MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS

FOR THE SECOND QUARTER ENDING JUNE 30, 2022

SECOND QUARTER REPORT

June 30, 2022

MESSAGE TO SHAREHOLDERS

The Company's second quarter revenues were up over 25% year-over-year, as reflected in the attached materials, and we had a good quarter overall. Our Company continues to improve, driving our One Martinrea culture. Our financial position remains very strong and our future is bright.

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

(Signed) *"Rob Wildeboer"*

Rob Wildeboer
Executive Chairman

PRESS RELEASE

FOR IMMEDIATE RELEASE
August 8, 2022

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

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems, today announced the release of its financial results for the second quarter ended June 30, 2022 and that it has declared a quarterly cash dividend of $0.05 per share.

HIGHLIGHTS

- Total sales of $1,113.9 million, up 25.9% year-over-year.
- Second quarter diluted net earnings per share and Adjusted Net Earnings per Share(1) of $0.32.
- Second quarter Adjusted Operating Income(1) of $45.5 million, up 16.6% year-over-year.
- Second quarter results were generally consistent with the first quarter of 2022, as lower quarter-over-quarter production sales were offset by a higher Adjusted Operating Income Margin(1).
- Financial results were much improved in the first half of 2022 compared to second half of 2021.
- Financial results are expected to improve further in the third quarter of 2022 and beyond, as production disruptions subside, launch activity normalizes, and we drive further cost recoveries through commercial activity.
- 2023 outlook remains intact, including our expectation of over $200 million in Free Cash Flow(1).
- Our net-debt-to-Adjusted EBITDA(1) ratio was 3.21x. For bank covenant purposes, the net-debt-to-Adjusted EBITDA(1) ratio was 2.38x; this calculation excludes third and fourth quarter Adjusted EBITDA(1) with the remaining quarters pro-rated, as per our amended lending agreement with our banking syndicate.
- Quarterly cash dividend of $0.05 declared

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "Our second quarter financial results were generally consistent with our first quarter performance, as the impact of lower production sales was offset by a better Adjusted Operating Income Margin(1). While our performance year to date is much improved compared to the back half of last year, we continue to face a challenging environment on several fronts, including supply-related disruptions from our customers and inflationary cost pressures, with energy costs being a notable headwind in our European operations. At the same time, we have been successful in offsetting a portion of these costs through commercial activity. I am proud of the work our team has done here and we expect more positive results to come from this commercial activity in the weeks and months ahead. Overall, our second quarter results are where we expected them to be, and confirm our view that the worst of the customer production issues are likely behind us. We expect our results to improve in the third quarter and beyond,

[1] The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures, included anywhere in this press release, include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA", "Free Cash Flow" and "Net Debt". The relevant IFRS financial measure, as applicable, and a reconciliation of certain non-IFRS financial measures to measures determined in accordance with IFRS are contained in the Company's Management Discussion and Analysis for the three and six months ended June 30, 2022 and in this press release.

as supply chain bottlenecks improve, our launch activity normalizes, and we drive further cost recoveries through commercial activity. This should set the stage for a multi-year period of strong production volumes, margins, and Free Cash Flow[(1)], with the majority of our plants running at full capacity, as vehicle inventories remain historically low and industry demand is still high."

He added: "I am pleased to announce that we have been awarded $85 million in new business which consists of $70 million in Lightweight Structures, including additional volume on the Ford Mach-E, additional content on General Motors' BEV 3 electric vehicle program and $15 million in Propulsion Systems, including additional volume on the Samsung battery enclosure for Stellantis. We continue to win meaningful work on electric vehicle platforms with key customers."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the second quarter, excluding tooling sales of $61.2 million, were $1,052.6 million, and Adjusted Net Earnings per Share[(1)] was $0.32. Adjusted Operating Income[(1)] of $45.5 million and Adjusted EBITDA[(1)] of $114.3 million were generally consistent quarter-over-quarter, and up approximately 17% and 15% year-over-year, respectively; a good quarter overall considering the volatile environment. Free Cash Flow[(1)] was positive $23.5 million for the quarter compared to a negative level in the first quarter, mainly reflecting the timing of working capital flows. We expect Free Cash Flow[(1)] to be breakeven to slightly positive for the full year of 2022."

He continued: "Net Debt[(1)] was approximately flat quarter over quarter at $931 million. Recall that under our amended lending agreements with our banking syndicate announced earlier this year, Adjusted EBITDA[(1)] in the third and fourth quarters of 2021 are ignored, with the remaining quarters in the trailing twelve-month period pro-rated when calculating Net Debt to Adjusted EBITDA[(1)] for covenant purposes. Our leverage ratio is also subject to higher limits through the third quarter of 2022. On this basis, our calculated Net Debt to Adjusted EBITDA[(1)] ratio under the revised terms was 2.38x in the second quarter, down from 2.43x in the first quarter. A comfortable level, and well below the covenant maximum of 4.5x for the quarter. Our leverage ratio should continue to improve in the coming quarters as we generate an increasing amount of Adjusted EBITDA[(1)] and Free Cash Flow[(1)], a portion of which we will use to pay down some debt. We have strong relationships with our lenders, and we thank them for their ongoing support."

Rob Wildeboer, Executive Chairman, stated: "Better times are ahead for us and other automotive suppliers. Despite all you read about – war in Ukraine, interest rates, inflation, recession, house prices, supply chains, labour shortages, erratic production schedules - we had a good quarter, and our results should continue to improve moving forward. The fact is that automotive parts suppliers have technically been in a recession for over two years. We are hit when production volumes are down. We were hit badly in 2020 when the industry stopped for three months. We came back strong in the second half of 2020, but since that time we have been hit by supply-related production disruptions, inflationary cost pressures, and a heavy launch cycle. Things are looking up. There is a lot of pent-up demand for vehicles, given a persistent lack of supply and a need for OEMs to rebuild depleted inventory levels. This should help to offset the negative impacts from any potential economic slowdown. We are maintaining our 2023 outlook which calls for production sales (excluding tooling sales) of $4.6 to $4.8 billion, an Adjusted Operating Income Margin[(1)] exceeding 8%, and over $200 million in Free Cash Flow[(1)]. I believe our Company has never been stronger and our future looks bright."

RESULTS OF OPERATIONS

All amounts in this press release are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares.

Additional information about the Company, including the Company's Management Discussion and Analysis of Operating Results and Financial Position for the three and six months ended June 30, 2022 ("MD&A"), the Company's interim condensed consolidated financial statements for the three and six months ended June 30, 2022 (the "interim financial statements") and the Company's Annual Information Form for the year ended December 31, 2021 can be found at www.sedar.com.

OVERALL RESULTS

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

The following tables set out certain highlights of the Company's performance for the three and six months ended June 30, 2022 and 2021. Refer to the Company's interim financial statements for the three and six months ended June 30, 2022 for a detailed account of the Company's performance for the periods presented in the tables below.

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
Sales	$	1,113,875	$	884,866	229,009	25.9%
Gross Margin		125,789		111,728	14,061	12.6%
Operating Income		45,543		34,621	10,922	31.5%
Net Income for the period		25,471		23,952	1,519	6.3%
Net Earnings per Share - Basic and Diluted	$	0.32	$	0.30	0.02	6.7%
Non-IFRS Measures*						
Adjusted Operating Income	$	45,543	$	39,065	6,478	16.6%
% of Sales		*4.1 %*		*4.4 %*		
Adjusted EBITDA		114,292		99,618	14,674	14.7%
% of Sales		*10.3 %*		*11.3 %*		
Adjusted Net Income		25,471		27,026	(1,555)	(5.8%)
Adjusted Net Earnings per Share - Basic and Diluted	$	0.32	$	0.34	(0.02)	(5.9%)

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
Sales	$	2,268,913	$	1,882,016	386,897	20.6%
Gross Margin		248,225		232,585	15,640	6.7%
Operating Income		85,592		82,051	3,541	4.3%
Net Income for the period		50,679		62,653	(11,974)	(19.1%)
Net Earnings per Share - Basic and Diluted	$	0.63	$	0.78	(0.15)	(19.2%)
Non-IFRS Measures*						
Adjusted Operating Income	$	89,829	$	87,524	2,305	2.6%
% of Sales		*4.0 %*		*4.7 %*		
Adjusted EBITDA		226,671		209,433	17,238	8.2%
% of Sales		*10.0 %*		*11.1 %*		
Adjusted Net Income		50,313		59,657	(9,344)	(15.7%)
Adjusted Net Earnings per Share - Basic and Diluted	$	0.63	$	0.74	(0.11)	(14.9%)

*Non-IFRS Measures

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

The following tables provide a reconciliation of IFRS "Net Income" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA":

	Three months ended June 30, 2022	Three months ended June 30, 2021
Net Income	$ 25,471	$ 23,952
Adjustments, after tax*	—	3,074
Adjusted Net Income	$ 25,471	$ 27,026

	Six months ended June 30, 2022	Six months ended June 30, 2021
Net Income	$ 50,679	$ 62,653
Adjustments, after tax*	(366)	(2,996)
Adjusted Net Income	$ 50,313	$ 59,657

