MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021

Martinrea International Inc.
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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note	June 30, 2021	December 31, 2020
ASSETS			
Cash and cash equivalents		$ 127,664	$ 152,786
Trade and other receivables	3	684,934	589,315
Inventories	4	599,619	492,659
Prepaid expenses and deposits		27,265	23,550
Income taxes recoverable		15,329	13,527
TOTAL CURRENT ASSETS		1,454,811	1,271,837
Property, plant and equipment	5	1,628,486	1,615,197
Right-of-use assets	6	178,268	192,630
Deferred tax assets		177,531	195,538
Intangible assets	7	48,524	52,644
Investments	8	54,559	40,557
TOTAL NON-CURRENT ASSETS		2,087,368	2,096,566
TOTAL ASSETS		$ 3,542,179	$ 3,368,403
LIABILITIES			
Trade and other payables		$ 1,087,490	$ 967,952
Provisions	9	8,049	4,258
Income taxes payable		15,637	13,230
Current portion of long-term debt	11	15,571	19,492
Current portion of lease liabilities	12	31,667	34,064
TOTAL CURRENT LIABILITIES		1,158,414	1,038,996
Long-term debt	11	905,506	815,730
Lease liabilities	12	163,783	177,749
Pension and other post-retirement benefits		61,402	74,030
Deferred tax liabilities		73,799	86,174
TOTAL NON-CURRENT LIABILITIES		1,204,490	1,153,683
TOTAL LIABILITIES		2,362,904	2,192,679
EQUITY			
Capital stock	14	663,259	662,427
Contributed surplus		44,270	43,860
Accumulated other comprehensive income		32,192	96,645
Retained earnings		439,554	372,792
TOTAL EQUITY		1,179,275	1,175,724
TOTAL LIABILITIES AND EQUITY		$ 3,542,179	$ 3,368,403

Contingencies (note 20)

Subsequent event (note 5)

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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
SALES		$ 884,866	$ 460,564	$ 1,882,016	$ 1,333,270
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(719,835)	(419,914)	(1,541,909)	(1,122,400)
Depreciation of property, plant and equipment and right-of-use assets (production)		(53,303)	(53,109)	(107,522)	(103,092)
Total cost of sales		(773,138)	(473,023)	(1,649,431)	(1,225,492)
GROSS MARGIN		111,728	(12,459)	232,585	107,778
Research and development costs		(8,187)	(5,234)	(15,996)	(14,687)
Selling, general and administrative		(60,494)	(47,534)	(121,244)	(104,942)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,916)	(3,844)	(7,755)	(7,715)
Restructuring costs	9	(4,444)	(8,170)	(5,473)	(8,170)
Loss on disposal of property, plant and equipment		(66)	-	(66)	-
Amortization of customer contracts and relationships		-	(341)	-	(641)
Impairment of assets	10	-	(85,783)	-	(85,783)
OPERATING INCOME (LOSS)		34,621	(163,365)	82,051	(114,160)
Share of loss of equity investments	8	(983)	(881)	(1,909)	(1,581)
Gain on dilution of equity investments	8	-	-	7,800	-
Finance expense	16	(7,896)	(8,286)	(16,307)	(17,748)
Other finance income (expense)	16	5,588	(4,286)	11,350	(3,156)
INCOME (LOSS) BEFORE INCOME TAXES		31,330	(176,818)	82,985	(136,645)
Income tax (expense) benefit	13	(7,378)	29,932	(20,332)	18,722
NET INCOME (LOSS) FOR THE PERIOD		$ 23,952	$ (146,886)	$ 62,653	$ (117,923)

	Note	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Basic earnings (loss) per share	15	$ 0.30	$ (1.84)	$ 0.78	$ (1.47)
Diluted earnings (loss) per share	15	$ 0.30	$ (1.84)	$ 0.78	$ (1.47)

See accompanying notes to the interim condensed consolidated financial statements.

Martinrea International Inc.

Interim Condensed Consolidated Statements of Comprehensive Income

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

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
NET INCOME (LOSS) FOR THE PERIOD	$ 23,952	$ (146,886)	$ 62,653	$ (117,923)
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	(26,009)	(33,963)	(62,366)	73,923
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized gain (loss) in fair value of financial instruments	-	2,515	892	(3,244)
Reclassification of loss (gain) to net income	(2,785)	312	(3,054)	507
Items that will not be reclassified to net income				
Share of other comprehensive income of equity investments (note 8)	67	45	75	71
Remeasurement of defined benefit plans	3,586	(4,547)	12,142	(10,296)
Other comprehensive income (loss), net of tax	(25,141)	(35,638)	(52,311)	60,961
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ (1,189)	$ (182,524)	$ 10,342	$ (56,962)

