MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2022

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note		June 30, 2022		December 31, 2021
ASSETS					
Cash and cash equivalents		$	115,863	$	153,291
Trade and other receivables	2		833,749		634,184
Inventories	3		643,854		590,784
Prepaid expenses and deposits			29,750		23,892
Income taxes recoverable			5,265		18,609
TOTAL CURRENT ASSETS			1,628,481		1,420,760
Property, plant and equipment	4		1,774,340		1,727,914
Right-of-use assets	5		226,660		222,934
Deferred tax assets			151,810		138,612
Intangible assets			46,217		47,809
Investments	6		58,311		55,215
TOTAL NON-CURRENT ASSETS			2,257,338		2,192,484
TOTAL ASSETS		$	3,885,819	$	3,613,244
LIABILITIES					
Trade and other payables	7	$	1,302,481	$	1,110,350
Provisions	8		7,124		6,272
Income taxes payable			21,297		11,955
Current portion of long-term debt	9		18,165		20,173
Current portion of lease liabilities	10		40,059		39,322
TOTAL CURRENT LIABILITIES			1,389,126		1,188,072
Long-term debt	9		1,028,776		990,817
Lease liabilities	10		203,560		200,455
Pension and other post-retirement benefits			32,992		49,530
Deferred tax liabilities			15,578		14,595
TOTAL NON-CURRENT LIABILITIES			1,280,906		1,255,397
TOTAL LIABILITIES			2,670,032		2,443,469
EQUITY					
Capital stock	12		663,646		663,415
Contributed surplus			45,176		44,845
Accumulated other comprehensive income			41,953		51,207
Retained earnings			465,012		410,308
TOTAL EQUITY			1,215,787		1,169,775
TOTAL LIABILITIES AND EQUITY		$	3,885,819	$	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 June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
SALES		$ 1,113,875	$ 884,866	$ 2,268,913	$ 1,882,016
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(925,762)	(719,835)	(1,896,707)	(1,541,909)
Depreciation of property, plant and equipment and right-of-use assets (production)		(62,324)	(53,303)	(123,981)	(107,522)
Total cost of sales		(988,086)	(773,138)	(2,020,688)	(1,649,431)
GROSS MARGIN		125,789	111,728	248,225	232,585
Research and development costs		(8,289)	(8,187)	(17,401)	(15,996)
Selling, general and administrative		(68,130)	(60,494)	(133,453)	(121,244)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(3,909)	(3,916)	(7,624)	(7,755)
Gain (loss) on disposal of property, plant and equipment		82	(66)	82	(66)
Restructuring costs	8	—	(4,444)	(4,237)	(5,473)
OPERATING INCOME		45,543	34,621	85,592	82,051
Share of loss of equity investments	6	(1,265)	(983)	(2,366)	(1,909)
Gain on dilution of equity investments	6	—	—	4,050	7,800
Finance expense	14	(11,346)	(7,896)	(20,600)	(16,307)
Other finance income	14	1,446	5,588	1,130	11,350
INCOME BEFORE INCOME TAXES		34,378	31,330	67,806	82,985
Income tax expense	11	(8,907)	(7,378)	(17,127)	(20,332)
NET INCOME FOR THE PERIOD		$ 25,471	$ 23,952	$ 50,679	$ 62,653
Basic earnings per share	13	$ 0.32	$ 0.30	$ 0.63	$ 0.78
Diluted earnings per share	13	$ 0.32	$ 0.30	$ 0.63	$ 0.78

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 June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
NET INCOME FOR THE PERIOD	$ 25,471	$ 23,952	$ 50,679	$ 62,653
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	17,899	(26,009)	(9,539)	(62,366)
Cash flow hedging derivative and non-derivative financial instruments:				
Unrealized gain in fair value of financial instruments	—	—	—	892
Reclassification of gain to net income	—	(2,785)	—	(3,054)
Items that will not be reclassified to net income				
Share of other comprehensive income of equity investments (note 6)	306	67	285	75
Remeasurement of defined benefit plans	2,957	3,586	12,063	12,142
Other comprehensive income (loss), net of tax	21,162	(25,141)	2,809	(52,311)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	$ 46,633	$ (1,189)	$ 53,488	$ 10,342

