MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS

FOR THE FIRST QUARTER ENDING MARCH 31, 2022

FIRST QUARTER REPORT

March 31, 2022

MESSAGE TO SHAREHOLDERS

The Company's first quarter revenues were up 15.8% year-over-year, as reflected in the attached materials, and we had a good quarter overall. Our Company continues to improve, driving our One Martinrea culture. Our financial position remains very strong and our future is bright.

We thank you for your ongoing support as we work hard to build our company and your company.

(Signed) *"Rob Wildeboer"*

Rob Wildeboer
Executive Chairman

PRESS RELEASE

FOR IMMEDIATE RELEASE
May 5, 2022

MARTINREA INTERNATIONAL INC. REPORTS FIRST-QUARTER RESULTS AND DECLARES DIVIDEND

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems, today announced the release of its financial results for the first quarter ended March 31, 2022 and that it has declared a quarterly cash dividend of $0.05 per share.

HIGHLIGHTS

- Total sales of $1,155.0 million, up 15.8% year-over-year; production sales of $1,102.4 million, up 19.3% year-over-year
- First quarter diluted net earnings per share and Adjusted Net Earnings per Share(1) of $0.31
- First quarter Adjusted EBITDA(1) of $112.4 million, up 2.3% year-over-year, and up 77.8% sequentially over Q4 2021
- First quarter results continued to be impacted by cost inflation, new program launches, and production disruptions
- Results were much improved sequentially over Q3 and Q4 of 2021, as we witnessed a lower level of semiconductor-related production shutdowns and customer call-offs during the quarter
- We remain confident in our 2023 outlook, including our expectation of over $200 million in Free Cash Flow(1)
- Our net-debt-to-Adjusted EBITDA(1) ratio was 3.31x. For bank covenant purposes, the net-debt-to-Adjusted EBITDA(1) ratio was 2.43x; this calculation excludes third and fourth quarter Adjusted EBITDA(1) with the remaining quarters pro-rated, as per our amended lending agreement with our banking syndicate
- Quarterly cash dividend of $0.05 declared

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "Our first-quarter performance was much improved over the third and fourth quarters of 2021. Volume and mix were more favourable to start the year, as we witnessed a lower level of semiconductor-related shutdowns and customer call-offs with key Martinrea programs, including the Chevrolet Equinox and Sierra and Silverado pickup truck platforms posting higher production numbers during the quarter. We continue to experience production disruptions with some customers, as well as persistent inflationary cost pressures, with rising energy prices in Europe being the most pervasive. We also continue to work through the heaviest period of

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[1] 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, included anywhere in this press release, 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 relevant IFRS financial measure, as applicable, and a reconciliation of certain non-IFRS financial measures to measures determined in accordance with IFRS are contained in the Company's Management Discussion and Analysis for the three months ended March 31, 2022 and in this press release.

new business launch activity in the Company's history. These factors continue to keep margins below their long-run potential – based on history, and on what we believe our operations can achieve. The good news is, we are off to a good start in 2022 as our first quarter performance demonstrates. While uncertainties persist, results in the back half of the year should demonstrate steady improvement over the first half, as supply chain conditions improve, inflationary costs either normalize or are recovered through commercial negotiations, or some combination thereof, and our launch activity recedes to normal levels. We believe this will set the stage for a multi-year period of strong production volumes, with our plants running at full capacity, as industry demand is unwavering. As such, we remain confident in our ability to meet our 2023 outlook, which calls for production sales (excluding tooling sales) of $4.6 to $4.8 billion, an Adjusted Operating Income Margin(1) exceeding 8%, and over $200 million in Free Cash Flow(1)."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the first quarter, excluding tooling sales of $52.6 million, were $1,102.4 million, and Adjusted Net Earnings per Share(1) was $0.31. Adjusted Operating Income of $44.3 million and Adjusted EBITDA of $112.4 million were generally consistent with year-ago levels, and up sharply over the third and fourth quarters of 2021. As expected, our results were much improved to start the year despite the fact that we continue to work through challenges, including supply chain-related production disruptions, input cost inflation, and higher than normal launch activity. Free Cash Flow(1) was negative during the quarter, reflecting the timing of working capital flows, which can be lumpy and unpredictable between quarters. Seasonality is also a factor, as we tend to harvest working capital in the fourth quarter while we tend to deploy it in the first quarter."

Rob Wildeboer, Executive Chairman, stated: "As we look at the current state of our industry, and the challenges we continue to face, including supply chain issues, erratic production schedules, cost inflation, and at a more macro level, geopolitical uncertainty with a major war in Ukraine, and the prospect of rising interest rates, we remind people of the resiliency our Company has demonstrated through past cycles. In our 20 years in the automotive parts industry, we lived through downturns brought about by the tragic events of September 11, 2001, the global financial crisis of 2008-2009, as well as the COVID-19 pandemic that resulted in the complete shutdown of our industry in early 2020, and its after-effects which continue to be felt today. In every case, we protected our balance sheet and employees, and emerged as a stronger company and a stronger competitor. Our resilience is a function of our entrepreneurial spirit, which encourages our people to think and act like owners with a stake in the business. It is a cornerstone of our culture along with Lean thinking and a Golden Rule philosophy of treating people the way we want to be treated. It is these principles that will enable us to navigate through the current set of challenges, as they have with all challenges we have faced in the past. And they are demonstrated by what I believe is a really solid start to the year."

RESULTS OF OPERATIONS

All amounts in this press release 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 Management Discussion and Analysis of Operating Results and Financial Position for the three months ended March 31, 2022 ("MD&A"), the Company's interim condensed consolidated financial statements for the first quarter ended March 31, 2022 (the "interim financial statements") and the Company's Annual Information Form for the year ended December 31, 2021 can be found at www.sedar.com.

OVERALL RESULTS

Results of operations may include certain items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to International Financial Reporting Standards ("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 table sets out certain highlights of the Company's performance for the three months ended March 31, 2022 and 2021. Refer to the Company's interim financial statements for the three months ended March 31, 2022 for a detailed account of the Company's performance for the periods presented in the table below.

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
Sales	$ 1,155,038	$ 997,150	157,888	15.8%
Gross Margin	122,436	120,857	1,579	1.3%
Operating Income	40,049	47,430	(7,381)	(15.6%)
Net Income for the period	25,208	38,701	(13,493)	(34.9%)
Net Earnings per Share - Basic and Diluted	$ 0.31	$ 0.48	(0.17)	(35.4%)
Non-IFRS Measures*				
Adjusted Operating Income	$ 44,286	$ 48,459	(4,173)	(8.6%)
% of Sales	*3.8 %*	*4.9 %*		
Adjusted EBITDA	112,379	109,815	2,564	2.3%
% of Sales	*9.7 %*	*11.0 %*		
Adjusted Net Income	24,842	32,631	(7,789)	(23.9%)
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.31	$ 0.41	(0.10)	(24.4%)

***Non-IFRS Measures**

The Company prepares its interim financial statements in accordance with 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" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA".

	Three months ended March 31, 2022	Three months ended March 31, 2021
Net Income	$ 25,208	$ 38,701
Adjustments, after tax*	(366)	(6,070)
Adjusted Net Income	$ 24,842	$ 32,631

**Adjustments are explained in the "Adjustments to Net Income" section of this Press Release*

	Three months ended March 31, 2022	Three months ended March 31, 2021
Net Income	$ 25,208	$ 38,701
Income tax expense	8,220	12,954
Other finance expense (income)	316	(5,762)
Share of loss of equity investments	1,101	926
Finance expense	9,254	8,411
Adjustments, before tax*	187	(6,771)
Adjusted Operating Income	$ 44,286	$ 48,459
Depreciation of property, plant and equipment and right-of-use assets	65,372	58,058
Amortization of intangible assets	2,721	3,298
Adjusted EBITDA	$ 112,379	$ 109,815

**Adjustments are explained in the "Adjustments to Net Income" section of this Press Release*

SALES

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
North America	$ 859,700	$ 704,130	155,570	22.1%
Europe	261,462	254,069	7,393	2.9%
Rest of the World	39,753	46,513	(6,760)	(14.5%)
Eliminations	(5,877)	(7,562)	1,685	22.3%
Total Sales	$ 1,155,038	$ 997,150	157,888	15.8%

The Company's consolidated sales for the first quarter of 2022 increased by $157.9 million or 15.8% to $1,155.0 million as compared to $997.2 million for the first quarter of 2021. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a year-over-year decrease in the Rest of the World.

Sales for the first quarter of 2022 in the Company's North America operating segment increased by $155.6 million or 22.1% to $859.7 million from $704.1 million for the first quarter of 2021. The increase was due generally to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; and the launch and ramp up of new programs during or subsequent to the first quarter of 2021, including the new Jeep Grand Cherokee and Wagoneer, Nissan Pathfinder, Ford Mustang Mach E, and other pure electric vehicle platforms with Lucid Motors and Tesla. These positive factors were partially offset by a decrease in tooling sales of $22.9 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer; 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 first quarter of 2022 of $3.7 million as compared to the first quarter of 2021.

Sales for the first quarter of 2022 in the Company's Europe operating segment increased by $7.4 million or 2.9% to $261.5 million from $254.1 million for the first quarter of 2021. The increase can be attributed to the launch of new programs during or subsequent to the first quarter of 2021, mainly with Lucid Motors, Daimler, and Volvo; the impact of aluminum material passthrough on customer pricing; and a $2.7 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the first quarter of 2022 of $18.6 million as compared to the first quarter of 2021; and overall lower OEM light vehicle production volumes, which decreased in Europe by approximately 14% year-over-year, primarily as a result of the industry-wide shortage of semiconductor chips and other supply chain disruptions.

Sales for the first quarter of 2022 in the Company's Rest of the World operating segment decreased by $6.8 million or 14.5% to $39.8 million from $46.5 million in the first quarter of 2021. The decrease was largely driven by lower year-over-year production volumes, including a program that came with the operations acquired from Metalsa that ended production during or subsequent to the first quarter of 2021; and a $0.3 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the first quarter of 2021, namely with Geely; and a $0.1 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the first quarter of 2021.

Overall tooling sales decreased by $20.5 million to $52.6 million for the first quarter of 2022 from $73.1 million for the first quarter of 2021.

GROSS MARGIN

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
Gross margin	$ 122,436	$ 120,857	1,579	1.3 %
% of Sales	10.6 %	12.1 %		

The gross margin percentage for the first quarter of 2022 of 10.6% decreased as a percentage of sales by 1.5% as compared to the gross margin percentage for the first quarter of 2021 of 12.1%. The decrease in gross margin as a percentage of sales was generally due to:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs;
- production inefficiencies related to the semiconductor chip shortage driven by the unpredictability of customer production schedules; and
- a decrease in COVID-related government subsidies.

These factors were partially offset by:

- overall higher production sales volume and corresponding higher utilization of assets;
- favourable commercial settlements;
- productivity and efficiency improvements at certain operating facilities; and
- a decrease in tooling sales which typically earn low margins for the Company.

