MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the Year ended December 31, 2020

The following management discussion and analysis ("MD&A") was prepared as of March 4, 2021 and should be read in conjunction with the Company's audited consolidated financial statements ("consolidated financial statements") for the year ended December 31, 2020 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company's Annual Information Form ("AIF") for the year ended December 31, 2020, can be found at www.sedar.com.

OVERVIEW

Martinrea International Inc. (TSX: MRE) ("Martinrea" or 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. Martinrea currently employs approximately 15,800 skilled and motivated people in 57 locations (including sales and engineering centres) in Canada, the United States, Mexico, Brazil, Germany, Spain, Slovakia, China, Japan and South Africa.

Martinrea's vision is to make people's lives better by being the best supplier we can be in the products we make and the services we provide. The Company's mission is to make people's lives better by: delivering outstanding quality products and services to our customers; providing meaningful opportunity, job satisfaction, and job security for our people; providing superior long-term investment returns to our stakeholders; and being positive contributors to our communities.

RECENT DEVELOPMENTS

COVID-19 PANDEMIC AND IMPACT ON OUR BUSINESS

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 2020, 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 Company's response to the COVID-19 pandemic has been measured, prudent and decisive with an emphasis on safety, cash conservation and enhancing liquidity. The health and safety of our employees, their families, our customers and our communities is, and will continue to be, our top priority. The Company has implemented various protocols throughout its global footprint to ensure a safe work environment, including: the use of personal protection equipment; reworking processes to provide social distancing; restricting access to facilities; enhancing cleaning and disinfecting protocols; using rotational remote work schedules, where possible; and restricting travel.

The Company also took aggressive actions in March and during the second quarter of 2020 to conserve cash in response to the COVID-19 related shutdowns and lower volumes. These actions included a significant number of temporary hourly and salaried employee layoffs, temporary reductions of salaried employee base wages of 20% (50% in the case of the Company's Executive Chairman, President and Chief Executive Officer, and Chief Financial Officer), the curtailment of non-production spending and the delay of capital and tooling spending where and when appropriate. The Company also suspended the repurchase of common stock under its normal course issuer bid, which expired in August 2020.

During the second quarter, the Company also enhanced its liquidity position by exercising the accordion feature incorporated in its banking facility. The exercise was completed on April 17, 2020, and increased the revolving credit lines available to the Company by another US $200 million ($280 million). As at December 31, 2020, the Company had total liquidity of approximately $530 million, including cash and cash equivalents and availability under the Company's revolving credit lines. In addition, the Company's banking facility includes a $300 million allowance for asset based financing that the Company can use for additional financing if required, of which approximately $240 million was available as at December 31, 2020.

Further, on June 24, 2020, the Company amended its lending agreements with its banking syndicate to provide enhanced financial 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.

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 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 the consolidated financial statements and under the "Adjustments to Net Income (Loss)" section of this MD&A. No such charges were recognized during the third and 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.

The Company will continue to respond to the COVID-19 pandemic in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position.

The Company continues to work with all its stakeholders to address the challenges, including:

- our supply base to deal with their challenges, including maintaining production and safety protocols;
- our customers to assist with meeting production requirements, as well as the development of new programs and products;
- our governmental and regulatory authorities to ensure safety and the economic well-being of our industry;
- our capital providers to ensure liquidity; and
- our employees to minimize the impacts of the pandemic, including a safe and healthy work environment.

The COVID-19 pandemic has had and may continue to have an adverse effect on our business, results of operations, cash flows and financial position. The ultimate extent of the impact 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 lockdowns due to any wave of COVID-19 (or any variants) and the potential for a recession in key markets due to the effect of the pandemic.

As the pandemic and public response to it continue to evolve, it is difficult to accurately assess COVID-19's continued magnitude, outcome and duration. A prolonged pandemic would likely:

- deteriorate economic conditions, resulting in lower consumer confidence, which typically translates into lower vehicle sales and production levels;
- reduce our customers' production volume levels, including as a result of intermittent facility shutdowns;
- elevate the financial pressure on our customers, which could lead to an OEM insolvency, and would likely increase pricing pressure on the Company; and
- reduce our production levels, including as a result of intermittent shutdowns of our manufacturing facilities.

Additionally, a prolonged pandemic could:

- cause potential shortages of employees to staff our facilities, or the facilities of our customers or suppliers;
- lead to prolonged disruptions of critical components, including as a result of the bankruptcy/insolvency of one or more suppliers due to worsening economic conditions; or
- result in governmental regulation adversely impacting our business.

Any or all of the above impacts of a prolonged pandemic could have a rapid, unexpected and material adverse effect on our business, financial condition and results of operations.

Irrespective of whether the pandemic is prolonged, the significant global economic impact and job losses to date are likely to affect household income and wealth beyond 2020, which would likely directly affect vehicle sales and thus production.

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. ("Metalsa"). 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 housings 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 purchase price for the transaction was US $19.9 million ($26.5 million), inclusive of working capital less cash on hand, and on a debt free basis.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3, Business Combinations, with the results of operations consolidated with those of the Company effective March 2, 2020. The acquired operations contributed incremental sales of $108.1 million and $303.4 million, and operating losses of $3.9 million and $21.3 million, for the three months and year ended December 31, 2020, respectively. As a result of the acquisition, year-over-year financial results may not be directly comparable.

OVERALL RESULTS

Results of operations may include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company's disclosures that it believes provide the most appropriate basis on which to evaluate the Company's results.

The following tables set out certain highlights of the Company's performance for the three months and years ended December 31, 2020 and 2019. Refer to the Company's consolidated financial statements for the year ended December 31, 2020 for a detailed account of the Company's performance for the periods presented in the tables below.

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change	% Change
Sales	$ 3,375,286	$ 3,863,659	(488,373)	(12.6%)
Gross Margin	415,097	586,101	(171,004)	(29.2%)
Operating Income	27,538	265,837	(238,299)	(89.6%)
Net Income (Loss) for the year	(27,317)	181,221	(208,538)	(115.1%)
Net Earnings (Loss) per Share - Basic	$ (0.34)	$ 2.20	(2.54)	(115.5%)
Net Earnings (Loss) per Share - Diluted	$ (0.34)	$ 2.19	(2.53)	(115.5%)
Non-IFRS Measures*				
Adjusted Operating Income	$ 123,980	$ 288,305	(164,325)	(57.0%)
% of Sales	*3.7%*	*7.5%*		
Adjusted EBITDA	365,503	504,555	(139,052)	(27.6%)
% of Sales	*10.8%*	*13.1%*		
Adjusted Net Income	46,856	187,687	(140,831)	(75.0%)
Adjusted Net Earnings per Share - Basic	$ 0.58	$ 2.28	(1.70)	(74.6%)
Adjusted Net Earnings per Share - Diluted	$ 0.58	$ 2.27	(1.69)	(74.4%)

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change	% Change
Sales	$ 1,070,956	$ 917,581	153,375	16.7%
Cost of sales (excluding depreciation)	(858,124)	(737,040)	(121,084)	16.4%
Depreciation of property, plant and equipment and right-of-use assets (production)	(56,991)	(50,620)	(6,371)	12.6%
Gross Margin	155,841	129,921	25,920	20.0%
Research and development costs	(7,340)	(9,876)	2,536	(25.7%)
Selling, general and administrative	(76,885)	(63,659)	(13,226)	20.8%
Depreciation of property, plant and equipment and right-of-use assets (non-production)	(4,303)	(3,770)	(533)	14.1%
Amortization of customer contracts and relationships	(871)	(513)	(358)	69.8%
Loss on disposal of property, plant and equipment	(306)	(274)	(32)	11.7%
Operating Income	$ 66,136	$ 51,829	14,307	27.6%
Share of loss of an associate	(429)	(679)	250	(36.8%)
Gain on dilution of investment in associate	866	-	866	100.0%
Finance expense	(8,885)	(8,912)	27	(0.3%)
Other finance income (expense)	(625)	583	(1,208)	(207.2%)
Income before taxes	$ 57,063	$ 42,821	14,242	33.3%
Income tax recovery (expense)	(12,093)	8,332	(20,425)	(245.1%)
Net Income for the period	44,970	51,153	(6,183)	(12.1%)
Net Earnings per Share - Basic and Diluted	$ 0.56	$ 0.63	(0.07)	(11.1%)
Non-IFRS Measures*				
Adjusted Operating Income	$ 66,136	$ 51,829	14,307	27.6%
% of Sales	6.2%	5.6%		
Adjusted EBITDA	131,724	110,534	21,190	19.2%
% of Sales	12.3%	12.0%		
Adjusted Net Income	44,212	33,834	10,378	30.7%
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.55	$ 0.42	0.13	31.0%

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company’s performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include “Adjusted Net Income”, “Adjusted Net Earnings per Share (on a basic and diluted basis)”, “Adjusted Operating Income”, "Adjusted EBITDA”, “Free Cash Flow” and “Net Debt”.

The following tables provide a reconciliation of IFRS "Net Income (Loss)" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA".

	Three months ended December 31, 2020	Three months ended December 31, 2019
Net Income	$ 44,970	$ 51,153
Unusual and Other Items (after-tax)*	(758)	(17,319)
Adjusted Net Income	$ 44,212	$ 33,834

	Year ended December 31, 2020	Year ended December 31, 2019
Net Income (Loss)	$ (27,317)	$ 181,221
Unusual and Other Items (after-tax)*	74,173	6,466
Adjusted Net Income	$ 46,856	$ 187,687

**Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A*

	Three months ended December 31, 2020	Three months ended December 31, 2019
Net Income	$ 44,970	$ 51,153
Income tax expense (recovery)	12,093	(8,332)
Other finance expense (income) - excluding Unusual and Other Items*	625	(595)
Share of loss of an associate	429	679
Finance expense	8,885	8,912
Unusual and Other Items (before-tax)*	(866)	12
Adjusted Operating Income	$ 66,136	$ 51,829
Depreciation of property, plant and equipment and right-of-use assets	61,294	54,390
Amortization of intangible assets	3,988	4,041
Loss on disposal of property, plant and equipment	306	274
Adjusted EBITDA	$ 131,724	$ 110,534

	Year ended December 31, 2020	Year ended December 31, 2019
Net Income (Loss)	$ (27,317)	$ 181,221
Income tax expense	12,007	43,824
Other finance expense - excluding Unusual and Other Items*	5,633	535
Share of loss of an associate	2,310	2,009
Finance expense	35,771	37,997
Unusual and Other Items (before-tax)*	95,576	22,719
Adjusted Operating Income	$ 123,980	$ 288,305
Depreciation of property, plant and equipment and right-of-use assets	227,338	201,321
Amortization of intangible assets	13,642	15,861
Loss (gain) on disposal of property, plant and equipment	543	(932)
Adjusted EBITDA	$ 365,503	$ 504,555

**Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A*

SALES

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change	% Change
North America	$ 792,069	$ 720,185	71,884	10.0%
Europe	234,625	158,389	76,236	48.1%
Rest of the World	48,113	41,144	6,969	16.9%
Eliminations	(3,851)	(2,137)	(1,714)	80.2%
Total Sales	$ 1,070,956	$ 917,581	153,375	16.7%

The Company's consolidated sales for the fourth quarter of 2020 increased by $153.4 million or 16.7% to $1,071.0 million as compared to $917.6 million for the fourth quarter of 2019. The total increase in sales was driven by year-over-year increases across all operating segments.

Sales for the fourth quarter of 2020 in the Company's North America operating segment increased by $71.9 million or 10.0% to $792.1 million from $720.2 million for the fourth quarter of 2019. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, contributed $30.7 million of year-over-year sales to the North America operating segment. Excluding the acquired operations, fourth quarter sales in North America increased year-over-year by $41.2 million or 5.7%. This increase was due to higher production volumes with General Motors, in particular on their pick-up truck and large SUV platform (including the launch of the next generation heavy duty truck), which was negatively impacted by the United Auto Workers strike at General Motors during the fourth quarter of 2019; and the launch of new programs during or subsequent to the fourth quarter of 2019, including Ford's new Mach E Mustang and a six cylinder aluminum engine block for Ford. These positive factors were partially offset by a decrease in tooling sales of $35.0 million, which are typically dependant on the timing of tooling construction and final acceptance by the customer; lower year-over-year OEM production volumes on certain light-vehicle platforms including the Ford Edge/Fusion program; and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the fourth quarter of 2020 of approximately $1.2 million as compared to the fourth quarter of 2019. Overall fourth quarter OEM light vehicle production in North America was generally flat year-over-year, despite the COVID-19 global pandemic.

Sales for the fourth quarter of 2020 in the Company's Europe operating segment increased by $76.2 million or 48.1% to $234.6 million from $158.4 million for the fourth quarter of 2019. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, contributed $55.8 million of year-over-year sales (including $0.7 million in tooling sales) to the Europe operating segment. Excluding the acquired operations, fourth quarter sales in Europe increased year-over-year by $20.4 million or 12.9%. This increase can be attributed to a $9.5 million positive foreign exchange impact from the translation of Euro denominated production sales as compared to the fourth quarter of 2019; the launch of new programs during or subsequent to the fourth quarter of 2019, namely with Volvo; and higher overall production volumes on specific platforms, namely with Daimler and Jaguar Land Rover. These factors were partially offset by a $3.7 million decrease in tooling sales.

Sales for the fourth quarter of 2020 in the Company's Rest of the World operating segment increased by $7.0 million or 16.9% to $48.1 million from $41.1 million in the fourth quarter of 2019. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, contributed $21.6 million of year-over-year sales to the Rest of the World operating segment. Excluding the acquired operations, fourth quarter sales in Rest of the World decreased year-over-year by $14.6 million or 35.5%. This decrease was largely driven by lower year-over-year production volumes on the Cadillac CT6 vehicle platform in China, a $4.0 million decrease in tooling sales, and a $1.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the fourth quarter of 2019.

Overall tooling sales, inclusive of the operations acquired from Metalsa, decreased by $42.0 million to $88.6 million for the fourth quarter of 2020 from $130.6 million for the fourth quarter of 2019.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change	% Change
North America	$ 2,537,220	$ 3,066,352	(529,132)	(17.3%)
Europe	683,876	672,131	11,745	1.7%
Rest of the World	168,778	132,670	36,108	27.2%
Eliminations	(14,588)	(7,494)	(7,094)	94.7%
Total Sales	$ 3,375,286	$ 3,863,659	(488,373)	(12.6%)

The Company's consolidated sales for the year ended December 31, 2020 decreased by $488.4 million or 12.6% to $3,375.3 million as compared to $3,863.7 million for the year ended December 31, 2019. The total decrease in sales was driven by a decrease in the North America operating segment, partially offset by increases in sales in Europe and the Rest of the World.

Sales for the year ended December 31, 2020 in the Company's North America operating segment decreased by $529.1 million or 17.3% to $2,537.2 million from $3,066.4 million for the year ended December 31, 2019. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, contributed $78.5 million of year-over-year sales (including $1.7 million in tooling sales) to the North America operating segment. Excluding the acquired operations, sales for the year ended December 31, 2020 in North America decreased by $607.6 million or 19.8%. This decrease was due to overall lower industry volumes, primarily as a result of the impact of the COVID-19 pandemic, and a decrease in tooling sales of $187.6 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These negative factors were partially offset by the impact of foreign exchange on the translation of U.S.-denominated production sales, which had a positive impact on overall sales for the year ended December 31, 2020 of approximately $24.0 million as compared to the corresponding period of 2019, and the launch of new programs during or subsequent to the year ended December 31, 2019, including the General Motors heavy duty truck, Ford's new Mach E Mustang, a six cylinder aluminum engine block for Ford, and the production of ventilator stands for General Motors.

Sales for the year ended December 31, 2020 in the Company's Europe operating segment increased by $11.7 million or 1.7% to $683.9 million from $672.1 million for the year ended December 31, 2019. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, contributed $154.5 million of year-over-year sales (including $10.4 million in tooling sales) to the Europe operating segment. Excluding the acquired operations, sales for the year ended December 31, 2020 in Europe decreased year-over-year by $142.8 million or 21.2%. This decrease can be attributed to overall lower industry volumes, primarily as a result of the impact of the COVID-19 pandemic; lower pre-COVID year-over-year production related to certain light vehicle platforms, in particular with Daimler and Jaguar Land Rover; and a $6.5 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the year ended December 31, 2019, namely with Volvo and Volkswagen; and an $8.8 million positive foreign exchange impact from the translation of Euro-denominated production sales as compared to the corresponding period of 2019.

Sales for the year ended December 31, 2020 in the Company's Rest of the World operating segment increased by $36.1 million or 27.2% to $168.8 million from $132.7 million for the year ended December 31, 2019. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, contributed $70.4 million of year-over-year sales to the Rest of the World operating segment. Excluding the acquired operations, sales for the year ended December 31, 2020 in the Rest of the World decreased year-over-year by $34.3 million or 25.9%. The decrease was largely driven by COVID-19 related disruption, lower year-over-year production volumes on the Cadillac CT6 vehicle platform in China, a $5.3 million negative foreign exchange impact from the translation of foreign-denominated production sales as compared to the corresponding period of 2019, and a $4.4 million decrease in tooling sales.