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, 2019	$ 661,422	42,449 $	89,107 $	425,445 $	1,218,423
Net loss for the period	-	-	-	(117,923)	(117,923)
Compensation expense related to stock options	-	1,208	-	-	1,208
Dividends ($0.10 per share)	-	-	-	(8,002)	(8,002)
Exercise of employee stock options	1,203	(347)	-	-	856
Repurchase of common shares	(2,474)	-	-	(893)	(3,367)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	(10,296)	(10,296)
Foreign currency translation differences	-	-	73,923	-	73,923
Share of other comprehensive income of equity investments	-	-	71	-	71
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized loss in fair value of financial instruments	-	-	(3,244)	-	(3,244)
Reclassification of loss to net income	-	-	507	-	507
BALANCE AT JUNE 30, 2020	660,151	43,310	160,364	288,331	1,152,156
Net income for the period	-	-	-	90,606	90,606
Compensation expense related to stock options	-	1,208	-	-	1,208
Dividends ($0.10 per share)	-	-	-	(8,028)	(8,028)
Exercise of employee stock options	2,276	(658)	-	-	1,618
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	1,883	1,883
Foreign currency translation differences	-	-	(70,023)	-	(70,023)
Share of other comprehensive loss of equity investments	-	-	(150)	-	(150)
Cash flow hedging derivative and non-derivative financial instruments:					
Unrealized gain in fair value of financial instruments	-	-	5,959	-	5,959
Reclassification of loss to net income	-	-	495	-	495
BALANCE AT DECEMBER 31, 2020	662,427	43,860	96,645	372,792	1,175,724
Net income for the period	-	-	-	62,653	62,653
Compensation expense related to stock options	-	606	-	-	606
Dividends ($0.10 per share)	-	-	-	(8,033)	(8,033)
Exercise of employee stock options	832	(196)	-	-	636
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	12,142	12,142
Foreign currency translation differences	-	-	(62,366)	-	(62,366)
Share of other comprehensive income of equity investments	-	-	75	-	75
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	-	-	(3,054)	-	(3,054)
BALANCE AT JUNE 30, 2021	$ 663,259 $	44,270 $	32,192 $	439,554 $	1,179,275

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 June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income (loss) for the period	$ 23,952	$ (146,886)	$ 62,653	$ (117,923)
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets	57,219	56,953	115,277	110,807
Amortization of customer contracts and relationships	-	341	-	641
Amortization of development costs	3,268	2,999	6,566	5,817
Impairment of assets (note 10)	-	85,783	-	85,783
Unrealized (gain) loss on foreign exchange forward contracts	(1,440)	211	(2,184)	319
Finance expense	7,896	8,286	16,307	17,748
Income tax expense (benefit)	7,378	(29,932)	20,332	(18,722)
Loss on disposal of property, plant and equipment	66	-	66	-
Deferred and restricted share units expense (benefit)	1,232	4,642	(475)	462
Stock options expense	266	604	606	1,208
Share of loss of equity investments	983	881	1,909	1,581
Gain on dilution of equity investments	-	-	(7,800)	-
Pension and other post-retirement benefits expense	1,000	1,284	2,015	2,534
Contributions made to pension and other post-retirement benefits	(939)	(2,524)	(1,877)	(3,336)
	100,881	(17,358)	213,395	86,919
Changes in non-cash working capital items:				
Trade and other receivables	(30,487)	143,119	(115,288)	141,582
Inventories	(79,943)	21,553	(127,939)	(22,707)
Prepaid expenses and deposits	(2,010)	8,305	(4,349)	6,414
Trade, other payables and provisions	44,542	(156,454)	144,401	(109,847)
	32,983	(835)	110,220	102,361
Interest paid	(8,247)	(8,559)	(17,423)	(18,480)
Income taxes paid	(9,438)	(2,468)	(20,084)	(14,211)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 15,298	$ (11,862)	$ 72,713	$ 69,670
FINANCING ACTIVITIES:				
Increase in long-term debt (net of deferred financing fees)	62,551	46,868	113,527	103,296
Repayment of long-term debt	(4,171)	(4,125)	(8,711)	(8,215)
Principal payments of lease liabilities	(8,409)	(7,914)	(17,002)	(15,279)
Dividends paid	(4,018)	(3,998)	(8,033)	(7,610)
Exercise of employee stock options	562	856	636	856
Repurchase of common shares	-	-	-	(3,367)
NET CASH PROVIDED BY FINANCING ACTIVITIES	$ 46,515	$ 31,687	$ 80,417	$ 69,681
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment (excluding capitalized interest)*	(74,990)	(41,832)	(165,801)	(115,886)
Business acquisition (note 2)	-	-	-	(10,503)
Capitalized development costs	(1,611)	(2,872)	(4,168)	(4,655)
Equity investments (note 8)	(4,036)	(5,000)	(8,036)	(5,000)
Proceeds on disposal of property, plant and equipment	139	-	139	266
NET CASH USED IN INVESTING ACTIVITIES	$ (80,498)	$ (49,704)	$ (177,866)	$ (135,778)
Effect of foreign exchange rate changes on cash and cash equivalents	1,001	(802)	(386)	3,288
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,684)	(30,681)	(25,122)	6,861
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	145,348	156,515	152,786	118,973
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 127,664	$ 125,834	$ 127,664	$ 125,834

*As at June 30, 2021, $63,648 (December 31, 2020 - $61,207) 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, 2020.

(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, 2020.