ADJUSTMENTS TO INCOME

Adjusted Net Income excludes certain items as set out in the following table and described in the notes thereto. Management uses Adjusted Net Income 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 March 31, 2022 to three months ended March 31, 2021 comparison

		Three months ended March 31, 2022		Three months ended March 31, 2021		$ Change
NET INCOME	**$**	**25,208**	**$**	**38,701**	**$**	**(13,493)**
Adjustments:						
Restructuring costs (1)		4,237		1,029		3,208
Gain on dilution of equity investments (2)		(4,050)		(7,800)		3,750
ADJUSTMENTS, BEFORE TAX	**$**	**187**	**$**	**(6,771)**	**$**	**6,958**
Tax impact of above items		(553)		701		(1,254)
ADJUSTMENTS, AFTER TAX	**$**	**(366)**	**$**	**(6,070)**	**$**	**5,704**
ADJUSTED NET INCOME	**$**	**24,842**	**$**	**32,631**	**$**	**(7,789)**
Number of Shares Outstanding – Basic (‘000)		80,367		80,296		
Adjusted Basic Net Earnings Per Share	$	0.31	$	0.41		
Number of Shares Outstanding – Diluted (‘000)		80,370		80,533		
Adjusted Diluted Net Earnings Per Share	$	0.31	$	0.41		

(1) Restructuring costs

Additions to the restructuring provision during the first quarter of 2022 totaled $4.2 million and represent employee-related severance resulting from the rightsizing of operations in Canada related to the cancellation of an OEM light vehicle platform well before the end of its expected life cycle.

Additions to the restructuring provision during the first quarter of 2021 totaled $1.0 million and represent employee-related severance resulting from the rightsizing of an operating facility in Germany.

(2) Gain on dilution of equity investments

As at December 31, 2021, the Company held 35,045,954 common shares of NanoXplore Inc. (“NanoXplore”) representing a 22.2% equity interest in NanoXplore (on a non-diluted basis). On February 24, 2022, NanoXplore closed a bought deal public offering of 6,522,000 common shares from treasury at a price of $4.60 per common share for aggregate gross proceeds of $30.0 million. Upon finalization of the transaction, the Company’s net ownership interest decreased to 21.2% from 22.2%. This dilution resulted in a deemed disposition of a portion of the Company’s ownership interest in NanoXplore, resulting in a gain on dilution of $4.1 million during the first quarter of 2022.

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). 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 consideration of $4.0 million. Subsequent to these transactions, the Company's net ownership interest decreased to 22.2% from 23.3%. This dilution resulted in a deemed disposition of a portion of the Company’s ownership interest in NanoXplore, resulting in a gain on dilution of $7.8 million during the first quarter of 2021.

NET INCOME

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
Net Income	$ 25,208	$ 38,701	(13,493)	(34.9%)
Adjusted Net Income	24,842	$ 32,631	(7,789)	(23.9%)
Net Earnings per Share				
Basic and Diluted	$ 0.31	$ 0.48		
Adjusted Net Earnings per Share				
Basic and Diluted	$ 0.31	$ 0.41		

Net Income, before adjustments, for the first quarter of 2022 decreased by $13.5 million to $25.2 million or $0.31 per share, on a basic and diluted basis, from a Net Income of $38.7 million or $0.48 per share, on a basic and diluted basis, for the first quarter of 2021. Excluding the adjustments explained in Table A under "Adjustments to Net Income", Adjusted Net Income for the first quarter of 2022 decreased by $7.8 million to $24.8 million or $0.31 per share, on a basic and diluted basis, from $32.6 million or $0.41 per share, on a basic and diluted basis, for the first quarter of 2021.

Adjusted Net Income for the first quarter of 2022, as compared to the first quarter of 2021, was negatively impacted by the following:

- a net foreign exchange loss of $0.3 million for the first quarter of 2022 compared to a gain of $5.3 million for the first quarter of 2021;
- a year-over-year increase in SG&A expense, as previously discussed; and
- a year-over-year increase in research and development costs.

These factors were partially offset by a slightly higher gross margin on higher year-over-year sales volume, as previously explained.

DIVIDEND

A cash dividend of $0.05 per share has been declared by the Board of Directors payable to shareholders of record on June 30, 2022, on or about July 15, 2022.

ABOUT MARTINREA INTERNATIONAL INC.

Martinrea 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 operates in 57 locations in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain, China, South Africa and Japan. Martinrea's vision is making lives better by being the best supplier we can be in the products we make and the services we provide. For more information on Martinrea, please visit www.martinrea.com. Follow Martinrea on Twitter and Facebook.

CONFERENCE CALL DETAILS

A conference call to discuss the financial results will be held on Thursday, May 5, 2022 at 5:30 p.m. Eastern Time. To participate, please dial 416-641-6104 (Toronto area) or 800-952-5114 (toll free Canada and US) and enter participant code 8174433#. Please call 10 minutes prior to the start of the conference call.

The webcast and accompanying presentation can be accessed at: https://www.martinrea.com/investor-relations/events-presentations/

There will also be a rebroadcast of the call available by dialing 905-694-9451 or toll free 800-408-3053 (Conference ID – 8602412#). The rebroadcast will be available until June 5, 2022.

If you have any teleconferencing questions, please call Ganesh Iyer at 416-749-0314.

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This Press Release and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the growth or expectations of, improvements in, expansion of and/or guidance or outlook (including for 2022 and 2023) as to future results, revenue, sales, margin, gross margin, earnings, and earnings per share, adjusted earnings per share, free cash flow, volumes, adjusted net earnings per share, operating income margins, operating margins, adjusted operating income margins; the expected impact of or duration of the COVID-19 pandemic (including the related global semi-conductor chip shortage, and supply chain issues), the growth of the Company and pursuit of, and belief in, its strategies, its long-term potential growth and continued improvement in results; the strength, recovery and growth of the automotive industry and continuing challenges (including supply chain, energy, inflation, erratic production schedules), 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. 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 Annual Information Form for the year ended December 31, 2021, the Company’s MD&A for the year ended December 31, 2021 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;
- Automotive Industry Risks;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political and Civil Unrest, and Other Outbreaks;
- Dependence Upon Key Customers;
- Financial Viability of Suppliers and Key Suppliers and Supply Disruptions;
- Competition;
- Cost and Risk Absorption and Purchase Orders, including the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Quote/Pricing Assumptions;
- Increased pricing of raw materials and commodities;
- Launch and Operational Costs and Cost Structure;
- Material Prices and Volatility;
- Fluctuations in Operating Results;
- Outsourcing and Insourcing Trends;
- Product Warranty, Recall, Product Liability and Liability Risk;
- Product Development and Technological Change;
- A Shift Away from Technologies in Which the Company is Investing;
- Dependence Upon Key Personnel;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;
- Cybersecurity Threats;
- Acquisitions;
- Potential Tax Exposures;
- Potential Rationalization Costs, Turnaround Costs and Impairment Charges;
- Labour Relations Matters;
- Trade Restrictions;

- Changes in Laws and Governmental Regulations;
- Environmental Regulation and Climate Change;
- Litigation and Regulatory Compliance and Investigations;
- Risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- Currency Risk – Hedging;
- Currency Risk - Competitiveness in Certain Jurisdictions;
- Internal Controls Over Financial Reporting and Disclosure Controls and Procedures;
- Loss of Use of Key Manufacturing Facilities;
- Intellectual Property;
- Availability of Consumer Credit or Cost of Borrowing;
- Competition with Low Cost Countries;
- The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets;
- Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates;
- Pension Plans and other post employment benefits;
- Potential Volatility of Share Prices;
- Dividends;
- Private or Public Equity Investments in Technology Companies;
- Joint Ventures; and
- 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.

The common shares of Martinrea trade on The Toronto Stock Exchange under the symbol "MRE".

For further information, please contact:

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MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the three months ended March 31, 2022

The following management discussion and analysis ("MD&A") was prepared as of May 5, 2022 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three months ended March 31, 2022 ("interim financial statements"), as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2021, 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, 2021, 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 over 16,000 skilled and motivated people in 57 locations (including sales and engineering centres) in Canada, the United States, Mexico, Brazil, Germany, Spain, South Africa, Slovakia, China, and Japan.

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, SEMICONDUCTOR CHIP SHORTAGE AND OTHER SUPPLY CHAIN ISSUES

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.

Despite increasing vaccination levels, the development and spread of highly transmissible COVID-19 variants creates continued risk of further disruptions to the automotive industry. The ultimate business and economic impacts of COVID-19 will depend on various factors, including the possibility of future shutdowns; the rate at which economic conditions and operations return to pre-COVID levels; any continued or future governmental orders or lockdowns (including due to any future wave of COVID-19); the potential for a recession in key markets due to the effect of the pandemic; and the impact on customers and suppliers, including inflationary cost increases for wages, materials, energy, and other costs, as overall economic activity rebounds, and the industry-wide shortage of semiconductor chips resulting from the COVID-19 pandemic, which has had a negative impact on OEM light vehicle production levels globally, or any other supply chain disruptions, further exacerbated by the recent conflict in Europe between Russia and Ukraine.

OEM customers have taken a number of actions in response to the semiconductor chip shortage and other supply chain disruptions, such as: unplanned shutdowns of production lines and/or plants; reductions in their vehicle production plans; and changes to their product mix. Such OEM responses have resulted in a number of consequences for Tier 1 suppliers like Martinrea, including: lower sales; production inefficiencies due to production lines being stopped/restarted unexpectedly based on OEMs' production priorities; and premium freight costs to expedite shipments. Additionally, Tier 1 suppliers have faced price increases from sub-suppliers that have been negatively impacted by production inefficiencies and/or other costs related to the semiconductor chip shortage and other supply chain issues. While the Company experienced some recovery in production volumes during the first quarter of 2022, it remains unclear when supply and demand for automotive semiconductor chips will rebalance and it continues to be difficult to predict the full impact of the chip shortage and any other supply chain disruptions.

The Company expects to be able to continue to respond to the COVID-19 pandemic, semiconductor chip shortage, and other supply chain issues in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position.

OVERALL RESULTS

Results of operations may include certain items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to International Financial Reporting Standards ("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.

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Sales	$	1,155,038	$	997,150	157,888	15.8%
Gross Margin		122,436		120,857	1,579	1.3%
Operating Income		40,049		47,430	(7,381)	(15.6%)
Net Income for the period		25,208		38,701	(13,493)	(34.9%)
Net Earnings per Share - Basic and Diluted	$	0.31	$	0.48	(0.17)	(35.4%)
Non-IFRS Measures*						
Adjusted Operating Income	$	44,286	$	48,459	(4,173)	(8.6%)
% of Sales		*3.8 %*		*4.9 %*		
Adjusted EBITDA		112,379		109,815	2,564	2.3%
% of Sales		*9.7 %*		*11.0 %*		
Adjusted Net Income		24,842		32,631	(7,789)	(23.9%)
Adjusted Net Earnings per Share - Basic and Diluted	$	0.31	$	0.41	(0.10)	(24.4%)

*Non-IFRS Measures

The Company prepares its interim financial statements in accordance with 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" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA".

		Three months ended March 31, 2022		Three months ended March 31, 2021
Net Income	$	25,208	$	38,701
Adjustments, after tax*		(366)		(6,070)
Adjusted Net Income	$	24,842	$	32,631

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

		Three months ended March 31, 2022		Three months ended March 31, 2021
Net Income	$	25,208	$	38,701
Income tax expense		8,220		12,954
Other finance expense (income)		316		(5,762)
Share of loss of equity investments		1,101		926
Finance expense		9,254		8,411
Adjustments, before tax*		187		(6,771)
Adjusted Operating Income	$	44,286	$	48,459
Depreciation of property, plant and equipment and right-of-use assets		65,372		58,058
Amortization of intangible assets		2,721		3,298
Adjusted EBITDA	$	112,379	$	109,815

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

SALES

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

		Three months ended March 31, 2022		Three months ended March 31, 2021	$ Change	% Change
North America	$	859,700	$	704,130	155,570	22.1%
Europe		261,462		254,069	7,393	2.9%
Rest of the World		39,753		46,513	(6,760)	(14.5%)
Eliminations		(5,877)		(7,562)	1,685	22.3%
Total Sales	$	1,155,038	$	997,150	157,888	15.8%

The Company’s consolidated sales for the first quarter of 2022 increased by $157.9 million or 15.8% to $1,155.0 million as compared to $997.2 million for the first quarter of 2021. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a year-over-year decrease in the Rest of the World.