Overall tooling sales, inclusive of the operations acquired from Metalsa, decreased by $186.4 million to $218.4 million for the year ended December 31, 2020 from $404.8 million for the year ended December 31, 2019.

GROSS MARGIN

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change	% Change
Gross margin	$ 155,841	$ 129,921	25,920	20.0%
% of Sales	14.6%	14.2%		

The gross margin percentage for the fourth quarter of 2020 of 14.6% increased as a percentage of sales by 0.4% as compared to the gross margin percentage for the fourth quarter of 2019 of 14.2%. The increase in gross margin as a percentage of sales was generally due to a decrease in tooling sales which typically earn low margins for the Company; a positive sales mix on higher year-over-year production sales (excluding the operations acquired from Metalsa) in part driven by the negative impact of the labour strike at General Motors in the fourth quarter of 2019; productivity and efficiency improvements at certain operating facilities; and the receipt of certain COVID-related government wage subsidies related to active employees ($2.1 million in total of which $1.9 million was included in gross margin). These positive factors were partially offset by operational inefficiencies at certain facilities including launch related costs and upfront cost incurred in preparation of upcoming new programs, and the negative impact on overall margin percentage from the operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change	% Change
Gross margin	$ 415,097	$ 586,101	(171,004)	(29.2%)
% of Sales	12.3%	15.2%		

The gross margin percentage for the year ended December 31, 2020 of 12.3% decreased as a percentage of sales by 2.9% as compared to the gross margin percentage for the year ended December 31, 2019 of 15.2%. The decrease in gross margin as a percentage of sales was generally due to overall lower sales volume and corresponding lower utilization of assets, driven primarily by the impact of the COVID-19 pandemic; a negative impact on overall margin percentage from the operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020; and operational inefficiencies at certain facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs. These negative factors were partially offset by productivity and efficiency improvements at certain facilities; the receipt of certain COVID-related government wage subsidies related to active employees ($19.5 million in total of which $16.7 million was included in gross margin); and a decrease in tooling sales, which typically earn low margins for the Company. The sharp sales decline in April and May, as a result of the COVID-19 related shutdowns, coupled with a volatile restart and ramp-up of production in May and June with limited predictability, had a significant impact on gross margin during the second quarter of 2020, despite major reduction in costs.

SELLING, GENERAL & ADMINISTRATIVE ("SG&A")

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change	% Change
Selling, general & administrative	$ 76,885	$ 63,659	13,226	20.8%
% of Sales	7.2%	6.9%		

SG&A expense for the fourth quarter of 2020 increased by $13.2 million to $76.9 million as compared to $63.7 million for the fourth quarter of 2019. The increase in SG&A expense can be attributed to the addition of the operations acquired from Metalsa, and a $4.2 million year-over-year increase in equity based compensation expense related to deferred/restricted share units; partially offset by a reduction in travel related expenses and other costs as a result of the COVID-19 pandemic.

SG&A expense as a percentage of sales increased to 7.2% for the fourth quarter of 2020 compared to 6.9% for the fourth quarter of 2019.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change	% Change
Selling, general & administrative	$ 246,364	$ 239,683	6,681	2.8%
% of Sales	7.3%	6.2%		

SG&A expense, before adjustments, for the year ended December 31, 2020 increased by $6.7 million to $246.4 million as compared to $239.7 million for the year ended December 31, 2019. Excluding the unusual and other items as explained in Table B under “Adjustments to Net Income (Loss)”, SG&A expense for the years ended December 31, 2020 and 2019 was consistent at $243.9 million.

The actions taken by the Company during the second quarter of 2020 to reduce its costs and curtail discretionary and non-production spending in response to the COVID-19 related shutdowns, including lower year-over-year compensation expense and travel related costs, were offset by the addition of the operations acquired from Metalsa.

Excluding adjustments, SG&A expense as a percentage of sales increased to 7.2% for the year ended December 31, 2020 compared to 6.3% for the comparative period of 2019, due mainly to overall lower sales volumes, driven primarily by the impact of the COVID-19 pandemic.

DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT ("PP&E"), RIGHT-OF-USE ASSETS AND AMORTIZATION OF INTANGIBLE ASSETS

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

		Three months ended December 31, 2020		Three months ended December 31, 2019	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$	56,991	$	50,620	6,371	12.6%
Depreciation of PP&E and right-of-use assets (non-production)		4,303		3,770	533	14.1%
Amortization of customer contracts and relationships		871		513	358	69.8%
Amortization of development costs		3,117		3,528	(411)	(11.6%)
Total depreciation and amortization	$	65,282	$	58,431	6,851	11.7%

Total depreciation and amortization expense for the fourth quarter of 2020 increased by $6.9 million to $65.3 million as compared to $58.4 million for the fourth quarter of 2019. The increase in total depreciation and amortization expense was due mainly to additional depreciation on a larger PP&E asset base relating to new and replacement business that commenced during or subsequent to the fourth quarter of 2019, partially offset by a decrease in depreciation and amortization expense resulting from the impairment charges recorded in the second quarter of 2020 as explained in Table B under “Adjustments to Net Income (Loss)”.

A significant portion of the Company’s recent investments relates to various new programs that commenced during or subsequent to the fourth quarter of 2019 and new and replacement programs scheduled to launch over the next two to three years in all of the Company’s various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Depreciation of PP&E and right-of-use (production) expense as a percentage of sales decreased year-over-over to 5.3% for the fourth quarter of 2020 from 5.5% for the fourth quarter of 2019 due mainly to higher overall sales volume.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

		Year ended December 31, 2020		Year ended December 31, 2019	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$	211,385	$	186,592	24,793	13.3%
Depreciation of PP&E and right-of-use assets (non-production)		15,953		14,729	1,224	8.3%
Amortization of customer contracts and relationships		1,835		2,082	(247)	(11.9%)
Amortization of development costs		11,807		13,779	(1,972)	(14.3%)
Total depreciation and amortization	$	240,980	$	217,182	23,798	11.0%

Total depreciation and amortization expense for the year ended December 31, 2020 increased by $23.8 million to $241.0 million as compared to $217.2 million for the year ended December 31, 2019. Consistent with the year-over-year increase in the fourth quarter of 2020 as explained above, the increase for the year ended December 31, 2020 was primarily due to additional depreciation on a larger PP&E asset base relating to new and replacement business that commenced during or subsequent to the year ended December 31, 2019, partially offset by a decrease in depreciation and amortization expense resulting from the impairment charges recorded in the second quarter of 2020 as explained in Table B under “Adjustments to Net Income (Loss)”.

Depreciation of PP&E and right-of-use assets (production) expense as a percentage of sales increased year-over-year to 6.3% for the year ended December 31, 2020 from 4.8% for the year ended December 31, 2019 due mainly to overall lower sales volume, driven primarily by the impact of the COVID-19 pandemic.

ADJUSTMENTS TO NET INCOME (LOSS)

Adjusted Net Income (Loss) excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses Adjusted Net Income (Loss) as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

TABLE A

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

	Three months ended December 31, 2020 (a)	Three months ended December 31, 2019 (b)	(a)-(b) Change
NET INCOME (A)	**$44,970**	**$51,153**	**($6,183)**
Add Back - Unusual and Other Items:			
Gain on dilution of investment in associate (4)	(866)	-	(866)
Loss on derivative instruments (5)	-	12	(12)
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**($866)**	**$12**	**($878)**
Tax impact of above items	108	(2)	110
Adjustment to deferred tax asset in the United States (7)	-	(17,329)	17,329
TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)	**($758)**	**($17,319)**	**$16,561**
ADJUSTED NET INCOME (A + B)	**$44,212**	**$33,834**	**$10,378**
Number of Shares Outstanding – Basic (‘000)	80,294	81,267	
Adjusted Basic Net Earnings Per Share	$0.55	$0.42	
Number of Shares Outstanding – Diluted (‘000)	80,382	81,431	
Adjusted Diluted Net Earnings Per Share	$0.55	$0.42	

TABLE B

Year ended December 31, 2020 to year ended December 31, 2019 comparison

	Year ended December 31, 2020 (a)	Year ended December 31, 2019 (b)	(a)-(b) Change
NET INCOME (LOSS) (A)	**($27,317)**	**$181,221**	**($208,538)**
Add Back - Unusual and Other Items:			
Transaction costs associated with the operations acquired from Metalsa (recorded as SG&A) (1)	2,489	-	2,489
Impairment of assets (2)	85,783	18,502	67,281
Restructuring costs (3)	8,170	8,165	5
Gain on dilution of investment in associate (4)	(866)	-	(866)
Loss on derivative instruments (5)	-	251	(251)
Net gain in the Company's operating facility in Brazil (6)	-	(4,199)	4,199
TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX	**$95,576**	**$22,719**	**$72,857**
Tax impact of above items	(21,403)	1,076	(22,479)
Adjustment to deferred tax asset in the United States (7)	-	(17,329)	17,329
TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)	**$74,173**	**$6,466**	**$67,707**
ADJUSTED NET INCOME (A + B)	**$46,856**	**$187,687**	**($140,831)**
Number of Shares Outstanding – Basic (‘000)	80,142	82,487	
Adjusted Basic Net Earnings Per Share	$0.58	$2.28	
Number of Shares Outstanding – Diluted (‘000)	80,142	82,639	
Adjusted Diluted Net Earnings Per Share	$0.58	$2.27	

(1) Transaction costs associated with the operations acquired from Metalsa (recorded as SG&A)

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa S.A, de C.V. Included in SG&A expense are transaction costs related to the acquisition totaling $nil and $2.5 million for the three months and year ended December 31, 2020, respectively.

(2) Impairment of assets

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 cash-generating units (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 $85.8 million, 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. Of the total impairment charge, $72.2 million was recognized in North America, $1.3 million in Europe, and $12.3 million in the Rest of the World. 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 $18.5 million 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 for where specific assets can be transferred to other facilities.

(3) Restructuring costs

Additions to the restructuring provision, recognized during the second quarter of 2020, totaled $8.2 million 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, $6.6 million relates to North America, $1.0 million to Europe and $0.6 million to the Rest of the World.

Additions to the restructuring provision, recognized during the second quarter of 2019, totaled $8.2 million and represent employee-related severance resulting from the right-sizing of operating facilities in the North America ($1.7 million) and the Rest of the World ($6.5 million).

(4) Gain on dilution of investment in associate

As at December 31, 2020, the Company held 34,045,954 common shares of NanoXplore Inc. ("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 $10.0 million convertible unsecured 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 gain on dilution of $0.9 million for the three months ended December 31, 2020.

(5) Loss on derivative instruments

Martinrea held warrants in NanoXplore. The warrants represented derivative instruments and were fair valued at the end of each reporting period using the Black-Scholes-Merton valuation model, with the change in fair value recorded through profit or loss. Based on the fair value of the outstanding warrants as at December 31, 2019, unrealized losses of $0.0 million and $0.3 million were recognized for the three months and year ended December 31, 2019, respectively. All outstanding remaining warrants in NanoXplore expired in March 2020, unexercised.

(6) Net gain in the Company's operating facility in Brazil

Included in income for the year ended December 31, 2019 is a non-recurring benefit recognized in the Company's operating facility in Brazil, included in the Rest of the World operating segment. The benefit represents a $6.5 million recovery of previously paid local social security taxes, partially offset by a $2.3 million true-up of the facility's claims and litigation provision related to certain employee-related matters. The benefit was recorded against selling, general and administrative expense.

(7) Adjustment to deferred tax asset in the United States

Based on previously updated Company-wide business plans approved by the Board of Directors, and in conjunction with the Company's financial performance, the Company recognized additional deferred tax assets related to operations in the U.S. as at December 31, 2019. The deferred tax assets recognized reflected the majority of the full value of the tax loss carryforwards available to the Company at that time, with a corresponding one-time, non-cash decrease in income tax expense of $17.3 million, as the Company believes it is more likely than not that these assets will be utilized before expiry.

NET INCOME (LOSS)

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change	% Change
Net Income	$ 44,970	$ 51,153	(6,183)	(12.1%)
Adjusted Net Income	$ 44,212	$ 33,834	10,378	30.7%
Net Earnings per Share				
Basic and Diluted	$ 0.56	$ 0.63		
Adjusted Net Earnings per Share				
Basic and Diluted	$ 0.55	$ 0.42		

Net Income, before adjustments, for the fourth quarter of 2020 decreased by $6.2 million to $45.0 million from $51.2 million for the fourth quarter of 2019. Excluding the unusual and other items explained in Table A under "Adjustments to Net Income (Loss)", Adjusted Net Income for the fourth quarter of 2020 increased by $10.4 million to $44.2 million or $0.55 per share, on a basic and diluted basis, from $33.8 million or $0.42 per share, on a basic and diluted basis, for the fourth quarter of 2019.

Adjusted Net Income for the fourth quarter of 2020, as compared to the fourth quarter of 2019, was positively impacted by the following:

- higher gross margin on higher year-over-year sales as previously explained; and
- a year-over-year decrease in research and development costs due primarily to a decrease in new product and process research and development activity in light of the COVID-19 pandemic.

These factors were partially offset by the following:

- overall negative fourth quarter results from the operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020;
- a year-over-year increase in SG&A expense, as previously discussed;
- a net foreign exchange loss of $0.9 million for the fourth quarter of 2020 compared to a net foreign exchange gain of $0.4 million for the fourth quarter of 2019; and
- a slightly higher effective tax rate on adjusted income due generally to the mix of earnings (21.3% for the fourth quarter of 2020 compared to 21.0% for the fourth quarter of 2019).

Three months ended December 31, 2020 actual to guidance comparison:

On November 11, 2020, the Company provided the following guidance for the fourth quarter of 2020:

	Guidance	Actual
Production sales (in millions)	$ 900 – 1,000	$ 982
Adjusted Net Earnings per Share		
Basic & Diluted	$ 0.46 - 0.54	$ 0.55

For the fourth quarter of 2020, production sales of $982 million were within the published sales guidance range. Adjusted Net Earnings per Share of $0.55 exceeded the published earnings guidance range due predominantly to a lower than expected effective tax rate for the quarter.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change	% Change
Net Income (Loss)	$ (27,317)	$ 181,221	(208,538)	(115.1%)
Adjusted Net Income	$ 46,856	$ 187,687	(140,831)	(75.0%)
Net Earnings (Loss) per Share				
Basic	$ (0.34)	$ 2.20		
Diluted	$ (0.34)	$ 2.19		
Adjusted Net Earnings per Share				
Basic	$ 0.58	$ 2.28		
Diluted	$ 0.58	$ 2.27		

Net Income (Loss), before adjustments, for the year ended December 31, 2020 decreased by $208.5 million to a net loss of $27.3 million from net income of $181.2 million for the year ended December 31, 2019 due to the lower year-over-year sales volume, due primarily to the impact of the COVID-19 pandemic, and certain unusual and other items incurred during the years ended December 31, 2020 and 2019 as explained in Table B under "Adjustments to Net Income (Loss)". Excluding these unusual and other items, Adjusted Net Income for the year ended December 31, 2020 decreased to $46.9 million or $0.58 per share, on a basic and diluted basis, from $187.7 million or $2.28 per share, on a basic basis, and $2.27 per share on a diluted basis, for the year ended December 31, 2019.

Adjusted Net Income for the year ended December 31, 2020, as compared to the year ended December 31, 2019, was negatively impacted by the following:

- lower gross margin on lower year-over-year sales volume, as previously explained, due primarily to the impact of the COVID-19 pandemic;
- overall negative results from the operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020;
- a $0.5 million loss on the disposal of property, plant and equipment for the year ended December 31, 2020 compared to a gain of $0.9 million for the comparative period of 2019;
- a net unrealized foreign exchange loss of $6.1 million for the year ended December 31, 2020 compared to a loss of $1.1 million for the year ended December 31, 2019; and
- a higher effective tax rate on adjusted income due generally to the mix of earnings and tax impacts of the unusual and other items explained in Table B under "Adjustments to Net Income (Loss)" (41.6% for the year ended December 31, 2020 compared to 24.2% for the year ended December 31, 2019).