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	—	—	—	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
Net loss for the period	—	—	—	(26,773)	(26,773)
Compensation expense related to stock options	—	618	—	—	618
Dividends ($0.10 per share)	—	—	—	(8,037)	(8,037)
Exercise of employee stock options	156	(43)	—	—	113
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	—	—	—	5,564	5,564
Foreign currency translation differences	—	—	19,846	—	19,846
Share of other comprehensive income of equity investments	—	—	129	—	129
Cash flow hedging derivative and non-derivative financial instruments:					
Reclassification of gain to net loss	—	—	(960)	—	(960)
BALANCE AT DECEMBER 31, 2021	663,415	44,845	51,207	410,308	1,169,775
Net income for the period	—	—	—	50,679	50,679
Compensation expense related to stock options	—	391	—	—	391
Dividends ($0.10 per share)	—	—	—	(8,038)	(8,038)
Exercise of employee stock options	231	(60)	—	—	171
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	—	—	—	12,063	12,063
Foreign currency translation differences	—	—	(9,539)	—	(9,539)
Share of other comprehensive income of equity investments	—	—	285	—	285
BALANCE AT JUNE 30, 2022	$ 663,646	$ 45,176	$ 41,953	$ 465,012	$ 1,215,787

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, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income for the period	$ 25,471	$ 23,952	$ 50,679	$ 62,653
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets	66,233	57,219	131,605	115,277
Amortization of development costs	2,598	3,268	5,319	6,566
Unrealized loss (gain) on foreign exchange forward contracts	2,593	(1,440)	1,756	(2,184)
Finance expense	11,346	7,896	20,600	16,307
Income tax expense	8,907	7,378	17,127	20,332
Loss (gain) on disposal of property, plant and equipment	(82)	66	(82)	66
Deferred and restricted share units expense (benefit)	1,632	1,232	545	(475)
Stock options expense	195	266	391	606
Share of loss of equity investments	1,265	983	2,366	1,909
Gain on dilution of equity investments	—	—	(4,050)	(7,800)
Pension and other post-retirement benefits expense	854	1,000	1,722	2,015
Contributions made to pension and other post-retirement benefits	(295)	(939)	(1,660)	(1,877)
	120,717	100,881	226,318	213,395
Changes in non-cash working capital items:				
Trade and other receivables	(12,287)	(30,487)	(202,699)	(115,288)
Inventories	(34,946)	(79,943)	(58,128)	(127,939)
Prepaid expenses and deposits	(2,201)	(2,010)	(5,850)	(4,349)
Trade, other payables and provisions	68,031	44,542	221,636	144,401
	139,314	32,983	181,277	110,220
Interest paid	(14,012)	(8,247)	(23,971)	(17,423)
Income taxes paid	(7,963)	(9,438)	(9,974)	(20,084)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 117,339	$ 15,298	$ 147,332	$ 72,713
FINANCING ACTIVITIES:				
Increase in long-term debt (net of deferred financing fees)	17,519	62,551	37,519	113,527
Repayment of long-term debt	(5,662)	(4,171)	(11,021)	(8,711)
Principal payments of lease liabilities	(11,829)	(8,409)	(20,323)	(17,002)
Dividends paid	(4,019)	(4,018)	(8,037)	(8,033)
Exercise of employee stock options	171	562	171	636
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$ (3,820)	$ 46,515	$ (1,691)	$ 80,417
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment (excluding capitalized interest)*	(85,570)	(74,990)	(173,114)	(165,801)
Capitalized development costs	(2,287)	(1,611)	(3,626)	(4,168)
Equity investments (note 6)	—	(4,036)	(1,000)	(8,036)
Proceeds on disposal of property, plant and equipment	416	139	416	139
NET CASH USED IN INVESTING ACTIVITIES	$ (87,441)	$ (80,498)	$ (177,324)	$ (177,866)
Effect of foreign exchange rate changes on cash and cash equivalents	(6,551)	1,001	(5,745)	(386)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,527	(17,684)	(37,428)	(25,122)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	96,336	145,348	153,291	152,786
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 115,863	$ 127,664	$ 115,863	$ 127,664