Sales for the first quarter of 2022 in the Company’s North America operating segment increased by $155.6 million or 22.1% to $859.7 million from $704.1 million for the first quarter of 2021. The increase was due generally to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; and the launch and ramp up of new programs during or subsequent to the first quarter of 2021, including the new Jeep Grand Cherokee and Wagoneer, Nissan Pathfinder, Ford Mustang Mach E, and other pure electric vehicle platforms with Lucid Motors and Tesla. These positive factors were partially offset by a decrease in tooling sales of $22.9 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer; 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 first quarter of 2022 of $3.7 million as compared to the first quarter of 2021.

Sales for the first quarter of 2022 in the Company’s Europe operating segment increased by $7.4 million or 2.9% to $261.5 million from $254.1 million for the first quarter of 2021. The increase can be attributed to the launch of new programs during or subsequent to the first quarter of 2021, mainly with Lucid Motors, Daimler, and Volvo; the impact of aluminum material passthrough on customer pricing; and a $2.7 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the first quarter of 2022 of $18.6 million as compared to the first quarter of 2021; and overall lower OEM light vehicle production volumes, which decreased in Europe by approximately 14% year-over-year, primarily as a result of the industry-wide shortage of semiconductor chips and other supply chain disruptions.

Sales for the first quarter of 2022 in the Company’s Rest of the World operating segment decreased by $6.8 million or 14.5% to $39.8 million from $46.5 million in the first quarter of 2021. The decrease was largely driven by lower year-over-year production volumes, including a program that came with the operations acquired from Metalsa that ended production during or subsequent to the first quarter of 2021; and a $0.3 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the first quarter of 2021, namely with Geely; and a $0.1 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the first quarter of 2021.

Overall tooling sales decreased by $20.5 million to $52.6 million for the first quarter of 2022 from $73.1 million for the first quarter of 2021.

GROSS MARGIN

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
Gross margin	$ 122,436	$ 120,857	1,579	1.3 %
% of Sales	10.6 %	12.1 %		

The gross margin percentage for the first quarter of 2022 of 10.6% decreased as a percentage of sales by 1.5% as compared to the gross margin percentage for the first quarter of 2021 of 12.1%. The decrease in gross margin as a percentage of sales was generally due to:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs;
- production inefficiencies related to the semiconductor chip shortage driven by the unpredictability of customer production schedules; and
- a decrease in COVID-related government subsidies.

These factors were partially offset by:

- overall higher production sales volume and corresponding higher utilization of assets;
- favourable commercial settlements;
- productivity and efficiency improvements at certain operating facilities; and
- a decrease in tooling sales which typically earn low margins for the Company.

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

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
Selling, general & administrative	$ 65,323	$ 60,750	4,573	7.5 %
% of Sales	5.7 %	6.1 %		

SG&A expense for the first quarter of 2022 increased by $4.6 million to $65.3 million as compared to SG&A expense for the first quarter of 2021 of $60.8 million. The increase in SG&A expense can largely be attributed to overall higher employee levels and related costs as compared to the first quarter of 2021 as a result of overall higher volumes and general activity, an increase in travel and related costs as COVID-related restrictions loosen, and a lower net benefit from equity-based compensation related to deferred, restricted, and performance share units.

SG&A expense as a percentage of sales decreased to 5.7% for the first quarter of 2022 compared to 6.1% for the first quarter of 2021 in light of higher year-over-year sales.

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

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

		Three months ended March 31, 2022		Three months ended March 31, 2021	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$	61,657	$	54,219	7,438	13.7 %
Depreciation of PP&E and right-of-use assets (non-production)		3,715		3,839	(124)	(3.2)%
Amortization of development costs		2,721		3,298	(577)	(17.5%)
Total depreciation and amortization	$	68,093	$	61,356	6,737	11.0 %

Total depreciation and amortization expense for the first quarter of 2022 increased by $6.7 million to $68.1 million as compared to $61.4 million for the first quarter of 2021. The increase in depreciation and amortization expense 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 first quarter of 2021.

A significant portion of the Company’s recent investments relates to various new programs that commenced during or subsequent to the first quarter of 2021 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 assets (production) as a percentage of sales decreased slightly year-over-over to 5.3% for the first quarter of 2022 from 5.4% for the first quarter of 2021.

ADJUSTMENTS TO INCOME

Adjusted Net Income excludes certain items as set out in the following table and described in the notes thereto. Management uses Adjusted Net Income 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 March 31, 2022 to three months ended March 31, 2021 comparison

		Three months ended March 31, 2022		Three months ended March 31, 2021		$ Change
NET INCOME	**$**	**25,208**	**$**	**38,701**	**$**	**(13,493)**
Adjustments:						
Restructuring costs (1)		4,237		1,029		3,208
Gain on dilution of equity investments (2)		(4,050)		(7,800)		3,750
ADJUSTMENTS, BEFORE TAX	**$**	**187**	**$**	**(6,771)**	**$**	**6,958**
Tax impact of above items		(553)		701		(1,254)
ADJUSTMENTS, AFTER TAX	**$**	**(366)**	**$**	**(6,070)**	**$**	**5,704**
ADJUSTED NET INCOME	**$**	**24,842**	**$**	**32,631**	**$**	**(7,789)**
Number of Shares Outstanding – Basic (‘000)		80,367		80,296		
Adjusted Basic Net Earnings Per Share	$	0.31	$	0.41		
Number of Shares Outstanding – Diluted (‘000)		80,370		80,533		
Adjusted Diluted Net Earnings Per Share	$	0.31	$	0.41		

(1) Restructuring costs

Additions to the restructuring provision during the first quarter of 2022 totaled $4.2 million and represent employee-related severance resulting from the rightsizing of operations in Canada related to the cancellation of an OEM light vehicle platform well before the end of its expected life cycle.

Additions to the restructuring provision during the first quarter of 2021 totaled $1.0 million and represent employee-related severance resulting from the rightsizing of an operating facility in Germany.

(2) Gain on dilution of equity investments

As at December 31, 2021, the Company held 35,045,954 common shares of NanoXplore Inc. ("NanoXplore") representing a 22.2% equity interest in NanoXplore (on a non-diluted basis). On February 24, 2022, NanoXplore closed a bought deal public offering of 6,522,000 common shares from treasury at a price of $4.60 per common share for aggregate gross proceeds of $30.0 million. Upon finalization of the transaction, the Company's net ownership interest decreased to 21.2% from 22.2%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $4.1 million during the first quarter of 2022.

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). 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 consideration of $4.0 million. Subsequent to these transactions, the Company's net ownership interest decreased to 22.2% from 23.3%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $7.8 million during the first quarter of 2021.

NET INCOME

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

		Three months ended March 31, 2022		Three months ended March 31, 2021	$ Change	% Change
Net Income	$	25,208	$	38,701	(13,493)	(34.9%)
Adjusted Net Income		24,842	$	32,631	(7,789)	(23.9%)
Net Earnings per Share						
Basic and Diluted	$	0.31	$	0.48		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.31	$	0.41		

Net Income, before adjustments, for the first quarter of 2022 decreased by $13.5 million to $25.2 million or $0.31 per share, on a basic and diluted basis, from a Net Income of $38.7 million or $0.48 per share, on a basic and diluted basis, for the first quarter of 2021. Excluding the adjustments explained in Table A under "Adjustments to Net Income", Adjusted Net Income for the first quarter of 2022 decreased by $7.8 million to $24.8 million or $0.31 per share, on a basic and diluted basis, from $32.6 million or $0.41 per share, on a basic and diluted basis, for the first quarter of 2021.

Adjusted Net Income for the first quarter of 2022, as compared to the first quarter of 2021, was negatively impacted by the following:

- a net foreign exchange loss of $0.3 million for the first quarter of 2022 compared to a gain of $5.3 million for the first quarter of 2021;
- a year-over-year increase in SG&A expense, as previously discussed; and
- a year-over-year increase in research and development costs.

These factors were partially offset by a slightly higher gross margin on higher year-over-year sales volume, as previously explained.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended March 31, 2022 to three months ended March 31, 2021 comparison

		Three months ended March 31, 2022		Three months ended March 31, 2021	$ Change	% Change
Additions to PP&E	$	67,789	$	81,592	(13,803)	(16.9)%

Additions to PP&E decreased by $13.8 million to $67.8 million or 5.9% of sales for the first quarter of 2022 compared to $81.6 million or 8.2% of sales in the first quarter of 2021. General timing of expenditures makes quarterly additions to PP&E quite volatile in nature. Capital additions include new program capital and incremental investments required in equipment related to customer-driven engineering changes on new program launches. The Company continues to make investments in the business including in various sales and margin growth projects and in new and replacement business in all its various product offerings, while continuing to apply a measured and prudent approach to capital investment.

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 March 31, 2022 to three months ended March 31, 2021 comparison

	SALES				OPERATING INCOME (LOSS)*			
		Three months ended March 31, 2022		Three months ended March 31, 2021		Three months ended March 31, 2022		Three months ended March 31, 2021
North America	$	859,700	$	704,130	$	44,615	$	44,035
Europe		261,462		254,069		(592)		(342)
Rest of the World		39,753		46,513		263		4,766
Eliminations		(5,877)		(7,562)		—		—
Adjusted Operating Income		—		—	$	44,286	$	48,459
Adjustments*		—		—		(4,237)		(1,029)
Total	$	1,155,038	$	997,150	$	40,049	$	47,430

* *Operating Income (Loss) for the operating segments has been adjusted for certain items as explained in Table A under "Adjustments to Net Income". The $4.2 million adjustment for the first quarter of 2022 was recognized in North America. The $1.0 million adjustment for the first quarter of 2021 was recognized in Europe.*

North America

Adjusted Operating Income in North America increased by $0.6 million to $44.6 million or 5.2% of sales for the first quarter of 2022 from $44.0 million or 6.3% of sales for the first quarter of 2021. The decrease in Adjusted Operating Income as a percentage of sales was generally due to higher labour and material costs; operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; production inefficiencies related to the semiconductor chip shortage driven by the unpredictability of customer production schedules; and a decrease in COVID-related government subsidies. These negative factors were partially offset by overall higher production sales volume and corresponding higher utilization of assets; favourable commercial settlements; productivity and efficiency improvements at certain operating facilities; a decrease in tooling sales which typically earn low margins to the Company; and lower SG&A expense as a percentage of sales.

Europe

Adjusted Operating Loss in Europe increased by $0.3 million to a loss of $0.6 million or (0.2%) of sales for the first quarter of 2022 from $0.3 million or (0.1%) of sales for the first quarter of 2021. The increase in Adjusted Operating Loss was generally due to higher material and energy costs; and launch related costs; partially offset by productivity and efficiency improvements at certain operating facilities, and favourable commercial settlements.