(c) COVID-19 pandemic

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

As a result of the COVID-19 global pandemic, in the middle of March 2020, the Company's OEM customers essentially idled their manufacturing operations in regions around the world, other than China, where manufacturing operations were suspended in January and February 2020, but resumed in March 2020. Martinrea, similar to others in the automotive supply chain, followed its customers and also temporarily idled most of its manufacturing operations outside of China in March 2020. This suspension of manufacturing operations and rapid dissipation of customer demand had a negative impact on the Company's business, results of operations, cash flows and financial position during the second half of March 2020 and for the second quarter ended June 30, 2020. A phased restart of the Company's manufacturing facilities and dependent functions commenced in May and June 2020, and continued into the second half of the 2020 as OEMs began producing vehicles again. The ultimate business and economic impacts of COVID-19 will depend on various factors, including the possibility of future shutdowns, the rate at which economic conditions, operations and demand for vehicles return to pre-COVID levels, any continued or future governmental orders or lock-downs due to any future wave of COVID-19, the potential for a recession in key markets due to the effect of the pandemic, and the impact on customers and suppliers, including the recent industry-wide shortage of semiconductor chips which has had a negative impact on OEM light vehicle production levels and customer demand globally in 2021 to date.

As a result of the uncertain economic and business impacts of the COVID-19 pandemic, management has reviewed the estimates, judgments and assumptions used in the preparation of the interim condensed consolidated financial statements, including the determination of whether indications of any asset impairment exist. As a result of this review, asset impairment charges were recognized during the second quarter of 2020. No such charges were recognized during the third or fourth quarters of 2020 or in 2021. Further revisions may be required in future periods depending on the extent of the negative impacts on the business arising from the COVID-19 pandemic, as it continues to evolve. Any such revisions (due to COVID-19 or otherwise) may result in, among other things, further asset impairments, restructuring costs, and/or adjustments to the carrying amounts of trade and other receivables and/or inventories, or to the valuation of deferred tax assets and/or pension assets or obligations, any of which could have a material impact on result of operations and financial position.

(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)

2. ACQUISITION

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa S.A, de C.V. The acquisition adds six manufacturing facilities to the Martinrea footprint, including facilities in Germany, the United States, Mexico, South Africa, and two in China. The largest customers of the acquired business are Daimler, BMW, Volkswagen and Audi.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3, Business Combinations, with the results of operations consolidated with those of the Company effective March 2, 2020.

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

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

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

Included in selling, general and administrative expense for the three and six months ended June 30, 2020 are transaction costs related to the acquisition totaling $942 and $2,489, respectively.

3. TRADE AND OTHER RECEIVABLES

		June 30, 2021		December 31, 2020
Trade receivables	$	657,286	$	568,839
Other receivables		25,464		18,003
Foreign exchange forward contracts not accounted for as hedges (note 19(d))		2,184		647
Foreign exchange forward contracts accounted for as hedges (note 19(d))		-		1,826
	$	684,934	$	589,315

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 19.

4. INVENTORIES

		June 30, 2021		December 31, 2020
Raw materials	$	218,597	$	168,321
Work in progress		60,458		48,608
Finished goods		49,329		39,096
Tooling work in progress and other inventory		271,235		236,634
	$	599,619	$	492,659

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

5. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2021			December 31, 2020		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 169,946	$ (29,439)	$ 140,507	$ 171,501	$ (27,355)	$ 144,146
Leasehold improvements	72,506	(47,589)	24,917	75,148	(48,025)	27,123
Manufacturing equipment	2,462,423	(1,382,484)	1,079,939	2,496,782	(1,350,004)	1,146,778
Tooling and fixtures	35,381	(31,829)	3,552	36,496	(32,491)	4,005
Other assets	68,707	(41,877)	26,830	72,432	(43,396)	29,036
Construction in progress	352,741	-	352,741	264,109	-	264,109
	$ 3,161,704	$ (1,533,218)	$ 1,628,486	$ 3,116,468	$ (1,501,271)	$ 1,615,197

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, 2019	$ 107,069	$ 29,391	$ 1,121,789	$ 5,132	$ 29,583	$ 248,931	$ 1,541,895
Additions	-	-	2,303	-	1,779	299,311	303,393
Additions from acquisition (note 2)	23,106	-	23,735	-	-	-	46,841
Disposals	-	-	(726)	(10)	(218)	(65)	(1,019)
Depreciation	(4,844)	(4,647)	(177,073)	(861)	(7,943)	-	(195,368)
Impairment (note 10)	-	-	(73,573)	(425)	(295)	(1,804)	(76,097)
Transfers from construction in progress	21,873	1,824	250,424	226	6,018	(280,365)	-
Foreign currency translation adjustment	(3,058)	555	(101)	(57)	112	(1,899)	(4,448)
Net as of December 31, 2020	144,146	27,123	1,146,778	4,005	29,036	264,109	1,615,197
Additions	-	-	641	-	486	168,913	170,040
Disposals	-	-	(174)	-	(31)	-	(205)
Depreciation	(3,156)	(2,012)	(89,346)	(332)	(4,176)	-	(99,022)
Transfers from construction in progress	4,571	563	62,160	-	2,290	(69,584)	-
Foreign currency translation adjustment	(5,054)	(757)	(40,120)	(121)	(775)	(10,697)	(57,524)
Net as of June 30, 2021	$ 140,507	$ 24,917	$ 1,079,939	$ 3,552	$ 26,830	$ 352,741	$ 1,628,486

On July 13, 2021, the Company entered into a six-year agreement in the amount of US $40,000 to finance the construction of certain equipment. As at June 30, 2021, included in construction in progress were construction costs of the equipment associated with the agreement totaling US $21,500 ($26,127). Quarterly payments are expected to commence no later than January 2022.