*As at June 30, 2022, $95,956 (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.

Since then, despite vaccination efforts and the lifting of governmental restrictions in many countries, 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 on the Company and/or the automotive industry 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 resulting impact on customers and suppliers, including inflationary cost increases for wages, materials, energy, and other costs, 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 between Russia and Ukraine.

OEM customers have taken a number of actions in response to COVID-19, 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, including overall inflationary cost increases. While the Company experienced some recovery in production volumes during the first half of 2022, it remains unclear when supply and demand for automotive semiconductor chips will fully 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 a 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

	June 30, 2022	December 31, 2021
Trade receivables	$ 795,879	$ 606,779
Other receivables	37,870	22,661
Foreign exchange forward contracts not accounted for as hedges (note 17(d))	—	4,744
	$ 833,749	$ 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

	June 30, 2022	December 31, 2021
Raw materials	$ 245,369	$ 226,138
Work in progress	84,009	66,722
Finished goods	51,601	56,404
Tooling work in progress and other inventory	262,875	241,520
	$ 643,854	$ 590,784

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

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 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	$ 182,326	$ (36,470)	$ 145,856	$ 179,249	$ (33,135)	$ 146,114
Leasehold improvements	77,588	(51,980)	25,608	74,665	(50,056)	24,609
Manufacturing equipment	2,816,309	(1,602,173)	1,214,136	2,716,949	(1,492,994)	1,223,955
Tooling and fixtures	36,723	(33,497)	3,226	36,197	(32,772)	3,425
Other assets	77,809	(48,915)	28,894	73,995	(45,232)	28,763
Construction in progress	356,620	—	356,620	301,048	—	301,048
	$ 3,547,375	$ (1,773,035)	$ 1,774,340	$ 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	—	—	279	13	1,006	157,782	159,080
Disposals	—	—	(57)	—	(6)	(271)	(334)
Depreciation	(2,953)	(1,808)	(101,857)	(252)	(4,292)	—	(111,162)
Transfers from construction in progress	1,494	3,196	93,758	—	3,830	(102,278)	—
Foreign currency translation adjustment	1,201	(389)	(1,942)	40	(407)	339	(1,158)
Net as of June 30, 2022	$ 145,856	$ 25,608	$ 1,214,136	$ 3,226	$ 28,894	$ 356,620	$ 1,774,340

5. RIGHT-OF-USE ASSETS

	June 30, 2022			December 31, 2021		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	$ 263,855	$ (93,368)	$ 170,487	$ 247,757	$ (80,125)	$ 167,632
Leased manufacturing equipment	77,333	(22,435)	54,898	70,568	(16,722)	53,846
Leased other assets	3,760	(2,485)	1,275	3,846	(2,390)	1,456
	$ 344,948	$ (118,288)	$ 226,660	$ 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	7,480	218	15,377
Lease modifications	8,983	(85)	—	8,898
Depreciation	(13,526)	(6,558)	(359)	(20,443)
Foreign currency translation adjustment	(281)	215	(40)	(106)
Net as of June 30, 2022	$ 170,487	$ 54,898	$ 1,275	$ 226,660

6. INVESTMENTS

	June 30, 2022	December 31, 2021
Investment in common shares of NanoXplore Inc.	$ 51,063	$ 48,748
Investment in common shares of VoltaXplore Inc.	4,579	3,925
Investment in common shares and convertible debentures of AlumaPower Corp.	2,669	2,542
	$ 58,311	$ 55,215

As at June 30, 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.