Rest of the World

Adjusted Operating Income in the Rest of the World decreased by $4.5 million to $0.3 million or 0.7% of sales for the first quarter of 2022 from $4.8 million or 10.2% of sales for the first quarter of 2021, due generally to lower year-over-year production sales volume and launch related costs.

SUMMARY OF QUARTERLY RESULTS (unaudited)

	2022	2021				2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	$1,155,038	$1,053,440	$ 848,497	$ 884,866	$ 997,150	$1,070,956	$ 971,060	$ 460,564
Gross Margin	122,436	63,032	50,007	111,728	120,857	155,841	151,478	(12,459)
Net Income (Loss) for the period	25,208	(9,653)	(17,120)	23,952	38,701	44,970	45,636	(146,886)
Adjusted Net Income (Loss)	24,842	(9,653)	(17,120)	27,026	32,631	44,212	45,636	(73,115)
Basic and Diluted Net Earnings (Loss) per Share	0.31	(0.12)	(0.21)	0.30	0.48	0.56	0.57	(1.84)
Adjusted Basic and Diluted Net Earnings (Loss) per Share	0.31	(0.12)	(0.21)	0.34	0.41	0.55	0.57	(0.91)

LIQUIDITY AND CAPITAL RESOURCES

On April 13, 2021, the Company's banking facility was amended to extend its maturity and enhance certain provisions of the facility. The primary terms of the amended banking facility, with now a syndicate of eleven banks (up from ten), include the following:

- an unsecured credit structure;
- similar financial covenants, including a maximum Net Debt to trailing twelve months EBITDA ratio of 3.0x (excluding the impact of IFRS 16, Leases);
- available revolving credit lines of $500 million and US $520 million (up from $370 million and US $420 million, respectively) with the liquidity tranche put in place in 2020 now a part of the Company's principal revolving credit lines;
- 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 $300 million (up from US $200 million);
- pricing terms at market rates and consistent with pre-COVID levels (effective in the third quarter of 2021);
- a maturity date of April 2025; and
- no mandatory principal repayment provisions.

In light of the industry-wide semiconductor chip shortage resulting from the COVID-19 pandemic, on November 25, 2021, 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 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 third quarter of 2022, would exclude EBITDA from the third and fourth quarters of 2021 and instead be based on the annualized total of the remaining quarters in the relevant trailing twelve month period. As a result, the impact the industry-wide shortage of semiconductor chips has had on the Company, prevalent during the third and fourth quarters of 2021, would be largely ignored for the purpose of financial covenant calculations under the Company's lending arrangements. The amendment also increased the maximum net debt to trailing twelve months EBITDA ratio for financial covenant purposes to 4.0x, 4.5x, and 3.75x for the first, second, and third quarters of 2022, respectively, and returning to 3.0x thereafter.

As at March 31, 2022, the Company had drawn US $466 million (December 31, 2021 - US $466 million) on the U.S. revolving credit line and $380 million (December 31, 2021 - $360 million) on the Canadian revolving credit line. As at March 31, 2022, the Company had total liquidity of $279 million, including cash and cash equivalents and availability under the Company's revolving credit lines. In addition, the Company's amended credit facility includes a $300 million allowance for asset based financing that the Company can use for additional financing, of which approximately $241 million was available as at March 31, 2022. At March 31, 2022, the weighted average effective interest rate of the banking facility credit lines was 3.2% (December 31, 2021 - 2.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at March 31, 2022.

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, despite the challenges presented by the COVID-19 pandemic, industry-wide shortage of semiconductor chips, and related supply chain disruptions. The Company's ability to fund its anticipated cash requirements, and to comply with financial covenants under the Company's banking facility, depend on the Company's future operating performance and cash flows and many factors outside of its control, including the cost of material, energy, and other input costs, the state of the overall automotive industry and financial and economic conditions, including the impact of COVID-19, the semiconductor chip shortage and related supply chain disruptions, and other factors.

Debt leverage ratios:

Excluding the impact of IFRS 16:	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Long-term debt	1,018,390	1,010,990	1,016,890	921,077	873,322
Less: Cash and cash equivalents	(96,336)	(153,291)	(157,324)	(127,664)	(145,348)
Net Debt	$ 922,054	$ 857,699	$ 859,566	$ 793,413	$ 727,974
Trailing 12-month Adjusted EBITDA	$ 278,780	$ 276,165	$ 343,690	$ 432,369	$ 324,752
Net Debt to Adjusted EBITDA ratio	3.31x	3.11x	2.50x	1.84x	2.24x

Including the impact of IFRS 16:	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**	**March 31, 2021**
Long-term debt	1,018,390	1,010,990	1,016,890	921,077	873,322
Lease liabilities	248,863	239,777	187,584	195,450	201,526
	1,267,253	1,250,767	1,204,474	1,116,527	1,074,848
Less: Cash and cash equivalents	(96,336)	(153,291)	(157,324)	(127,664)	(145,348)
Net Debt	1,170,917	1,097,476	1,047,150	988,863	929,500
Trailing 12-month Adjusted EBITDA	320,134	317,570	386,055	475,389	367,594
Net Debt to Adjusted EBITDA ratio	3.66x	3.46x	2.71x	2.08x	2.53x

The following table provides a reconciliation of Trailing 12-month Adjusted EBITDA including the impact of IFRS 16 to Trailing 12-month Adjusted EBITDA excluding the impact of IFRS 16.

	March 31, 2022	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021
Trailing 12-month Adjusted EBITDA - including the impact of IFRS 16	320,134	317,570	386,055	475,389	367,594
Principal payments of lease liabilities	(33,654)	(33,753)	(34,387)	(34,689)	(34,194)
Interest on lease liabilities	(7,700)	(7,652)	(7,978)	(8,331)	(8,648)
Trailing 12-month Adjusted EBITDA - excluding the impact of IFRS 16	278,780	276,165	343,690	432,369	324,752

The Company's Net Debt (excluding the impact of IFRS 16) increased by $64.4 million during the first quarter of 2022 to $922.1 million from $857.7 million at the end of the fourth quarter of 2021 due largely to an increase in non-cash working capital during the quarter. As a result, the Company's Net Debt to Adjusted EBITDA ratio (excluding the impact of IFRS 16) increased to 3.31x from 3.11x at the end of the fourth quarter of 2021.

The Company was in compliance with its debt covenants as at March 31, 2022. The Company's debt covenants are based on leverage ratios excluding the impact of IFRS 16 and, for the four quarters up to and including the third quarter of 2022, excludes EBITDA from the third and fourth quarters of 2021, 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 payments 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 payments of $0.05 per share commencing at the beginning of 2020. The first such increased dividend was paid on April 14, 2020. The Company has maintained its dividend throughout the pandemic period. 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 anticipated needs at that time.

Cash flow

	Three months ended March 31, 2022	Three months ended March 31, 2021	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 105,601	$ 112,514	(6,913)	(6.1%)
Change in non-cash working capital items	(63,638)	(35,277)	(28,361)	(80.4%)
	41,963	77,237	(35,274)	(45.7%)
Interest paid	(9,959)	(9,176)	(783)	(8.5%)
Income taxes paid	(2,011)	(10,646)	8,635	81.1%
Cash provided by operating activities	29,993	57,415	(27,422)	(47.8%)
Cash provided by financing activities	2,129	33,902	(31,773)	(93.7%)
Cash used in investing activities	(89,883)	(97,368)	7,485	7.7%
Effect of foreign exchange rate changes on cash and cash equivalents	806	(1,387)	2,193	158.1%
Decrease in cash and cash equivalents	$ (56,955)	$ (7,438)	(49,517)	(665.7%)

Cash provided by operating activities during the first quarter of 2022 was $30.0 million, compared to $57.4 million in the corresponding period of 2021. The components for the first quarter of 2022 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $105.6 million;
- working capital use of cash of $63.6 million comprised of an increase in trade and other receivables of $190.4 million, an increase in inventories of $23.2 million, and an increase in prepaid expenses and deposits of $3.6 million; partially offset by an increase in trade, other payables and provisions of $153.6 million;
- interest paid of $10.0 million; and
- income taxes paid of $2.0 million.

Cash provided by financing activities during the first quarter of 2022 was $2.1 million, compared to $33.9 million in the corresponding period of 2021. The components for the first quarter of 2022 primarily include the following:

- a $14.6 million net increase in long-term debt;
- principal payments of lease liabilities of $8.5 million; and
- $4.0 million in dividends paid.

Cash used in investing activities during the first quarter of 2022 was $89.9 million, compared to $97.4 million in the corresponding period of 2021. The components for the first quarter of 2022 primarily include the following:

- cash additions to PP&E of $87.5 million;
- capitalized development costs relating to upcoming new program launches of $1.3 million; and
- an additional investment in VoltaXplore Inc. ("VoltaXplore") of $1.0 million.

Taking into account the opening cash balance of $153.3 million at the beginning of the first quarter of 2022, and the activities described above, the cash and cash equivalents balance at March 31, 2022 was $96.3 million.

Free Cash Flow

		Three months ended March 31, 2022		Three months ended March 31, 2021	$ Change
Adjusted EBITDA	$	112,379	$	109,815	2,564
Add (deduct):					
Change in non-cash working capital items		(63,638)		(35,277)	(28,361)
Purchase of property, plant and equipment (excluding capitalized interest)		(87,544)		(90,811)	3,267
Capitalized development costs		(1,339)		(2,557)	1,218
Interest paid		(9,959)		(9,176)	(783)
Income taxes paid		(2,011)		(10,646)	8,635
Free cash flow		(52,112)		(38,652)	(13,460)

Free cash flow for the first quarter of 2022 decreased year-over-year due largely to an increase in non-cash working capital; partially offset by lower income taxes paid, a decrease in cash purchases of property, plant and equipment, and higher Adjusted EBITDA.

Tooling-related working capital accounts, including inventory, trade and other receivables, and trade and other payables on a net basis, amounted to ($6.0) million as at March 31, 2022, an increase from ($25.6) million as at December 31, 2021 and a decrease from $20.9 million as at March 31, 2021.

Reconciliation of IFRS “Cash provided by operating activities” to Non-IFRS “Free Cash Flow” for the three months ended March 31, 2022 and 2021:

		Three months ended March 31, 2022		Three months ended March 31, 2021
Cash provided by operating activities	$	29,993	$	57,415
Add (deduct):				
Purchase of property, plant and equipment (excluding capitalized interest)		(87,544)		(90,811)
Capitalized development costs		(1,339)		(2,557)
Restructuring costs		4,237		1,029
Unrealized gain on foreign exchange contracts		837		744
Deferred and restricted share units benefit		1,087		1,707
Stock options expense		(196)		(340)
Pension and other post-employment benefits expense		(868)		(1,015)
Contributions made to pension and other post-retirement benefits		1,365		938
Net unrealized foreign exchange loss (gain) and other expense (income)		316		(5,762)
Free cash flow	$	(52,112)	$	(38,652)

RISKS AND UNCERTAINTIES

The reader is referred to the detailed discussion on Automotive Industry Highlights and Trends and Risk Factors as outlined in the Company’s AIF dated March 3, 2022 available through SEDAR at www.sedar.com which are incorporated herein by reference. The disclosure in this MD&A and, in particular under “Recent Developments: COVID-19 Pandemic, Semiconductor Chip Shortage and Other Supply Chain Issues”, supplements those risk factors described in the AIF.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at May 5, 2022, the Company had 80,367,095 common shares outstanding. The Company’s common shares constitute its only class of voting securities. As at May 5, 2022, options to acquire 2,507,500 common shares were outstanding.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the three months ended March 31, 2022, there have been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2021.