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

	Three months ended June 30, 2022	Three months ended June 30, 2021
Net Income	$ 25,471	$ 23,952
Income tax expense	8,907	7,378
Other finance income	(1,446)	(5,588)
Share of loss of equity investments	1,265	983
Finance expense	11,346	7,896
Adjustments, before tax*	—	4,444
Adjusted Operating Income	$ 45,543	$ 39,065
Depreciation of property, plant and equipment and right-of-use assets	66,233	57,219
Amortization of development costs	2,598	3,268
Loss (gain) on disposal of property, plant and equipment	(82)	66
Adjusted EBITDA	$ 114,292	$ 99,618

	Six months ended June 30, 2022	Six months ended June 30, 2021
Net Income	$ 50,679	$ 62,653
Income tax expense	17,127	20,332
Other finance income	(1,130)	(11,350)
Share of loss of equity investments	2,366	1,909
Finance expense	20,600	16,307
Adjustments, before tax*	187	(2,327)
Adjusted Operating Income	$ 89,829	$ 87,524
Depreciation of property, plant and equipment and right-of-use assets	131,605	115,277
Amortization of development costs	5,319	6,566
Loss (gain) on disposal of property, plant and equipment	(82)	66
Adjusted EBITDA	$ 226,671	$ 209,433

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

SALES

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
North America	$	826,724	$	635,823	190,901	30.0%
Europe		255,832		210,976	44,856	21.3%
Rest of the World		38,673		44,556	(5,883)	(13.2%)
Eliminations		(7,354)		(6,489)	(865)	(13.3%)
Total Sales	$	1,113,875	$	884,866	229,009	25.9%

The Company's consolidated sales for the second quarter of 2022 increased by $229.0 million or 25.9% to $1,113.9 million as compared to $884.9 million for the second quarter of 2021. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a year-over-year decrease in the Rest of the World.

Sales for the second quarter of 2022 in the Company's North America operating segment increased by $190.9 million or 30.0% to $826.7 million from $635.8 million for the second quarter of 2021. The increase was due generally to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs, including the new Jeep Grand Cherokee and Wagoneer, Nissan Pathfinder, Ford Mustang Mach E, Lucid Air, and Tesla Model Y; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the second quarter of 2022 of $17.2 million as compared to the second quarter of 2021; and an increase in tooling sales of $10.3 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer.

Sales for the second quarter of 2022 in the Company's Europe operating segment increased by $44.9 million or 21.3% to $255.8 million from $211.0 million for the second quarter of 2021. The increase can be attributed to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs, including Mercedes' new electric vehicle platform and the Lucid Air; the impact of aluminum material passthrough on customer pricing; and a $7.2 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the second quarter of 2022 of $19.7 million as compared to the second quarter of 2021.

Sales for the second quarter of 2022 in the Company's Rest of the World operating segment decreased by $5.9 million or 13.2% to $38.7 million from $44.6 million in the second quarter of 2021. The decrease was largely driven by lower year-over-year production volumes, including a program that came with the operations acquired from Metalsa that ended production during or subsequent to the second quarter of 2021; and a $0.6 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the second quarter of 2021, namely with Geely; and a $2.1 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2021.

Overall tooling sales increased by $15.3 million (including outside segment sales eliminations) to $61.2 million for the second quarter of 2022 from $45.9 million for the second quarter of 2021.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
North America	$	1,686,424	$	1,339,953	346,471	25.9%
Europe		517,294		465,045	52,249	11.2%
Rest of the World		78,426		91,069	(12,643)	(13.9%)
Eliminations		(13,231)		(14,051)	820	5.8%
Total Sales	$	2,268,913	$	1,882,016	386,897	20.6%

The Company's consolidated sales for the six months ended June 30, 2022 increased by $386.9 million or 20.6% to $2,268.9 million as compared to $1,882.0 million for the six months ended June 30, 2021. The total increase in sales was driven by increases in the North America and Europe operating segments, partially offset by a decrease in sales in the Rest of the World.

Sales for the six months ended June 30, 2022 in the Company's North America operating segment increased by $346.5 million or 25.9% to $1,686.4 million from $1,340.0 million for the six months ended June 30, 2021. The increase was due generally to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs, including the new Jeep Grand Cherokee and Wagoneer, Nissan Pathfinder, Ford Mustang Mach E, Lucid Air and Tesla Model Y; and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2022 of $14.0 million as compared to the corresponding period of 2021. These positive factors were partially offset by a decrease in tooling sales of $12.7 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer.

Sales for the six months ended June 30, 2022 in the Company's Europe operating segment increased by $52.2 million or 11.2% to $517.3 million from $465.0 million for the six months ended June 30, 2021. The increase can be attributed to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs including Mercedes' new electric vehicle platform and the Lucid Air; the impact of aluminum material passthrough on customer pricing; and a $9.8 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2022 of $38.3 million as compared to the corresponding period of 2021.

Sales for the six months ended June 30, 2022 in the Company's Rest of the World operating segment decreased by $12.6 million or 13.9% to $78.4 million from $91.1 million for the six months ended June 30, 2021. The decrease was largely driven by lower year-over-year production volumes, including a program that came with the operations acquired from Metalsa that ended production during or subsequent to the six months ended June 30, 2021, and a $0.9 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the six months ended June 30, 2021, namely with Geely; and a $1.9 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2021.

Overall tooling sales decreased by $5.1 million (including outside segment sales eliminations) to $113.9 million for the six months ended June 30, 2022 from $119.0 million for the six months ended June 30, 2021.

GROSS MARGIN

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Gross margin	$ 125,789	$ 111,728	14,061	12.6 %
% of Sales	11.3 %	12.6 %		

The gross margin percentage for the second quarter of 2022 of 11.3% decreased as a percentage of sales by 1.3% as compared to the gross margin percentage for the second quarter of 2021 of 12.6%. The decrease in gross margin as a percentage of sales was generally due to:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; and
- a decrease in COVID-related government subsidies.

These factors were partially offset by:

- favourable commercial settlements;
- overall higher production sales volume and corresponding higher utilization of assets; and
- productivity and efficiency improvements at certain operating facilities.

Gross margin for the second quarter of 2022 continued to be impacted by production inefficiencies related to the semiconductor chip shortage and other supply chain disruptions driven by the unpredictability of customer production schedules.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Gross margin	$ 248,225	$ 232,585	15,640	6.7 %
% of Sales	10.9 %	12.4 %		

The gross margin percentage for the six months ended June 30, 2022 of 10.9% decreased as a percentage of sales by 1.5% as compared to the gross margin percentage for the six months ended June 30, 2021 of 12.4%. The decrease in gross margin as a percentage of sales was generally due to:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; and
- a decrease in COVID-related government subsidies.

These factors were partially offset by:

- favourable commercial settlements;
- overall higher production sales volume and corresponding higher utilization of assets; and
- productivity and efficiency improvements at certain operating facilities.

Gross margin for the six months ended June 30, 2022 continued to be impacted by production inefficiencies related to the semiconductor chip shortage and other supply chain disruptions driven by the unpredictability of customer production schedules.

ADJUSTMENTS TO NET INCOME

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

TABLE A

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change
NET INCOME	**$ 25,471**	**$ 23,952**	**$ 1,519**
Adjustments:			
Restructuring costs (1)	—	4,444	(4,444)
ADJUSTMENTS, BEFORE TAX	**$ —**	**$ 4,444**	**$ (4,444)**
Tax impact of above items	—	(1,370)	1,370
ADJUSTMENTS, AFTER TAX	**$ —**	**$ 3,074**	**$ (3,074)**
ADJUSTED NET INCOME	**$ 25,471**	**$ 27,026**	**$ (1,555)**
Number of Shares Outstanding – Basic (‘000)	80,372	80,329	
Adjusted Basic Net Earnings Per Share	$ 0.32	$ 0.34	
Number of Shares Outstanding – Diluted (‘000)	80,372	80,458	
Adjusted Diluted Net Earnings Per Share	$ 0.32	$ 0.34	

TABLE B

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021		$ Change
NET INCOME	**$**	**50,679**	**$**	**62,653**	**$**	**(11,974)**
Adjustments:						
Restructuring costs (1)		4,237		5,473		(1,236)
Gain on dilution of equity investments (2)		(4,050)		(7,800)		3,750
ADJUSTMENTS, BEFORE TAX	**$**	**187**	**$**	**(2,327)**	**$**	**2,514**
Tax impact of above items		(553)		(669)		116
ADJUSTMENTS, AFTER TAX	**$**	**(366)**	**$**	**(2,996)**	**$**	**2,630**
ADJUSTED NET INCOME	**$**	**50,313**	**$**	**59,657**	**$**	**(9,344)**
Number of Shares Outstanding – Basic (‘000)		80,370		80,312		
Adjusted Basic Net Earnings Per Share	$	0.63	$	0.74		
Number of Shares Outstanding – Diluted (‘000)		80,370		80,487		
Adjusted Diluted Net Earnings Per Share	$	0.63	$	0.74		

(1) Restructuring costs

Additions to the restructuring provision during the six months ended June 30, 2022 totaled $4.2 million and represent employee-related severance resulting from the rightsizing of operations in Canada related to the cancellation of an OEM light vehicle platform well before the end of its expected life cycle.