6. RIGHT-OF-USE ASSETS

	June 30, 2021			December 31, 2020		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	$ 234,019	$ (66,222)	$ 167,797	$ 233,434	$ (55,150)	$ 178,284
Leased manufacturing equipment	23,323	(13,989)	9,334	24,630	(11,656)	12,974
Leased other assets	3,119	(1,982)	1,137	3,351	(1,979)	1,372
	$ 260,461	$ (82,193)	$ 178,268	$ 261,415	$ (68,785)	$ 192,630

(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, 2019	$ 171,953	$ 14,900	$ 1,525	$ 188,378
Additions	15,242	3,143	643	19,028
Lease modifications	16,445	90	-	16,535
Depreciation	(25,169)	(5,828)	(973)	(31,970)
Impairment (note 10)	(451)	-	-	(451)
Foreign currency translation adjustment	264	669	177	1,110
Net as of December 31, 2020	$ 178,284	$ 12,974	$ 1,372	$ 192,630
Additions	2,155	-	240	2,395
Lease modifications	5,138	-	-	5,138
Depreciation	(12,763)	(3,070)	(422)	(16,255)
Foreign currency translation adjustment	(5,017)	(570)	(53)	(5,640)
Net as of June 30, 2021	$ 167,797	$ 9,334	$ 1,137	$ 178,268

7. INTANGIBLE ASSETS

	June 30, 2021			December 31, 2020		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Development costs	$ 131,296	$ (82,772)	$ 48,524	$ 151,203	$ (98,559)	$ 52,644

Movement in intangible assets is summarized as follows:

	Customer contracts and relationships	Development costs	Total
Net as of December 31, 2019	$ 1,753	$ 53,034	$ 54,787
Additions	-	12,304	12,304
Amortization	(1,835)	(11,807)	(13,642)
Impairment (note 10)	-	(707)	(707)
Foreign currency translation adjustment	82	(180)	(98)
Net as of December 31, 2020	-	52,644	52,644
Additions	-	4,168	4,168
Amortization	-	(6,566)	(6,566)
Foreign currency translation adjustment	-	(1,722)	(1,722)
Net as of June 30, 2021	$ -	$ 48,524	$ 48,524

8. INVESTMENTS

	June 30, 2021	December 31, 2020
Investment in common shares of NanoXplore Inc.	$ 50,523	$ 40,557
Investment in common shares of VoltaXplore Inc.	4,036	-
	$ 54,559	$ 40,557

As at June 30, 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). 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.

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

On February 12, 2021, NanoXplore completed a public offering of 11,500,000 common shares for gross proceeds of $46,000. In a separate transaction pon February 12, 2021, the Company purchased 1,000,000 common shares from NanoXplore's President and Chief Executive Officer for consideration of $4,000. Subsequent to these transactions, the Company's 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 $7,800 during the first quarter of 2021.

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.

The Company applies equity accounting to its equity investments based on NanoXplore's and VoltaXplore's 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.

	Investment in common shares of NanoXplore	Investment in common shares of VoltaXplore
Net balance as of December 31, 2019	$ 37,080	$ -
Additions to equity investments	5,000	-
Gain on dilution of equity investments	866	-
Share of loss for the year	(2,310)	-
Share of other comprehensive loss for the year	(79)	-
Net balance as of December 31, 2020	$ 40,557	$ -
Additions to equity investments	4,000	4,036
Gain on dilution of equity investments	7,800	-
Share of loss for the period	(1,909)	-
Share of other comprehensive income for the period	75	-
Net balance as of June 30, 2021	$ 50,523	$ 4,036

As at June 30, 2021, the stock market value of the shares held in NanoXplore by the Company was $156,655.

9. PROVISIONS

	Restructuring	Claims and Litigation	Total
Net as of December 31, 2019	$ 4,214	$ 4,370	$ 8,584
Net additions	8,170	662	8,832
Additions from acquisition (note 2)	26,258	-	26,258
Amounts used during the year	(38,320)	(1,295)	(39,615)
Foreign currency translation adjustment	1,038	(839)	199
Net as of December 31, 2020	1,360	2,898	4,258
Net additions	5,473	216	5,689
Amounts used during the year	(1,082)	(631)	(1,713)
Foreign currency translation adjustment	(157)	(28)	(185)
Net as of June 30, 2021	$ 5,594	$ 2,455	$ 8,049

Additions to the restructuring provision for the six months ended June 30, 2021 totaled $5,473 and represent employee-related severance resulting from the rightsizing of an operating facility in Germany.