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 March 31, 2022, the amount of the off-balance sheet program financing was $12.9 million (December 31, 2021 - $18.6 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.

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 March 31, 2022, the Company had committed to the following foreign exchange contracts:

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

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Mexican Peso	$	49,493	20.2050	1

The aggregate value of these forward contracts as at March 31, 2022 was a pre-tax gain of $0.8 million and was recorded in trade and other receivables (December 31, 2021 - pre-tax gain of $4.7 million recorded in trade and other receivables).

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

The Company previously entered into foreign exchange forward contracts to buy Canadian dollars in order to hedge the variability in certain cash flows of forecasted U.S. dollars sales due to fluctuations in foreign exchange rates. As at June 30, 2021, it was determined that the U.S. dollar sales transactions could no longer be forecasted with high probability, and accordingly the Company de-designated the hedging relationship and terminated certain forward contracts. The Company had no foreign exchange contracts accounted for as hedges and fair valued through other comprehensive income as at March 31, 2022 and December 31, 2021.

INVESTMENTS

		March 31, 2022		December 31, 2021
Investment in common shares of NanoXplore Inc.	$	51,850	$	48,748
Investment in common shares of VoltaXplore Inc.		4,751		3,925
Investment in common shares and convertible debentures of AlumaPower Corp.		2,669		2,542
	$	59,270	$	55,215

As at March 31, 2022, the Company held 35,045,954 common shares of NanoXplore representing a 21.2% equity interest in NanoXplore (on a non-diluted basis). NanoXplore is a publicly listed company on the Toronto Stock 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.

On April 15, 2021, the Company formed a 50/50 joint venture with NanoXplore, named VoltaXplore, to develop and produce electric vehicle batteries enhanced with graphene. Martinrea and NanoXplore each invested $4.0 million into VoltaXplore as start-up capital and to support the construction of a demonstration facility, with each committed to provide up to an additional $6.0 million in development funding if, as and when required. A successful demonstration of improved battery performance using graphene, along with positive feedback from customers, will support the business case for the construction of a battery production facility in Canada.

On January 14, 2022, each of Martinrea and NanoXplore invested an additional $1.0 million in development funding into VoltaXplore by acquiring 1,000,000 common shares in VoltaXplore at $1.00 per share.

On February 24, 2022, NanoXplore closed a bought deal public offering of 6,522,000 common shares from treasury at a price of $4.60 per common share for aggregate gross proceeds of $30.0 million. Upon finalization of the transaction, the Company's net ownership interest decreased to 21.2% from 22.2%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $4.1 million during the first quarter of 2022.

As at March 31, 2022, the Company held 14,952 of each class A and class C shares and $1.4 million (US $1.1 million) of convertible debentures of AlumaPower Corporation ("AlumaPower"), representing a 12.5% equity interest in AlumaPower (on a non-diluted basis). AlumaPower is a private company developing aluminum air battery technology for a variety of end markets, including automotive.

The Company applies equity accounting to its equity investments in NanoXplore and VoltaXplore based on their most recently available 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. The common shares and convertible debentures in AlumaPower have been classified as fair value through other comprehensive income and amortized cost, respectively. Accordingly, the common shares are recorded at their fair value at the end of each reporting period, with the change in fair value recorded in other comprehensive income, while the convertible debentures are recorded at amortized cost using the effective interest rate method, less any impairment losses.

Movement in equity-accounted investments is summarized as follows:

	Investment in common shares of NanoXplore	Investment in common shares of VoltaXplore
Net as of December 31, 2020	$ 40,557	$ —
Additions	4,000	4,036
Gain on dilution of equity investments	7,800	—
Share of loss for the year	(3,813)	(111)
Share of other comprehensive income for the year	204	—
Net as of December 31, 2021	$ 48,748	$ 3,925
Additions	—	1,000
Gain on dilution of equity investments	4,050	—
Share of loss for the period	(927)	(174)
Share of other comprehensive loss for the period	(21)	—
Net as of March 31, 2022	$ 51,850	$ 4,751

As at March 31, 2022, the market value of the shares held in NanoXplore by the Company was $161.9 million.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

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 impact of, or duration of, or factors affecting, and expected response to, the COVID-19 pandemic (including the global semi-conductor chip shortage or other related and supply chain issues) and the potential effects or issues relating to a prolonged pandemic or lockdown(s), or as a result of any current or future government actions or regulations or the conflict between Russia and Ukraine or as a result of supply chain disruption, on the Company's financial position, its business and operations, on its employees, on the automotive industry, on the economy, on production volumes or on the business of any OEM or suppliers; the growth of the Company and pursuit of, and belief in, its strategies; the ramping up and launching of new business; the continued investments in its business and technologies; the opportunity to increase sales; the ability to finance future capital expenditures, working capital, debt obligations and other commitments; the factors impacting its ability to fund anticipated cash requirements and to comply with financial covenants under the banking facility, 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. 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, 2021 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;
- Automotive Industry Risks;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political and Civil Unrest, and Other Outbreaks;
- Dependence Upon Key Customers;
- Financial Viability of Suppliers and Key Suppliers and Supply Disruptions;
- Competition;
- Cost and Risk Absorption and Purchase Orders, including the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Quote/Pricing Assumptions;
- Increased pricing of raw materials and commodities;
- Launch and Operational Costs and Cost Structure;
- Material Prices and Volatility;
- Fluctuations in Operating Results;
- Outsourcing and Insourcing Trends;
- Product Warranty, Recall, Product Liability and Liability Risk;
- Product Development and Technological Change;
- A Shift Away from Technologies in Which the Company is Investing;
- Dependence Upon Key Personnel;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;
- Cybersecurity Threats;

- Acquisitions;
- Potential Tax Exposures;
- Potential Rationalization Costs, Turnaround Costs and Impairment Charges;
- Labour Relations Matters;
- Trade Restrictions;
- Changes in Laws and Governmental Regulations;
- Environmental Regulation and Climate Change;
- Litigation and Regulatory Compliance and Investigations;
- Risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- Currency Risk – Hedging;
- Currency Risk - Competitiveness in Certain Jurisdictions;
- Internal Controls Over Financial Reporting and Disclosure Controls and Procedures;
- Loss of Use of Key Manufacturing Facilities;
- Intellectual Property;
- Availability of Consumer Credit or Cost of Borrowing;
- Competition with Low Cost Countries;
- The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets;
- Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates;
- Pension Plans and other post employment benefits;
- Potential Volatility of Share Prices;
- Dividends;
- Private or Public Equity Investments in Technology Companies;
- Joint Ventures; and
- 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.

MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2022

Martinrea International Inc.

Table of Contents

Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note		March 31, 2022		December 31, 2021
ASSETS					
Cash and cash equivalents		$	96,336	$	153,291
Trade and other receivables	2		815,378		634,184
Inventories	3		604,879		590,784
Prepaid expenses and deposits			27,296		23,892
Income taxes recoverable			7,585		18,609
TOTAL CURRENT ASSETS			1,551,474		1,420,760
Property, plant and equipment	4		1,713,920		1,727,914
Right-of-use assets	5		230,468		222,934
Deferred tax assets			140,217		138,612
Intangible assets	6		45,772		47,809
Investments	7		59,270		55,215
TOTAL NON-CURRENT ASSETS			2,189,647		2,192,484
TOTAL ASSETS		$	3,741,121	$	3,613,244
LIABILITIES					
Trade and other payables		$	1,224,016	$	1,110,350
Provisions	8		9,619		6,272
Income taxes payable			12,854		11,955
Current portion of long-term debt	9		18,510		20,173
Current portion of lease liabilities	10		39,172		39,322
TOTAL CURRENT LIABILITIES			1,304,171		1,188,072
Long-term debt	9		999,880		990,817
Lease liabilities	10		209,691		200,455
Pension and other post-retirement benefits			39,386		49,530
Deferred tax liabilities			15,185		14,595
TOTAL NON-CURRENT LIABILITIES			1,264,142		1,255,397
TOTAL LIABILITIES			2,568,313		2,443,469
EQUITY					
Capital stock	12		663,415		663,415
Contributed surplus			45,041		44,845
Accumulated other comprehensive income			23,748		51,207
Retained earnings			440,604		410,308
TOTAL EQUITY			1,172,808		1,169,775
TOTAL LIABILITIES AND EQUITY		$	3,741,121	$	3,613,244

Contingencies (note 18)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer"	Director
"Terry Lyons"	Director

Martinrea International Inc.

Interim Condensed Consolidated Statements of Operations

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

	Note	Three months ended March 31, 2022	Three months ended March 31, 2021
SALES		$ 1,155,038	$ 997,150
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(970,945)	(822,074)
Depreciation of property, plant and equipment and right-of-use assets (production)		(61,657)	(54,219)
Total cost of sales		(1,032,602)	(876,293)
GROSS MARGIN		122,436	120,857
Research and development costs		(9,112)	(7,809)
Selling, general and administrative		(65,323)	(60,750)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,715)	(3,839)
Restructuring costs	8	(4,237)	(1,029)
OPERATING INCOME		40,049	47,430
Share of loss of equity investments	7	(1,101)	(926)
Gain on dilution of equity investments	7	4,050	7,800
Finance expense	14	(9,254)	(8,411)
Other finance income (expense)	14	(316)	5,762
INCOME BEFORE INCOME TAXES		33,428	51,655
Income tax expense	11	(8,220)	(12,954)
NET INCOME FOR THE PERIOD		$ 25,208	$ 38,701
Basic earnings per share	13	$ 0.31	$ 0.48
Diluted earnings per share	13	$ 0.31	$ 0.48

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

	Three months ended March 31, 2022	Three months ended March 31, 2021
NET INCOME FOR THE PERIOD	$ 25,208	$ 38,701
Other comprehensive income (loss), net of tax:		
Items that may be reclassified to net income		
Foreign currency translation differences for foreign operations	(27,438)	(36,357)
Cash flow hedging derivative and non-derivative financial instruments:		
Unrealized gain in fair value of financial instruments	—	892
Reclassification of gain to net income	—	(269)
Items that will not be reclassified to net income		
Share of other comprehensive income (loss) of equity investments (note 7)	(21)	8
Remeasurement of defined benefit plans	9,106	8,556
Other comprehensive loss, net of tax	(18,353)	(27,170)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 6,855	$ 11,531