Additions to the restructuring provision during the three and six months ended June 30, 2021 totaled $4.4 million and $5.5 million, respectively, and represent employee-related severance resulting from the rightsizing of an operating facility in Germany.

(2) Gain on dilution of equity investments

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

As at December 31, 2020, the Company held 34,045,954 common shares of NanoXplore representing a 23.3% equity interest in NanoXplore (on a non-diluted basis). On February 12, 2021, NanoXplore completed a public offering of 11,500,000 common shares for gross proceeds of $46.0 million. In a separate transaction on February 12, 2021, the Company purchased 1,000,000 common shares from NanoXplore's President and Chief Executive Officer for consideration of $4.0 million. Subsequent to these transactions, the Company's net ownership interest decreased to 22.2% from 23.3%. This dilution resulted in a deemed disposition of a portion of the Company’s ownership interest in NanoXplore, resulting in a gain on dilution of $7.8 million during the first quarter of 2021.

NET INCOME

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
Net Income	$	25,471	$	23,952	1,519	6.3%
Adjusted Net Income		25,471	$	27,026	(1,555)	(5.8%)
Net Earnings per Share						
Basic and Diluted	$	0.32	$	0.30		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.32	$	0.34		

Net Income, before adjustments, for the second quarter of 2022 increased by $1.5 million to $25.5 million or $0.32 per share, on a basic and diluted basis, from Net Income of $24.0 million or $0.30 per share, on a basic and diluted basis, for the second quarter of 2021. Excluding the adjustments explained in Table A under "Adjustments to Net Income", Adjusted Net Income for the second quarter of 2022 decreased by $1.6 million to $25.5 million or $0.32 per share, on a basic and diluted basis, from $27.0 million or $0.34 per share, on a basic and diluted basis, for the second quarter of 2021.

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

- a year-over-year increase in SG&A expense, as previously discussed;
- a net foreign exchange gain of $1.2 million for the second quarter of 2022 compared to a gain of $5.2 million for the second quarter of 2021;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates; and
- a higher effective tax rate on adjusted income (25.9% for the second quarter of 2022 compared to 24.5% for the second quarter of 2021).

These factors were partially offset by higher gross margin (on an absolute basis) on higher year-over-year sales volume.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
Net Income	$	50,679	$	62,653	(11,974)	(19.1%)
Adjusted Net Income		50,313	$	59,657	(9,344)	(15.7%)
Net Earnings per Share						
Basic and Diluted	$	0.63	$	0.78		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.63	$	0.74		

Net Income, before adjustments, for the six months ended June 30, 2022 decreased by $12.0 million to $50.7 million or $0.63 per share, on a basic and diluted basis, from Net Income of $62.7 million or $0.78 per share, on a basic and diluted basis, for the six months ended June 30, 2021. Excluding the adjustments explained in Table B under "Adjustments to Net Income", Adjusted Net Income for the six months ended June 30, 2022 decreased by $9.3 million to $50.3 million or $0.63 per share, on a basic and diluted basis, from $59.7 million or $0.74 per share, on a basic and diluted basis, for the six months ended June 30, 2021.

Adjusted Net Income for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, was negatively impacted by the following:

- a year-over-year increase in SG&A expense, as previously discussed;
- a net foreign exchange gain of $0.9 million for the six months ended June 30, 2022 compared to a gain of $10.5 million for the six months ended June 30, 2021;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates; and
- a year-over-year increase in research and development costs.

These factors were partially offset by higher gross margin (on an absolute basis) on higher year-over-year sales volume.

DIVIDEND

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

ABOUT MARTINREA INTERNATIONAL INC.

Martinrea is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. Martinrea operates in 57 locations in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain, China, South Africa and Japan. Martinrea's vision is making lives better by being the best supplier we can be in the products we make and the services we provide. For more information on Martinrea, please visit www.martinrea.com. Follow Martinrea on Twitter and Facebook.

CONFERENCE CALL DETAILS

A conference call to discuss the financial results will be held on Monday, August 8, 2022 at 5:30 p.m. Eastern Time. To participate, please dial 416-641-6104 (Toronto area) or 800-952-5114 (toll free Canada and US) and enter participant code 8174433#. Please call 10 minutes prior to the start of the conference call.

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

There will also be a rebroadcast of the call available by dialing 905-694-9451 or toll free 800-408-3053 (Conference ID – 8602412#). The rebroadcast will be available until September 8, 2022.

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

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This Press Release and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the growth or expectations of, improvements in, expansion of and/or guidance or outlook (including for 2022 and 2023) as to future results, revenue, sales, margin, gross margin, earnings, and earnings per share, adjusted earnings per share, free cash flow, volumes, adjusted net earnings per share, operating income margins, operating margins, adjusted operating income margins, leverage ratios, debt repayment, belief in the strength of the Company and its future; the expected impact of or duration of the COVID-19 pandemic (including the related global semi-conductor chip shortage, supply chain issues, inflation), the growth of the Company and pursuit of, and belief in, its strategies, its near and long-term potential growth and continued improvement in results; the strength, recovery and growth of the automotive industry and continuing challenges (including supply chain, energy, inflation, erratic production schedules and expectations for improvement, including pent-up demand and OEM need to build up vehicle inventory to offset any economic slowdown), expectations for improvement in supply chain bottlenecks; and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, such as expected sales and industry production estimates, current foreign exchange rates, timing of product launches and operational improvement during the period, and current Board approved budgets. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2021, the Company's MD&A for the year ended December 31, 2021 and other public filings which can be found at www.sedar.com:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- The highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- Automotive Industry Risks;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political and Civil Unrest, and Other Outbreaks;
- Dependence Upon Key Customers;
- Financial Viability of Suppliers and Key Suppliers and Supply Disruptions;
- Competition;
- Cost and Risk Absorption and Purchase Orders, including the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Quote/Pricing Assumptions;
- Increased pricing of raw materials and commodities;
- Launch and Operational Costs and Cost Structure;
- Material Prices and Volatility;
- Fluctuations in Operating Results;
- Outsourcing and Insourcing Trends;
- Product Warranty, Recall, Product Liability and Liability Risk;
- Product Development and Technological Change;
- A Shift Away from Technologies in Which the Company is Investing;
- Dependence Upon Key Personnel;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;
- Cybersecurity Threats;
- Acquisitions;
- Potential Tax Exposures;
- Potential Rationalization Costs, Turnaround Costs and Impairment Charges;
- Labour Relations Matters;
- Trade Restrictions;
- Changes in Laws and Governmental Regulations;
- Environmental Regulation and Climate Change;
- Litigation and Regulatory Compliance and Investigations;
- Risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- Currency Risk – Hedging;
- Currency Risk - Competitiveness in Certain Jurisdictions;
- Internal Controls Over Financial Reporting and Disclosure Controls and Procedures;
- Loss of Use of Key Manufacturing Facilities;
- Intellectual Property;
- Availability of Consumer Credit or Cost of Borrowing;
- Competition with Low Cost Countries;
- The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets;
- Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates;
- Pension Plans and other post employment benefits;
- Potential Volatility of Share Prices;

- Dividends;
- Private or Public Equity Investments in Technology Companies;
- Joint Ventures; and
- Lease Obligations.

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

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

For further information, please contact:

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MANAGEMENT DISCUSSION AND ANALYSIS

OF OPERATING RESULTS AND FINANCIAL POSITION

For the three and six months ended June 30, 2022

The following management discussion and analysis ("MD&A") was prepared as of August 8, 2022 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2022 ("interim financial statements"), as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2021, together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company's Annual Information Form ("AIF") for the year ended December 31, 2021, can be found at www.sedar.com.

OVERVIEW

Martinrea International Inc. (TSX: MRE) ("Martinrea" or the "Company") is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. Martinrea currently employs over 17,000 skilled and motivated people in 57 locations (including sales and engineering centres) in Canada, the United States, Mexico, Brazil, Germany, Spain, South Africa, Slovakia, China, and Japan.

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

RECENT DEVELOPMENTS

COVID-19 PANDEMIC, SEMICONDUCTOR CHIP SHORTAGE, RUSSIA UKRAINE CONFLICT, INFLATION 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 or other pandemics or epidemics); the potential for a recession in key markets due to the effect of COVID-19 or other pandemics or epidemics or other economic factors; 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.

The Company continues to experience higher commodity, freight and energy costs (including as discussed above), as well as wage pressures in some markets, which are expected to continue throughout 2022. Additionally, the Company may continue to experience price increases or surcharges from sub-suppliers in connection with the inflationary pressures they face. The inability to offset inflationary price increases through continuous improvement actions, price increases to customers or modifications to products or otherwise, could have an adverse effect on earnings. Increasing global inflation rates have spurred a cycle of monetary policy tightening through aggressive interest rate increases by central banks. Both the availability and cost of credit are factors affecting consumer confidence, which is a critical driver of vehicle sales and thus automotive production.