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 June 30, 2022, the Company held 14,952 of each class A and class C shares and $1,365 (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.

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

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	(2,020)	(346)
Share of other comprehensive income for the period	285	—
Net as of June 30, 2022	$ 51,063	$ 4,579

As at June 30, 2022, the market value of the shares held in NanoXplore by the Company was $115,301.

7. TRADE AND OTHER PAYABLES

	June 30, 2022	December 31, 2021
Trade accounts payable and accrued liabilities	$ 1,300,725	$ 1,110,350
Foreign exchange forward contracts not accounted for as hedges (note 17(d))	1,756	—
	$ 1,302,481	$ 1,110,350

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 17.

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	321	4,558
Amounts used during the period	(2,998)	(799)	(3,797)
Foreign currency translation adjustment	(107)	198	91
Net as of June 30, 2022	$ 4,317	$ 2,807	$ 7,124

Additions to the restructuring provision during the six months ended June 30, 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.

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

	June 30, 2022	December 31, 2021
Banking facility	$ 989,661	$ 945,703
Equipment loans	57,280	65,287
	1,046,941	1,010,990
Current portion	(18,165)	(20,173)
	$ 1,028,776	$ 990,817

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

	Currency	Nominal interest rate	Year of maturity	June 30, 2022 Carrying amount	December 31, 2021 Carrying amount
Banking facility	USD	LIBOR + 3.00%	2025	$ 612,638	$ 589,651
	CAD	BA + 3.00%	2025	377,023	356,052
Equipment loans	CAD	2.54%	2026	21,449	23,824
	EUR	1.05%	2024	9,734	13,183
	EUR	1.40%	2026	8,932	10,823
	EUR	2.46%	2026	8,552	9,502
	CAD	5.22%	2025	5,000	—
	CAD	3.80%	2022	2,909	7,204
	EUR	0.00%	2028	547	584
	EUR	0.26%	2025	157	167
				$ 1,046,941	$ 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.

As at June 30, 2022, the Company had drawn US $476,000 (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 June 30, 2022, the weighted average effective interest rate of the banking facility credit lines was 4.9% (December 31, 2021 - 2.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2022.

Deferred financing fees of $2,977 (December 31, 2021 - $3,948) have been netted against the carrying amount of the long-term debt.

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

On June 27, 2022, the Company finalized a three-year equipment loan in the amount of $5,000 repayable in monthly installments commencing in 2022 at a fixed annual interest rate of 5.22%.

Future annual minimum principal repayments as at June 30, 2022 are as follows:

	Scheduled principal repayments	Scheduled amortization of deferred financing fees	Carrying amount of outstanding loans
Within one year	$ 19,263	$ (1,098)	$ 18,165
One to two years	15,813	(1,027)	14,786
Two to three years	1,004,309	(852)	1,003,457
Three to four years	8,659	—	8,659
Thereafter	1,874	—	1,874
	$ 1,049,918	$ (2,977)	$ 1,046,941

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	32,519
Equipment loan proceeds	5,000
Equipment loan repayments	(11,021)
Amortization of deferred financing fees	971
Foreign currency translation adjustment	8,482
Net as of June 30, 2022	$ 1,046,941

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.