These factors were partially offset by the following:

- year-over-year decrease in research and development costs due primarily to a decrease in new product and process research and development activity in light of the COVID-19 pandemic; and
- a year-over-year decrease in finance expense on the Company's long-term debt as a result of lower borrowing rates.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

		Three months ended December 31, 2020		Three months ended December 31, 2019	$ Change	% Change
Additions to PP&E	$	121,940	$	102,882	19,058	18.5%

Additions to PP&E increased by $19.1 million to $121.9 or 11.4% of sales in the fourth quarter of 2020 from $102.9 million or 11.2% of sales in the fourth quarter of 2019. General timing of expenditures makes quarterly additions to PP&E quite volatile in nature. Certain new program capital additions, previously delayed during the second quarter COVID-related shutdowns, moved into the back half of 2020, in particular the fourth quarter, as preparations for upcoming new program launches resumed. The Company continues to make investments in the business including in various sales and margin growth projects and in both new and replacement business in all its various product offerings, while continuing to apply a measured and prudent approach to capital investment during the COVID-19 pandemic.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

		Year ended December 31, 2020		Year ended December 31, 2019	$ Change	% Change
Additions to PP&E	$	303,393	$	312,511	(9,118)	(2.9%)

Additions to PP&E decreased by $9.1 million to $303.4 million or 9.0% of sales for the year ended December 31, 2020 compared to $312.5 million or 8.1% of sales for the year ended December 31, 2019. As explained above, certain capital additions previously delayed during the second quarter COVID-related shutdowns, moved into the back half of 2020 as preparations for upcoming new program launches resumed. Capital additions for 2020 includes incremental investments required in equipment related to several engineering changes on upcoming new program launches.

SEGMENT ANALYSIS

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

Three months ended December 31, 2020 to three months ended December 31, 2019 comparison

	SALES				OPERATING INCOME (LOSS)			
		Three months ended December 31, 2020		Three months ended December 31, 2019		Three months ended December 31, 2020		Three months ended December 31, 2019
North America	$	792,069	$	720,185	$	55,455	$	37,617
Europe		234,625		158,389		4,497		4,949
Rest of the World		48,113		41,144		6,184		9,263
Eliminations		(3,851)		(2,137)		-		-
Adjusted Operating Income		-		-	$	66,136	$	51,829
Unusual and Other Items		-		-		-		-
Total	$	1,070,956	$	917,581	$	66,136	$	51,829

North America

Adjusted Operating Income in North America increased by $17.8 million to $55.5 million or 7.0% of sales for the fourth quarter of 2020 from $37.6 million or 5.2% for the fourth quarter of 2019. The increase in adjusted operating income as a percentage of sales was generally due to a decrease in tooling sales, which typically earn low margins for the Company; a positive sales mix on higher year-over-year production sales in part driven by the negative impact of the labour strike at General Motors in the fourth quarter of 2019; productivity and efficiency improvements at certain operating facilities; $2.3 million of COVID-related government wage subsidies related to active employees; and lower research and development expenses as previously explained. These positive factors were partially offset by operational inefficiencies at certain facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs, and higher SG&A expense as previously explained.

Europe

Adjusted Operating Income in Europe decreased by $0.4 million to $4.5 million or 1.9% of sales for the fourth quarter of 2020 from $4.9 million or 3.1% of sales for the fourth quarter of 2019. The decrease in adjusted operating income as a percentage of sales was generally due to a negative impact on overall margin from the operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020; partially offset by productivity and efficiency improvements at certain operating facilities.

Rest of the World

Adjusted Operating Income in the Rest of the World decreased by $3.1 million to $6.2 million or 12.9% of sales for the fourth quarter of 2020 from $9.3 million or 22.5% of sales for the fourth quarter of 2019. The decrease in adjusted operating income as a percentage of sales was generally due to a negative sales mix.

Year ended December 31, 2020 to year ended December 31, 2019 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Year ended December 31, 2020	**Year ended December 31, 2019**	**Year ended December 31, 2020**	**Year ended December 31, 2019**
North America	$ 2,537,220	$ 3,066,352	$ 141,543	$ 228,824
Europe	683,876	672,131	(35,923)	44,875
Rest of the World	168,778	132,670	18,360	14,606
Eliminations	(14,588)	(7,494)	-	-
Adjusted Operating Income	-	-	$ 123,980	$ 288,305
Unusual and Other Items*	-	-	(96,442)	(22,468)
Total	$ 3,375,286	$ 3,863,659	$ 27,538	$ 265,837

** Operating income (loss) for the operating segments has been adjusted for unusual and other items. Of the $96.4 million of usual and other items for the year ended December 31, 2020, $81.2 million was incurred in North America, $2.3 million in Europe and $12.9 million in the Rest of the World. Of the $22.5 million of unusual and other items for the year ended December 31, 2019, $1.7 million was incurred in North America and $20.8 million in the Rest of the World. The unusual and other items noted are all fully explained under "Adjustments to Net Income" in this MD&A.*

North America

Adjusted Operating Income in North America decreased by $87.3 million to $141.5 million or 5.6% of sales for the year ended December 31, 2020 from $228.8 million or 7.5% of sales for the year ended December 31, 2019. The decrease in adjusted operating income as a percentage of sales was generally due to overall lower sales volume and corresponding lower utilization of assets, as a result of the impact of the COVID-19 pandemic; and operational inefficiencies at certain facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs. These negative factors were partially offset by a decrease in tooling sales, which typically earn low margins for the Company; lower research and development expenses as previously explained; productivity and efficiency improvements at certain operating facilities; and $19.5 million of COVID-related government wage subsidies related to active employees.

Europe

Adjusted Operating Income in Europe decreased by $80.8 million to a loss of $35.9 million or (5.3%) of sales for the year ended December 31, 2020 from income of $44.9 million or 6.7% for the year ended December 31, 2019. The decrease in adjusted operating income (loss) as a percentage of sales was generally due to overall lower sales volume (excluding the acquired operations from Metalsa) and corresponding lower utilization of assets, primarily as a result of the impact of the COVID-19 pandemic and lower pre-COVID production related to certain light vehicle platforms, in particular with Daimler and Jaguar Land Rover; and negative operating results from the business acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020.

Rest of the World

Adjusted Operating Income in the Rest of the World increased by $3.8 million to $18.4 million or 10.9% of sales for the year ended December 31, 2020 from $14.6 million or 11.0% of sales for the year ended December 31, 2019 due generally to higher year-over-year sales.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2020				2019			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	$1,070,956	$971,060	$460,564	$872,706	$917,581	$974,384	$948,533	$1,023,161
Gross Margin	$155,841	$151,478	$(12,459)	$120,237	$129,921	$143,901	$154,778	$157,501
Net Income (Loss) for the period	$44,970	$45,636	$(146,886)	$28,963	$51,153	$46,678	$28,122	$55,268
Adjusted Net Income (Loss)	$44,212	$45,636	$(73,115)	$30,123	$33,834	$43,507	$54,570	$55,776
Basic Net Earnings (Loss) per Share	$0.56	$0.57	$(1.84)	$0.36	$0.63	$0.57	$0.34	$0.66
Diluted Net Earnings (Loss) per Share	$0.56	$0.57	$(1.84)	$0.36	$0.63	$0.56	$0.34	$0.66
Adjusted Basic and Diluted Net Earnings (Loss) per Share	$0.55	$0.57	$(0.91)	$0.38	$0.42	$0.53	$0.66	$0.67

LIQUIDITY AND CAPITAL RESOURCES

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.

Throughout the COVID-19 pandemic, the Company has taken controlled and measured actions to preserve liquidity, including aggressively flexing and reducing its cost base, eliminating discretionary spending across its global footprint and delaying capital and tooling spending where and when appropriate. The Company also suspended the repurchase of common stock under its normal course issuer bid, which expired in August 2020, to preserve cash. In addition, 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 million ($280 million).

As at December 31, 2020, the Company had total liquidity of approximately $530 million, including cash and cash equivalents and availability under the Company's revolving credit lines. In addition, the Company's banking facility includes a $300 million allowance for asset based financing that the Company can use for additional financing if required, of which approximately $240 million was available as at December 31, 2020.

Further, 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.

As at December 31, 2020, the Company had drawn US$336.0 million (December 31, 2019 - US$301.0 million) on the U.S. revolving credit line and $348.0 million (December 31, 2019 - $328.0 million) 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.

On July 2, 2020, the Company finalized an eight-year equipment loan in the amount of €1.0 million ($1.5 million) 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 €6.6 million ($10.0 million) 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 €10.9 million ($16.6 million) repayable in monthly installments commencing in 2020 at a fixed annual interest rate of 1.4%.

The principal sources of liquidity available for the Company's future cash requirements are expected to be cash flow from operations, cash and cash equivalents, borrowings from its revolving credit lines, and asset based financing. Management believes that the Company's overall liquidity and operating cash flow will be sufficient to meet the Company's anticipated cash requirements for capital expenditures, working capital, debt obligations and other commitments.

Debt leverage ratios:

Excluding the impact of IFRS 16:		**December 31, 2020**		**September 30, 2020**		**June 30, 2020**		**March 31, 2020**		**December 31, 2019**
Long-term debt	$	835,222	$	888,365	$	902,205	$	871,207	$	781,573
Less: Cash and cash equivalents		(152,786)		(214,049)		(125,834)		(156,515)		(118,973)
Net Debt	$	682,436	$	674,316	$	776,371	$	714,692	$	662,600
Trailing 12-month Adjusted EBITDA	$	323,797	$	304,716	$	294,634	$	441,517	$	468,355
Net Debt to Adjusted EBITDA ratio		2.11x		2.21x		2.64x		1.62x		1.41x

Including the impact of IFRS 16:		**December 31, 2020**		**September 30, 2020**		**June 30, 2020**		**March 31, 2020**		**December 31, 2019**
Long-term debt	$	835,222	$	888,365	$	902,205	$	871,207	$	781,573
Lease liabilities		211,813		224,405		219,130		220,525		202,352
		1,047,035		1,112,770		1,121,335		1,091,732		983,925
Less: Cash and cash equivalents		(152,786)		(214,049)		(125,834)		(156,515)		(118,973)
Net Debt	$	894,249	$	898,721	$	995,501	$	935,217	$	864,952
Trailing 12-month Adjusted EBITDA	$	365,503	$	344,313	$	332,482	$	478,368	$	504,555
Net Debt to Adjusted EBITDA ratio		2.45x		2.61x		2.99x		1.96x		1.71x

The Company's Net Debt (excluding the impact of adopting IFRS 16 and as outlined above) remained relatively flat during the fourth quarter of 2020 ending the period at $682.4 million compared to $674.3 million at the end of the third quarter of 2020. As a result of a quarter-over-quarter increase in trailing 12-month Adjusted EBITDA, the Company's Net Debt to Adjusted EBITDA ratio (excluding the impact of adopting IFRS 16 and as outlined above) decreased during the quarter to 2.11x from 2.21x at the end of the third quarter of 2020.

The Company's Net Debt (excluding the impact of adopting IFRS 16 and as outlined above) increased by $19.8 million during the year ended December 31, 2020 to $682.4 million from $662.6 million at December 31, 2019. The Company's Net Debt to Adjusted EBITDA ratio (excluding the impact of adopting IFRS 16 and as outlined above) increased during the year to 2.45x from 1.71x at the end of 2019 due predominantly to a decrease in Adjusted EBITDA, driven largely by the COVID-19 pandemic and corresponding lower sales volume in 2020.

The Company was in compliance with its debt covenants as at December 31, 2020. The Company's debt covenants are based on leverage ratios excluding the impact of IFRS 16 and excludes EBITDA from the second quarter of 2020, as described above.

Dividends

In the second quarter of 2013, Martinrea's Board of Directors (the "Board") approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends were $0.12 per share, paid in four quarterly payments of $0.03 per share. The first quarterly dividend payment of $0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter.

In 2018, in view of the Company's financial performance, and its future outlook and cash needs at the time, the Board decided to increase the annual dividends by 50% to $0.18 per share, to be paid in four quarterly installments of $0.045 per share, commencing with the release of the first quarter results of 2018. The first such increased dividend was paid on July 15, 2018.

On March 5, 2020, in view of the Company's financial performance, and its future outlook and cash needs at that time, the Board decided to increase the annual dividends by another 11% to $0.20 per share, to be paid in four quarterly installments of $0.05 per share commencing at the beginning of 2020. The first four such dividends were paid on April 14, 2020, July 23, 2020, October 13, 2020 and January 15, 2021. The Board will assess future dividend payment levels from time to time, in light of market conditions, the current COVID-19 situation, the Company's financial performance, and then current anticipated needs at that time.

Cash flow

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 137,173	$ 115,361	21,812	18.9%
Change in non-cash working capital items	(7,069)	22,480	(29,549)	(131.4%)
	130,104	137,841	(7,737)	(5.6%)
Interest paid	(9,476)	(10,504)	1,028	(9.8%)
Income taxes paid	(13,800)	(11,526)	(2,274)	(19.7%)
Cash provided by operating activities	106,828	115,811	(8,983)	(7.8%)
Cash used in financing activities	(43,913)	(34,146)	(9,767)	28.6%
Cash used in investing activities	(119,964)	(63,352)	(56,612)	89.4%
Effect of foreign exchange rate changes on cash and cash equivalents	(4,214)	(749)	(3,465)	462.6%
Increase (decrease) in cash and cash equivalents	$ (61,263)	$ 17,564	(78,827)	(448.8%)

Cash provided by operating activities during the fourth quarter of 2020 was $106.8 million, compared to $115.8 million in the corresponding period of 2019. The components for the fourth quarter of 2020 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $137.2 million;
- working capital use of cash of $7.1 million comprised of a decrease in trade, other payables and provisions of $67.2 million, and an increase in prepaid expenses and deposits of $2.4 million; partially offset by decreases in trade and other receivables and inventories totalling $62.5 million;
- interest paid of $9.5 million; and
- income taxes paid of $13.8 million.

Cash used by financing activities during the fourth quarter of 2020 was $43.9 million, compared to $34.1 million in the corresponding period of 2019, as a result of a $30.8 million net decrease in long-term debt (reflecting repayments on the Company's revolving banking facility, and outstanding equipment loans), repayment of lease liabilities from the adoption of IFRS 16 of $9.1 million, and $4.0 million in dividends paid.

Cash used in investing activities during the fourth quarter of 2020 was $120.0 million, compared to $63.4 million in the corresponding period of 2019. The components for the fourth quarter of 2020 primarily include the following:

- cash additions to PP&E of $100.4 million;
- final cash consideration paid for the operations acquired from Metalsa of $16.0 million
- capitalized development costs relating to upcoming new program launches of $3.8 million; partially offset by
- proceeds from the disposal of PP&E of $0.2 million.

Taking into account the opening cash balance of $214.0 million at the beginning of the fourth quarter of 2020, and the activities described above, the cash and cash equivalents balance at December 31, 2020 was $152.8 million.

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 358,098	$ 508,444	(150,346)	(29.6%)
Change in non-cash working capital items	72,048	(1,283)	73,331	(5,715.6%)
	430,146	507,161	(77,015)	(15.2%)
Interest paid	(36,851)	(41,916)	5,065	(12.1%)
Income taxes paid	(38,273)	(63,698)	25,425	(39.9%)
Cash provided by operating activities	355,022	401,547	(46,525)	(11.6%)
Cash provided by (used in) financing activities	10,560	(37,889)	48,449	(127.9%)
Cash used in investing activities	(331,949)	(312,506)	(19,443)	6.2%
Effect of foreign exchange rate changes on cash and cash equivalents	180	(2,341)	2,521	(107.7%)
Increase in cash and cash equivalents	$ 33,813	$ 48,811	(14,998)	(30.7%)

Cash provided by operating activities during the year ended December 31, 2020 was $355.0 million, compared to $401.5 million in the corresponding period of 2019. The components for the year ended December 31, 2020 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $358.1 million;
- working capital items source of cash of $72.0 million comprised of an increase in trade, other payables and provisions of $91.8 million, a decrease in trade and other receivables of $26.6 million, and a decrease in prepaid expenses and deposits of $4.3 million; partially offset by an increase in inventory of $50.7 million;
- interest paid of $36.9 million; and
- income taxes paid of $38.3 million.

Cash provided by financing activities during the year ended December 31, 2020 was $10.6 million, compared to cash used in financing activities of $37.9 million in the corresponding period of 2019, as a result of a $60.0 million net increase in long term debt (reflecting net drawdowns on the Company's revolving banking facility, partially offset by repayments made on outstanding equipment loans), and $2.5 million in proceeds from the exercise of employee stock options; partially offset by repayment of lease liabilities of $33.0 million, $15.6 million in dividends paid, and the repurchase of common shares by way of the normal course issuer bid of $3.3 million.

Cash used in investing activities during the year ended December 31, 2020 was $331.9 million, compared to $312.5 million in the corresponding period of 2019. The components for the year ended December 31, 2020 primarily include the following:

- cash additions to PP&E of $288.6 million;
- total cash consideration paid for the operations acquired from Metalsa of $26.5 million;

- capitalized development costs relating to upcoming new program launches of $12.3 million;
- an investment in NanoXplore of $5.0 million (as described in note 9 of the consolidated financial statements for the year ended December 31, 2020); partially offset by
- proceeds from the disposal of PP&E of $0.5 million.

Taking into account the opening cash balance of $119.0 million at the beginning of 2020, and the activities described above, the cash and cash equivalents balance at December 31, 2020 was $152.8 million.