Based on estimated cash outflows, all provisions as at June 30, 2021 and December 31, 2020 are presented as current liabilities.

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

10. IMPAIRMENT OF ASSETS

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
North America	$ -	$ (72,159)	$ -	$ (72,159)
Europe	-	(1,280)	-	(1,280)
Rest of the World	-	(12,344)	-	(12,344)
Total impairment	$ -	$ (85,783)	$ -	$ (85,783)

The Company evaluates its non-financial assets and cash-generating units ("CGU") for impairment whenever events or circumstances indicate the value of an asset or CGU is not recoverable.

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

11. LONG-TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 19.

	June 30, 2021	December 31, 2020
Banking facility	$ 870,921	$ 773,772
Equipment loans	50,156	61,450
	921,077	835,222
Current portion	(15,571)	(19,492)
	$ 905,506	$ 815,730

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

	Currency	Nominal interest rate	Year of maturity	June 30, 2021 Carrying amount	December 31, 2020 Carrying amount
Banking facility	USD	LIBOR + 2.25%	2025	$ 518,725	$ 427,646
	CAD	BA + 2.25%	2025	352,196	346,126
Equipment loans	EUR	1.05%	2024	16,212	20,239
	CAD	3.80%	2022	11,419	15,555
	EUR	1.40%	2026	12,292	14,454
	EUR	2.46%	2026	9,649	10,265
	EUR	0.00%	2028	365	389
	EUR	0.26%	2025	219	258
	EUR	1.36%	2021	-	290
				$ 921,077	$ 835,222

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:

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

- 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 (starting in the third quarter of 2021);
- a maturity date of April 2025; and
- no mandatory principal repayment provisions.

As at June 30, 2021, the Company had drawn US $421,000 (December 31, 2020 - US $336,000) on the U.S. revolving credit line and $356,000 (December 31, 2020 - $348,000) on the Canadian revolving credit line. At June 30, 2021, the weighted average effective interest rate of the banking facility credit lines was 2.7% (December 31, 2020 - 2.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2021.

Deferred financing fees of $3,804 (December 31, 2020 - $1,874) have been netted against the carrying amount of the long-term debt.

On May 19, 2021, the Company amended an existing equipment loan in the amount of €6,600 ($9,649) extending its maturity date from 2023 to 2026, postponing the commencement of monthly installments from 2021 to 2022, and increasing the fixed annual interest rate from 2.00% to 2.46%.

Future annual minimum principal repayments as at June 30, 2021 are as follows:

		Scheduled principal repayments		**Scheduled amortization of deferred financing fees**		**Carrying amount of outstanding loans**
Within one year	$	17,224	$	(1,653)	$	15,571
One to two years		13,670		(809)		12,861
Two to three years		9,948		(732)		9,216
Three to four years		879,952		(610)		879,342
Thereafter		4,087		-		4,087
	$	924,881	$	(3,804)	$	921,077

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2019	$	781,573
Drawdowns		94,424
Loan proceeds		10,339
Repayments		(43,462)
Deferred financing fee additions		(1,254)
Amortization of deferred financing fees		1,758
Foreign currency translation adjustment		(8,156)
Net as of December 31, 2020	$	835,222
Drawdowns		116,451
Repayments		(8,711)
Deferred financing fee additions		(2,924)
Amortization of deferred financing fees		994
Foreign currency translation adjustment		(19,955)
Net as of June 30, 2021	$	921,077

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

12. LEASE LIABILITIES

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

Movement in lease liabilities is summarized as follows:

		Total
Net as of December 31, 2019	$	202,352
Net additions		19,028
Lease modifications		16,496
Additions from acquisition (note 2)		5,507
Principal payments of lease liabilities		(32,966)
Foreign currency translation adjustment		1,396
Net as of December 31, 2020	$	211,813
Net additions		2,395
Lease modifications		5,138
Principal payments of lease liabilities		(17,002)
Termination of leases		(788)
Foreign currency translation adjustment		(6,106)
Net as of June 30, 2021	$	195,450

The maturity of contractual undiscounted lease liabilities as at June 30, 2021 is as follows:

		Total
Within one year	$	38,770
One to two years		35,327
Two to three years		31,907
Three to four years		27,416
Thereafter		93,277
Total undiscounted lease liabilities at June 30, 2021	$	226,697
Interest on lease liabilities		(31,247)
Total present value of minimum lease payments	$	195,450
Current portion		(31,667)
	$	163,783

13. INCOME TAXES

The components of income tax benefit (expense) are as follows:

		Three months ended June 30, 2021		**Three months ended June 30, 2020**		**Six months ended June 30, 2021**		**Six months ended June 30, 2020**
Current income tax (expense) benefit	$	(10,200)	$	6,105	$	(21,375)	$	(9,520)
Deferred income tax recovery (expense)		2,822		23,827		1,043		28,242
Total income tax benefit (expense)	$	(7,378)	$	29,932	$	(20,332)	$	18,722