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	15,377
Lease modifications	8,898
Principal payments of lease liabilities	(20,323)
Foreign currency translation adjustment	(110)
Net as of June 30, 2022	$ 243,619

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

The maturity of contractual undiscounted lease liabilities as at June 30, 2022 is as follows:

		Total
Within one year	$	46,114
One to two years		44,434
Two to three years		39,639
Three to four years		35,778
Thereafter		113,431
Total undiscounted lease liabilities at June 30, 2022	$	279,396
Interest on lease liabilities		(35,777)
Total present value of minimum lease payments	$	243,619
Current portion		(40,059)
	$	203,560

11. INCOME TAXES

The components of income tax expense are as follows:

		Three months ended June 30, 2022		Three months ended June 30, 2021		Six months ended June 30, 2022		Six months ended June 30, 2021
Current income tax expense	$	(18,878)	$	(10,200)	$	(37,846)	$	(21,375)
Deferred income tax recovery		9,971		2,822		20,719		1,043
Total income tax expense	$	(8,907)	$	(7,378)	$	(17,127)	$	(20,332)

12. CAPITAL STOCK

Common shares outstanding:	Number		Amount
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
Exercise of stock options	15,000		156
Balance as of December 31, 2021	80,367,095	$	663,415
Exercise of stock options	20,000		231
Balance as of June 30, 2022	80,387,095	$	663,646

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

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

Stock options

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

	Six months ended June 30, 2022			Six months ended June 30, 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	(20,000)		8.57	(58,000)		11.06
Cancelled during the period	—		—	(37,000)		14.16
Expired during the period	(184,500)		11.14	(25,000)		13.87
Balance, end of period	2,418,000	$	13.52	2,657,500	$	13.28
Options exercisable, end of period	1,607,000	$	13.21	1,521,500	$	12.66

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2022:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$10.00 - 12.99	653,000	2013 - 2014	2023 - 2024
$13.00 - 16.99	1,765,000	2015 - 2020	2025 - 2030
Total share purchase options	2,418,000		

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, 2022, the Company expensed $195 (2021 - $266) and $391 (2021 - $606), respectively, 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 June 30, 2022 and 2021:

	Six months ended June 30, 2022	Six months ended June 30, 2021
Outstanding, beginning of period	397,091	331,291
Granted and reinvested dividends	84,006	26,234
Redeemed	—	—
Outstanding, end of period	481,097	357,525

The DSUs granted during the six months ended June 30, 2022 and 2021 had a weighted average fair value per unit of $8.09 and $13.53, respectively, on the date of grant. At June 30, 2022, the fair value of all outstanding DSUs amounted to $3,548 (June 30, 2021 - $4,112 and December 31, 2021 - $3,379). For the three and six months ended June 30, 2022, 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 $717 (2021 - expense of $475) and an expense of $169 (2021 - expense of $43), respectively, recorded in selling, general and administrative expense.

Unrecognized DSU compensation expense as at June 30, 2022 was $690 (June 30, 2021 - $686 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 six months ended June 30, 2022 and 2021:

	RSUs	PSUs	Total
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
Granted and reinvested dividends	133,127	133,088	266,215
Redeemed	(247,435)	(245,361)	(492,796)
Cancelled	(3,235)	(6,800)	(10,035)
Outstanding, December 31, 2021	287,812	286,282	574,094
Granted and reinvested dividends	91,756	68,098	159,854
Redeemed	—	—	—
Cancelled	—	—	—
Outstanding, June 30, 2022	379,568	354,380	733,948

The RSUs and PSUs granted during the six months ended June 30, 2022 and 2021 had a weighted average fair value per unit of $8.36 and $14.46, respectively, on the date of grant. For the three and six months ended June 30, 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 an expense of $915 (2021 - expense of $757) and an expense of $376 (2021 - benefit of $518), respectively, recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at June 30, 2022 was $1,836 (June 30, 2021 - $2,159 and December 31, 2021 - $2,827) and will be recognized in profit or loss over the remaining vesting period.

