| Eliminations | (6,167) | (1,327) | (7,494) | - | - |
| | $ 3,458,887 | $ 404,772 | $ 3,863,659 | $ 1,730,273 | $ 265,837 |

## 23. 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 defines fair value 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)*

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

| | | December 31, 2020 | | | |
|---|---|---|---|---|---|
| | | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ | 152,786 | $ 152,786 | $ - | $ - |
| Foreign exchange forward contracts not accounted for as hedges (note 4) | $ | 647 | $ - | $ 647 | $ - |
| Foreign exchange forward contracts accounted for as hedges (note 4) | $ | 1,826 | $ - | $ 1,826 | $ - |

| | | December 31, 2019 | | | |
|---|---|---|---|---|---|
| | | Total | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | $ | 118,973 | $ 118,973 | $ - | $ - |
| Warrants in NanoXplore (note 9) | $ | 5 | $ - | $ 5 | $ - |
| Foreign exchange forward contracts not accounted for as hedges (note 4) | $ | 418 | $ - | $ 418 | $ - |
| Foreign exchange forward contracts accounted for as hedges (note 11) | $ | (787) | $ - | $ (787) | $ - |

**Fair values versus carrying amounts**

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

| December 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 | $ - | $ - | $ 586,842 | $ - | $ 586,842 | $ 586,842 |
| Foreign exchange forward contracts not accounted for as hedges | 647 | - | - | - | 647 | 647 |
| Foreign exchange forward contracts accounted for as hedges | 1,826 | - | - | - | 1,826 | 1,826 |
| | 2,473 | - | 586,842 | - | 589,315 | 589,315 |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Trade and other payables | - | - | - | (967,952) | (967,952) | (967,952) |
| Long-term debt | - | - | - | (835,222) | (835,222) | (835,222) |
| | - | - | - | (1,803,174) | (1,803,174) | (1,803,174) |
| **Net financial assets (liabilities)** | $ 2,473 | $ - | $ 586,842 | $ (1,803,174) | $ (1,213,859) | $ (1,213,859) |

| 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 9) | 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)*

**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%, 23.2%, and 12.4% of its production sales for the year ended December 31, 2020 (2019 - 32.9%, 27.5%, and 14.8%). 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 trade receivables that were past due as at December 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:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| 0-60 days | $ 547,727 | $ 521,354 |
| 61-90 days | 6,286 | 13,094 |
| Greater than 90 days | 14,826 | 7,961 |
| | $ 568,839 | $ 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 December 31, 2020, the Company had cash of $152,786 (2019 - $118,973) and banking facilities available as discussed in note 13. 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 13.

On June 24, 2020, the Company amended its lending agreement with its syndicate of banks to provide enhanced financial covenant flexibility as further described in note 13.

A summary of contractual maturities of long-term debt is provided in note 13.

**(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.

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

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

| | Carrying amount | |
|---|---|---|
| | December 31, 2020 | December 31, 2019 |
| Variable rate instruments | $ 773,772 | $ 716,452 |
| Fixed rate instruments | 61,450 | 65,121 |
| | $ 835,222 | $ 781,573 |

**Sensitivity analysis**

An increase of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $8,087 (2019 - $7,226) on the Company's consolidated financial results for the year ended December 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 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 December 31, 2020, the Company had committed to the following foreign exchange contracts:

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

| Currency | Amount of U.S. dollars | Weighted average exchange rate of U.S. dollars | Maximum period in months |
|---|---|---|---|
| Sell Canadian Dollars | $ 30,000 | 1.2700 | 1 |
| Buy Mexican Peso | $ 39,771 | 20.1150 | 1 |
| Buy Euro | $ 953 | 0.8190 | 1 |

The aggregate value of these forward contracts as at December 31, 2020 was a pre-tax gain of $647 and was recorded in trade and other receivables (December 31, 2019 - pre-tax gain of $418 recorded in trade and other receivables).

<u>Foreign exchange forward contracts accounted for as hedges and fair valued through other comprehensive income</u>

| Currency | Amount of U.S. dollars | Weighted average exchange rate of U.S. dollars | Maximum period in months |
|---|---|---|---|
| Buy Canadian Dollars | $ 39,000 | 1.3221 | 35 |

The aggregate value of these forward contracts as at December 31, 2020 was a pre-tax gain of $1,826 and was recorded in trade and other receivables (December 31, 2019 - pre-tax loss of $787 recorded in trade and other payables).