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

	Capital stock	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total equity
BALANCE AT DECEMBER 31, 2020	$ 662,427	$ 43,860	$ 96,645	$ 372,792	$ 1,175,724
Net income for the period	—	—	—	38,701	38,701
Compensation expense related to stock options	—	340	—	—	340
Dividends ($0.05 per share)	—	—	—	(4,015)	(4,015)
Exercise of employee stock options	103	(29)	—	—	74
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	—	—	—	8,556	8,556
Foreign currency translation differences	—	—	(36,357)	—	(36,357)
Share of other comprehensive income of equity investments	—	—	8	—	8
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	—	—	892	—	892
Reclassification of gain to net income	—	—	(269)	—	(269)
BALANCE AT MARCH 31, 2021	662,530	44,171	60,919	416,034	1,183,654
Net loss for the period	—	—	—	(2,821)	(2,821)
Compensation expense related to stock options	—	884	—	—	884
Dividends ($0.15 per share)	—	—	—	(12,055)	(12,055)
Exercise of employee stock options	885	(210)	—	—	675
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	—	—	—	9,150	9,150
Foreign currency translation differences	—	—	(6,163)	—	(6,163)
Share of other comprehensive income of equity investments	—	—	196	—	196
Cash flow hedging derivative and non-derivative financial instruments:					
Reclassification of gain to net loss	—	—	(3,745)	—	(3,745)
BALANCE AT DECEMBER 31, 2021	663,415	44,845	51,207	410,308	1,169,775
Net income for the period	—	—	—	25,208	25,208
Compensation expense related to stock options	—	196	—	—	196
Dividends ($0.05 per share)	—	—	—	(4,018)	(4,018)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	—	—	—	9,106	9,106
Foreign currency translation differences	—	—	(27,438)	—	(27,438)
Share of other comprehensive loss of equity investments	—	—	(21)	—	(21)
BALANCE AT MARCH 31, 2022	$ 663,415	$ 45,041	$ 23,748	$ 440,604	$ 1,172,808

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

	Three months ended March 31, 2022	Three months ended March 31, 2021
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES:		
Net income for the period	$ 25,208	$ 38,701
Adjustments for:		
Depreciation of property, plant and equipment and right-of-use assets	65,372	58,058
Amortization of development costs	2,721	3,298
Unrealized gain on foreign exchange forward contracts	(837)	(744)
Finance expense	9,254	8,411
Income tax expense	8,220	12,954
Deferred and restricted share units benefit	(1,087)	(1,707)
Stock options expense	196	340
Share of loss of equity investments	1,101	926
Gain on dilution of equity investments	(4,050)	(7,800)
Pension and other post-retirement benefits expense	868	1,015
Contributions made to pension and other post-retirement benefits	(1,365)	(938)
	105,601	112,514
Changes in non-cash working capital items:		
Trade and other receivables	(190,412)	(84,801)
Inventories	(23,182)	(47,996)
Prepaid expenses and deposits	(3,649)	(2,339)
Trade, other payables and provisions	153,605	99,859
	41,963	77,237
Interest paid	(9,959)	(9,176)
Income taxes paid	(2,011)	(10,646)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 29,993	$ 57,415
FINANCING ACTIVITIES:		
Increase in long-term debt (net of deferred financing fees)	20,000	50,976
Repayment of long-term debt	(5,359)	(4,540)
Principal payments of lease liabilities	(8,494)	(8,593)
Dividends paid	(4,018)	(4,015)
Exercise of employee stock options	—	74
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 2,129	$ 33,902
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment (excluding capitalized interest)*	(87,544)	(90,811)
Capitalized development costs	(1,339)	(2,557)
Equity investments (note 7)	(1,000)	(4,000)
NET CASH USED IN INVESTING ACTIVITIES	$ (89,883)	$ (97,368)
Effect of foreign exchange rate changes on cash and cash equivalents	806	(1,387)
DECREASE IN CASH AND CASH EQUIVALENTS	(56,955)	(7,438)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	153,291	152,786
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 96,336	$ 145,348

*As at March 31, 2022, $92,289 (December 31, 2021 - $113,233) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables.

See accompanying notes to the interim condensed consolidated financial statements.

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

1. BASIS OF PREPARATION

(a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’ (“IAS” 34) as issued by the International Accounting Standards Board (“IASB”), and on a basis consistent with the accounting policies disclosed in the Company’s annual audited consolidated financial statements for the year ended December 31, 2021.

(b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company’s last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company’s annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2021.

(c) COVID-19 pandemic, semiconductor chip shortage and other supply chain issues

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.

Despite increasing vaccination levels, the development and spread of highly transmissible COVID-19 variants creates continued risk of further disruptions to the automotive industry. The ultimate business and economic impacts of COVID-19 will depend on various factors, including the possibility of future shutdowns; the rate at which economic conditions and operations return to pre-COVID levels; any continued or future governmental orders or lockdowns (including due to any future wave of COVID-19); the potential for a recession in key markets due to the effect of the pandemic; and the impact on customers and suppliers, including inflationary cost increases for wages, materials, energy, and other costs, as overall economic activity rebounds, and the industry-wide shortage of semiconductor chips resulting from the COVID-19 pandemic, which has had a negative impact on OEM light vehicle production levels globally, or any other supply chain disruptions, further exacerbated by the recent conflict in Europe between Russia and Ukraine.

OEM customers have taken a number of actions in response to the semiconductor chip shortage and other supply chain disruptions, such as: unplanned shutdowns of production lines and/or plants; reductions in their vehicle production plans; and changes to their product mix. Such OEM responses have resulted in a number of consequences for Tier 1 suppliers like Martinrea, including: lower sales; production inefficiencies due to production lines being stopped/restarted unexpectedly based on OEMs' production priorities; and premium freight costs to expedite shipments. Additionally, Tier 1 suppliers have faced price increases from sub-suppliers that have been negatively impacted by production inefficiencies and/or other costs related to the semiconductor chip shortage and other supply chain issues. While the Company experienced some recovery in production volumes during the first quarter of 2022, it remains unclear when supply and demand for automotive semiconductor chips will rebalance and it continues to be difficult to predict the full impact of the chip shortage and any other supply chain disruptions.

(d) Presentation currency

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

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

(e) Recently adopted accounting standards and policies

Amendments to IAS 37, Onerous Contracts – Cost of Fulfilling a Contract
On May 14, 2020, the IASB issued Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37). The amendment specifies that the 'costs of fulfilling a contract' comprise both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling that contract.

The Company adopted the amendments to IAS 37 effective January 1, 2022. The adoption of amendments to IAS 37 did not have material impact on the interim condensed consolidated financial statements.

(f) Recently issued accounting standards

The IASB issued the following amendments to existing standards:

Amendments to IAS 8, Definition of Accounting Estimates
On February 12, 2021, the IASB issued Definition of Accounting Estimates (Amendments to IAS 8). The amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

The amendments are effective for annual periods beginning on or after January 1, 2023. The adoption of amendments to IAS 8 is not expected to have a material impact on the interim condensed consolidated financial statements.

Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure Initiative – Accounting Policies
On February 12, 2021, the IASB issued Disclosure Initiative - Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). The amendments help companies provide useful accounting policy disclosures by requiring companies to disclose their material accounting policies rather than their significant accounting policies.

The amendments are effective for annual periods beginning on or after January 1, 2023. The adoption of amendments to IAS 1 and IFRS Practice Statement 2 is not expected to have a material impact on the interim condensed consolidated financial statements.

2. TRADE AND OTHER RECEIVABLES

	March 31, 2022	December 31, 2021
Trade receivables	$ 787,432	$ 606,779
Other receivables	27,109	22,661
Foreign exchange forward contracts not accounted for as hedges (note 17(d))	837	4,744
	$ 815,378	$ 634,184

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 17.

3. INVENTORIES

	March 31, 2022	December 31, 2021
Raw materials	$ 240,248	$ 226,138
Work in progress	73,436	66,722
Finished goods	48,380	56,404
Tooling work in progress and other inventory	242,815	241,520
	$ 604,879	$ 590,784

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

4. PROPERTY, PLANT AND EQUIPMENT

	March 31, 2022			December 31, 2021		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 178,578	$ (34,292)	$ 144,286	$ 179,249	$ (33,135)	$ 146,114
Leasehold improvements	75,014	(50,504)	24,510	74,665	(50,056)	24,609
Manufacturing equipment	2,734,436	(1,526,681)	1,207,755	2,716,949	(1,492,994)	1,223,955
Tooling and fixtures	35,946	(32,670)	3,276	36,197	(32,772)	3,425
Other assets	75,400	(46,569)	28,831	73,995	(45,232)	28,763
Construction in progress	305,262	—	305,262	301,048	—	301,048
	$ 3,404,636	$ (1,690,716)	$ 1,713,920	$ 3,382,103	$ (1,654,189)	$ 1,727,914

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

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress	Total
Net as of December 31, 2020	$ 144,146	$ 27,123	$ 1,146,778	$ 4,005	$ 29,036	$ 264,109	$ 1,615,197
Additions	50	—	2,047	—	1,068	343,483	346,648
Disposals	—	—	(1,855)	—	(47)	—	(1,902)
Depreciation	(6,216)	(3,721)	(184,241)	(550)	(8,466)	—	(203,194)
Transfers from construction in progress	10,361	1,794	282,746	—	7,735	(302,636)	—
Foreign currency translation adjustment	(2,227)	(587)	(21,520)	(30)	(563)	(3,908)	(28,835)
Net as of December 31, 2021	146,114	24,609	1,223,955	3,425	28,763	301,048	1,727,914
Additions	—	—	89	13	309	67,378	67,789
Depreciation	(1,487)	(885)	(50,577)	(126)	(2,071)	—	(55,146)
Transfers from construction in progress	1,396	1,188	53,243	—	2,335	(58,162)	—
Foreign currency translation adjustment	(1,737)	(402)	(18,955)	(36)	(505)	(5,002)	(26,637)
Net as of March 31, 2022	$ 144,286	$ 24,510	$ 1,207,755	$ 3,276	$ 28,831	$ 305,262	$ 1,713,920

5. RIGHT-OF-USE ASSETS

	March 31, 2022			December 31, 2021		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	$ 259,627	$ (85,789)	$ 173,838	$ 247,757	$ (80,125)	$ 167,632
Leased manufacturing equipment	74,692	(19,373)	55,319	70,568	(16,722)	53,846
Leased other assets	3,629	(2,318)	1,311	3,846	(2,390)	1,456
	$ 337,948	$ (107,480)	$ 230,468	$ 322,171	$ (99,237)	$ 222,934

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

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

		Leased buildings		Leased manufacturing equipment		Leased other assets		Total
Net as of December 31, 2020	$	178,284	$	12,974	$	1,372	$	192,630
Additions		11,031		47,409		851		59,291
Lease modifications		6,604		—		114		6,718
Depreciation		(25,444)		(5,957)		(839)		(32,240)
Foreign currency translation adjustment		(2,843)		(580)		(42)		(3,465)
Net as of December 31, 2021	$	167,632	$	53,846	$	1,456	$	222,934
Additions		7,679		5,730		69		13,478
Lease modifications		7,597		(85)		—		7,512
Depreciation		(6,739)		(3,304)		(183)		(10,226)
Foreign currency translation adjustment		(2,331)		(868)		(31)		(3,230)
Net as of March 31, 2022	$	173,838	$	55,319	$	1,311	$	230,468

6. INTANGIBLE ASSETS

	March 31, 2022						December 31, 2021					
		Cost		Accumulated amortization and impairment losses		Net book value		Cost		Accumulated amortization and impairment losses		Net book value
Development costs	$	137,584	$	(91,812)	$	45,772	$	138,289	$	(90,480)	$	47,809

Movement in intangible assets is summarized as follows:

		Development costs
Net as of December 31, 2020	$	52,644
Additions		8,533
Amortization		(12,788)
Foreign currency translation adjustment		(580)
Net as of December 31, 2021		47,809
Additions		1,339
Amortization		(2,721)
Foreign currency translation adjustment		(655)
Net as of March 31, 2022	$	45,772

7. INVESTMENTS

		March 31, 2022		December 31, 2021
Investment in common shares of NanoXplore Inc.	$	51,850	$	48,748
Investment in common shares of VoltaXplore Inc.		4,751		3,925
Investment in common shares and convertible debentures of AlumaPower Corp.		2,669		2,542
	$	59,270	$	55,215

As at March 31, 2022, the Company held 35,045,954 common shares of NanoXplore Inc. ("NanoXplore") representing a 21.2% equity interest in NanoXplore (on a non-diluted basis). NanoXplore is a publicly listed company on the Toronto Stock 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.