Free Cash Flow

	Three months ended December 31, 2020	Three months ended December 31, 2019	$ Change
Adjusted EBITDA	$ 131,724	$ 110,534	21,190
Add (deduct):			
Change in non-cash working capital items	(7,069)	22,480	(29,549)
Cash purchases of property, plant and equipment	(100,357)	(66,134)	(34,223)
Cash proceeds on disposal of property, plant and equipment	168	677	(509)
Capitalized development costs	(3,747)	(2,691)	(1,056)
Upfront recovery of capitalized development costs	-	4,796	(4,796)
Interest paid*	(9,476)	(10,504)	1,028
Income taxes paid	(13,800)	(11,526)	(2,274)
Free cash flow*	(2,557)	47,632	(50,189)

**Note: Prior year comparative figures were revised to include interest on lease liabilities and reflect interest paid.*

Free cash flow for the fourth quarter of 2020 decreased year-over-year due primarily to an increase in cash purchases of property, plant and equipment and cash used in non-cash working capital; partially offset by an increase in Adjusted EBITDA, driven largely by higher year-over-year sales volume.

All tooling-related working capital accounts, including inventory, trade and other receivables, and trade and other payables on a net basis, decreased to $13.3 million as at December 31, 2020, from $36.8 million as at September 30, 2020 and $59.4 million as at December 31, 2019. Tooling-related working capital relating to the operations acquired from Metalsa added $12.0 million to the balance as at December 31, 2020.

Reconciliation of IFRS "Net cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the three months ended December 31, 2020 and 2019:

	Three months ended December 31, 2020	Three months ended December 31, 2019
Cash provided by operating activities	$ 106,828	$ 115,811
Add (deduct):		
Cash purchases of property, plant and equipment	(100,357)	(66,134)
Cash proceeds on disposal of property, plant and equipment	168	677
Capitalized development costs	(3,747)	(2,691)
Upfront recovery of capitalized development costs	-	4,796
Unrealized loss on foreign exchange contracts	3,180	786
Deferred and restricted share units expense	(8,362)	(4,463)
Stock options expense	(604)	(303)
Pension and other post-employment benefits expense	(562)	(754)
Contributions made to pension and other post-retirement benefits expense	274	502
Net unrealized foreign exchange loss and other income	625	(595)
Free cash flow*	$ (2,557)	$ 47,632

**Note: Prior year comparative figures were revised to include interest on lease liabilities and reflect interest paid.*

	Year ended December 31, 2020	Year ended December 31, 2019	$ Change
Adjusted EBITDA	$ 365,503	$ 504,555	(139,052)
Add (deduct):			
Change in non-cash working capital items	72,048	(1,283)	73,331
Cash purchases of property, plant and equipment	(288,590)	(284,011)	(4,579)
Cash proceeds on disposal of property, plant and equipment	476	6,166	(5,690)
Capitalized development costs	(12,304)	(10,747)	(1,557)
Upfront recovery of capitalized development costs	-	5,563	(5,563)
Interest paid*	(36,851)	(41,916)	5,065
Income taxes paid	(38,273)	(63,698)	25,425
Free cash flow*	62,009	114,629	(52,620)

**Note: Prior year comparative figures were revised to include interest on lease liabilities and reflect interest paid.*

Free cash flow decreased by $52.6 million for the year ended December 31, 2020 compared to the corresponding period in 2019 due primarily to lower year-over-year Adjusted EBITDA, driven largely by the COVID-19 pandemic and corresponding lower sales volume in 2020; partially offset by a positive year-over-year change in non-cash working capital items, driven largely by tooling related working capital accounts; and lower cash income taxes.

Reconciliation of IFRS “Net cash provided by operating activities” to Non-IFRS “Free Cash Flow” for the years ended December 31, 2020 and 2019:

	Year ended December 31, 2020	Year ended December 31, 2019
Cash provided by operating activities	$ 355,022	$ 401,547
Add (deduct):		
Cash purchases of property, plant and equipment	(288,590)	(284,011)
Transaction costs associated with the acquisition of Metalsa	2,489	-
Cash proceeds on disposal of property, plant and equipment	476	6,166
Capitalized development costs	(12,304)	(10,747)
Upfront recovery of capitalized development costs	-	5,563
Restructuring costs	8,170	8,165
Unrealized gain on foreign exchange contracts	647	418
Deferred and restricted share units expense	(8,588)	(8,224)
Stock options expense	(2,416)	(1,195)
Unusual and other items – Net gain in the Company's operating facility in Brazil (included in SG&A expense)	-	(4,199)
Pension and other post-employment benefits expense	(4,132)	(4,140)
Contributions made to pension and other post-retirement benefits expense	5,602	4,751
Net unrealized foreign exchange loss and other income	5,633	535
Free cash flow*	$ 62,009	$ 114,629

**Note: Prior year comparative figures were revised to include interest on lease liabilities and reflect interest paid.*

RISKS AND UNCERTAINTIES

The following risk factors, as well as the other information contained in this MD&A, the Company’s AIF for the year ended December 31, 2020 (of which the section entitled “Automotive Industry Highlights and Trends” contained in the AIF is incorporated by reference herein) or otherwise incorporated herein by reference, should be considered carefully. These risk factors could materially and adversely affect the Company’s future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

The Company’s success is primarily dependent upon the levels of car and light truck production by its customers and the relative amount of content the Company has on their various vehicle programs. OEM production volumes may be impacted by many factors including general economic and political conditions, interest rates, credit availability, energy and fuel prices, international conflicts, labour relations issues, regulatory requirements, trade agreements, infrastructure considerations, legislative changes, and environmental emissions standards and safety issues.

North American and Global Economic and Political Conditions and Consumer Confidence

The automotive industry is global, and is cyclical in the fact that it is sensitive to changes in economic and political conditions, including interest rates, inflation, foreign exchange, fuel prices, employment, real estate values, trade issues, international or domestic conflicts or political crises, developments in global markets, inflation and epidemics or pandemics, such as the Covid-19 Pandemic, and other factors.

The Company operates in the midst of a volatile industry, which in the past decade has experienced a significant recession, particularly severe in North America and Europe. Although there has been stabilization or growth in North America for the past decade, current conditions (including as a result of the COVID-19 Pandemic or any variants) continue to cause economic uncertainty about the future in different regions. It is uncertain what the Company's prospects will be in the future. While the Company believes it has sufficient liquidity and a strong balance sheet to deal with present economic conditions, lower sales and production volumes in certain areas may occur. It is unknown at this stage what the impact will be of the COVID-19 Pandemic, and global trade issues on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes. (See "*Trade Policies and Resulting Impact (USMCA, Brexit and the CPTPP)*" above under *"Automotive Industry General"* and "*Changes in Law and Governmental Regulation*" and "*COVID-19 Pandemic*" below.)

The above and other factors may result in lower consumer confidence. Consumer confidence has a significant impact on consumer demand for vehicles, which in turn impacts vehicle production. A significant decline in vehicle production volumes from current levels could have a material adverse effect on profitability. An economic downturn or other adverse industry conditions that result in even a relatively modest decline in vehicle production levels could reduce the Company's sales and thereby adversely affect the Company's financial condition, results of operations and cash flows. The automotive industry is subject to rapid technological change, vigorous competition, short product life cycles and cyclical consumer demand patterns. When the Company's customers are adversely affected by these factors, the Company may be similarly affected to the extent that the Company's customers reduce the volume of orders for and sales of the Company's products.

Automotive Industry Risks

The automotive industry is generally viewed as highly cyclical. It is dependent on, among other factors, consumer spending and general economic conditions in North America and elsewhere. Future sales and production volumes in our key North American, European and Asian markets are anticipated to be higher in 2021 and beyond relative to 2020 levels, though uncertainty remains, and volume levels can potentially decrease at any time. In Europe, the automotive industry has significant overcapacity as well as reduced sales and production levels, which can lead to downsizing and restructuring costs, or costs associated with overcapacity. Increased emphasis on the reduction of fuel consumption, fuel emissions and greenhouse gas emissions could also reduce demand for automobiles overall or specific platforms on which the Company has product. There can be no assurance that North American or European automotive production overall or on specific platforms will not decline in the future or that the Company will be able to utilize any existing unused capacity or any additional capacity it adds in the future. A continued or a substantial additional decline in the production of new automobiles overall or by customer or by customer platform may have a material adverse effect on the Company's financial condition and results of operations and ability to meet existing financial covenants. It is unknown at this stage what impact the COVID-19 Pandemic (or any variants) or global trade issues will have on the automotive industry, including resulting from any changes to trade agreements, tariffs or trade disputes.

Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political Unrest, and Other Outbreaks

Global pandemics, epidemics or disease outbreaks in North America or globally, as well as hurricanes, earthquakes, tsunamis, snowstorms, or other natural disasters, acts of God or force majeures, could disrupt the Company's business operations, reduce or restrict the Company's supply of materials and services, result in significant costs to protect the Company's employees and facilities, or result in regional or global economic distress, which may materially and adversely affect the Company's business, financial condition, and results of operations. Actual or threatened war, terrorist activities, political unrest, civil strife, and other geopolitical uncertainty could have a similar adverse effect on the Company's business, financial condition, and results of operations. Any one or more of these events may impede the Company's production and delivery efforts and adversely affect the Company's sales results, possibly for a prolonged period of time, which could materially and adversely affect the Company's business, financial condition, and results of operations.

The current COVID-19 Pandemic adversely affected many aspects of the Company's business, including production, supply chain, and sales and delivery, as well as financial results in 2020.

The Company has implemented various protocols throughout its global footprint to ensure a safe work environment, including: the use of personal protection equipment; reworking processes to provide social distancing; restricting access to facilities; enhancing cleaning and disinfecting protocols; using rotational and/or remote work schedules, where possible; and restricting travel.

The Company also took aggressive actions in March 2020 and during the second quarter to conserve cash in response to the COVID-19 related shutdowns and lower volumes. These actions included a significant number of temporary hourly and salaried employee layoffs, temporary reductions of salaried employee base wages of 20% (50% in the case of the Company's Executive Chairman, President and Chief Executive Officer, and Chief Financial Officer), the curtailment of non-production spending and the delay of capital and tooling spending where and when appropriate. The Company also suspended the repurchase of common stock under its normal course issuer bid, which expired in August, 2020. The Company expects to be able to continue to respond to the COVID-19 Pandemic in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position. The Company expects to be able to work with all its stakeholders to address the challenges, including: its supply base to deal with their challenges, including maintaining production and safety protocols; its customers to assist with meeting production requirements, as well as the development of new programs and products; its governmental and regulatory authorities to ensure safety and the economic well-being of the industry; its capital providers to ensure liquidity; and its employees to minimize the impacts of the pandemic, including a safe and healthy work environment.

The COVID-19 Pandemic (or any variant) has had and may continue to have an adverse effect on the Company's business, results of operations, cash flows and financial position. The ultimate extent of the impact 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, including border closures or lockdowns due to any wave of COVID-19 and the potential for a recession in key markets due to the effect of the pandemic. Since the pandemic and public response to it continue to evolve, it is difficult to accurately assess COVID-19's continued magnitude, outcome and duration.

Impacts of COVID-19 and/or its resurgence or as a result of any variants, and/or prolonged pandemic would likely deteriorate economic conditions, resulting in lower consumer confidence, which typically translates into lower vehicle sales and production levels; reduce the Company's customers' production volume levels, including as a result of intermittent facility shutdowns and/or temporary shut-downs or slowdowns of one or more of the production lines of the Company or one or more of its customers or suppliers; elevate the financial pressure on or deteriorate the financial condition of the Company's customers, which could lead to an OEM insolvency, and would likely increase pricing pressure on the Company; and reduce the Company's production levels, including as a result of intermittent shutdowns of our manufacturing facilities. Additionally, a prolonged pandemic could cause potential shortages of employees to staff the Company's facilities, or the facilities of the Company's customers or suppliers; lead to prolonged disruptions or shortages of critical components, and could deteriorate the financial condition of the Company's suppliers including as a result of the bankruptcy/insolvency of one or more suppliers due to worsening economic conditions; or result in governmental regulation adversely impacting our business. In addition, certain events may prevent the Company from supplying products to its customers or prevent its customers from being supplied with products necessary for production of vehicles which our products are on, which could result in a range of potential adverse consequences, including business interruption, loss of business and reputational damage. Previous production stoppages related to COVID-19 have resulted in, and may in the future result in, supply disruptions and shortages globally. A prolonged supply disruption or supply shortage could have a material adverse effect on the Company's business, financial condition, and results of operations.

Any or all of the above impacts of a prolonged pandemic could have a rapid, unexpected and material adverse effect on the Company's business, financial condition and results of operations. Irrespective of whether the pandemic is prolonged, the significant global economic impact and job losses to date are likely to affect household income and wealth beyond 2020, which would likely directly affect vehicle sales and thus production. Future sales and production volumes are anticipated to rebound from the economic slowdown caused by the COVID-19 Pandemic and to grow modestly or stabilize in North America over the next several years, but growth rates are uncertain and volume levels can decrease at any time. There can be no assurance that North America, Chinese or European automotive production overall or on specific platforms will not decline in the future.

Dependence Upon Key Customers

North America, Europe, Brazil and China are key auto producing regions for us and operating results are primarily dependent on car and light vehicle production in these regions by the Company's customers. Due to the nature of the Company's business, it is dependent upon several large customers such that cancellation of a significant order by any of these customers, the loss of any such customers for any reason or the termination or discontinuation of such customer's programs without replacement or new business wins or the insolvency of any such customers, reduced sales of automotive platforms of such customers, or shift in market share on vehicles on which we have significant content, or inability to increase its market share with existing customers, or a significant or sustained decline in vehicle production volumes in geographic areas in which the Company operates, could significantly reduce the Company's ongoing revenue and/or profitability, and could materially and adversely affect the Company's financial condition and results of operations. Although the Company continues to diversify its business, including its product offerings and programs with existing customers, there is no assurance that it will be successful. A loss of any or all of the Company's top customers' business would be expected to have a material adverse effect on the Company's business financial condition.

In addition, a work disruption at one or more of the Company's customers, including resulting from labour stoppages at, an inability to get critical components or supplies from or insolvencies of key suppliers to such customers or an extended customer shutdown (scheduled or unscheduled, including as a result of a pandemic or epidemic, such as the COVID-19 Pandemic) could have a significant impact on the Company's revenue and/or profitability. The Company's largest North American customers typically halt production for approximately two weeks in July and one week in December. These typically seasonal shutdowns could cause fluctuations in the Company's quarterly results.

Financial difficulties experienced by any major customer could have a material adverse effect on the Company if such customer were unable to pay for the products the Company provides or the Company experiences a loss of, or material reduction in, business from such customer. As a result of such difficulties, even where the Company is considered a key or critical supplier, the Company could experience lost revenues, significant write-offs of accounts receivable, significant impairment charges or additional restructurings, sometimes significantly, from year-to-year, which, in turn, causes fluctuations in the demand for the Company's products.

The Company is dependent on the continued growth, viability and financial stability of its OEM customers. Demand for the Company's products is directly related to consumer demand for new vehicles containing the Company's products and production levels of the Company's OEM customers. The level of new vehicle purchases is affected by factors such as consumer preferences, consumer spending patterns, used car pricing relative to new car pricing and the vehicle replacement cycle. The Company's OEM customers continually adjust their production of new vehicles in response to such conditions. The mix of vehicle offerings by the Company's OEM customers impacts the Company's sales. A decrease in consumer demand for specific types of vehicles where the Company has traditionally provided significant components could have a significant effect on the Company's business and financial condition. For example, a decrease in market demand for light trucks, or a decrease in OEM customer offerings in this vehicle segment, could adversely impact the Company's ability to maintain or increase its revenues. In addition, the Company's sales of products in the regions in which its customers operate also depend on the success of such customers in those regions. The Company's North American business is currently highly leveraged toward SUVs, CUVs and pick-up trucks; therefore, a change in consumer preferences or a decrease in consumer demand for these vehicles in North America, resulting from factors such as increases in energy and fuel prices, legislative changes or changes in environmental emission standards or other regulations, may cause a related decrease in OEM production volumes. A decrease in the Company's OEM customers' production volumes for these vehicles, as a result of any one or more of these factors or any other factors, could have a material adverse effect on the Company's business, profitability, financial condition and/or results of operations. If the Company is unsuccessful or is less successful than its competitors in adjusting to its customers' needs when responding to such conditions, the Company may be placed at a competitive disadvantage, which could have a material adverse effect on the Company's business, profitability, financial condition and/or results of operations.