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

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

| December 31, 2020 | | USD | | EURO | | PESO | | BRL | | CNY |
|---|---|---|---|---|---|---|---|---|---|---|
| Trade and other receivables | $ | 299,576 | € | 73,574 | $ | 29,025 | R$ | 33,866 | ¥ | 148,507 |
| Trade and other payables | | (402,598) | | (165,244) | | (543,043) | | (32,370) | | (166,696) |
| Long-term debt | | (336,000) | | (29,509) | | - | | - | | - |
| | $ | (439,022) | € | (121,179) | $ | (514,018) | R$ | 1,496 | ¥ | (18,189) |

| 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 |

The following summary illustrates the fluctuations in the foreign exchange rates applied:

| | Average rate | | Closing rate | |
|---|---|---|---|---|
| | Year ended December 31, 2020 | Year ended December 31, 2019 | December 31, 2020 | December 31, 2019 |
| USD | 1.3447 | 1.3292 | 1.2728 | 1.2984 |
| EURO | 1.5196 | 1.4913 | 1.5553 | 1.4561 |
| PESO | 0.0632 | 0.0687 | 0.0640 | 0.0686 |
| BRL | 0.2693 | 0.3392 | 0.2453 | 0.3230 |
| CNY | 0.1935 | 0.1928 | 0.1949 | 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 December 31, would give rise to a translation risk on net income (loss) and would have increased (decreased) equity, profit or loss and comprehensive income for the year ended December 31, 2020 by the amounts shown below, assuming all other variables remain constant:

| | | Year ended December 31, 2020 | | Year ended December 31, 2019 |
|---|---|---|---|---|
| USD | $ | (1,113) | $ | (14,697) |
| EURO | | 2,634 | | (5,059) |
| BRL | | 1,316 | | 600 |
| CNY | | (888) | | 883 |
| | $ | 1,949 | $ | (18,273) |

A weakening of the Canadian dollar against the above currencies at December 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 (loss) 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.

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

## 24. COMMITMENTS AND CONTINGENCIES

### Commitments

The Company leases certain manufacturing facilities, manufacturing equipment, office equipment and vehicles under short-term leases and enters into purchase obligations in the normal course of business related to inventory, services, tooling and property, plant and equipment. The aggregate expected payments towards those obligations are as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Future minimum lease payments* | $ 720 | $ 1,912 |
| Capital and other purchase commitments (all due in less than one year) | 361,351 | 348,768 |
| | $ 362,071 | $ 350,680 |

*These amounts relate to leases that did not meet the recognition criteria for lease liabilities under IFRS 16

Future minimum lease payments under short-term leases are due as follows:

| | December 31, 2020 | December 31, 2019 |
|---|---|---|
| Less than one year | $ 666 | $ 1,092 |
| Between one and five years | 54 | 820 |
| | $ 720 | $ 1,912 |

### 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 these consolidated financial statements 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.

### Legal contingency

In December 2020, a customer, Fiat Chrysler (FCA), filed a claim against two subsidiaries of the Company alleging a breach of contract connected to one of the Company's operating facilities in Mexico, alleging a shortage of casted aluminum engine blocks. The Company believes that the claim is unwarranted and that the parts shortage, if any, is due to FCA's actions. The Company's subsidiaries have sought external legal advice and believes the contract has been complied with, in all material respects, and will vigorously defend against the claim. 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.

### 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 $55,003 (BRL $224,192) including interest and penalties to December 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 assessments are at various stages in the process. The largest assessment of $38,273 (BRL $156,000) including interest and penalties as at December 31, 2020 has entered the judicial litigation process. The Company's subsidiary may be required to present guarantees related to this assessment up to $16,192 (BRL $66,000) shortly through a pledge of assets, bank letter of credit 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.

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

## 25. 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 consolidated balance sheet. At December 31, 2020, the amount of the off-balance sheet program financing was $42,863 (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 range up to twenty-four months.

## 26. TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel include the Directors and the most Senior Corporate Officers of the Company that are primarily responsible for planning, directing, and controlling the Company's business activities.

The compensation expense associated with key management for employee services was included in employee salaries and benefits as follows:

| | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|
| Salaries, pension and other short-term employee benefits | $ 14,318 | $ 14,397 |
| RSU, PSU and DSU compensation expense (including changes in fair value during the year) | 7,060 | 6,244 |
| Stock-based compensation expense | 1,860 | 487 |
| Net expense | $ 23,238 | $ 21,128 |

## 27. LIST OF CONSOLIDATED ENTITIES

The following is a summary of significant direct subsidiaries of the Company as at December 31, 2020:

| | Country of incorporation | Ownership interest |
|---|---|---|
| Martinrea Metallic Canada Inc. | Canada | 100% |
| Martinrea Automotive Systems Canada Ltd. | Canada | 100% |
| Martinrea Automotive Inc. | Canada | 100% |
| Royal Automotive Group Ltd. | Canada | 100% |
| Martinrea Pilot Acquisition Inc. | Canada | 100% |
| Martinrea China Holdings Inc. | Canada | 100% |
| Agility Tooling Inc. | Canada | 100% |
| Martinrea Metal Holdings (USA), Inc. | United States of America | 100% |
| Martinrea Pilot Acquisition II LLC | United States of America | 100% |
| Martinrea Internacional de Mexico, S.A. de C.V. | Mexico | 100% |
| Martinrea Slovakia Fluid Systems S.R.O. | Slovakia | 100% |
| Martinrea Honsel Holdings B.V. | Netherlands | 100% |
| Martinrea Automotive Japan Inc. | Japan | 100% |