On April 15, 2021, the Company formed a 50/50 joint venture with NanoXplore, named VoltaXplore Inc. ("VoltaXplore"), to develop and produce electric vehicle batteries enhanced with graphene. Martinrea and NanoXplore each invested $4,036 into VoltaXplore as start-up capital and to support the construction of a demonstration facility, with each committed to provide up to an additional $6,000 in development funding if, as and when required. A successful demonstration of improved battery performance using graphene, along with positive feedback from customers, will support the business case for the construction of a battery production facility in Canada.

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

On January 14, 2022, each of Martinrea and NanoXplore invested an additional $1,000 in development funding into VoltaXplore by acquiring 1,000,000 common shares in VoltaXplore at $1.00 per share.

On February 24, 2022, NanoXplore closed a bought deal public offering of 6,522,000 common shares from treasury at a price of $4.60 per common share for aggregate gross proceeds of $30,001. Upon finalization of the transaction, the Company's net ownership interest decreased to 21.2% from 22.2%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $4,050 during the first quarter of 2022.

As at March 31, 2022, the Company held 14,952 of each class A and class C shares and $1,366 (US $1,066) of convertible debentures of AlumaPower Corporation ("AlumaPower"), representing a 12.5% equity interest in AlumaPower (on a non-diluted basis). AlumaPower is a private company developing aluminum air battery technology for a variety of end markets, including automotive.

The Company applies equity accounting to its equity investments in NanoXplore and VoltaXplore based on their most recently available 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. The common shares and convertible debentures in AlumaPower have been classified as fair value through other comprehensive income and amortized cost, respectively. Accordingly, the common shares are recorded at their fair value at the end of each reporting period, with the change in fair value recorded in other comprehensive income, while the convertible debentures are recorded at amortized cost using the effective interest rate method, less any impairment losses.

Movement in equity-accounted investments is summarized as follows:

	Investment in common shares of NanoXplore	Investment in common shares of VoltaXplore
Net as of December 31, 2020	$ 40,557	$ —
Additions	4,000	4,036
Gain on dilution of equity investments	7,800	—
Share of loss for the year	(3,813)	(111)
Share of other comprehensive income for the year	204	—
Net as of December 31, 2021	$ 48,748	$ 3,925
Additions	—	1,000
Gain on dilution of equity investments	4,050	—
Share of loss for the period	(927)	(174)
Share of other comprehensive loss for the period	(21)	—
Net as of March 31, 2022	$ 51,850	$ 4,751

As at March 31, 2022, the market value of the shares held in NanoXplore by the Company was $161,912.

8. PROVISIONS

	Restructuring	Claims and Litigation	Total
Net as of December 31, 2020	$ 1,360	$ 2,898	$ 4,258
Net additions	5,473	1,290	6,763
Amounts used during the year	(3,471)	(923)	(4,394)
Foreign currency translation adjustment	(177)	(178)	(355)
Net as of December 31, 2021	3,185	3,087	6,272
Net additions	4,237	129	4,366
Amounts used during the period	(1,087)	(307)	(1,394)
Foreign currency translation adjustment	(89)	464	375
Net as of March 31, 2022	$ 6,246	$ 3,373	$ 9,619

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

Additions to the restructuring provision during the first quarter of 2022 totaled $4,237 and represent employee-related severance resulting from the rightsizing of operations in Canada related to the cancellation of an OEM light vehicle platform well before the end of its expected life cycle.

9. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 17.

	March 31, 2022	December 31, 2021
Banking facility	$ 959,739	$ 945,703
Equipment loans	58,651	65,287
	1,018,390	1,010,990
Current portion	(18,510)	(20,173)
	$ 999,880	$ 990,817

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

	Currency	Nominal interest rate	Year of maturity	March 31, 2022 Carrying amount	December 31, 2021 Carrying amount
Banking facility	USD	LIBOR + 2.50%	2025	$ 583,201	$ 589,651
	CAD	BA + 2.50%	2025	376,538	356,052
Equipment loans	CAD	2.54%	2026	22,640	23,824
	EUR	1.05%	2024	11,320	13,183
	EUR	1.40%	2026	9,775	10,823
	EUR	2.46%	2026	9,127	9,502
	CAD	3.80%	2022	5,067	7,204
	EUR	0.00%	2028	561	584
	EUR	0.26%	2025	161	167
				$ 1,018,390	$ 1,010,990

On April 13, 2021, the Company's banking facility was amended to extend its maturity and enhance certain provisions of the facility. The primary terms of the amended bank facility, with now a syndicate of eleven banks (up from ten), include the following:

- an unsecured credit structure;
- similar financial covenants, including a maximum net debt to trailing twelve months EBITDA ratio of 3.0x (excluding the impact of IFRS 16, Leases);
- available revolving credit lines of $500 million and US $520 million (up from $370 million and US $420 million, respectively) with the liquidity tranche put in place in 2020 now a part of the Company's principal revolving credit lines;
- 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 $300 million (up from US $200 million);
- pricing terms at market rates and consistent with pre-COVID levels (effective in the third quarter of 2021);
- a maturity date of April 2025; and
- no mandatory principal repayment provisions.

In light of the industry-wide semiconductor chip shortage resulting from the COVID-19 pandemic, on November 25, 2021, 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 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 third quarter of 2022, would exclude EBITDA from the third and fourth quarters of 2021 and instead be based on the annualized total of the remaining quarters in the relevant trailing twelve month period. As a result, the impact the industry-wide shortage of semiconductor chips had on the Company, prevalent during the third and fourth quarters of 2021, would be largely ignored for the purpose of financial covenant calculations under the Company's lending arrangements. The amendment also increased the maximum net debt to trailing twelve months EBITDA ratio for financial covenant purposes to 4.0x, 4.5x, and 3.75x for the first, second, and third quarters of 2022, respectively, and returning to 3.0x thereafter.

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

As at March 31, 2022, the Company had drawn US $466,000 (December 31, 2021 - US $466,000) on the U.S. revolving credit line and $380,000 (December 31, 2021 - $360,000) on the Canadian revolving credit line. At March 31, 2022, the weighted average effective interest rate of the banking facility credit lines was 3.2% (December 31, 2021 - 2.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at March 31, 2022.

Deferred financing fees of $3,462 (December 31, 2021 - $3,948) have been netted against the carrying amount of the long-term debt.

Future annual minimum principal repayments as at March 31, 2022 are as follows:

	Scheduled principal repayments	Scheduled amortization of deferred financing fees	Carrying amount of outstanding loans
Within one year	$ 19,838	$ (1,328)	$ 18,510
One to two years	15,222	(1,022)	14,200
Two to three years	10,440	(1,022)	9,418
Three to four years	972,947	(90)	972,857
Thereafter	3,405	—	3,405
	$ 1,021,852	$ (3,462)	$ 1,018,390

Movement in long-term debt is summarized as follows:

	Total
Net as of December 31, 2020	$ 835,222
Drawdowns	176,214
Equipment loan proceeds	25,000
Equipment loan repayments	(18,296)
Deferred financing fee additions	(3,920)
Amortization of deferred financing fees	1,846
Foreign currency translation adjustment	(5,076)
Net as of December 31, 2021	$ 1,010,990
Drawdowns	20,000
Equipment loan repayments	(5,359)
Amortization of deferred financing fees	486
Foreign currency translation adjustment	(7,727)
Net as of March 31, 2022	$ 1,018,390

10. LEASE LIABILITIES

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

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

Movement in lease liabilities is summarized as follows:

		Total
Net as of December 31, 2020	$	211,813
Net additions		59,291
Lease modifications		6,718
Principal payments of lease liabilities		(33,753)
Termination of leases		(788)
Foreign currency translation adjustment		(3,504)
Net as of December 31, 2021	$	239,777
Net additions		13,478
Lease modifications		7,512
Principal payments of lease liabilities		(8,494)
Foreign currency translation adjustment		(3,410)
Net as of March 31, 2022	$	248,863

The maturity of contractual undiscounted lease liabilities as at March 31, 2022 is as follows:

		Total
Within one year	$	47,402
One to two years		44,253
Two to three years		39,153
Three to four years		35,559
Thereafter		118,676
Total undiscounted lease liabilities at March 31, 2022	$	285,043
Interest on lease liabilities		(36,180)
Total present value of minimum lease payments	$	248,863
Current portion		(39,172)
	$	209,691

11. INCOME TAXES

The components of income tax expense are as follows:

		Three months ended March 31, 2022		Three months ended March 31, 2021
Current income tax expense	$	(18,968)	$	(11,175)
Deferred income tax recovery (expense)		10,748		(1,779)
Total income tax expense	$	(8,220)	$	(12,954)

12. CAPITAL STOCK

Common shares outstanding:	Number		Amount
Balance as of December 31, 2020	80,294,095	$	662,427
Exercise of stock options	73,000		988
Balance as of December 31, 2021 and March 31, 2022	80,367,095	$	663,415

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

Stock options

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

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

	Three months ended March 31, 2022		Three months ended March 31, 2021	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance, beginning of period	2,622,500	$ 13.32	2,777,500	$ 13.25
Exercised during the period	—	—	(10,500)	7.00
Expired during the period	(115,000)	10.45	—	—
Balance, end of period	2,507,500	$ 13.45	2,767,000	$ 13.28
Options exercisable, end of period	1,696,500	$ 13.11	1,599,000	$ 12.67

The following is a summary of the issued and outstanding common share purchase options as at March 31, 2022:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$8.00 - 9.99	20,000	2012	2022
$10.00 - 12.99	697,500	2013 - 2014	2022 - 2024
$13.00 - 16.99	1,790,000	2015 - 2020	2022 - 2030
Total share purchase options	2,507,500		

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

For the three months ended March 31, 2022, the Company expensed $196 (March 31, 2021 - $340), to reflect stock-based compensation expense, as derived using the Black-Scholes-Merton option valuation model.

Deferred Share Unit (“DSU”) Plan

The following is a summary of the issued and outstanding DSUs as at March 31, 2022 and 2021:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Outstanding, beginning of period	397,091	331,291
Granted and reinvested dividends	—	—
Redeemed	—	—
Outstanding, end of period	397,091	331,291

At March 31, 2022, the fair value of all outstanding DSUs amounted to $2,831 (March 31, 2021 - $3,637 and December 31, 2021 - $3,379). For the three months ended March 31, 2022, DSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $548 (2021 - a benefit of $432), recorded in selling, general and administrative expense.

Unrecognized DSU compensation expense as at March 31, 2022 was $644 (March 31, 2021 - $768 and December 31, 2021 - $937) and will be recognized in profit or loss over the remaining vesting period.