The key assumptions, on a weighted average basis, used in the valuation of PSUs granted during the six months ended June 30, 2022 and 2021 are shown in the table below:

	Six months ended June 30, 2022	Six months ended June 30, 2021
Expected life (years)	2.62	2.66
Risk free interest rate	2.67 %	0.43 %

13. EARNINGS PER SHARE

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

	Three months ended June 30, 2022		Three months ended June 30, 2021	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	80,372,206	$ 0.32	80,328,906	$ 0.30
Effect of dilutive securities:				
Stock options	—	—	129,530	—
Diluted	80,372,206	$ 0.32	80,458,436	$ 0.30

	Six months ended June 30, 2022		Six months ended June 30, 2021	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	80,369,651	$ 0.63	80,312,448	$ 0.78
Effect of dilutive securities:				
Stock options	—	—	174,659	—
Diluted	80,369,651	$ 0.63	80,487,107	$ 0.78

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

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, 2022, 2,418,000 options (2021 - 1,150,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

14. FINANCE EXPENSE AND OTHER FINANCE INCOME

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Debt interest, gross	$ (11,229)	$ (7,039)	$ (19,575)	$ (14,140)
Interest on lease liabilities	(2,171)	(1,916)	(4,268)	(3,965)
Capitalized interest - at an average rate of 3.8%, 3.5% (2021 - 2.6%, 2.7%)	2,054	1,059	3,243	1,798
Finance expense	$ (11,346)	$ (7,896)	$ (20,600)	$ (16,307)

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
Net foreign exchange gain	$ 1,241	$ 5,185	$ 906	$ 10,484
Other income, net	205	403	224	866
Other finance income	$ 1,446	$ 5,588	$ 1,130	$ 11,350

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. The Company determined that it qualified for certain government labour assistance and recognized $8,512 and $13,286 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 for the three months ended June 30, 2021 and $12,067 for the six months ended June 30, 2021, and as a deduction in selling, general and administrative expenses of $541 for the three months ended June 30, 2021 and $1,219 for the six months ended June 30, 2021. In addition, for the three and six months ended June 30, 2021, the Company recognized $549 and $1,148, respectively, in subsidies related to commercial rent and property expenses for qualifying locations in Canada.

No such government subsidies were recognized during the three and six months ended June 30, 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 June 30, 2022			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income (Loss)**
North America				
Canada	$ 145,747	$ 23,385	$ 169,132	
USA	294,041	21,219	315,260	
Mexico	394,786	16,726	411,512	
Eliminations	(52,416)	(16,764)	(69,180)	
	$ 782,158	$ 44,566	$ 826,724	$ 41,242
Europe				
Germany	186,929	11,603	198,532	
Spain	41,032	6,034	47,066	
Slovakia	9,958	276	10,234	
	237,919	17,913	255,832	4,425
Rest of the World	38,245	428	38,673	(124)
Eliminations	(5,691)	(1,663)	(7,354)	—
	$ 1,052,631	$ 61,244	$ 1,113,875	$ 45,543

	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

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

	Six months ended June 30, 2022			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 313,205	$ 45,368	$ 358,573	
USA	605,397	41,518	646,915	
Mexico	797,621	25,041	822,662	
Eliminations	(109,880)	(31,846)	(141,726)	
	$ 1,606,343	$ 80,081	$ 1,686,424	$ 81,620
Europe				
Germany	378,753	26,120	404,873	
Spain	83,091	6,814	89,905	
Slovakia	20,894	1,622	22,516	
	482,738	34,556	517,294	3,833
Rest of the World	76,777	1,649	78,426	139
Eliminations	(10,796)	(2,435)	(13,231)	—
	$ 2,155,062	$ 113,851	$ 2,268,913	$ 85,592

	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

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.
- 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, 2022			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 115,863	$ 115,863	$ —	$ —
Investment in common shares and convertible debentures of AlumaPower (note 6)	2,669	—	—	2,669
Foreign exchange forward contracts not accounted for as hedges (note 7)	(1,756)	—	(1,756)	—

	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 6)	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:

June 30, 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	$ —	$ —	$ 833,749	$ —	$ 833,749	$ 833,749
Investment in common shares and convertible debentures of AlumaPower	—	1,304	—	1,365	2,669	2,669
	—	1,304	833,749	1,365	836,418	836,418
FINANCIAL LIABILITIES:						
Trade and other payables	—	—	—	(1,302,481)	(1,302,481)	(1,302,481)
Foreign exchange forward contracts not accounted for as hedges	(1,756)	—	—	—	(1,756)	(1,756)
Long-term debt	—	—	—	(1,046,941)	(1,046,941)	(1,046,941)
	(1,756)	—	—	(2,349,422)	(2,351,178)	(2,351,178)
Net financial assets (liabilities)	$ (1,756)	$ 1,304	$ 833,749	$ (2,348,057)	$ (1,514,760)	$ (1,514,760)

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 not 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)

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

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

Risk Management

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

(a) Credit risk

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 27.0%, 22.3%, and 14.3% of its production sales for the six months ended June 30, 2022 (2021 - 31.1%, 19.3%, and 13.5%). 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 June 30, 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:

	June 30, 2022	December 31, 2021
0-60 days	$ 769,366	$ 589,634
61-90 days	13,738	4,564
Greater than 90 days	12,775	12,581
	$ 795,879	$ 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 June 30, 2022, the Company had cash of $115,863 (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.

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

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

	Carrying amount	
	June 30, 2022	December 31, 2021
Variable rate instruments	$ 989,661	$ 945,703
Fixed rate instruments	57,280	65,287
	$ 1,046,941	$ 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 $2,500 (2021 - $2,232) on the Company's interim condensed consolidated financial results for the three months ended June 30, 2022 and $4,929 (2021 - $4,259) for the six months ended June 30, 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 June 30, 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	$ 70,281	19.9200	1

The aggregate value of these forward contracts as at June 30, 2022 was a pre-tax loss of $1,756 and was recorded in trade and other payables (December 31, 2021 - pre-tax gain of $4,744 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 June 30, 2022 and December 31, 2021.

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

June 30, 2022	USD	EURO	PESO	BRL	CNY
Trade and other receivables	$ 458,543	€ 103,689	$ 63,206	R$ 57,051	¥ 160,490
Trade and other payables	(592,232)	(233,869)	(704,278)	(63,534)	(150,055)
Long-term debt	(476,000)	(20,692)	—	—	—
	$ (609,689)	€ (150,872)	$ (641,072)	R$ (6,483)	¥ 10,435

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		Average rate		Closing rate	
	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021	June 30, 2022	December 31, 2021
USD	1.2711	1.2398	1.2708	1.2583	1.2871	1.2653
EURO	1.3751	1.4895	1.4061	1.5184	1.3494	1.4398
PESO	0.0629	0.0611	0.0622	0.0623	0.0640	0.0617
BRL	0.2592	0.2262	0.2460	0.2329	0.2458	0.2274
CNY	0.1959	0.1915	0.1980	0.1940	0.1923	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 June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income (loss) for the three and six months ended June 30, 2022 and 2021 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2022	Three months ended June 30, 2021	Six months ended June 30, 2022	Six months ended June 30, 2021
USD	$ (2,682)	$ (2,282)	$ (5,737)	$ (5,045)
EURO	(407)	899	(566)	1,238
BRL	2	(25)	(67)	12
CNY	143	(382)	129	(787)
	$ (2,944)	$ (1,790)	$ (6,241)	$ (4,582)

(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 $36,352 (BRL $147,892) including interest and penalties to June 30, 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 continue to vigorously defend against the assessments. The amounts of the assessment have decreased due to successful challenges by the Company's subsidiary at preliminary stages of the proceedings. The assessments are at various stages in the process. Two assessments totaling $18,453 (BRL $75,073) including interest and penalties as at June 30, 2022 have entered the judicial litigation process. The Company's subsidiary may be required to present guarantees related to these assessments up to $24,808 (BRL $100,927) 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 June 30, 2022, the amount of the off-balance sheet program financing was $5,752 (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.