The ongoing conflict continues to create or exacerbate a broad range of risks, including with respect to:

- global economic growth;
- global vehicle production volumes;
- inflationary pressures, including in energy, commodities and transportation/logistics;
- energy security in Western Europe; and
- supply chain fragility.

A material deterioration in any of the foregoing could have a material adverse effect on the Company's business and results of operations.

In July 2022, the EU introduced an emergency natural gas rationing plan to curtail the use of natural gas amid looming shortages. The EU has developed a plan to reduce natural gas imports from Russia significantly by the end of 2022, and phase them out entirely by 2030; it previously announced measures to eliminate imports of Russian coal and oil. The inability of European countries to timely establish stable and secure energy supplies to offset Russian energy sources could cause significant economic disruption across Europe, including at some of the Company's manufacturing facilities.

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

OVERALL RESULTS

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

The following tables set out certain highlights of the Company's performance for the three and six months ended June 30, 2022 and 2021. Refer to the Company's interim financial statements for the three and six months ended June 30, 2022 for a detailed account of the Company's performance for the periods presented in the tables below.

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Sales	$ 1,113,875	$ 884,866	229,009	25.9%
Gross Margin	125,789	111,728	14,061	12.6%
Operating Income	45,543	34,621	10,922	31.5%
Net Income for the period	25,471	23,952	1,519	6.3%
Net Earnings per Share - Basic and Diluted	$ 0.32	$ 0.30	0.02	6.7%
Non-IFRS Measures*				
Adjusted Operating Income	$ 45,543	$ 39,065	6,478	16.6%
% of Sales	*4.1 %*	*4.4 %*		
Adjusted EBITDA	114,292	99,618	14,674	14.7%
% of Sales	*10.3 %*	*11.3 %*		
Adjusted Net Income	25,471	27,026	(1,555)	(5.8%)
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.32	$ 0.34	(0.02)	(5.9%)

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Sales	$ 2,268,913	$ 1,882,016	386,897	20.6%
Gross Margin	248,225	232,585	15,640	6.7%
Operating Income	85,592	82,051	3,541	4.3%
Net Income for the period	50,679	62,653	(11,974)	(19.1%)
Net Earnings per Share - Basic and Diluted	$ 0.63	$ 0.78	(0.15)	(19.2%)
Non-IFRS Measures*				
Adjusted Operating Income	$ 89,829	$ 87,524	2,305	2.6%
% of Sales	*4.0 %*	*4.7 %*		
Adjusted EBITDA	226,671	209,433	17,238	8.2%
% of Sales	*10.0 %*	*11.1 %*		
Adjusted Net Income	50,313	59,657	(9,344)	(15.7%)
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.63	$ 0.74	(0.11)	(14.9%)

***Non-IFRS Measures**

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

The following tables provide a reconciliation of IFRS "Net Income" to Non-IFRS "Adjusted Net Income", "Adjusted Operating Income" and "Adjusted EBITDA":

	Three months ended June 30, 2022	Three months ended June 30, 2021
Net Income	$ 25,471	$ 23,952
Adjustments, after tax*	—	3,074
Adjusted Net Income	$ 25,471	$ 27,026

		Six months ended June 30, 2022		Six months ended June 30, 2021
Net Income	$	50,679	$	62,653
Adjustments, after tax*		(366)		(2,996)
Adjusted Net Income	$	50,313	$	59,657

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

		Three months ended June 30, 2022		Three months ended June 30, 2021
Net Income	$	25,471	$	23,952
Income tax expense		8,907		7,378
Other finance income		(1,446)		(5,588)
Share of loss of equity investments		1,265		983
Finance expense		11,346		7,896
Adjustments, before tax*		—		4,444
Adjusted Operating Income	$	45,543	$	39,065
Depreciation of property, plant and equipment and right-of-use assets		66,233		57,219
Amortization of development costs		2,598		3,268
Loss (gain) on disposal of property, plant and equipment		(82)		66
Adjusted EBITDA	$	114,292	$	99,618

		Six months ended June 30, 2022		Six months ended June 30, 2021
Net Income	$	50,679	$	62,653
Income tax expense		17,127		20,332
Other finance income		(1,130)		(11,350)
Share of loss of equity investments		2,366		1,909
Finance expense		20,600		16,307
Adjustments, before tax*		187		(2,327)
Adjusted Operating Income	$	89,829	$	87,524
Depreciation of property, plant and equipment and right-of-use assets		131,605		115,277
Amortization of development costs		5,319		6,566
Loss (gain) on disposal of property, plant and equipment		(82)		66
Adjusted EBITDA	$	226,671	$	209,433

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

SALES

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
North America	$	826,724	$	635,823	190,901	30.0%
Europe		255,832		210,976	44,856	21.3%
Rest of the World		38,673		44,556	(5,883)	(13.2%)
Eliminations		(7,354)		(6,489)	(865)	(13.3%)
Total Sales	$	1,113,875	$	884,866	229,009	25.9%

The Company's consolidated sales for the second quarter of 2022 increased by $229.0 million or 25.9% to $1,113.9 million as compared to $884.9 million for the second quarter of 2021. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a year-over-year decrease in the Rest of the World.

Sales for the second quarter of 2022 in the Company's North America operating segment increased by $190.9 million or 30.0% to $826.7 million from $635.8 million for the second quarter of 2021. The increase was due generally to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs, including the new Jeep Grand Cherokee and Wagoneer, Nissan Pathfinder, Ford Mustang Mach E, Lucid Air, and Tesla Model Y; the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the second quarter of 2022 of $17.2 million as compared to the second quarter of 2021; and an increase in tooling sales of $10.3 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer.

Sales for the second quarter of 2022 in the Company's Europe operating segment increased by $44.9 million or 21.3% to $255.8 million from $211.0 million for the second quarter of 2021. The increase can be attributed to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs, including Mercedes' new electric vehicle platform and the Lucid Air; the impact of aluminum material passthrough on customer pricing; and a $7.2 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the second quarter of 2022 of $19.7 million as compared to the second quarter of 2021.

Sales for the second quarter of 2022 in the Company's Rest of the World operating segment decreased by $5.9 million or 13.2% to $38.7 million from $44.6 million in the second quarter of 2021. The decrease was largely driven by lower year-over-year production volumes, including a program that came with the operations acquired from Metalsa that ended production during or subsequent to the second quarter of 2021; and a $0.6 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the second quarter of 2021, namely with Geely; and a $2.1 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2021.

Overall tooling sales increased by $15.3 million (including outside segment sales eliminations) to $61.2 million for the second quarter of 2022 from $45.9 million for the second quarter of 2021.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
North America	$	1,686,424	$	1,339,953	346,471	25.9%
Europe		517,294		465,045	52,249	11.2%
Rest of the World		78,426		91,069	(12,643)	(13.9%)
Eliminations		(13,231)		(14,051)	820	5.8%
Total Sales	$	2,268,913	$	1,882,016	386,897	20.6%

The Company's consolidated sales for the six months ended June 30, 2022 increased by $386.9 million or 20.6% to $2,268.9 million as compared to $1,882.0 million for the six months ended June 30, 2021. The total increase in sales was driven by increases in the North America and Europe operating segments, partially offset by a decrease in sales in the Rest of the World.

Sales for the six months ended June 30, 2022 in the Company's North America operating segment increased by $346.5 million or 25.9% to $1,686.4 million from $1,340.0 million for the six months ended June 30, 2021. The increase was due generally to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs, including the new Jeep Grand Cherokee and Wagoneer, Nissan Pathfinder, Ford Mustang Mach E, Lucid Air and Tesla Model Y; and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2022 of $14.0 million as compared to the corresponding period of 2021. These positive factors were partially offset by a decrease in tooling sales of $12.7 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer.

Sales for the six months ended June 30, 2022 in the Company's Europe operating segment increased by $52.2 million or 11.2% to $517.3 million from $465.0 million for the six months ended June 30, 2021. The increase can be attributed to the recovery in production volumes of certain light vehicle platforms that were disproportionately impacted by the industry-wide shortage of semiconductor chips during 2021; the launch and ramp up of new programs including Mercedes' new electric vehicle platform and the Lucid Air; the impact of aluminum material passthrough on customer pricing; and a $9.8 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2022 of $38.3 million as compared to the corresponding period of 2021.

Sales for the six months ended June 30, 2022 in the Company's Rest of the World operating segment decreased by $12.6 million or 13.9% to $78.4 million from $91.1 million for the six months ended June 30, 2021. The decrease was largely driven by lower year-over-year production volumes, including a program that came with the operations acquired from Metalsa that ended production during or subsequent to the six months ended June 30, 2021, and a $0.9 million decrease in tooling sales. These negative factors were partially offset by the launch of new programs during or subsequent to the six months ended June 30, 2021, namely with Geely; and a $1.9 million positive foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2021.