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

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

The following is a summary of the issued and outstanding RSUs and PSUs for the three months ended March 31, 2022 and 2021:

	RSUs	PSUs	Total
Outstanding, December 31, 2020	342,175	342,518	684,693
Granted and reinvested dividends	19,690	19,690	39,380
Redeemed	—	—	—
Cancelled	—	—	—
Outstanding, March 31, 2021	361,865	362,208	724,073
Granted and reinvested dividends	177,296	177,257	354,553
Redeemed	(247,435)	(245,361)	(492,796)
Cancelled	(3,914)	(7,822)	(11,736)
Outstanding, December 31, 2021 and March 31, 2022	287,812	286,282	574,094

The RSUs and PSUs granted during the three months ended March 31, 2021 had a weighted average fair value per unit of $16.10 on the date of grant. For the three months ended March 31, 2022, RSU and PSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to a benefit of $539 (2021 - a benefit of $1,275), recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at March 31, 2022 was $1,585 (March 31, 2021 - $2,033 and December 31, 2021 - $2,827) and will be recognized in profit or loss over the remaining vesting period.

On a weighted average basis, the expected life and risk free interest rate used in the valuation of PSUs granted during the three months ended March 31, 2021 were 2.78 years and 0.26%, respectively.

13. EARNINGS PER SHARE

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

	Three months ended March 31, 2022		Three months ended March 31, 2021	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	80,367,095	$ 0.31	80,295,893	$ 0.48
Effect of dilutive securities:				
Stock options	2,665	—	236,629	—
Diluted	80,369,760	$ 0.31	80,532,522	$ 0.48

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

For the three months ended March 31, 2022, 2,487,500 options (2021 - 950,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

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

14. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

	Three months ended March 31, 2022	Three months ended March 31, 2021
Debt interest, gross	$ (8,346)	$ (7,101)
Interest on lease liabilities	(2,097)	(2,049)
Capitalized interest - at an average rate of 2.8% (2021 - 2.8%)	1,189	739
Finance expense	$ (9,254)	$ (8,411)

	Three months ended March 31, 2022	Three months ended March 31, 2021
Net foreign exchange gain (loss)	$ (335)	$ 5,299
Other income, net	19	463
Other finance income (expense)	$ (316)	$ 5,762

15. GOVERNMENT SUBSIDIES

In response to the COVID-19 pandemic, the governments of various jurisdictions in which the Company has operations 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 three months ended March 31, 2021, the Company determined that it qualified for certain government labour assistance and recognized $4,774 in subsidies. 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 $4,096 and $678, respectively. In addition, for the three months ended March 31, 2021, the Company recognized $599 in subsidies related to commercial rent and property expenses for qualifying locations in Canada.

No such government subsidies were recognized during the three months ended March 31, 2022.

16. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2021. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

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

	Three months ended March 31, 2022			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income (Loss)**
North America				
Canada	$ 167,458	$ 21,983	$ 189,441	
USA	311,356	20,299	331,655	
Mexico	402,835	8,315	411,150	
Eliminations	(57,464)	(15,082)	(72,546)	
	$ 824,185	$ 35,515	$ 859,700	$ 40,378
Europe				
Germany	191,824	14,517	206,341	
Spain	42,059	780	42,839	
Slovakia	10,936	1,346	12,282	
	244,819	16,643	261,462	(592)
Rest of the World	38,532	1,221	39,753	263
Eliminations	(5,105)	(772)	(5,877)	—
	$ 1,102,431	$ 52,607	$ 1,155,038	$ 40,049

	Three months ended March 31, 2021			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income (Loss)**
North America				
Canada	$ 104,409	$ 42,482	$ 146,891	
USA	254,806	35,842	290,648	
Mexico	320,965	7,493	328,458	
Eliminations	(34,545)	(27,322)	(61,867)	
	$ 645,635	$ 58,495	$ 704,130	$ 44,035
Europe				
Germany	189,242	12,519	201,761	
Spain	38,974	681	39,655	
Slovakia	11,867	786	12,653	
	240,083	13,986	254,069	(1,371)
Rest of the World	45,042	1,471	46,513	4,766
Eliminations	(6,668)	(894)	(7,562)	
	$ 924,092	$ 73,058	$ 997,150	$ 47,430

17. FINANCIAL INSTRUMENTS

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

Fair Value

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

	March 31, 2022			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 96,336	$ 96,336	$ —	$ —
Investment in common shares and convertible debentures of AlumaPower (note 7)	2,669	—	—	2,669
Foreign exchange forward contracts not accounted for as hedges (note 2)	837	—	837	—

	December 31, 2021			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 153,291	$ 153,291	$ —	$ —
Investment in common shares and convertible debentures of AlumaPower (note 7)	2,542	—	—	2,542
Foreign exchange forward contracts not accounted for as hedges (note 2)	4,744	—	4,744	—

Fair values versus carrying amounts

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

March 31, 2022	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ —	$ —	$ 814,541	$ —	$ 814,541	$ 814,541
Investment in common shares and convertible debentures of AlumaPower	—	1,304	—	1,365	2,669	2,669
Foreign exchange forward contracts not accounted for as hedges	837	—	—	—	837	837
	837	1,304	814,541	1,365	818,047	818,047
FINANCIAL LIABILITIES:						
Trade and other payables	—	—	—	(1,224,016)	(1,224,016)	(1,224,016)
Long-term debt	—	—	—	(1,018,390)	(1,018,390)	(1,018,390)
	—	—	—	(2,242,406)	(2,242,406)	(2,242,406)
Net financial assets (liabilities)	$ 837	$ 1,304	$ 814,541	$ (2,241,041)	$ (1,424,359)	$ (1,424,359)

December 31, 2021	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ —	$ —	$ 629,440	$ —	$ 629,440	$ 629,440
Investment in common shares and convertible debentures of AlumaPower	—	1,304	—	1,238	2,542	2,542
Foreign exchange forward contracts accounted for as hedges	4,744	—	—	—	4,744	4,744
	4,744	1,304	629,440	1,238	636,726	636,726
FINANCIAL LIABILITIES:						
Trade and other payables	—	—	—	(1,110,350)	(1,110,350)	(1,110,350)
Long-term debt	—	—	—	(1,010,990)	(1,010,990)	(1,010,990)
	—	—	—	(2,121,340)	(2,121,340)	(2,121,340)
Net financial assets (liabilities)	$ 4,744	$ 1,304	$ 629,440	$ (2,120,102)	$ (1,484,614)	$ (1,484,614)

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

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

Risk Management

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

(a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 28.4%, 22.7%, and 15.8% of its production sales for the three months ended March 31, 2022 (2021 - 30.0%, 21.6%, and 12.2%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of trade receivables that were past due as at March 31, 2022 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 1.0% of total trade receivables for all periods and movements in the period were minimal.

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

	March 31, 2022	December 31, 2021
0-60 days	$ 765,212	$ 589,634
61-90 days	7,852	4,564
Greater than 90 days	14,368	12,581
	$ 787,432	$ 606,779

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12-week period, quarterly through forecasting and annually through the Company's budget process. At March 31, 2022, the Company had cash of $96,336 (December 31, 2021 - $153,291) and banking facilities available as discussed in note 9. All of the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

On November 25, 2021, in light of the industry-wide semiconductor chip shortage resulting from the COVID-19 pandemic, the Company amended its lending agreement with its syndicate of banks to provide enhanced financial covenant flexibility as further described in note 9.

A summary of contractual maturities of long-term debt is provided in note 9.

(c) Interest rate risk

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

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

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

	Carrying amount			
		March 31, 2022		December 31, 2021
Variable rate instruments	$	959,739	$	945,703
Fixed rate instruments		58,651		65,287
	$	1,018,390	$	1,010,990

Sensitivity analysis

An increase of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $2,429 (2021 - $2,027) on the Company's interim condensed consolidated financial results for the three months ended March 31, 2022.

(d) Currency risk

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

At March 31, 2022, the Company had committed to the following foreign exchange contracts:

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

Currency		Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Mexican Peso	$	49,493	20.2050	1

The aggregate value of these forward contracts as at March 31, 2022 was a pre-tax gain of $837 and was recorded in trade and other receivables (December 31, 2021 - pre-tax gain of $4,744 recorded in trade and other receivables).

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

The Company previously entered into foreign exchange forward contracts to buy Canadian dollars in order to hedge the variability in certain cash flows of forecasted U.S. dollars sales due to fluctuations in foreign exchange rates. As at June 30, 2021, it was determined that the U.S. dollar sales transactions could no longer be forecasted with high probability, and accordingly the Company de-designated the hedging relationship and terminated certain forward contracts. The Company had no foreign exchange contracts accounted for as hedges and fair valued through other comprehensive income as at March 31, 2022 and December 31, 2021.

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

March 31, 2022		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	438,949	€	106,902	$	88,782	R$	51,235	¥	163,825
Trade and other payables		(562,881)		(224,163)		(783,872)		(53,250)		(150,721)
Long-term debt		(466,000)		(22,377)		—		—		—
	$	(589,932)	€	(139,638)	$	(695,090)	R$	(2,015)	¥	13,104

December 31, 2021		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	325,560	€	80,184	$	7,173	R$	50,853	¥	172,288
Trade and other payables		(470,909)		(211,312)		(610,024)		(45,658)		(157,723)
Long-term debt		(466,000)		(23,795)		—		—		—
	$	(611,349)	€	(154,923)	$	(602,851)	R$	5,195	¥	14,565

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

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

	Average rate		Closing rate	
	Three months ended March 31, 2022	Three months ended March 31, 2021	March 31, 2022	December 31, 2021
USD	1.2704	1.2769	1.2515	1.2653
EURO	1.4371	1.5473	1.3829	1.4398
PESO	0.0614	0.0635	0.0630	0.0617
BRL	0.2328	0.2396	0.2685	0.2274
CNY	0.2000	0.1966	0.1965	0.1993

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at March 31, would give rise to a translation risk on income and would have increased (decreased) equity, profit or loss and comprehensive income for the three months ended March 31, 2022 and 2021 by the amounts shown below, assuming all other variables remain constant:

	Three months ended March 31, 2022	Three months ended March 31, 2021
USD	$ (3,055)	$ (2,764)
EURO	(159)	339
BRL	(69)	37
CNY	(14)	(406)
	$ (3,297)	$ (2,794)

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

(e) Capital risk management

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

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

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

18. CONTINGENCIES

Contingencies

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

Legal contingency

In December 2020, a customer, FCA (Stellantis), filed a claim against two subsidiaries of the Company alleging a breach of contract connected to one of the Company's operating facilities in Mexico, alleging a shortage of casted aluminum engine blocks. The Company believes that the claim is unwarranted and that the parts shortage, if any, is due to FCA's actions. The Company's subsidiaries have sought external legal advice and believes the contract has been complied with, in all material respects, and will vigorously defend against the claim. No provision has been recorded by the Company in connection with this contingency as, at this stage, the Company has concluded that it is not probable that a liability will result from the matter.

Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately $62,762 (BRL $233,770) including interest and penalties to March 31, 2022 (December 31, 2021 - $53,607 or BRL $235,723). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The assessments are at various stages in the process. Three assessments of $46,393 (BRL $172,797) including interest and penalties as at March 31, 2022 have entered the judicial litigation process. The Company's subsidiary may be required to present guarantees related to these assessments up to $23,209 (BRL $86,447) shortly through a pledge of assets, bank letter of credit or cash deposit. No provision has been recorded by the Company in connection with this contingency as, at this stage, the Company has concluded that it is not probable that a liability will result from the matter.

19. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's interim condensed consolidated balance sheet. At March 31, 2022, the amount of the off-balance sheet program financing was $12,906 (December 31, 2021 - $18,574) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2021 or 2022. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory. The term of the guarantee will vary from program to program, but typically range up to twenty-four months.

MARTINREA INTERNATIONAL INC.

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