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

14. CAPITAL STOCK

Common shares outstanding:	Number		Amount
Balance as of December 31, 2019	80,261,080	$	661,422
Exercise of stock options	116,700		1,203
Repurchase of common shares under normal course issuer bid	(300,185)		(2,474)
Balance as of June 30, 2020	80,077,595	$	660,151
Exercise of stock options	216,500		2,276
Balance as of December 31, 2020	80,294,095	$	662,427
Exercise of stock options	58,000		832
Balance as of June 30, 2021	80,352,095	$	663,259

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

Repurchase of capital stock

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

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

Stock options

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

	Six months ended June 30, 2021			Six months ended June 30, 2020		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of period	2,777,500	$	13.25	3,010,700	$	12.57
Granted during the period	-		-	100,000		14.35
Exercised during the period	(58,000)		11.06	(116,700)		7.33
Cancelled during the period	(62,000)		14.04	-		-
Balance, end of period	2,657,500	$	13.28	2,994,000	$	12.83
Options exercisable, end of period	1,521,500	$	12.66	1,425,000	$	11.35

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2021:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$7.03 - 8.70	35,000	2011 - 2012	2021 - 2022
$10.40 - 12.63	812,500	2012 - 2014	2022 - 2024
$13.19 - 16.06	1,810,000	2015 - 2020	2025 - 2030
Total share purchase options	2,657,500		

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 and six months ended June 30, 2021, the Company expensed $266 (2020 - $604) and $606 (2020 - $1,208), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes-Merton option valuation model.

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

Deferred Share Unit ("DSU") Plan

The following is a summary of the issued and outstanding DSUs as at June 30, 2021 and 2020:

	Six months ended June 30, 2021	Six months ended June 30, 2020
Outstanding, beginning of period	331,291	246,114
Granted and reinvested dividends	26,234	96,702
Redeemed	-	-
Outstanding, end of period	357,525	342,816

The DSUs granted during the six months ended June 30, 2021 and 2020 had a weighted average fair value per unit of $13.53 and $7.80, respectively, on the date of grant. At June 30, 2021, the fair value of all outstanding DSUs amounted to $4,112 (June 30, 2020 - $3,406 and December 31, 2020 - $4,069). For the three and six months ended June 30, 2021, DSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to an expense of $475 (2020 - expense of $1,672) and an expense of $43 (2020 - expense of $664), respectively, recorded in selling, general and administrative expense.

Unrecognized DSU compensation expense as at June 30, 2021 was $686 (June 30, 2020 - $337, December 31, 2020 - $983) and will be recognized in profit and loss over three years as the DSUs vest.

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

The following is a summary of the issued and outstanding RSUs and PSUs for the six months ended June 30, 2021 and 2020:

	RSUs	PSUs	Total
Outstanding, December 31, 2019	451,815	450,813	902,628
Granted and reinvested dividends	18,522	18,522	37,044
Redeemed	-	-	-
Cancelled	-	-	-
Outstanding, June 30, 2020	470,337	469,335	939,672
Granted and reinvested dividends	85,109	85,109	170,218
Redeemed	(203,834)	(202,745)	(406,579)
Cancelled	(9,437)	(9,181)	(18,618)
Outstanding, December 31, 2020	342,175	342,518	684,693
Granted and reinvested dividends	63,859	63,859	127,718
Redeemed	-	-	-
Cancelled	(679)	(1,022)	(1,701)
Outstanding, June 30, 2021	405,355	405,355	810,710

The RSUs and PSUs granted during the six months ended June 30, 2021 and 2020 had a weighted average fair value per unit of $14.46 and $13.10, respectively, on the date of grant. For the three and six months ended June 30, 2021, 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 an expense of $757 (2020 - expense of $2,970) and a benefit of $518 (2020 - benefit of $202), respectively, recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at June 30, 2021 was $2,159 (June 30, 2020 - $2,999 and December 31, 2020 - $3,481) and will be recognized in profit and loss over three years as the RSUs and PSUs vest.

The key assumptions used in the valuation of PSUs granted during the six months ended June 30, 2021 and 2020 are shown in the table below:

	Six months ended June 30, 2021	Six months ended June 30, 2020
Expected life (years)	2.66	2.78
Risk free interest rate	0.43%	0.95%

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

15. EARNINGS (LOSS) PER SHARE

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

	Three months ended June 30, 2021			Three months ended June 30, 2020		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	80,328,906	$	0.30	79,960,895	$	(1.84)
Effect of dilutive securities:						
Stock options	129,530		-	-		-
Diluted	80,458,436	$	0.30	79,960,895	$	(1.84)

	Six months ended June 30, 2021			Six months ended June 30, 2020		
	Weighted average number of shares		Per common share amount	Weighted average number of shares		Per common share amount
Basic	80,312,448	$	0.78	80,040,655	$	(1.47)
Effect of dilutive securities:						
Stock options	174,659		-	-		-
Diluted	80,487,107	$	0.78	80,040,655	$	(1.47)

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 and six months ended June 30, 2021, 1,150,000 options (2020 - 2,994,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

16. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

		Three months ended June 30, 2021		Three months ended June 30, 2020		Six months ended June 30, 2021		Six months ended June 30, 2020
Debt interest, gross	$	(7,039)	$	(6,609)	$	(14,140)	$	(14,475)
Interest on lease liabilities		(1,916)		(2,233)		(3,965)		(4,374)
Capitalized interest - at an average rate of 2.6%, 2.7% (2020 - 3.4%, 3.7%)		1,059		556		1,798		1,101
Finance expense	$	(7,896)	$	(8,286)	$	(16,307)	$	(17,748)

		Three months ended June 30, 2021		Three months ended June 30, 2020		Six months ended June 30, 2021		Six months ended June 30, 2020
Net foreign exchange gain (loss)	$	5,185	$	(4,330)	$	10,484	$	(3,295)
Unrealized loss on warrants		-		-		-		(5)
Other income, net		403		44		866		144
Other finance income (expense)	$	5,588	$	(4,286)	$	11,350	$	(3,156)

17. GOVERNMENT SUBSIDIES

In response to the COVID-19 pandemic, the governments of various jurisdictions in which the Company has operations have approved legislation to assist businesses adversely impacted by COVID-19 with the intent of preventing job losses and better position companies to resume normal operations following the crisis. The Company determined that it qualified for certain government assistance and recognized $8,512 (2020 – $27,873) and $13,286 (2020 – $27,873) for the three and six months ended June 30, 2021, respectively, in subsidies. These amounts are not repayable and were recognized as a deduction of the related expenses recorded in cost of sales of $7,971 (2020 – $24,690) for the three months ended June 30, 2021 and $12,067 (2020 – $24,690) for the six months ended June 30, 2021, and as a deduction in selling, general and administrative expenses of $541 (2020 – $3,183) for the three months ended June 30, 2021 and $1,219 (2020 – $3,183) for the six months ended June 30, 2021. In addition, for the three and six months ended June 30, 2021, the Company recognized $549 (2020 – nil) and $1,148 (2020 – nil), respectively, in subsidies related to commercial rent and property expenses for qualifying locations in Canada.

18. OPERATING SEGMENTS

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

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the differences 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, 2020. 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 June 30, 2021			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income (loss)**
North America				
Canada	$ 109,739	$ 52,378	$ 162,117	
USA	209,289	16,151	225,440	
Mexico	318,469	15,902	334,371	
Eliminations	(35,938)	(50,167)	(86,105)	
	$ 601,559	$ 34,264	$ 635,823	$ 38,400
Europe				
Germany	166,237	9,314	175,551	
Spain	24,987	263	25,250	
Slovakia	9,023	1,152	10,175	
	200,247	10,729	210,976	(8,837)
Rest of the World	43,517	1,039	44,556	5,058
Eliminations	(6,391)	(98)	(6,489)	
	$ 838,932	$ 45,934	$ 884,866	$ 34,621

	Three months ended June 30, 2020			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income (loss)**
North America				
Canada	$ 58,351	$ 2,145	$ 60,496	
USA	117,612	8,004	125,616	
Mexico	131,092	17,051	148,143	
Eliminations	(13,082)	(3,039)	(16,121)	
	$ 293,973	$ 24,161	$ 318,134	$ (120,054)
Europe				
Germany	69,604	13,060	82,664	
Spain	9,626	549	10,175	
Slovakia	6,273	876	7,149	
	85,503	14,485	99,988	(36,243)
Rest of the World	41,903	3,904	45,807	(7,068)
Eliminations	(2,577)	(788)	(3,365)	
	$ 418,802	$ 41,762	$ 460,564	$ (163,365)

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

Six months ended June 30, 2021	Production Sales	Tooling Sales	Total Sales	Operating Income (loss)
North America				
Canada	$ 214,148	$ 94,860	$ 309,008	
USA	464,095	51,993	516,088	
Mexico	639,434	23,395	662,829	
Eliminations	(70,483)	(77,489)	(147,972)	
	$ 1,247,194	$ 92,759	$ 1,339,953	$ 82,435
Europe				
Germany	355,479	21,833	377,312	
Spain	63,961	944	64,905	
Slovakia	20,890	1,938	22,828	
	440,330	24,715	465,045	(10,208)
Rest of the World	88,559	2,510	91,069	9,824
Eliminations	(13,059)	(992)	(14,051)	
	$ 1,763,024	$ 118,992	$ 1,882,016	$ 82,051

Six months ended June 30, 2020	Production Sales	Tooling Sales	Total Sales	Operating Income (loss)
North America				
Canada	$ 180,317	$ 27,860	$ 208,177	
USA	396,098	17,151	413,249	
Mexico	420,926	39,756	460,682	
Eliminations	(53,015)	(23,431)	(76,446)	
	$ 944,326	$ 61,336	$ 1,005,662	$ (71,422)
Europe				
Germany	171,486	18,987	190,473	
Spain	48,122	1,850	49,972	
Slovakia	16,395	3,045	19,440	
	236,003	23,882	259,885	(36,206)
Rest of the World	65,544	8,122	73,666	(6,532)
Eliminations	(4,595)	(1,348)	(5,943)	
	$ 1,241,278	$ 91,992	$ 1,333,270	$ (114,160)