Overall tooling sales decreased by $5.1 million (including outside segment sales eliminations) to $113.9 million for the six months ended June 30, 2022 from $119.0 million for the six months ended June 30, 2021.

GROSS MARGIN

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Gross margin	$ 125,789	$ 111,728	14,061	12.6 %
% of Sales	11.3 %	12.6 %		

The gross margin percentage for the second quarter of 2022 of 11.3% decreased as a percentage of sales by 1.3% as compared to the gross margin percentage for the second quarter of 2021 of 12.6%. The decrease in gross margin as a percentage of sales was generally due to:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; and
- a decrease in COVID-related government subsidies.

These factors were partially offset by:

- favourable commercial settlements;
- overall higher production sales volume and corresponding higher utilization of assets; and
- productivity and efficiency improvements at certain operating facilities.

Gross margin for the second quarter of 2022 continued to be impacted by production inefficiencies related to the semiconductor chip shortage and other supply chain disruptions driven by the unpredictability of customer production schedules.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Gross margin	$ 248,225	$ 232,585	15,640	6.7 %
% of Sales	10.9 %	12.4 %		

The gross margin percentage for the six months ended June 30, 2022 of 10.9% decreased as a percentage of sales by 1.5% as compared to the gross margin percentage for the six months ended June 30, 2021 of 12.4%. The decrease in gross margin as a percentage of sales was generally due to:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; and
- a decrease in COVID-related government subsidies.

These factors were partially offset by:

- favourable commercial settlements;
- overall higher production sales volume and corresponding higher utilization of assets; and
- productivity and efficiency improvements at certain operating facilities.

Gross margin for the six months ended June 30, 2022 continued to be impacted by production inefficiencies related to the semiconductor chip shortage and other supply chain disruptions driven by the unpredictability of customer production schedules.

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

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Selling, general & administrative	$ 68,130	$ 60,494	7,636	12.6 %
% of Sales	6.1 %	6.8 %		

SG&A expense for the second quarter of 2022 increased by $7.6 million to $68.1 million as compared to SG&A expense for the second quarter of 2021 of $60.5 million. The increase in SG&A expense can largely be attributed to overall higher employee levels and related costs as compared to the second quarter of 2021 as a result of overall higher volumes and general activity; a decrease in COVID-related government subsidies; an increase in travel and related costs as COVID-related restrictions loosen; and an increase in overall variable compensation expense, including equity-based compensation expense related to deferred, restricted, and performance share units.

SG&A expense as a percentage of sales decreased to 6.1% for the second quarter of 2022 compared to 6.8% for the second quarter of 2021 in light of higher year-over-year sales.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change	% Change
Selling, general & administrative	$ 133,453	$ 121,244	12,209	10.1 %
% of Sales	5.9 %	6.4 %		

SG&A expense for the six months ended June 30, 2022 increased by $12.2 million to $133.5 million as compared to SG&A expense for the six months ended June 30, 2021 of $121.2 million. The increase in SG&A expense can largely be attributed to overall higher employee levels and related costs as compared to the corresponding period of 2021 as a result of overall higher volumes and general activity; a decrease in COVID-related government subsidies; an increase in travel and related costs as COVID-related restrictions loosen; and an increase in overall variable compensation expense, including equity-based compensation expense related to deferred, restricted, and performance share units.

SG&A expense as a percentage of sales decreased to 5.9% for the six months ended June 30, 2022 compared to 6.4% for the six months ended June 30, 2021 in light of higher year-over-year sales.

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

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$	62,324	$	53,303	9,021	16.9%
Depreciation of PP&E and right-of-use assets (non-production)		3,909		3,916	(7)	(0.2%)
Amortization of development costs		2,598		3,268	(670)	(20.5%)
Total depreciation and amortization	$	68,831	$	60,487	8,344	13.8%

Total depreciation and amortization expense for the second quarter of 2022 increased by $8.3 million to $68.8 million as compared to $60.5 million for the second quarter of 2021. The increase in depreciation and amortization expense was primarily due to additional depreciation on a larger PP&E asset base relating to new and replacement business that commenced during or subsequent to the second quarter of 2021.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the second quarter of 2021 and new and replacement programs scheduled to launch over the next two to three years in all of the Company's various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Total depreciation and amortization expense as a percentage of sales decreased year-over-over to 6.2% for the second quarter of 2022 from 6.8% for the second quarter of 2021 due mainly to higher overall sales volume.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$	123,981	$	107,522	16,459	15.3%
Depreciation of PP&E and right-of-use assets (non-production)		7,624		7,755	(131)	(1.7%)
Amortization of development costs		5,319		6,566	(1,247)	(19.0%)
Total depreciation and amortization	$	136,924	$	121,843	15,081	12.4%

Total depreciation and amortization expense for the six months ended June 30, 2022 increased by $15.1 million to $136.9 million as compared to $121.8 million for the six months ended June 30, 2021. The increase in depreciation and amortization expense was primarily due to additional depreciation on a larger PP&E asset base relating to new and replacement business that commenced during or subsequent to the six months ended June 30, 2021.

Total depreciation and amortization expense as a percentage of sales decreased year-over-over to 6.0% for the six months ended June 30, 2022 from 6.5% for the six months ended June 30, 2021 due mainly to higher overall sales volume.

ADJUSTMENTS TO NET INCOME

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

TABLE A

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change
NET INCOME	**$ 25,471**	**$ 23,952**	**$ 1,519**
Adjustments:			
Restructuring costs (1)	—	4,444	(4,444)
ADJUSTMENTS, BEFORE TAX	**$ —**	**$ 4,444**	**$ (4,444)**
Tax impact of above items	—	(1,370)	1,370
ADJUSTMENTS, AFTER TAX	**$ —**	**$ 3,074**	**$ (3,074)**
ADJUSTED NET INCOME	**$ 25,471**	**$ 27,026**	**$ (1,555)**
Number of Shares Outstanding – Basic (‘000)	80,372	80,329	
Adjusted Basic Net Earnings Per Share	$ 0.32	$ 0.34	
Number of Shares Outstanding – Diluted (‘000)	80,372	80,458	
Adjusted Diluted Net Earnings Per Share	$ 0.32	$ 0.34	

TABLE B

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change
NET INCOME	**$ 50,679**	**$ 62,653**	**$ (11,974)**
Adjustments:			
Restructuring costs (1)	4,237	5,473	(1,236)
Gain on dilution of equity investments (2)	(4,050)	(7,800)	3,750
ADJUSTMENTS, BEFORE TAX	**$ 187**	**$ (2,327)**	**$ 2,514**
Tax impact of above items	(553)	(669)	116
ADJUSTMENTS, AFTER TAX	**$ (366)**	**$ (2,996)**	**$ 2,630**
ADJUSTED NET INCOME	**$ 50,313**	**$ 59,657**	**$ (9,344)**
Number of Shares Outstanding – Basic (‘000)	80,370	80,312	
Adjusted Basic Net Earnings Per Share	$ 0.63	$ 0.74	
Number of Shares Outstanding – Diluted (‘000)	80,370	80,487	
Adjusted Diluted Net Earnings Per Share	$ 0.63	$ 0.74	

(1) Restructuring costs

Additions to the restructuring provision during the six months ended June 30, 2022 totaled $4.2 million and represent employee-related severance resulting from the rightsizing of operations in Canada related to the cancellation of an OEM light vehicle platform well before the end of its expected life cycle.

Additions to the restructuring provision during the three and six months ended June 30, 2021 totaled $4.4 million and $5.5 million, respectively, and represent employee-related severance resulting from the rightsizing of an operating facility in Germany.

(2) Gain on dilution of equity investments

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

As at December 31, 2020, the Company held 34,045,954 common shares of NanoXplore representing a 23.3% equity interest in NanoXplore (on a non-diluted basis). On February 12, 2021, NanoXplore completed a public offering of 11,500,000 common shares for gross proceeds of $46.0 million. In a separate transaction on February 12, 2021, the Company purchased 1,000,000 common shares from NanoXplore's President and Chief Executive Officer for consideration of $4.0 million. Subsequent to these transactions, the Company's net ownership interest decreased to 22.2% from 23.3%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $7.8 million during the first quarter of 2021.

NET INCOME

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
Net Income	$	25,471	$	23,952	1,519	6.3%
Adjusted Net Income		25,471	$	27,026	(1,555)	(5.8%)
Net Earnings per Share						
Basic and Diluted	$	0.32	$	0.30		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.32	$	0.34		

Net Income, before adjustments, for the second quarter of 2022 increased by $1.5 million to $25.5 million or $0.32 per share, on a basic and diluted basis, from Net Income of $24.0 million or $0.30 per share, on a basic and diluted basis, for the second quarter of 2021. Excluding the adjustments explained in Table A under "Adjustments to Net Income", Adjusted Net Income for the second quarter of 2022 decreased by $1.6 million to $25.5 million or $0.32 per share, on a basic and diluted basis, from $27.0 million or $0.34 per share, on a basic and diluted basis, for the second quarter of 2021.