Financial Viability of Suppliers and Key Suppliers

The Company relies on a number of suppliers to supply a wide range of products and components required in connection with the business. Economic conditions, including trade volatility, production volume cuts, intense pricing pressures, increased commodity prices and a number of other factors including acts of God (including fires, hurricanes, earthquakes, snowstorms, whether as a result of climate change or otherwise, pandemics or epidemics such as the COVID-19 Pandemic) and scarcity of raw materials or other critical components or supplies required by the Company's OEM customers can result in many automotive suppliers experiencing varying degrees of financial distress. In addition, pandemics or epidemics such as the COVID-19 Pandemic may have a material adverse impact on automotive suppliers and the supply chain. The continued financial distress or the insolvency or bankruptcy of any supplier, or reduction or change in the supply of critical or key components of any such supplier could disrupt the supply of products, materials or components to Martinrea or to customers, potentially causing the temporary shut-down of the Company's or customers' production lines or result in a loss of or decrease in production volume. Martinrea has experienced supply disruptions of varying natures in the past, including in cases where an equipment supplier has gone out of business, or an act of God resulted in the shortage of a key commodity, supply or service.

There is a risk some suppliers or sub-suppliers may not have adequate capacity to timely accommodate increases in demand for their products which could lead to production disruption for the customer. Some of the Company's suppliers or sub-suppliers may not be able to handle the commodity cost volatility and/or sharply changing volumes while still performing as expected. To the extent the Company's suppliers or sub-suppliers experience supply disruptions, there is a risk for delivery delays, production delays, production issues or delivery of non-conforming products by suppliers. To the extent the Company's customers experience supply chain disruptions, there is a risk for production delays or production issues which could result in production slowdowns, adjustments to customers' production plans and/or prioritization of certain vehicle models and a reduction of demand for the Company's products. Even where these risks do not materialize, the Company may incur costs as it tries to make contingency plans for such risks. Any prolonged disruption in the supply of critical components, to the Company, its suppliers, customers or within the industry generally, the inability to re-source production of a critical component from a distressed automotive components sub-supplier, or any temporary shut-down of production lines or the production lines of a customer, could have a material adverse effect on operations or profitability.

Additionally, the insolvency, bankruptcy, financial restructuring or force majeure event or events which do not qualify as force majeure events but lead to potential supply chain disruptions or delays, of any critical suppliers of the Company or its customers could result in the Company incurring unrecoverable costs related to the financial work-out or resourcing costs of such suppliers, the expedited freight costs or resourcing costs of such suppliers, and/or increased exposure for product liability, warranty or recall costs relating to the components supplied by such suppliers to the extent such supplier is not able to assume responsibility for such amounts, each of which could have an adverse effect on the Company's profitability. Although the Company is generally able to substitute suppliers for raw materials and components without incurring material short term costs, in some cases, it could be difficult and expensive and take significant time or cause significant delays for the Company to change suppliers. If any of the Company's suppliers are acquired by its competitors, consolidate with other suppliers or are acquired by other companies with whom the Company does not have existing or longstanding relationships, the Company may have less alternatives for suppliers and could experience even greater pricing pressure on certain components and raw materials required in the Company's products, lose the ability to source components and raw materials from certain suppliers or lose its status as a critical or preferred customer of such suppliers, each of which could have an adverse effect on the Company's profitability. The loss of or damage to the Company's relationships with its suppliers or any delay in receiving raw materials and components could impair the Company's ability to timely deliver good quality products to its customers, require the Company to incur additional expenses and delays to complete revalidation of a substitute supplier and result in the loss of or damage to the Company's relationships with its customers, and, accordingly, could have a material adverse effect on the Company's business, financial condition and results of operations. Also see *"Risks: Dependence Upon Key Customers"* and *"Environmental Regulation"*.

The Company currently depends on key machinery and tooling used to manufacture components and as such its manufacturing processes are vulnerable to operational problems and installation delays that can impair its ability to manufacture its products in a timely manner. The Company's facilities contain sophisticated machinery and tooling that are used in its manufacturing processes that are complex, cannot be easily replicated, have a long lead-time to manufacture and assemble, and require experienced tradespersons and operators. If there is a breakdown in such machinery and tooling, and the Company or its service providers are unable to repair in a timely fashion, obtaining replacement machinery or rebuilding tooling could involve significant delays and costs, and may not be available to the Company on reasonable terms. If the Company or its service providers are unable to repair the Company's equipment or tooling, in some cases, it could take several months, or longer, for a supplier to begin providing machinery and tooling to specification. Any disruption of machinery and tooling supply chain, or the Company's ability to service or repair key machinery and tooling, could result in lost or deferred sales and customer charges or cause the Company to incur significant costs and / or delays, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The markets for fluid management systems, cast aluminum products and fabricated metal products, assemblies and systems for automotive and industrial customers are highly competitive. Some of the Company's competitors have substantially greater financial, marketing and other resources and higher market share than the Company in certain products or geographic areas. The Company's competitors include a number of domestic and international suppliers, some of which have established strong relationships with OEMs. The Company's competitors may develop products that are superior to those of the Company, establish manufacturing facilities that are more logistically competitive than the Company's locations, produce similar products at a lower cost or adapt more quickly than the Company does to new technologies or evolving customer requirements. Competition can lead to price reductions, reduced margins, losses, and an inability to gain or hold market share. As the markets for the Company's products and other services expand, additional competition may emerge and competitors may commit more resources to products which directly compete with the Company's products. There can be no assurance that the Company will be able to compete successfully with existing competitors or that its business will not be adversely affected by increased competition or by new competitors.

Cost Absorption and Purchase Orders

Given the current trends in the automotive industry, the Company faces ongoing pricing pressure from OEMs, including through: quoting pre-requirements; long-term supply agreements with mutually agreed price reductions over the life of the agreement; non-contractual annual price concession demands; continuing pressure to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling; and OEM refusal to fully offset inflationary or material price increases in addition to items previously paid for directly by OEMs. In particular, OEMs are requesting that suppliers pay for the above costs and recover these costs through the piece price of the applicable component. OEMs possess significant leverage over their suppliers due to their purchasing power, continuing industry consolidation, and the highly competitive nature of the automotive supply industry. OEM customers may be able to exert greater leverage over the Company as compared to its competitors. The Company attempts to offset price concessions and costs in a number of ways, including through negotiations with OEM customers, improved operating efficiencies and cost reduction efforts. The Company's inability to fully offset price concessions, absorb design, engineering and tooling costs, and / or fully recover such costs over the life of production, could have a material adverse effect on its profitability. Contract volumes for customer programs not yet in production are based on the Company's customers' estimates of their own future production levels. However, actual production volumes may vary significantly from these estimates due to a reduction in consumer demand or new product launch delays, often without any compensation to the supplier by its OEM customer. Typical purchase orders issued by customers do not require they purchase a minimum number of the Company's products. For programs currently under production, the Company is generally unable to request price changes when volumes differ significantly from production estimates used during the quotation stage. If estimated production volumes are not achieved, the product development, design, engineering, prototype and validation costs incurred by the Company may not be fully recovered. Similarly, future pricing pressure or volume reductions by the Company's customers may also reduce the amount of amortized costs otherwise recoverable in the piece price of the Company's products. Either of these factors could have an adverse effect on the Company's profitability. While it is generally the case that once the Company receives a purchase order for products of a particular vehicle program it would continue to supply those products until the end of such program, customers could cease to source their production requirements from the Company for a variety of reasons, including the Company's refusal to accept demands for price reductions or other concessions.

Material Prices

Prices for key raw materials and commodities used in parts production, particularly aluminum, steel, resin, paints, chemicals and other raw materials, as well as energy prices, have proven to be volatile at certain times. The costs of these raw materials are subject to inflationary and market pricing pressures and, as such, have fluctuated over the past several years. Such additional commodity costs could have a material adverse effect on profitability. These pricing pressures put significant operational and financial burdens on the Company and its suppliers. A supplier's inability to manage raw material cost increases may lead to delivery delays, additional costs, production issues or quality issues. In 2018, 2019 and 2020, the Company and the industry has experienced steel and aluminum tariffs imposed by the U.S. and Canada, among others, in the context of trade negotiations. Martinrea has attempted to mitigate its exposure to price changes of key commodities, particularly steel, aluminum and scrap (including through participation in steel resale programs or price adjustment mechanisms and, in the case of tariffs, largely through obtaining tariff relief in most cases); however, to the extent the Company is unable to fully do so through engineering products with reduced commodity content, by passing commodity price increases to customers, by avoiding tariffs or otherwise, such additional commodity costs could have a material adverse effect on profitability. Increased energy prices also have an impact on production or transportation costs which in turn could affect competitiveness.

Outsourcing and Insourcing Trends

The Company is dependent on the outsourcing of components, modules and assemblies by OEMs. The extent of OEM outsourcing is influenced by a number of factors, including relative cost, quality and timeliness of production by suppliers as compared to OEMs, capacity utilization, and labour relations among OEMs, their employees and unions. As a result of any favourable terms in collective bargaining agreements that may lower cost structures, OEMs may insource some production which had previously been outsourced, or not outsource production which may otherwise be outsourced at some point. Outsourcing of some assembly is particularly dependent on the degree of unutilized capacity at the OEMs' own assembly facilities, in addition to the foregoing factors. A reduction in outsourcing by OEMs, or the loss of any material production or assembly programs coupled with the failure to secure alternative programs with sufficient volumes and margins, could have a material adverse effect on profitability.

Product Warranty, Recall, Product Liability and Liability Risk

Historically, there have been significant product recalls by some of the world's largest vehicle manufacturers. Recalls may result in decreased vehicle production because of a manufacturer focusing its efforts on the problems underlying the recall rather than generating new sales volume. In addition, reputational damage with consumers may occur and consumers may elect not to purchase vehicles manufactured by the vehicle manufacturer initiating the recall, or by vehicle manufacturers in general, while the recalls persist. Any reduction in vehicle production volumes, especially by the Company's OEM customers, could have a material adverse effect on the Company's business, financial condition and results of operations. Automobile manufacturers are increasingly requesting that each of their suppliers bear costs of the repair and replacement of defective products which are either covered under an automobile manufacturer's warranty or are the subject of a recall by the automobile manufacturer and which were improperly designed, manufactured or assembled by their suppliers. The Company does not maintain insurance for product recall matters; as such insurance is not generally available on acceptable terms. The obligation to repair or replace such parts, or a requirement to participate in a product recall, could have a material adverse effect on the Company's operations and financial condition. Furthermore, if the Company experienced a product recall, such product recall may harm the Company's relationship with its customers.

The Company cannot guarantee that the design, engineering, testing, validation and manufacturing measures it employs to ensure high-quality products will be completely effective, particularly as product complexity increases. In the event that its products fail to perform as expected and such failure results in, or is alleged to result in, bodily injury and / or property damage or other losses, product liability claims may be brought against the Company. The defense of product liability claims, particularly class action claims in North America, may be costly and judgments against the Company could impair its reputation and have a material adverse effect on profitability.

Product Development and Technological Change

The automotive industry is characterized by rapid technological change and frequent new product introductions. Price pressure downward by customers and unavoidable price increases from suppliers can have an adverse effect on the Company's profitability. Accordingly, the Company believes that its future success depends upon its ability to enhance manufacturing techniques offering enhanced performance and functionality at competitive prices, and delivering lightweighting and other products or systems that will enable it to continue to have content on the cars of the future (including for example, electric and autonomous vehicles). The Company's inability, for technological or other reasons, to enhance operations in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the Company's results of operations. The ability of the Company to compete successfully will depend in large measure on its ability to maintain a technically competent workforce and to adapt to technological changes and advances in the industry, including providing for the continued compatibility of its products with evolving industry standards and protocols. There can be no assurance that the Company will be successful in its efforts in these respects.

Dependence Upon Key Personnel

The success of the Company is dependent on the services of a number of the members of its senior management, who set the culture, hire the talent, provide strategic direction, oversee operational excellence and drive financial discipline of the Company. The experience and talents of these individuals has been and will be a significant factor in the Company's continued success and growth. The loss of one or more of these individuals without adequate replacement measures could have a material adverse effect on the Company's operations and business prospects. The Company does not currently maintain key person insurance.

The Company's business depends on its ability to attract, develop and retain experienced and highly skilled personnel. Such personnel are in high demand in the areas in which we compete, and competition for their services is intense. As a result of the rapid changes and the intense competition in the automotive industry, the Company has a growing need for skilled people and the Company may face substantial competition for such personnel, from traditional and less traditional sources. The inability to attract and retain highly-skilled personnel could have an adverse effect on the Company's operations and its ability to fully implement its business strategy.

Availability of Consumer Credit or Cost of Borrowing

Declines in the availability of consumer credit and increases in consumer borrowing costs have negatively impacted global automotive sales and resulted in lower production volumes in the past. Substantial declines in automotive sales and production by our OEM customers could have a material adverse effect on the Company's business, results of operations and financial condition.

Limited Financial Resources/Uncertainty of Future Financing/Banking

The Company is engaged in a capital-intensive business and its financial resources are less than the financial resources of some of its competitors. There can be no assurance that, if, as and when the Company seeks additional equity or debt financing, or other forms of financing, the Company will be able to obtain the additional financial resources required to successfully compete in its markets on favourable commercial terms or at all. Additional equity financings may result in substantial dilution to existing shareholders.

The Company's existing debt facilities must be renewed on a periodic basis. There is no assurance the Company will be able to renew such facilities on competitive terms or at all. These facilities may contain restrictions on the Company's ability to, among other things, pay dividends, sell or transfer assets, incur additional debt, repay other debt, make certain investments or acquisitions, repurchase or redeem shares and engage in alternate business activities. Interest rate fluctuations, financial market volatility and global credit market disruptions have made, and may continue to make, it difficult for companies to raise and maintain necessary operating liquidity. While the Company believes it has sufficient liquidity to operate, there can be no assurance that the Company will continue to have such ability.

The Company's working capital requirements can vary significantly depending, in part, on the level, variability and timing of the worldwide vehicle production of its OEM customers and the payment terms with customers and suppliers. The Company's liquidity could be adversely impacted if circumstances arose causing its suppliers to suspend trade credit terms and require payment in advance or payment upon delivery. If sufficient funds are not otherwise available to the Company from its credit facilities, the Company may need to seek additional capital, through debt or equity financings, to fund its business. Conditions in the credit markets (such as availability of finance and fluctuations in interest rates) may make it difficult for the Company to obtain such financing on attractive terms or even at all. Additional debt financing that the Company may undertake may be expensive and might impose on it covenants that restrict the Company's operations and strategic initiatives, including limitations on its ability to incur liens or additional debt, pay dividends, repurchase its capital stock, make investments and engage in merger, consolidation and asset sale transactions. Many of the Company's customers and suppliers require significant financing to operate their businesses. Longer-term disruptions in the credit markets could further adversely affect the Company's customers by making it increasingly difficult for them to obtain financing for their businesses or for consumers to obtain financing for vehicle purchases. If capital is not available to the Company's customers and suppliers, or if its cost is prohibitively high, their businesses would be negatively impacted, which could result in their restructuring or even reorganization or liquidation under applicable bankruptcy laws. As a result, the need of the Company's customers for, and their ability to purchase, the Company's products may decrease, and the Company's suppliers may increase their prices, reduce their output or change their terms of sale. Any inability of the Company's customers to pay for the Company's products and services, or any demands by suppliers for different payment terms, could have a material adverse effect on the Company's business, financial condition and results of operations.

Acquisitions

The Company may grow through acquisitions of complementary businesses, products or technologies, or by entering into joint ventures. The Company has acquired and anticipates that it will continue to acquire complementary businesses, assets, technologies, services or products, at competitive prices. The Company intends to continue to pursue acquisitions in those product areas which we have identified as key to the Company's long-term business strategy. However, as a result of intense competition in these strategic areas, the Company may not be able to acquire the targets needed to achieve its strategic objectives or certain of its suppliers or sub-suppliers could be acquired, including by the Company's key competitors, which could have a negative impact on the Company's business and strategy.

The completion of such transactions poses additional risks to the Company's business. Acquisitions or strategic alliances are subject to a range of inherent risks, including the difficulties in the integration of the acquired businesses or incorporating joint ventures; uncertainties in assessing the value, strengths and potential profitability of, and identifying the extent of all weaknesses of, acquisition candidates; the assumption of unknown liabilities, including assumption of incremental regulatory/compliance, pricing, supply chain, commodities, labour relations, litigation, environmental, pensions, warranty, recall, IT, tax or other risks and undisclosed risks impacting the target; adverse effects on existing customer and supplier relationships; integration of internal controls; entry into markets in which the Company has little or no direct prior experience; the potential loss of key customers, management and employees of an acquired business; potential integration or restructuring costs; the ability to achieve operating and financial synergies; unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the Company's rationale for pursuing the acquisition or joint venture. Although the Company seeks to conduct appropriate levels of due diligence on acquisition targets, these efforts may not always prove to be sufficient in identifying all risks and liabilities related to the acquisition, including as a result of: limited access to information; time constraints for conducting due diligence; inability to access target company facilities and/or personnel; or other limitations in the due diligence process. Additionally, the Company may identify risks and liabilities that cannot be sufficiently mitigated through appropriate contractual or other protections. The realization of any such risks could have a material adverse effect on the Company's operations or profitability.