19. FINANCIAL INSTRUMENTS

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

Fair Value

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

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

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

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

	June 30, 2021			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 127,664	$ 127,664	$ -	$ -
Foreign exchange forward contracts not accounted for as hedges (note 3)	$ 2,184	$ -	$ 2,184	$ -

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

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:

June 30, 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	$ -	$ -	$ 682,750	$ -	$ 682,750	$ 682,750
Foreign exchange forward contracts not accounted for as hedges	2,184	-	-	-	2,184	2,184
	2,184	-	682,750	-	684,934	684,934
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(1,087,490)	(1,087,490)	(1,087,490)
Long-term debt	-	-	-	(921,077)	(921,077)	(921,077)
	-	-	-	(2,008,567)	(2,008,567)	(2,008,567)
Net financial assets (liabilities)	$ 2,184	$ -	$ 682,750	$ (2,008,567)	$ (1,323,633)	$ (1,323,633)

December 31, 2020	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 586,842	$ -	$ 586,842	$ 586,842
Foreign exchange forward contracts not accounted for as hedges	647	-	-	-	647	647
Foreign exchange forward contracts accounted for as hedges	-	1,826	-	-	1,826	1,826
	647	1,826	586,842	-	589,315	589,315
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(967,952)	(967,952)	(967,952)
Long-term debt	-	-	-	(835,222)	(835,222)	(835,222)
	-	-	-	(1,803,174)	(1,803,174)	(1,803,174)
Net financial assets (liabilities)	$ 647	$ 1,826	$ 586,842	$ (1,803,174)	$ (1,213,859)	$ (1,213,859)

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.

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

(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 31.1%, 19.3%, and 13.5% of its production sales for the six months ended June 30, 2021 (2020 - 33.4%, 26.0%, and 11.3%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at June 30, 2021 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:

		June 30, 2021		December 31, 2020
0-60 days	$	644,594	$	547,727
61-90 days		3,657		6,286
Greater than 90 days		9,035		14,826
	$	657,286	$	568,839

(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 June 30, 2021, the Company had cash of $127,664 (2020 - $152,786) and banking facilities available as discussed in note 11. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

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

(c) Interest rate risk

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

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

	Carrying amount			
		June 30, 2021		December 31, 2020
Variable rate instruments	$	870,921	$	773,772
Fixed rate instruments		50,156		61,450
	$	921,077	$	835,222

Sensitivity analysis

An increase of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $2,232 (2020 - $2,058) on the Company's interim condensed consolidated financial results for the three months ended June 30, 2021 and $4,259 (2020 - $3,953) for the six months ended June 30, 2021.

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

(d) Currency risk

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

At June 30, 2021, 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	$	43,668	20.6100	1

The aggregate value of these forward contracts as at June 30, 2021 was a pre-tax gain of $2,184 and was recorded in trade and other receivables (December 31, 2020 - pre-tax gain of $647 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. dollar sales due to fluctuations in foreign exchange rates. As at June 30, 2021 the U.S. dollar sales transactions can 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 OCI as at June 30, 2021 (December 31, 2020 - pre-tax gain of $1,826 recorded in trade and other receivables).

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

June 30, 2021		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	365,038	€	89,869	$	14,821	R$	40,959	¥	151,343
Trade and other payables		(492,686)		(196,028)		(856,805)		(43,802)		(174,800)
Long-term debt		(421,000)		(26,498)		-		-		-
	$	(548,648)	€	(132,657)	$	(841,984)	R$	(2,843)	¥	(23,457)

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

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

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020	June 30, 2021	December 31, 2020
USD	1.2398	1.3934	1.2583	1.3555	1.2321	1.2728
EURO	1.4895	1.5224	1.5184	1.4893	1.4619	1.5553
PESO	0.0611	0.0608	0.0623	0.0652	0.0623	0.0640
BRL	0.2262	0.2698	0.2329	0.2922	0.2438	0.2453
CNY	0.1915	0.1973	0.1940	0.1931	0.1908	0.1949

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 June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2021 and 2020 by the amounts shown below, assuming all other variables remain constant:

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

	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
USD	$ (2,282)	$ 10,189	$ (5,045)	$ 6,496
EURO	899	2,688	1,238	2,475
BRL	(25)	1,056	12	1,258
CNY	(382)	(183)	(787)	(301)
	$ (1,790)	$ 13,750	$ (4,582)	$ 9,928

A weakening of the Canadian dollar against the above currencies at June 30, 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.

20. 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, Fiat Chrysler (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 part shortage, if any, is due to FCA's actions. The Company's subsidiaries have sought external legal advice and believes that 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 $54,961 (BRL $225,438) including interest and penalties to June 30, 2021 (December 31, 2020 - $55,003 or BRL $224,192). 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. Two assessments of $41,933 (BRL $172,000) including interest and penalties as at June 30, 2021 have entered the judicial litigation process. The Company's subsidiary may be required to present guarantees related to these assessments up to $17,310 (BRL $71,000) shortly through a pledge of assets, bank letter of credit or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

21. 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 June 30, 2021, the amount of the off-balance sheet program financing was $40,516 (December 31, 2020 - $42,863) 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 2020 or 2021. 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.