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

- a year-over-year increase in SG&A expense, as previously discussed;
- a net foreign exchange gain of $1.2 million for the second quarter of 2022 compared to a gain of $5.2 million for the second quarter of 2021;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates; and
- a higher effective tax rate on adjusted income (25.9% for the second quarter of 2022 compared to 24.5% for the second quarter of 2021).

These factors were partially offset by higher gross margin (on an absolute basis) on higher year-over-year sales volume.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
Net Income	$	50,679	$	62,653	(11,974)	(19.1%)
Adjusted Net Income		50,313	$	59,657	(9,344)	(15.7%)
Net Earnings per Share						
Basic and Diluted	$	0.63	$	0.78		
Adjusted Net Earnings per Share						
Basic and Diluted	$	0.63	$	0.74		

Net Income, before adjustments, for the six months ended June 30, 2022 decreased by $12.0 million to $50.7 million or $0.63 per share, on a basic and diluted basis, from Net Income of $62.7 million or $0.78 per share, on a basic and diluted basis, for the six months ended June 30, 2021. Excluding the adjustments explained in Table B under "Adjustments to Net Income", Adjusted Net Income for the six months ended June 30, 2022 decreased by $9.3 million to $50.3 million or $0.63 per share, on a basic and diluted basis, from $59.7 million or $0.74 per share, on a basic and diluted basis, for the six months ended June 30, 2021.

Adjusted Net Income for the six months ended June 30, 2022, as compared to the six months ended June 30, 2021, was negatively impacted by the following:

- a year-over-year increase in SG&A expense, as previously discussed;
- a net foreign exchange gain of $0.9 million for the six months ended June 30, 2022 compared to a gain of $10.5 million for the six months ended June 30, 2021;
- a year-over-year increase in finance expense on the Company's revolving bank debt as a result of increased debt levels and borrowing rates; and
- a year-over-year increase in research and development costs.

These factors were partially offset by higher gross margin (on an absolute basis) on higher year-over-year sales volume.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

		Three months ended June 30, 2022		Three months ended June 30, 2021	$ Change	% Change
Additions to PP&E	$	91,291	$	88,448	2,843	3.2%

Additions to PP&E increased by $2.8 million to $91.3 million or 8.2% of sales for the second quarter of 2022 compared to $88.4 million or 10.0% of sales in the second quarter of 2021.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
Additions to PP&E	$	159,080	$	170,040	(10,960)	(6.4%)

Additions to PP&E decreased by $11.0 million to $159.1 million or 7.0% of sales for the six months ended June 30, 2022 compared to $170.0 million or 9.0% of sales for the six months ended June 30, 2021.

General timing of expenditures makes quarterly additions to PP&E quite volatile by nature. Capital additions for the three and six months ended June 30, 2022 and 2021 include new program capital and incremental investments required in equipment related to customer-driven engineering changes on new program launches. The Company continues to make investments in the business including in various sales and margin growth projects and in new and replacement business in all its various product offerings, while continuing to apply a measured and prudent approach to capital investment.

SEGMENT ANALYSIS

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

Three months ended June 30, 2022 to three months ended June 30, 2021 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Three months ended June 30, 2022	**Three months ended June 30, 2021**	**Three months ended June 30, 2022**	**Three months ended June 30, 2021**
North America	$ 826,724	$ 635,823	$ 41,242	$ 38,400
Europe	255,832	210,976	4,425	(4,393)
Rest of the World	38,673	44,556	(124)	5,058
Eliminations	(7,354)	(6,489)	—	—
Adjusted Operating Income	—	—	$ 45,543	$ 39,065
Adjustments*	—	—	—	(4,444)
Total	$ 1,113,875	$ 884,866	$ 45,543	$ 34,621

** Operating Income (Loss) for the operating segments has been adjusted for certain items as explained in Table A under "Adjustments to Net Income". The $4.4 million adjustment for the second quarter of 2021 was recognized in Europe.*

North America

Adjusted Operating Income in North America increased by $2.8 million to $41.2 million or 5.0% of sales for the second quarter of 2022 from $38.4 million or 6.0% of sales for the second quarter of 2021. The decrease in Adjusted Operating Income as a percentage of sales was generally due to higher labour and material costs; operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; and a decrease in COVID-related government subsidies. These negative factors were partially offset by favourable commercial settlements; overall higher production sales volume and corresponding higher utilization of assets; productivity and efficiency improvements at certain operating facilities; and lower SG&A expense as a percentage of sales.

Europe

Adjusted Operating Income (Loss) in Europe increased by $8.8 million to income of $4.4 million or 1.7% of sales for the second quarter of 2022 from a loss of $4.4 million or (2.1%) of sales for the second quarter of 2021. The increase in Adjusted Operating Income was generally due to favourable commercial settlements, incremental contribution from the higher year-over-year sales, and productivity and efficiency improvements at certain operating facilities; partially offset by higher material and energy costs, and launch related costs.

Rest of the World

Adjusted Operating Income (Loss) in the Rest of the World decreased by $5.2 million to an Operating Loss of $0.1 or (0.3%) of sales for the second quarter of 2022 from Operating Income of $5.1 million or 11.4% of sales for the second quarter of 2021, due generally to lower year-over-year production sales volume, a negative sales mix, and launch related costs.

Six months ended June 30, 2022 to six months ended June 30, 2021 comparison

	SALES		OPERATING INCOME (LOSS)*	
	Six months ended June 30, 2022	**Six months ended June 30, 2021**	**Six months ended June 30, 2022**	**Six months ended June 30, 2021**
North America	$ 1,686,424	$ 1,339,953	$ 85,857	$ 82,435
Europe	517,294	465,045	3,833	(4,735)
Rest of the World	78,426	91,069	139	9,824
Eliminations	(13,231)	(14,051)	—	—
Adjusted Operating Income	—	—	$ 89,829	$ 87,524
Adjustments*	—	—	(4,237)	(5,473)
Total	$ 2,268,913	$ 1,882,016	$ 85,592	$ 82,051

** Operating Income (Loss) for the operating segments has been adjusted for certain items as explained in Table B under "Adjustments to Net Income". The $4.2 million adjustment for the six months ended June 30, 2022 was recognized in North America. The $5.5 million adjustment for the six months ended June 30, 2021 was recognized in Europe.*

North America

Adjusted Operating Income in North America increased by $3.5 million to $85.9 million or 5.1% of sales for the six months ended June 30, 2022 from $82.4 million or 6.2% of sales for the six months ended June 30, 2021. The decrease in Adjusted Operating Income as a percentage of sales was generally due to higher labour and material costs; operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; and a decrease in COVID-related government subsidies. These negative factors were partially offset by favourable commercial settlements; overall higher production sales volume and corresponding higher utilization of assets; productivity and efficiency improvements at certain operating facilities; and lower SG&A expense as a percentage of sales.

Europe

Adjusted Operating Income (Loss) in Europe increased by $8.5 million to income of $3.8 million or 0.7% of sales for the six months ended June 30, 2022 from a loss of $4.7 million or (1.0%) of sales for the six months ended June 30, 2021. The increase in Adjusted Operating Income was generally due to favourable commercial settlements, incremental contribution from the higher year-over-year sales, and productivity and efficiency improvements at certain operating facilities, partially offset by higher material and energy costs, and launch related costs.

Rest of the World

Adjusted Operating Income in the Rest of the World decreased by $9.7 million to $0.1 million or 0.2% of sales for the six months ended June 30, 2022 from $9.8 million or 10.8% of sales for the six months ended June 30, 2021, due generally to lower year-over-year production sales volume, a negative sales mix, and launch related costs.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2022		2021				2020	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	$1,113,875	$1,155,038	$1,053,440	$ 848,497	$ 884,866	$ 997,150	$1,070,956	$ 971,060
Gross Margin	125,789	122,436	63,032	50,007	111,728	120,857	155,841	151,478
Net Income (Loss) for the period	25,471	25,208	(9,653)	(17,120)	23,952	38,701	44,970	45,636
Adjusted Net Income (Loss)	25,471	24,842	(9,653)	(17,120)	27,026	32,631	44,212	45,636
Basic and Diluted Net Earnings (Loss) per Share	0.32	0.31	(0.12)	(0.21)	0.30	0.48	0.56	0.57
Adjusted Basic and Diluted Net Earnings (Loss) per Share	0.32	0.31	(0.12)	(0.21)	0.34	0.41	0.55	0.57

LIQUIDITY AND CAPITAL RESOURCES

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

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

In light of the industry-wide semiconductor chip shortage resulting from the COVID-19 pandemic, on November 25, 2021, the Company amended its lending agreements with its banking syndicate to provide enhanced financial covenant flexibility on a present and go forward basis. The amendment provides that the Company’s calculation of its most basic financial covenant, the net debt to trailing twelve months EBITDA ratio, for the four quarters up to and including the third quarter of 2022, would exclude EBITDA from the third and fourth quarters of 2021 and instead be based on the annualized total of the remaining quarters in the relevant trailing twelve month period. As a result, the impact the industry-wide shortage of semiconductor chips has had on the Company, prevalent during the third and fourth quarters of 2021, would be largely ignored for the purpose of financial covenant calculations under the Company’s lending arrangements. The amendment also increased the maximum net debt to trailing twelve months EBITDA ratio for financial covenant purposes to 4.0x, 4.5x, and 3.75x for the first, second, and third quarters of 2022, respectively, and returning to 3.0x thereafter.