The occurrence of any one or more of these factors could cause the Company not to realize the benefits anticipated to result from an acquisition or a joint venture, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Potential Tax Exposures

The Company may incur losses in some countries, which it may not be able to fully or partially offset against income the Company has earned in those countries. In some cases, the Company may not be able to utilize these losses at all if the Company cannot generate profits in those countries and/or if the Company has ceased conducting business in those countries altogether. The Company's inability to utilize material tax losses could materially adversely affect its profitability. At any given time, the Company may face other tax exposures arising out of changes in tax laws, tax reassessments or otherwise. The Company is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on the Company's financial results, the manner in which it conducts its business or the marketability of any of its products. The geographic scope of the Company's business requires the Company to comply with the tax laws and regulations of multiple jurisdictions. Requirements as to taxation vary substantially among jurisdictions. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could potentially subject the Company to penalties and fees in the future if the Company were to inadvertently fail to comply. In the event the Company was to inadvertently fail to comply with applicable tax laws, this could have a material adverse effect on the business, results of operations and financial condition of the Company. The taxation system and regulatory environment in some of the jurisdictions in which the Company operates are characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various regulatory authorities and jurisdictions that are empowered to impose significant fines, penalties and interest charges. The Company's subsidiary in Brazil is currently being assessed by the State of Sao Paulo tax authorities for certain historical value added tax credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. Although the Company believes that it has complied in all material respects with the legislation in Brazil and has obtained legal advice to such effect there is no assurance that the Company will be successful with respect to such assessment (see Note 24 to the Company's consolidated financial statements for the year ended December 31, 2020). To the extent the Company cannot implement measures to offset this and other tax exposures, it may have a material adverse effect on the Company's profitability. (See *"Legal Proceedings".*)

Cybersecurity Threats

The Company relies upon IT networks and systems to process, transmit and store electronic information, and to manage or support a variety of business processes or activities. Additionally, the Company and certain of its third-party vendors collect and store personal information in connection with human resources operations and other aspects of the Company's business. The secure operation of these IT networks and systems and the proper processing and maintenance of this information are critical to the Company's business operations. The reliability and security of the Company's information technology (IT) systems is important to the Company's business and operations. Although the Company has established and continues to enhance security controls intended to protect the Company's IT systems and infrastructure, there is no guarantee that such security measures will be effective in preventing unauthorized physical access or cyber-attacks and the Company's IT systems are at risk to damages from computer viruses, unauthorized access, cyber-attack and other similar disruptions. The occurrence of any of these events could compromise the Company's networks, and the information stored there could be accessed, publicly disclosed or lost. A significant breach of the Company's IT systems could, among other things, cause disruptions in the Company's manufacturing operations (such as operational delays from production downtime, inability to manage the supply chain or produce product for customers, disruptions in inventory management), lead to the loss, destruction, corruption or inappropriate use of sensitive data, including employee information, result in lost revenues due to theft of funds or due to a disruption of activities, including remediation costs, or from litigation, fines and liability or higher insurance premiums, the costs of maintaining security and effective IT systems, which could negatively affect results of operations and the potential adverse impact of changing laws and regulations related to cybersecurity or result in theft of the Company's, its customers' or suppliers' intellectual property or confidential information. If any of the foregoing events (or other events related to cybersecurity) occurs, the Company may be subject to a number of consequences, including reputational damage, a diminished competitive advantage and negative impacts on future opportunities which could have a material adverse effect on the Company. In addition, any such access, disclosure or other loss of information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, the disruption of the Company's operations or damage to the Company's reputation. The Company may also be required to incur significant costs to protect against damage caused by these disruptions or security breaches in the future. Any of these issues could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, any failure, disruption or breach of the Company's IT networks and systems could compromise the integrity or confidentiality of the Company's customers' information. Any actual or perceived failure, disruption or breach of the Company's IT networks and systems could materially impair our reputation and cause the Company to lose customers or revenue, or become subject to litigation, necessitate customer service or repair work that would involve substantial costs and distract management from operating our business. Any failure or perceived failure to protect the Company's customers' information could have a material adverse effect on the Company's business, financial condition and results of operations.

Potential Rationalization Costs and Turnaround Costs

The Company has incurred restructuring costs over the past several years, sometimes in conjunction with the cancelation of a customer program or the closing of a customer plant. In response to the increasingly competitive automotive industry conditions, it is likely that the Company will continue to rationalize some production facilities and close high cost or less efficient manufacturing facilities from time to time. In the course of such rationalization, restructuring costs related to plant closings or alterations, relocations and employee severance costs will be incurred. Such costs could have an adverse effect on short-term profitability. In addition, while the Company's goal is for every plant to be profitable, there is no assurance this will occur, which will likely result in a rationalizing or closing of the plant. Martinrea is working to turn around any financially underperforming divisions, however, there is no guarantee that it will be successful in doing so with respect to some or all such divisions. The continued underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations.

In certain locations where the Company's facilities are subject to leases, it may continue to incur significant challenges and costs if it were to attempt to relocate, restructure or downsize its business, including the inability to sublease any of the leased premises, in accordance with the terms of its existing leases. The Company may be unsuccessful in renegotiating these leases or it may need to make large settlements or take other actions to terminate its leases. The Company attempts to align production capacity with demand; however, the Company cannot provide any assurance that it will not close or relocate manufacturing facilities in the future, which could result in adverse publicity and have a material adverse effect on the Company's business, financial condition and results of operations.

Launch and Operational Costs and Cost Structure

There are many factors that could affect the Company's ability to manage its cost structure that the Company is not able to control, including the need for unexpected significant capital expenditures and unexpected changes in commodity or component pricing that the Company is unable to pass on to its suppliers or customers. As a result, the Company may be unable to manage its operations to profitably meet current and expected market demand. Further, the Company operates in a capital-intensive industry. The Company's inability to maintain its cost structure could adversely impact the Company's operating margins and results of operations.

The launch of new business, in an existing or new facility, is a complex process, the success of which depends on a wide range of factors, including the production readiness of the Company and its suppliers, as well as factors related to tooling, equipment, employees, initial product quality and other factors. A failure to successfully launch material new or takeover business could have an adverse effect on profitability. Significant launch costs were incurred by the Company in recent years.

The Company's manufacturing processes are vulnerable to operational problems that can impair its ability to manufacture its products in a timely manner, or which may not be performing at expected levels of profitability. The Company's facilities contain complex and sophisticated machines that are used in its manufacturing processes. The Company has in the past experienced equipment failures and could experience equipment failure in the future due to wear and tear, design error or operator error, among other things, which could have an adverse effect on profitability.

From time to time, the Company may have some operating divisions which are not performing at expected levels of profitability. The complexity of automotive manufacturing operations often makes it difficult to achieve a quick turnaround of underperforming divisions. Significant underperformance of one or more operating divisions could have a material adverse effect on the Company's profitability and operations. To compete effectively in the automotive supply industry, the Company must be able to launch new products to meet its customers' demands in a timely manner. The Company cannot ensure, however, that it will be able to install and validate the equipment needed to produce products for new customer programs in time for the start of production or that the transitioning of its manufacturing facilities and resources to full production under new product programs will not impact production rates or other operational efficiency measures at its facilities. In addition, the Company cannot ensure that its customers will execute on schedule the launch of their new product programs, for which the Company might supply products. The Company may fail to successfully launch or be affected by its customers' delay in introducing new programs, and its customers may fail to successfully launch new programs, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Labour Relations Matters

The Company has a significant number of its employees subject to collective bargaining agreements, as do many of the Company's customers and suppliers. To date, the Company has had no material labour relations disputes. However, production may be affected by work stoppages and labour-related disputes (including labour disputes of the Company's customers and suppliers), whether in the context of potential restructuring or in connection with negotiations undertaken to ensure a division's competitiveness, or otherwise, which may not be resolved in the Company's favour and which may have a material adverse effect on the Company's operations. The Company cannot predict whether and when any labour disruption may arise or how long such disruption could last. A significant labour disruption could lead to a lengthy shutdown of the Company or its customers' or suppliers' facilities or production lines, which could have a material adverse effect on the Company's operations and profitability.

Trade Restrictions

The global growth of the automotive industry has been aided by the free movement of goods, services, people and capital through bilateral and regional trade agreements, particularly in North America and Europe. In Europe, for example, uncertainty remains regarding the impact of Brexit – the United Kingdom's decision to withdraw from the European Union – and the nature of any trade agreements or arrangements that may result. Introduction of measures which impede free trade, including new or increased tariffs and other trade barriers, could have a material adverse effect on the Company's operations and profitability. (See also "*Changes in Laws and Governmental Regulations*".)

Current international trade disputes could, among other things, reduce demand for and production of vehicles, disrupt global supply chains, distort commodity pricing, impair the ability of automotive suppliers and vehicle manufacturers to make efficient long-term investment decisions, create volatility in relative foreign exchange rates, and contribute to stock market volatility.

Changes in Laws and Governmental Regulations

A significant change in the regulatory environment in which the Company currently carries on business could adversely affect the Company's operations.

The Company's operations could be adversely impacted by significant changes in tariffs and duties imposed on its products, particularly significant changes to the USMCA (formerly NAFTA), the CPTPP or Brexit, the adoption of domestic preferential purchasing policies in other jurisdictions, particularly the United States or China (such as increased tariffs or investigations relating to anti-dumping) or positive or negative changes in tax or other legislation. The Company's operations could also be adversely impacted by changes in rules relating to the movement of goods and people across borders, or changes in labour laws and regimes in the jurisdictions in which it operates, including immigration policies, which prevent the movement or recruitment of key Company employees and skilled tradespersons. In addition, the Company could be exposed to increased customs audits due to governmental policy, which could lead to additional administrative burden and costs and also carry the potential of a material fine or significant reputational risk. Changes in legislation or regulation could lead to additional administrative burden and costs in general, and also carry the potential of a material fine or significant reputational risk. Changes in laws or regulations could also result in the Company shifting its operations to more favourable jurisdictions

Litigation and Regulatory Compliance and Investigations

The Company has been and is involved in litigation from time to time and has received, in the past, letters from third parties alleging claims and claims have been made against it including those described under "Legal Proceedings". Although litigation claims may ultimately prove to be without merit, they can be time-consuming and expensive to defend. There can be no assurance that third parties will not assert claims against the Company in the future or that any such assertion will not result in costly litigation, or a requirement that the Company enter into costly settlement arrangements. There can be no assurance that such arrangements will be available on reasonable terms, or at all. Due to the inherent uncertainties of litigation, it is not possible to predict the outcome or determine the amount of any potential losses or the success of any claim or of any law suit referenced under "Legal Proceedings" and any other claims to which the Company may be subject. In addition, there is no assurance that the Company will be successful in a litigation matter. Any of these events may have a material adverse effect on the Company's business, financial condition and results of operations. See *"Legal Proceedings"*. The Company's policy is to comply with all applicable laws. However, the Company or its directors and officers may also be subject to regulatory risk in the markets in which it operates (for example, antitrust and competition regulatory authorities, tax authorities, anti-bribery and corruption authorities, cybersecurity risk and privacy legislation such as GDPR). Regulatory investigations, if any, can continue for several years, and depending on the jurisdiction and type of proceeding can result in administrative or civil or criminal penalties that could have a material adverse effect on the Company's profitability or operations (even where the Company or any of its officers or directors is innocent, investigations can be expensive to defend). Additionally, the Company could be subject to other consequences including reputational damage, which could have a material adverse effect on the Company.

Quote/Pricing Assumptions

The time between award of new production business and start of production typically ranges between two and four years. Since product pricing is typically determined at the time of award, the Company is subject to significant pricing risk due to changes in input costs and quote assumptions between the time of award and start of production. The inability to quote effectively, or the occurrence of a material change in input cost or other quote assumptions between program award and production, could have an adverse effect on the Company's profitability.

The realization of incremental revenues from awarded business is inherently subject to a number of risks and uncertainties, including estimates with respect to vehicle production levels on new and replacement programs, customer price reductions, currency exchange rates and the timing of program launches (which may be delayed by the customer). There is typically a lead time, which can be significant, from the time an OEM customer awards the Company a program until the program is launched and the Company begins production of vehicles within such program. In many cases, the Company must commit substantial resources in preparation for production under awarded business well in advance of the customer's production start date. Furthermore, the Company relies on longer-term forecasts from its customers to plan its capital expenditures. If these forecasts prove to be inaccurate, either the Company may have spent too much on capacity growth for unrealized production demand, which could require the Company to consolidate facilities and leave the Company unable to recover pre production costs, or the Company may have invested too little on capital expenditures for capacity growth, in which case the Company may be unable to satisfy customer demand, either of which could have a material adverse effect on the Company's business. The Company typically enters into agreements for its customers' purchasing requirements for the entire production life of the program (and the vehicles forming part of the program). However, industry standard terms typically contain certain provisions that allow the customer to cancel the contract for convenience. The Company's ability to obtain compensation from its customers for such cancellation, if the cancellation is through no fault of the Company, is generally limited to the direct costs it has incurred for raw materials and work-in-process and, in certain instances, unamortized investment costs. In addition, industry conditions and competition could lead the Company's customers to attempt to reduce fixed costs, including through facility closures or relocations. Facility closures or relocations relating to vehicle models for which the Company is a significant supplier could reduce the Company's sales and result in losses and impairments with respect to certain of the Company's Products and programs. If the Company does not realize all of the sales expected from awarded business, it could have a material adverse effect on its business, financial condition and results of operations.

Currency Risk - Hedging

A substantial portion of the Company's revenues are now, and are expected to continue to be, realized in currencies other than Canadian dollars, primarily the U.S. dollar. Fluctuations in the exchange rate between the Canadian dollar and such other currencies may have a material effect on the Company's results of operations. To date, the Company has engaged in some hedging activities to mitigate the risk of identified exchange rate exposures. To the extent the Company may seek to implement more substantial hedging techniques in the future with respect to its foreign currency transactions, there can be no assurance that the Company will be successful in such hedging activities.

Currency Risk - Competitiveness in Certain Jurisdictions

Currency fluctuations may negatively or positively affect the competitiveness of the Company's operations in a particular jurisdiction. As a result, the Company may move some existing work to another country, or may source work to different divisions, in order for the Company to remain or become competitive. Any work shifts may entail significant restructuring and other costs as work is shifted, as plants are consolidated, downsized or closed, or as plants in other jurisdictions are expanded.

Fluctuations in Operating Results

The Company's operating results have been and are expected to continue to be subject to quarterly and other fluctuations due to a variety of factors including changes in purchasing patterns, production schedules of customers (which tend to include a shutdown period in each of July and December), pricing policies, launch costs, or operational (or equipment or systems) failures, or product introductions by competitors. This could affect the Company's ability to finance future activities. Operations could also be adversely affected by general economic downturns, an economic shock not contemplated in our business plan, a rapid deterioration of conditions or limitations on spending. The occurrence of or a prolonged recession could result in the depletion of our cash resources, which could have a material adverse effect on our operations and financial condition.

Internal Controls Over Financial Reporting and Disclosure Controls and Procedures

Inadequate disclosure controls or ineffective internal controls over financial reporting could result in an increased risk of material misstatements in the financial reporting and public disclosure record of the Company. Inadequate controls could also result in system downtime, give rise to litigation or regulatory investigation, fraud or the inability of the Company to continue its business as presently constituted. The Company has designed and implemented a system of internal controls and a variety of policies and procedures to provide reasonable assurance that material misstatements in the financial reporting and public disclosures are prevented and detected and corrected on a timely basis and other business risks are mitigated. In accordance with the guidelines adopted in Canada, the Company assesses the effectiveness of its internal and disclosure controls using a top-down, risk-based approach in which both qualitative and quantitative measures are considered. An internal control system, no matter how well conceived and operated, can provide only reasonable – not absolute – assurance to management and the Board regarding achievement of intended results. The inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple errors or mistakes. Controls can also be circumvented by individual acts of certain persons, by collusion of two or more people or by management override of the controls. Due to the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and may not be detected in a timely manner or at all. Changes in internal controls due to remote work arrangements adopted in response to the COVID-19 Pandemic may result in control deficiencies and impact the Company's financial reporting systems, which may also be material. The Company's current system of internal and disclosure controls also places reliance on key personnel across the Company to perform a variety of control functions including key reviews, analysis, reconciliations and monitoring. The failure of individuals to perform such functions or properly implement the controls as designed could adversely impact results.

Environmental Regulation and Climate Change

The Company is subject to a variety of environmental regulations by the federal, provincial and municipal authorities in Canada, the United States, Mexico, South America, Europe, China and Japan that govern, among other things: activities or operations that may have an adverse environmental effect; soil, surface water and groundwater contamination; the generation, storage, handling, use, disposal and transportation of hazardous materials; the emission and discharge of materials, including greenhouse gases, into the environment; and health and safety. If the Company fails to comply with these laws, regulations or permits, the Company could be fined or otherwise sanctioned by regulators or become subject to litigation or obligations to investigate or remediate existing or potential contamination, third-party property damage claims, personal injury claims, or modification or revocation of operating permits and may lead to temporary or permanent business interruptions. Environmental and pollution control laws, regulations and permits, and the enforcement thereof, change frequently, have tended to become more stringent over time and may necessitate substantial capital expenditures or operating costs or may require changes of production processes. Environmental regulation in any one jurisdiction in which the Company operates may impact the business of the Company to the extent that jurisdiction becomes less competitive. Compliance with the requirements of laws and regulations affect ongoing operations and may increase capital costs and operating expenses, particularly if the applicable laws and regulations become increasingly stringent or more stringently enforced in the future. The Company may be required to use different materials in its production due to changing environmental restrictions or due to customer specifications. Material substitution may cause the Company to incur additional capital and operating costs. In addition to the foregoing, the Company may also incur costs and expenses resulting from environmental compliance, contamination or incidents, such as any changes to facilities to address physical, health and safety or regulatory constraints, repair or rebuilding facilities impacted by adverse weather events, or research and development activities related to more environmentally efficient operations and processes, as well as other potential costs. (See also *"Financial Viability of Suppliers"*.)

Under certain environmental requirements, the Company could be responsible for costs relating to any contamination at the Company's or a predecessor entity's current or former owned or operated properties or third-party waste-disposal sites, even if the Company was not at fault. In addition to potentially significant investigation and cleanup costs, contamination can give rise to third-party claims for fines or penalties, natural resource damages, personal injury or property damage.

The Company's operations may also be impacted by environmental policies at any of its customers or suppliers to the extent that it affects production or volumes. The Company and its customers are also under pressure to meet tighter emissions regulations, reduce fuel consumption and act with more environmental responsibility, which may impact the Company's business and operations. Foreign, federal, state, provincial and local regulatory and legislative bodies have proposed various legislative and regulatory measures relating to climate change, regulating greenhouse gas emissions and energy policies, including, without limitation, CAFE standards and California's agreement with major OEMs to increase fuel efficiency. The Company endeavours to be environmentally responsible and recognizes that the competitive pressures for economic growth and cost efficiency must be integrated with sound sustainability management, including environmental stewardship. The Company has adopted sourcing and other business practices to address environmental concerns of its customers. Despite these efforts, evolving customer concerns could negatively affect the Company's reputation and financial performance. Due to the uncertainty in the regulatory and legislative processes, as well as the scope of such requirements and initiatives, the Company cannot currently determine the effect such legislation and regulation may have on its operations or on the production of, or demand for, vehicles, including light trucks.

The Company cannot provide assurances that the Company's costs, liabilities and obligations or any resulting impact on its revenues due to customer requirements or changes in supply chain requirements relating to environmental matters (or any issues that may arise as a result of its customers' or suppliers' own environmental compliance, including any environmental compliance or trends that may impact their businesses) will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

The Company requires compliance with its policies both internally and, where relevant, for its suppliers. Although the Company requires its suppliers to comply with these guidelines, there is no guarantee that these suppliers will not take actions that hurt the Company's reputation, as they are independent third parties that the Company does not control. However, if there is a lack of apparent compliance, it may lead the Company to search for alternative suppliers. This may have an adverse effect on the Company's financial results, by increasing costs, potentially causing shortages in products, delays in delivery or other disruptions in operations. (See *"Supply Chain Responsibility"*.)

The Company's operations may also be impacted by any environmental policies or incidents at any of its customers or suppliers to the extent that it affects production or volumes.

In addition, the physical occurrence of severe weather conditions or one or more natural disasters, whether due to climate change or naturally occurring, such as, floods, wild fires, tornadoes, hurricanes and windstorms, snowstorms and other natural disasters such as earthquakes, tsunamis or hurricanes, including extreme weather caused by climate change, in a country in which the Company operates or in which its suppliers or customers are located, could cause catastrophic destruction to some of the Company's or the Company's suppliers' or customers' facilities, which could have a material impact on the availability of a product, disrupt the Company's production and/or prevent the Company from supplying products to its customers which could have a material adverse effect on its business, financial condition and results of operations. Such events could result in physical damage to and complete or partial closure of one or more of the Company's or its customers' manufacturing facilities; temporary or long-term disruption in the supply of raw materials from the Company's suppliers; disruptions to the Company's production or ability of the Company's employees to work efficiently; and / or disruptions or delays in the transport of the Company's products to its customers or their vehicles to their customers. The Company has policies and procedures in place to mitigate such risk and to obtain alternate supply, where practical, however it may not be possible in all cases or for a critical component. Physical risks related to extreme weather events or natural disasters cannot be predicted and the frequency and severity of any such event can vary including by region. Any interruption to the Company's supply of product or resulting changes in price to the Company could lower the Company's revenues, increase its operating costs and impact its financial results. A catastrophic destruction of the Company's or the Company's suppliers' facilities could have a material adverse effect on the Company's operations and profitability. (See also *"Financial Viability of Suppliers"*.)

The Company cannot provide assurances that the Company's costs, liabilities and obligations or any resulting impact on its revenues due to customer requirements or changes in supply chain requirements relating to environmental matters (or any issues that may arise as a result of its customers' or suppliers' own environmental compliance or incidents, including any environmental compliance or incidents or trends that may impact their businesses) or from environmental matters in general, including any arising from climate change, will not have a material adverse effect on the Company's business, financial condition, results of operations and cash flow.

Loss of Use of Key Manufacturing Facilities

While the Company manufactures its products in several facilities and maintains insurance covering its facilities, including business interruption insurance, a catastrophic loss of the use of all or a portion of one of the Company's manufacturing facilities due to accident, weather conditions, acts of war, political unrest, terrorist activity, natural disaster, labour issues or otherwise, whether short-term or long-term, could have a material adverse effect on the Company's business, financial condition and results of operations.

A Shift Away from Technologies in Which the Company is Investing

The Company continues to invest in technology and innovation which the Company believes will be critical to its long-term growth. Changes in legislative, regulatory or industry requirements or in competitive technologies, including manufacturing processes, may render certain of the Company's products obsolete or less attractive or may result in the Company's operations not being cost-competitive. The Company's ability to anticipate changes in technology and trends and to successfully develop and introduce new and enhanced products and/or manufacturing processes on a timely basis will be a significant factor in its ability to remain competitive. If the Company is unsuccessful or is less successful than its competitors in consistently developing innovative products, processes and / or use of materials, the Company may be placed at a competitive disadvantage, which could have a material adverse effect on the Company's business, financial condition and results of operations. If there is a shift away from the use of technologies in which the Company is investing, or a change in trends its costs may not be fully recovered. In addition, the Company may be placed at a competitive disadvantage if other technologies in which the investment is not as great, or the Company's expertise is not as developed, emerge as the industry-leading technologies. This could have a material adverse effect on the Company's profitability and financial condition.

Intellectual Property

The Company relies upon trademarks, copyrights, patents and contractual restrictions to protect its know-how, trade secrets and other intellectual property. Failure to protect the Company's intellectual property rights may undermine its competitive position and protecting its rights or defending against third-party allegations of infringement may be costly, which could have a material adverse effect on the Company's business, financial condition and results of operations. Protection of proprietary processes, designs, moldings, know-how, trade secrets, documentation and other technology is critical to the Company's business. Failure to protect, monitor and control the use of the Company's existing designs, know-how, trade secrets and other intellectual property rights could cause the Company to lose its competitive advantage and incur significant expenses. However, the measures the Company takes to protect its know-how, trade secrets and other intellectual property rights may be insufficient. While the Company enters into confidentiality and proprietary rights agreements and agreements for assignment of invention with its employees and third parties to protect its know-how, trade secrets and intellectual property rights, such agreements and assignments could be breached and may not provide meaningful protection. Also, others may independently develop technologies or products that are similar to the Company's. In such case, the Company's know-how and trade secrets would not prevent competition from third-parties. Third-parties may seek to oppose, cancel or invalidate the Company's intellectual property rights, which could have a material adverse effect on the Company's business, financial condition and results of operations. The costs associated with the protection of the Company's know-how, trade secrets, intellectual property and the Company's proprietary rights and technology are ongoing. Third-parties or employees may infringe or misappropriate the Company's proprietary technologies or other intellectual property rights, which could harm the Company's business and operating results. Policing unauthorized use of intellectual property rights can be difficult and expensive, and adequate remedies may not be available. Failure to protect or enforce the Company's intellectual property rights may undermine its competitive position and protecting its rights or defending against third-party allegations of infringement may be costly, which could have a material adverse effect on the Company's business, financial condition and results of operations. If the Company's technology infringes on the proprietary rights of others, its ability to compete may be impaired. Third-parties may bring legal claims, or threaten to bring legal claims, against the Company that their intellectual property rights are being infringed or violated by the Company's use of intellectual property. Litigation or threatened litigation, regardless of merit, could be costly, time consuming to defend, require the Company to redesign its products or manufacturing processes, if feasible, distract senior management from operating the Company's business and / or require the Company to enter into royalty or licensing agreements in order to obtain the right to use a third party's intellectual property. Any such royalty or licensing agreements, if required, may not be available to the Company on acceptable terms or at all. If the Company were to be found liable for any such infringement, the Company could be required to pay substantial damages and could be subject to injunctions preventing further infringement. In addition, any payments the Company is required to make and any injunctions with which the Company is required to comply as a result of infringement claims could be costly. Any legal claims or litigation could have a material adverse effect on the Company's business, financial condition and results of operations. If a third-party claims to have licensing rights with respect to components the Company purchased from a vendor, the Company may be obligated to cease using these components, incur associated costs if the vendor is unwilling or unable to reimburse the Company and be subject to liability under various civil and criminal causes of action, including damages and injunctions. Additionally, the Company will be required to purchase new components to replace any it has purchased and are unable to use. Any such events could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition with Low Cost Countries

The competitive environment in the automotive industry has intensified as customers seek to take advantage of low wage costs in China, Korea, Thailand, India and other low-cost countries. As a result, there is potentially increased competition from suppliers that have manufacturing operations in low-cost countries. The loss of any significant production contract to a competitor in low cost countries or significant costs and risks incurred to enter and carry on business in these countries could have an adverse effect on profitability.

The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets

Many of the Company's customers have sought, and will likely continue to seek to take advantage of lower operating costs and/or other advantages in Mexico, China, India, Brazil, Russia, South Korea and other growing markets. While the Company continues to expand its manufacturing footprint with a view to taking advantage of manufacturing opportunities in some of these markets, the Company cannot guarantee that it will be able to fully realize such opportunities. The inability to quickly adjust its manufacturing footprint to take advantage of manufacturing opportunities in these markets could harm its ability to compete with other suppliers operating in or from such markets, which could have an adverse effect on its profitability. The loss of any significant production contract to a competitor in a lower-cost market or the significant costs and risks incurred to follow a customer into and carry on business in these growing markets could have an adverse effect on the Company's profitability.

Risks of conducting business in foreign countries, including China, Brazil and other growing markets

The Company has or may establish foreign manufacturing, assembly, product development, engineering and research and development operations in foreign countries, including in Mexico, Europe, China and Brazil. International operations, including Mexico, are subject to certain risks inherent in doing business abroad, including:

political, civil and economic instability;
corruption risks;
trade, customs and tax risks;
currency exchange rates and currency controls;
limitations on the repatriation of funds;
insufficient infrastructure;

restrictions on exports, imports and foreign investment;
environmental risk;
increases in working capital requirements related to long supply chains;
changes in labour laws and regimes and labour strife;
difficulty in protecting intellectual property rights; and
different and challenging legal systems.

Expanding the Company's business in growing markets is an important element of its strategy and, as a result, the Company's exposure to the risks described above may be greater in the future. The likelihood of such occurrences and their potential effect on the Company vary from country to country and are unpredictable, however any such occurrences could have an adverse effect on the Company's profitability. Current relations, trade and otherwise, between China, the U.S. and Canada have increased some of the risks of operating in China and dealing with Chinese operations.

Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates.

The Company's effective tax rate varies in each country in which it conducts business. Changes in its mix of earnings between jurisdictions with lower tax rates and those with higher tax rates could have a material adverse effect on the Company's profitability.

Pension Plans and other post employment benefits

The Company's pension plans acquired as a result of the acquisition of the North American body and chassis business of ThyssenKrupp Budd in 2006 (the "TKB Acquisition") had an aggregate funding deficiency as at the latest measurement date of December 31, 2020, based on an actuarial estimate for financial reporting. The unfunded liability at December 31, 2020, on a solvency basis which currently represents the basis for annual pension funding, is significant. Based on current interest rates, benefits and projected investment returns, the Company is obligated to fund some amounts in 2021 and beyond. A significant portion of the estimated funding is expected to be a payment towards the reduction of the unfunded liabilities. The unfunded liability could increase due to a decline in interest rates, investment returns at less than the actuarial assumptions, or changes to the governmental regulations governing funding and other factors. The Company could be adversely affected by the resulting increases in annual funding obligations. See also Note 15 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2020, which reflects the financial position of the Company's defined benefit pension plan and other post-employment benefit plans at December 31, 2020.

The Company provides certain post-employment benefits to certain of its retirees acquired as a result of the TKB Acquisition. These benefits include drug and hospitalization coverage. The Company does not pre-fund these obligations. At December 31, 2020, the unfunded actuarial liability for these obligations was significant. Expected benefit payments for 2021 and beyond are significant. The Company's obligation for these benefits could increase in the future due to a number of factors including changes in interest rates, changes to the collective bargaining agreements, increasing costs for these benefits, particularly drugs, and any transfer of costs currently borne by government to the Company. The Company has in the past negotiated changes to its post-employment benefits package in several of its facilities with its employees, in conjunction with the applicable union for the facility, setting maximum limits on future post-employment benefits payments. The Company may negotiate similar arrangements in future in respect of such benefits at other facilities, as applicable. See also Note 15 ("Pension and Other Post Retirement Benefits") to the Company's consolidated financial statements for the year ended December 31, 2020, which reflect the financial position of the Company's post-employment benefits other than pension plans at December 31, 2020.

Impairment Charges

The Company may take, in the future, significant impairment charges, including charges related to long-lived assets. The early termination, loss, renegotiation of the terms of, or delay in the implementation of, any significant production contract could be indicators of impairment. In addition, to the extent that forward-looking assumptions regarding: the impact of turnaround plans on underperforming operations; new business opportunities; program price and cost assumptions on current and future business; the timing and success of new program launches; and forecast production volumes, are not met, any resulting impairment loss could have a material adverse effect on the Company's profitability.

Potential Volatility of Share Prices

The market price of the Company's common shares has been, and will likely continue to be, subject to significant fluctuations in response to a variety of factors, many of which are beyond the Company's control. These fluctuations may be exaggerated if the trading volume of the common shares is low. In addition, due to the evolving nature of its business, the market price of the common shares may fall dramatically in response to a variety of factors, including quarter-to-quarter variations in operating results, the gain or loss of significant contracts, announcements of technological or competitive developments by the Company or its competitors, acquisitions or entry into strategic alliances by the Company or its competitors, the gain or loss of a significant customer or strategic relationship, changes in estimates of the Company's financial performance, changes in recommendations from securities analysts regarding the Company, the industry or its customers' industries, litigation involving the Company or its officers and general market or economic conditions.

In certain circumstances that the Company determines that its share price is undervalued, the Company may use funds that would otherwise be available for its operations or other uses, to repurchase its own shares as an investment. However, there can be no assurances that any such repurchase of shares will have a positive impact on the Company's share price.

Dividends

The declaration and payment of dividends, including the dividend rate, is subject to the Board's discretion taking into account the Company's cash flow, capital requirements, financial condition and other factors the Board considers relevant. These factors are, in turn, subject to various risks, including the risk factors set out above. While the Company aims to pay a consistent dividend and may increase the dividend over time, the Company's Board may in certain circumstances determine that it is in the best interests of the Company to reduce or suspend the dividend. In such event, the trading price of the Common Shares of the Company may be materially affected.

Private or Public Equity Investments in Technology Companies

In addition to the Company's development activities, the Company has invested approximately $40 million in NanoXplore Inc. and other technology companies. Such investments are an important element of the Company's long-term strategy and the Company may make further private equity investments in such companies. Investing in such companies involves a high degree of risk, including the potential loss of some or all of the investment value. In addition, where there is no public market for the shares of the investments in start-ups, the Company may be unable to monetize its equity investments in the future. The materialization of such investment-related risks could have an adverse effect on our profitability and financial condition.