As at June 30, 2022, the Company had drawn US $476 million (December 31, 2021 - US $466 million) on the U.S. revolving credit line and $380 million (December 31, 2021 - $360 million) on the Canadian revolving credit line. As at June 30, 2022, the Company had total liquidity of $287 million, including cash and cash equivalents and availability under the Company's revolving credit lines. In addition, the Company's amended credit facility includes a $300 million allowance for asset based financing that the Company can use for additional financing, of which approximately $243 million was available as at June 30, 2022. 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.

The principal sources of liquidity available for the Company's future cash requirements are expected to be cash flow from operations, cash and cash equivalents, borrowings from its revolving credit lines, and asset based financing. Management believes that the Company's overall liquidity and operating cash flow will be sufficient to meet the Company's anticipated cash requirements for capital expenditures, working capital, debt obligations and other commitments, despite the challenges presented by the COVID-19 pandemic, industry-wide shortage of semiconductor chips, and related supply chain disruptions. The Company's ability to fund its anticipated cash requirements, and to comply with financial covenants under the Company's banking facility, depend on the Company's future operating performance and cash flows and many factors outside of its control, including the cost of material, energy, and other input costs, the state of the overall automotive industry and financial and economic conditions, including the impact of COVID-19, the semiconductor chip shortage and related supply chain disruptions, and other factors.

Debt leverage ratios:

Excluding the impact of IFRS 16:	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**
Long-term debt	1,046,941	1,018,390	1,010,990	1,016,890	921,077
Less: Cash and cash equivalents	(115,863)	(96,336)	(153,291)	(157,324)	(127,664)
Net Debt	$ 931,078	$ 922,054	$ 857,699	$ 859,566	$ 793,413
Trailing 12-month Adjusted EBITDA	$ 289,779	$ 278,780	$ 276,165	$ 343,690	$ 432,369
Net Debt to Adjusted EBITDA ratio	3.21x	3.31x	3.11x	2.50x	1.84x

Including the impact of IFRS 16:	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**
Long-term debt	1,046,941	1,018,390	1,010,990	1,016,890	921,077
Lease liabilities	243,619	248,863	239,777	187,584	195,450
	1,290,560	1,267,253	1,250,767	1,204,474	1,116,527
Less: Cash and cash equivalents	(115,863)	(96,336)	(153,291)	(157,324)	(127,664)
Net Debt	1,174,697	1,170,917	1,097,476	1,047,150	988,863
Trailing 12-month Adjusted EBITDA	334,808	320,134	317,570	386,055	475,389
Net Debt to Adjusted EBITDA ratio	3.51x	3.66x	3.46x	2.71x	2.08x

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

	June 30, 2022	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**	**June 30, 2021**
Trailing 12-month Adjusted EBITDA - including the impact of IFRS 16	334,808	320,134	317,570	386,055	475,389
Principal payments of lease liabilities	(37,074)	(33,654)	(33,753)	(34,387)	(34,689)
Interest on lease liabilities	(7,955)	(7,700)	(7,652)	(7,978)	(8,331)
Trailing 12-month Adjusted EBITDA - excluding the impact of IFRS 16	289,779	278,780	276,165	343,690	432,369

The Company's Net Debt (excluding the impact of IFRS 16) increased by $9.0 million during the second quarter of 2022 to $931.1 million from $922.1 million at the end of the first quarter of 2022 due essentially to foreign exchange translation driven by the appreciation of US Dollar against the Canadian dollar during the quarter. The Company's Net Debt to Adjusted EBITDA ratio (excluding the impact of IFRS 16) decreased to 3.21x from 3.31x at the end of the first quarter of 2022, due largely to an increase in trailing 12-month Adjusted EBITDA.

The Company was in compliance with its debt covenants as at June 30, 2022. The Company's debt covenants are based on leverage ratios excluding the impact of IFRS 16 and, for the four quarters up to and including the third quarter of 2022, excludes EBITDA from the third and fourth quarters of 2021, as described above.

Dividends

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

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

On March 5, 2020, in view of the Company's financial performance, and its future outlook and cash needs at that time, the Board decided to increase the annual dividends by another 11% to $0.20 per share, to be paid in four quarterly payments of $0.05 per share commencing at the beginning of 2020. The first such increased dividend was paid on April 14, 2020. The Company has maintained its dividend throughout the pandemic period. The Board will assess future dividend payment levels from time to time, in light of market conditions, the current COVID-19 situation, the Company's financial performance and anticipated needs at that time.

Cash flow

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 120,717	$ 100,881	19,836	19.7%
Change in non-cash working capital items	18,597	(67,898)	86,495	127.4%
	139,314	32,983	106,331	322.4%
Interest paid	(14,012)	(8,247)	(5,765)	(69.9%)
Income taxes paid	(7,963)	(9,438)	1,475	15.6%
Cash provided by operating activities	117,339	15,298	102,041	667.0%
Cash provided by (used in) financing activities	(3,820)	46,515	(50,335)	(108.2%)
Cash used in investing activities	(87,441)	(80,498)	(6,943)	(8.6%)
Effect of foreign exchange rate changes on cash and cash equivalents	(6,551)	1,001	(7,552)	(754.4%)
Increase (Decrease) in cash and cash equivalents	$ 19,527	$ (17,684)	37,211	210.4%

Cash provided by operating activities during the second quarter of 2022 was $117.3 million, compared to $15.3 million in the corresponding period of 2021. The components for the second quarter of 2022 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $120.7 million;
- working capital items source of cash of $18.6 million comprised of an increase in trade, other payables and provisions of $68.0 million; partially offset by an increase in inventories of $34.9 million, an increase in trade and other receivables of $12.3 million, and an increase in prepaid expenses and deposits of $2.2 million;
- interest paid of $14.0 million; and
- income taxes paid of $8.0 million.

Cash used in financing activities during the second quarter of 2022 was $3.8 million, compared to cash provided by financing activities of $46.5 million in the corresponding period of 2021. The components for the second quarter of 2022 primarily include the following:

- an $11.9 million net increase in long-term debt;
- principal payments of lease liabilities of $11.8 million; and
- $4.0 million in dividends paid.

Cash used in investing activities during the second quarter of 2022 was $87.4 million, compared to $80.5 million in the corresponding period of 2021. The components for the second quarter of 2022 primarily include the following:

- cash additions to PP&E of $85.6 million; and
- capitalized development costs relating to upcoming new program launches of $2.3 million.

Taking into account the opening cash balance of $96.3 million at the beginning of the second quarter of 2022, and the activities described above, the cash and cash equivalents balance at June 30, 2022 was $115.9 million.

		Six months ended June 30, 2022		Six months ended June 30, 2021	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$	226,318	$	213,395	12,923	6.1%
Change in non-cash working capital items		(45,041)		(103,175)	58,134	56.3%
		181,277		110,220	71,057	64.5%
Interest paid		(23,971)		(17,423)	(6,548)	(37.6%)
Income taxes paid		(9,974)		(20,084)	10,110	50.3%
Cash provided by operating activities		147,332		72,713	74,619	102.6%
Cash provided by (used in) financing activities		(1,691)		80,417	(82,108)	(102.1%)
Cash used in investing activities		(177,324)		(177,866)	542	0.3%
Effect of foreign exchange rate changes on cash and cash equivalents		(5,745)		(386)	(5,359)	(1,388.3%)
Decrease in cash and cash equivalents	$	(37,428)	$	(25,122)	(12,306)	(49.0%)

Cash provided by operating activities during the six months ended June 30, 2022 was $147.3 million, compared to $72.7 million in the corresponding period of 2021. The components for the six months ended June 30, 2022 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $226.3 million;
- working capital use of cash of $45.0 million comprised of an increase in trade and other receivables of $202.7 million, an increase in inventories of $58.1 million, and an increase in prepaid expenses and deposits of $5.8 million; partially offset by an increase in trade, other payables and provisions of $221.6 million;
- interest paid of $24.0 million; and
- income taxes paid of $10.0 million.

Cash used in financing activities during the six months ended June 30, 2022 was $1.7 million, compared to cash provided by financing activities of $80.4 million in the corresponding period of 2021. The components for the six months ended June 30, 2022 primarily include the following:

- a $26.5 million net increase in long-term debt;
- principal payments of lease liabilities of $20.3 million; and
- $8.0 million in dividends paid.

Cash used in investing activities during the six months ended June 30, 2022 was $177.3 million, compared to $177.9 million in the corresponding period of 2021. The components for the six months ended June 30, 2022 primarily include the following:

- cash additions to PP&E of $173.1 million;
- capitalized development costs relating to upcoming new program launches of $3.6 million; and
- an additional investment in VoltaXplore Inc. ("VoltaXplore") of $1.0 million.