Joint Ventures

The Company has in the past and may from time to time conduct certain of its operations through joint ventures under contractual arrangements under which it shares management responsibilities with one or more partners. Certain of the Company's future cash flows and earnings and its results of operations and financial condition may in part depend on the Company retaining its ownership interests in its joint venture investments. Joint venture operations carry a range of risks, including those relating to: failure of a joint venture partner to satisfy contractual obligations; potential conflicts between the Company and the joint venture partner; strategic objectives of joint venture partner(s) that may differ from the Company's; potential delays in decision-making; a more limited ability to control legal and regulatory compliance within the joint venture(s); and other risks inherent to non-wholly-owned operations. The likelihood of such occurrences and potential effect on the Company may vary depending on the joint venture arrangement; however, the occurrence of any such risks could have an adverse effect on the Company's operations, profitability and reputation;

Lease Obligations

The Company leases much of its manufacturing facilities and some of its capital equipment. A failure to pay the Company's lease obligations may constitute a default allowing the applicable landlord or lessor to pursue remedies available to it under the Company's leases and applicable law, which could include taking possession of property that the Company utilizes in its business resulting in the Company's failure to supply customers and, in the case of facility leases, evicting the Company, which could have a material adverse effect on the Company's business, financial condition and results of operations. The terms and restrictions of certain of the Company's facilities leases, may present significant challenges and costs to the Company if it were to attempt to restructure or downsize its business, including the inability to sublease any of the leased premises or relocate certain of its manufacturing facilities.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 4, 2021, the Company had 80,294,095 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at March 4, 2021, options to acquire 2,777,500 common shares were outstanding.

During 2018, the Company received approval from the Toronto Stock Exchange ("TSX") to acquire for cancellation, by way of normal course issuer bid ("NCIB"), up to 4,348,479 common shares of the Company. The bid commenced on August 31, 2018 and spanned a 12-month period.

During 2018, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 2,150,400 common shares for an aggregate purchase price of $25.5 million, resulting in a decrease to stated capital of $17.7 million and a decrease to retained earnings of $7.8 million. The shares were purchased and cancelled directly under the NCIB.

At the end of 2018, the Company entered into an Automatic Share Repurchase Program ("ASRP") with a broker that allowed the purchase of common shares for cancellation under the NCIB at any time during the predetermined trading blackout period. As at December 31, 2018, an obligation for the repurchase of 2,198,079 common shares under the ASRP was recognized in trade and other payables. During the three months ended March 31, 2019, the Company purchased the 2,198,079 common shares under the ASRP for an aggregate purchase price of $26.3 million, resulting in a decrease to stated capital of $18.1 million and a decrease to retained earnings of $8.2 million. The shares were purchased and cancelled directly under the NCIB.

During the third quarter of 2019, the Company renewed the NCIB receiving approval from the TSX to acquire for cancellation, up to an additional 8,000,000 common shares of the Company. The renewed bid commenced on August 31, 2019 and spanned a 12-month period.

During the third and fourth quarters of 2019, the Company purchased for cancellation an aggregate of 2,600,025 common shares for an aggregate purchase price of $31.5 million, resulting in a decrease to stated capital of $21.4 million and a decrease to retained earnings of $10.1 million. The shares were purchased for cancellation directly under the NCIB.

During the first quarter of 2020, the Company purchased for cancellation an aggregate of 300,185 common shares for an aggregate purchase price of $3.4 million, resulting in a decrease to stated capital of $2.5 million and a decrease to retained earnings of $0.9 million. The shares were purchased for cancellation directly under the NCIB.

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

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

At December 31, 2020, the Company had contractual obligations requiring annual payments as follows (all figures in thousands):

	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Thereafter	Total
Purchase obligations (i)	$356,817	$3,895	$563	$52	$24	-	$361,351
Long-term debt	$19,492	$796,377	$10,757	$4,988	$3,608	-	$835,222
Contractual lease obligations	$40,072	$33,807	$29,972	$24,687	$23,249	$75,139	$226,926
Total Contractual obligations	$416,381	$834,079	$41,292	$29,727	$26,881	$75,139	$1,423,499

(i) Purchase obligations consist of those related to inventory, services, tooling and fixed assets in the ordinary course of business.

Guarantees

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool 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 tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At December 31, 2020, the amount of the off balance sheet program financing was $42.8 million (2019 - $22.2 million) 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 obligation 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 a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically range up to twenty-four months.

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 forecasted 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.

Financial Instruments

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. It is the Company's policy to not utilize financial instruments for trading or speculative purposes.

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

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

Currency		**Amount of U.S. dollars**	**Weighted average exchange rate of U.S. dollars**	**Maximum period in months**
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 $0.6 million and was recorded in trade and other receivables (December 31, 2019 – pre-tax gain of $0.4 million recorded in trade and other receivables).

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

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

The aggregate value of these forward contracts as at December 31, 2020 was a pre-tax gain of $1.8 million and was recorded in trade and other receivables (December 31, 2019 – pre-tax loss of $0.8 million recorded in trade and other payables).

INVESTMENTS

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 $4.3 million 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 $1.9 million. 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 $1.9 million, 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 $6.6 million 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 $5.9 million.

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 $5.0 million.

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 $10.0 million of convertible unsecured 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 $0.9 million.

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 in NanoXplore is $142.7 million.

The warrants in NanoXplore represented derivative instruments and were 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 $0.3 million 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 $0.0. 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 $46.0 million. 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 gross proceeds of $4.0 million. Subsequent to these transactions, the Company's ownership interest decreased to 22.2%.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures are designed to provide reasonable assurance that material information required to be publicly disclosed by a public company is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), on a timely basis so that appropriate decisions can be made regarding public disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures was conducted as of December 31, 2020, based on the criteria set forth in the Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") by and under the supervision of the Company's management, including the CEO and the CFO. Based on this evaluation, the CEO and the CFO have concluded that the Company's disclosure controls and procedures (as defined in National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings of the Canadian Securities Administrators) are effective in providing reasonable assurance that material information relating to the Company is made known to them and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in such legislation.

Under the supervision of the CEO and CFO, the Company has designed internal controls over financial reporting (as defined in National Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company's management team used COSO to design the Company's internal controls over financial reporting.

The CEO and CFO have caused an evaluation of the effectiveness of the Company's internal controls over financial reporting as of December 31, 2020. This evaluation included documentation activities, management inquiries, tests of controls and other reviews as deemed appropriate by management in consideration of the size and nature of the Company's business including those matters described above. Based on that evaluation the CEO and the CFO concluded that the design and operating effectiveness of internal controls over financial reporting was effective as at December 31, 2020 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

It is important to understand that there are inherent limitations of internal controls as stated within COSO. Internal controls no matter how well designed and operated can only provide reasonable assurance to management and the Board of Directors regarding achievement of an entity's objectives. A system of controls, no matter how well designed, has inherent limitations, including the possibility of human error and the circumvention or overriding of the controls or procedures. As a result, there is no certainty that an organization's disclosure controls and procedures or internal control over financial reporting will prevent all errors or all fraud. Even disclosure controls and procedures and internal control over financial reporting determined to be effective can only provide reasonable assurance of achieving their control objectives.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

Subject to the limitation in the following paragraph, there have been no changes in the Company's internal controls over financial reporting during the year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa. 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 housings 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 added 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.

In accordance with National Instrument 52-109 3.3(1)(b), management has limited its design of its disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of the acquired operations from Metalsa, which was acquired within 365 days before the end of the recent financial report. The acquired operations contributed incremental sales of $303.4 million, and an operating loss of $21.3 million, for the year ended December 31, 2020. In addition, the acquired business constitutes $44.6 million, $63.5 million and $13.2 million of the Company's working capital (including cash), non-current assets and non-current liabilities as at December 31, 2020, respectively.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. The discussion below describes the Company's significant policies and procedures for the year ended December 31, 2020.

The Company's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. On an ongoing basis, management evaluates these estimates. However, actual results may differ from these estimates under different assumptions or conditions. In making and evaluating its estimates, management also considers economic conditions generally and in the automotive industry in particular, which have more recently been very different from historical patterns, as well as industry trends and the risks and uncertainties involved in its business that could materially affect the reported amounts of assets, liabilities, revenue and expenses that are not readily apparent from other sources. See "Automotive Industry Highlights and Trends" in the Company's AIF and "Risks and Uncertainties" above.

Management believes that the accounting estimates discussed below are critical to the Company's business operations and an understanding of its results of operations or may involve additional management judgment due to the sensitivity of the methods and assumptions necessary in determining the related asset, liability, revenue and expense amounts. Management has discussed the development and selection of the following critical accounting estimates with the Audit Committee of the Board of Directors and the Audit Committee has reviewed its disclosure relating to critical accounting estimates in this MD&A.

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 cash-generating unit ("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 of CGU. 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 other assets in the unit.

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.

Management believes that accounting estimates related to the impairment of non-financial assets and potential reversal are critical accounting estimates because: (i) they are subject to significant measurement uncertainty and are susceptible to change as management is required to make forward-looking assumptions regarding the impact of improvement plans on current operations, in-sourcing and other new business opportunities, program price and cost assumptions on current and future business, the timing of new program launches and future forecasted production volumes; and (ii) any resulting impairment loss could have a material impact on consolidated net income (loss) and on the amount of assets reported on the Company's consolidated balance sheet.

Income Tax Estimates

The Company is subject to income taxes in numerous jurisdictions where it has foreign operations. Significant judgment is required in determining the worldwide provision for income taxes. 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.

The Company is required to estimate the tax basis of assets and liabilities. The assessment for the recognition of a deferred tax asset requires significant judgment. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period of changes. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the Company may materially affect the consolidated financial statements.

At December 31, 2020, the Company had recorded a net deferred income tax asset in respect of pensions and other post-retirement benefits, loss carry-forwards and other temporary differences of $109.4 million (2019 - $82.6 million). Deferred tax assets in respect of loss carry-forwards relate to legal entities in Canada, the United States, Mexico and Europe. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that 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.

The factors used to assess the probability of realization are the Company's forecast of future taxable income, the pattern and timing of reversals of taxable temporary differences that give rise to deferred tax liabilities and available tax planning strategies that could be implemented to realize the deferred tax assets. The Company has and continues to use tax planning strategies to realize deferred tax assets in order to avoid the potential loss of benefits.

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.

Revenue and cost of sales from tooling contracts are presented on a gross basis in the consolidated statements of operations. 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. In the case of tooling work in progress inventory that is internally developed, cost includes directly attributable labour as well as overhead. 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. Judgment is required in determining the appropriateness of costs included in tooling work in progress inventory. 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 forecasted loss on a contract include, amongst others, cost overruns, non-reimbursable costs, change orders and potential price changes.

Employee Future Benefits

The Company provides pensions and other post-employment benefits including health care, dental care and life insurance to certain employees. The determination of the obligation and expense for defined benefit pension plans and post-employment benefits is dependent on the selection of certain assumptions used by the Company's actuaries in calculating such amounts. Those assumptions are disclosed in Note 15 to the Company's consolidated financial statements for the year ended December 31, 2020 the most significant of which are the discount rate, and the rate of increase in the cost of health care. The assumptions are reviewed annually and the impact of any changes in the assumptions is reflected in actuarial gains or losses which are recognized in other comprehensive income (loss) as they arise. The significant actuarial assumptions adopted are internally consistent and reflect the long-term nature of employee future benefits. Significant changes in assumptions could materially affect the Company's employee benefit obligations and future expense.

Intangible Assets

The Company's intangible assets are comprised of customer contracts and relationships acquired in acquisitions and development costs.

Customer contracts and relationships are amortized over their estimated economic life of up to 10 years on a straight line basis, which approximates a basis consistent with the contract value initially established upon acquisition.

Development costs are capitalized when the Company can demonstrate that:

- it has the intention and the technical and financial resources to complete the development;
- the intangible asset will generate future economic benefits; and
- the cost of the intangible asset can be measured reliably.

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, including costs of market research and new product prototyping during the marketing stage, is recognized in profit or loss when incurred.

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 three months and year ended December 31, 2020, the Company had recognized $0.2 million and $20.3 million, respectively, related to inactive employees in both Germany and Canada, and $2.1 million and $19.5 million, respectively, 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 $2.0 million and $0.3 million, respectively, for the three months ended December 31, 2020, and $35.1 million and $4.7 million, respectively, for the year ended December 31, 2020.

Selected Annual Information

The following table sets forth selected information from the Company's consolidated financial statements for the years ended December 31, 2020, December 31, 2019 and December 31, 2018.

		2020		2019		2018
Sales	$	3,375,286	$	3,863,659	$	3,662,900
Gross Margin		415,097		586,101		556,161
Operating Income		27,538		265,837		276,472
Net Income (Loss) for the year		(27,317)		181,221		185,883
Net Earnings (Loss) per Share - Basic	$	(0.34)	$	2.20	$	2.15
Net Earnings (Loss) per Share - Diluted	$	(0.34)	$	2.19	$	2.14
Non-IFRS Measures*						
Adjusted Operating Income	$	123,980	$	288,305	$	283,981
% of Sales		3.7%		7.5%		7.8%
Adjusted EBITDA		365,503		504,555		461,223
% of Sales		10.8%		13.1%		12.6%
Adjusted Net Income	$	46,856	$	187,687	$	193,166
Adjusted Net Earnings per Share - Basic	$	0.58	$	2.28	$	2.23
Adjusted Net Earnings per Share - Diluted	$	0.58	,	2.27	$	2.22
Total Assets	$	3,368,403	$	3,094,295	$	2,913,811
Cash and Cash Equivalents	$	152,786	$	118,973	$	70,162
Total Interest Bearing Debt	$	835,222	$	781,573	$	740,717
Dividends Declared	$	16,030	$	14,738	$	14,213

The year-over-year trends in the selected information above have been discussed previously in this MD&A, as well as the MD&A from December 31, 2019, including the unusual items in Table B under "Adjustments to Net Income".

***Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA", "Free Cash Flow" and "Net Debt". Refer to page 5 of this MD&A for a full reconciliation of the Non-IFRS measures for the years ended December 31, 2020 and 2019 and the Company's MD&A for the year ended December 31, 2019, as previously filed and available at www.sedar.com, for a full reconciliation of the Non-IFRS measures for the year ended December 31, 2018.

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including those related to the Company's expectations as to, or its views, or beliefs in or on, the expected impact of or duration of the COVID-19 pandemic, or as a result of any current or future government actions or regulations, on the Company's financial position, its business and operations, on its employees, on the automotive industry, or on the business of any OEM or suppliers; the Company's current and future strategy, priorities and response related to COVID-19, and the status of implementation; the expected economic impact resulting from COVID-19, the type of factors affecting the economic impact; the potential effects or issues relating to a prolonged pandemic or lockdown(s), including the financial impact on the Company, its business or operations and global impact, demand for vehicles, the growth of the Company and pursuit of, and belief in, its strategies, the ramping up and launching of new business, continued investments in its business and technologies, the opportunity to increase sales, its ability to finance future capital expenditures, and ability to fund anticipated working capital needs, debt obligations and other commitments, the Company's views on its liquidity and operating cash flow and ability to deal with present or future economic conditions, the potential for fluctuation of operating results, the likelihood of tooling supplier default under tooling guarantee programs and using the tools as collateral, and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, such as expected sales and industry production estimates, current foreign exchange rates, timing of product launches and operational improvement during the period, and current Board approved budgets. Certain forward-looking financial assumptions are presented as non-IFRS information and we do not provide reconciliation to IFRS for such assumptions. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's AIF for the year ended December 31, 2020 and other public filings which can be found at www.sedar.com:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- The highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political Unrest, and Other Outbreaks
- The Company's dependence on key customers
- Financial Viability of Suppliers;
- Competition;
- The increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Increased pricing of raw materials and commodities;
- Outsourcing and Insourcing Trends;
- The risk of increased costs associated with product warranty liability and recalls together with the associated liability;
- Product Development and Technological Change;
- Dependence on Key Personnel;
- Availability of Consumer Credit or Cost of Borrowing;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;
- Risks associated with the integration of acquisitions;
- Potential Tax Exposures;
- Cybersecurity Threats;
- Costs associated with rationalization of production facilities;
- Launch and Operational Cost Structure;
- Labour Relations Matters;
- Trade Restrictions;
- Changes in Governmental Regulations;
- Litigation and Regulatory Compliance and Investigations;
- Quote/Pricing Assumptions;
- Currency Risk - Hedging;
- Currency Risk – Competitiveness in Certain Jurisdictions;
- Fluctuations in Operating Results;
- Internal Controls Over Financial Reporting and Disclosure Controls and Procedures;
- Environmental Regulation and Climate Change;
- Loss of Use of Key Manufacturing Facilities;
- A Shift Away from Technologies in Which the Company is Investing;
- Intellectual Property;
- Competition with Low Cost Countries;
- The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets;
- Risks of conducting business in foreign countries, including China, Brazil and other markets;
- Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates;
- The risks associated with Pension Plan and Other Post Employment Benefits
- Impairment Charges;
- Potential Volatility of Share Prices;
- Dividends;
- Risks associated with private or public investment in technology companies;
- Risks associated with joint ventures;
- Lease Obligations.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.