Taking into account the opening cash balance of $153.3 million at the beginning of 2022, and the activities described above, the cash and cash equivalents balance at June 30, 2022 was $115.9 million.

Free Cash Flow

	Three months ended June 30, 2022	Three months ended June 30, 2021	$ Change
Adjusted EBITDA	$ 114,292	$ 99,618	14,674
Add (deduct):			
Change in non-cash working capital items	18,597	(67,898)	86,495
Purchase of property, plant and equipment (excluding capitalized interest)	(85,570)	(74,990)	(10,580)
Cash proceeds on disposal of property, plant and equipment	416	139	277
Capitalized development costs	(2,287)	(1,611)	(676)
Interest paid	(14,012)	(8,247)	(5,765)
Income taxes paid	(7,963)	(9,438)	1,475
Free cash flow	23,473	(62,427)	85,900

Free cash flow for the second quarter of 2022 increased year-over-year due largely to a decrease in non-cash working capital, and higher Adjusted EBITDA; partially offset by an increase in cash purchases of property, plant and equipment, and higher interest paid on long-term debt.

Tooling-related working capital accounts, including inventory, trade and other receivables, and trade and other payables on a net basis, amounted to ($17.8) million as at June 30, 2022, a decrease from ($6.0) million as at March 31, 2022 and $50.7 million as at June 30, 2021.

Reconciliation of IFRS “Cash provided by operating activities” to Non-IFRS “Free Cash Flow” for the three months ended June 30, 2022 and 2021:

	Three months ended June 30, 2022	Three months ended June 30, 2021
Cash provided by operating activities	$ 117,339	$ 15,298
Add (deduct):		
Purchase of property, plant and equipment (excluding capitalized interest)	(85,570)	(74,990)
Cash proceeds on disposal of property, plant and equipment	416	139
Capitalized development costs	(2,287)	(1,611)
Restructuring costs	—	4,444
Unrealized gain (loss) on foreign exchange contracts	(2,593)	1,440
Deferred and restricted share units expense	(1,632)	(1,232)
Stock options expense	(195)	(266)
Pension and other post-employment benefits expense	(854)	(1,000)
Contributions made to pension and other post-retirement benefits	295	939
Net unrealized foreign exchange gain and other income	(1,446)	(5,588)
Free cash flow	$ 23,473	$ (62,427)

	Six months ended June 30, 2022	Six months ended June 30, 2021	$ Change
Adjusted EBITDA	$ 226,671	$ 209,433	17,238
Add (deduct):			
Change in non-cash working capital items	(45,041)	(103,175)	58,134
Purchase of property, plant and equipment (excluding capitalized interest)	(173,114)	(165,801)	(7,313)
Cash proceeds on disposal of property, plant and equipment	416	139	277
Capitalized development costs	(3,626)	(4,168)	542
Interest paid	(23,971)	(17,423)	(6,548)
Income taxes paid	(9,974)	(20,084)	10,110
Free cash flow	(28,639)	(101,079)	72,440

Free cash flow for the six months ended June 30, 2022 increased year-over-year due largely to a decrease in non-cash working capital, higher Adjusted EBITDA, and lower income taxes paid; partially offset by an increase in cash purchases of property, plant and equipment, and higher interest paid on long-term debt.

Reconciliation of IFRS “Cash provided by operating activities” to Non-IFRS “Free Cash Flow” for the six months ended June 30, 2022 and 2021:

	Six months ended June 30, 2022	Six months ended June 30, 2021
Cash provided by operating activities	$ 147,332	$ 72,713
Add (deduct):		
Purchase of property, plant and equipment (excluding capitalized interest)	(173,114)	(165,801)
Cash proceeds on disposal of property, plant and equipment	416	139
Capitalized development costs	(3,626)	(4,168)
Restructuring costs	4,237	5,473
Unrealized gain (loss) on foreign exchange contracts	(1,756)	2,184
Deferred and restricted share units benefit (expense)	(545)	475
Stock options expense	(391)	(606)
Pension and other post-employment benefits expense	(1,722)	(2,015)
Contributions made to pension and other post-retirement benefits	1,660	1,877
Net unrealized foreign exchange gain and other income	(1,130)	(11,350)
Free cash flow	$ (28,639)	$ (101,079)

RISKS AND UNCERTAINTIES

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

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 8, 2022, the Company had 80,387,095 common shares outstanding. The Company’s common shares constitute its only class of voting securities. As at August 8, 2022, options to acquire 2,418,000 common shares were outstanding.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the six months ended June 30, 2022, there have been no material changes in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2021.

Guarantees

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2022, the amount of the off-balance sheet program financing was $5.8 million (December 31, 2021 - $18.6 million) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically range up to twenty-four months.

Financial Instruments

The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures. It is the Company's policy to not utilize financial instruments for trading or speculative purposes.

At 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 $1.8 million and was recorded in trade and other payables (December 31, 2021 - pre-tax gain of $4.7 million recorded in trade and other receivables).

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

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

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 representing a 21.2% equity interest in NanoXplore (on a non-diluted basis). NanoXplore is a publicly listed company on the Toronto Stock Exchange trading under the ticker symbol GRA.

It is a manufacturer and supplier of high-volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions.

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

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

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

As at June 30, 2022, the Company held 14,952 of each class A and class C shares and $1.4 million (US $1.1 million) of convertible debentures of AlumaPower Corporation ("AlumaPower"), representing a 12.5% equity interest in AlumaPower (on a non-diluted basis). AlumaPower is a private company developing aluminum air battery technology for a variety of end markets, including automotive.

The Company applies equity accounting to its equity investments in NanoXplore and VoltaXplore based on their most recently available financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date, which represents a reasonable estimate of the change in the Company's interest. The common shares and convertible debentures in AlumaPower have been classified as fair value through other comprehensive income and amortized cost, respectively. Accordingly, the common shares are recorded at their fair value at the end of each reporting period, with the change in fair value recorded in other comprehensive income, while the convertible debentures are recorded at amortized cost using the effective interest rate method, less any impairment losses.

Movement in equity-accounted investments is summarized as follows:

	Investment in common shares of NanoXplore	Investment in common shares of VoltaXplore
Net as of December 31, 2020	$ 40,557	$ —
Additions	4,000	4,036
Gain on dilution of equity investments	7,800	—
Share of loss for the year	(3,813)	(111)
Share of other comprehensive income for the year	204	—
Net as of December 31, 2021	$ 48,748	$ 3,925
Additions	—	1,000
Gain on dilution of equity investments	4,050	—
Share of loss for the period	(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 $115.3 million.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

FORWARD-LOOKING INFORMATION

Special Note Regarding Forward-Looking Statements

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including those related to the Company's expectations as to, or its views or beliefs in or on, the impact of, or duration of, or factors affecting, and expected response to, the COVID-19 pandemic (including the global semi-conductor chip shortage or other related and supply chain issues) and the potential effects or issues relating to a prolonged pandemic or lockdown(s), or as a result of any current or future government actions or regulations or the conflict between Russia and Ukraine (including on energy supply in Europe or elsewhere) or as a result of supply chain disruption or inflation, on the Company's financial position, its business and operations, on its employees, on the automotive industry, on the economy, on production volumes or on the business of any OEM or suppliers; the growth of the Company and pursuit of, and belief in, its strategies; the ramping up and launching of new business; the continued investments in its business and technologies; the opportunity to increase sales; the ability to finance future capital expenditures, working capital, debt obligations and other commitments; the factors impacting its ability to fund anticipated cash requirements and to comply with financial covenants under the banking facility, ability to fund anticipated working capital needs, debt obligations and other commitments; the Company's views on its liquidity and operating cash flow and ability to deal with present or future economic conditions, the potential for fluctuation of operating results, the likelihood of tooling supplier default under tooling guarantee programs and using the tools as collateral, and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances, such as expected sales and industry production estimates, current foreign exchange rates, timing of product launches and operational improvement during the period, and current Board approved budgets. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's AIF for the year ended December 31, 2021 and other public filings which can be found at www.sedar.com:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- The highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- Automotive Industry Risks;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political and Civil Unrest, and Other Outbreaks;
- Dependence Upon Key Customers;
- Financial Viability of Suppliers and Key Suppliers and Supply Disruptions;
- Competition;
- Cost and Risk Absorption and Purchase Orders, including the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Quote/Pricing Assumptions;
- Increased pricing of raw materials and commodities;
- Launch and Operational Costs and Cost Structure;
- Material Prices and Volatility;
- Fluctuations in Operating Results;
- Outsourcing and Insourcing Trends;
- Product Warranty, Recall, Product Liability and Liability Risk;
- Product Development and Technological Change;
- A Shift Away from Technologies in Which the Company is Investing;
- Dependence Upon Key Personnel;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;

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

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

MARTINREA INTERNATIONAL INC.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THREE 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:

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

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Mexican Peso	$ 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).

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

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

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