MARTINREA INTERNATIONAL INC.

REPORT TO SHAREHOLDERS

FOR THE SECOND QUARTER ENDING JUNE 30, 2023

SECOND QUARTER REPORT

June 30, 2023

MESSAGE TO SHAREHOLDERS

The Company's second quarter revenues were up over 22% year-over-year, as reflected in the attached materials, and we had a very good quarter. 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 9, 2023

MARTINREA INTERNATIONAL INC. REPORTS RECORD QUARTERLY 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, 2023 and declared a quarterly cash dividend of $0.05 per share.

SECOND-QUARTER HIGHLIGHTS

- Total sales of $1,361.1 million, up 22.2% year-over-year and a new quarterly record for the Company.
- Diluted net earnings per share of $0.62.
- Operating Income Margin of 6.1%.
- Adjusted EBITDA(1) of $160.6 million, a new quarterly record for the Company.
- Second quarter financial results were much improved compared to the second quarter of 2022, as semiconductor and other supply shortages had a more pronounced impact on prior-year volumes.
- Net debt-to-Adjusted EBITDA(1) ratio, excluding the impact of IFRS 16, continues to strengthen and ended the quarter at 1.71x.
- New business awards of approximately $150 million in annualized sales at mature volumes; year-to-date new business awards now total $220 million.
- Quarterly cash dividend of $0.05 declared.

OVERVIEW

Pat D'Eramo, President and Chief Executive Officer, stated: "Our second quarter financial performance was strong, and an improvement over the prior quarter, with Adjusted EBITDA(1) setting another quarterly record for the Company. While challenges from production volatility, supply chain bottlenecks, cost inflation, and tight labour market conditions are ongoing, the environment is better than it was last year, and we expect that it will continue to improve over time. At the same time, we are making progress on our commercial activity, working to offset inflationary costs and volume instability that we continue to face. We continue to expect 2023 to be better year over year, with higher production volumes, sales, margins and Free Cash Flow(1) compared to 2022. We are confirming our 2023 outlook, which calls for total sales (including tooling sales) of $4.8 to $5.0 billion, an Adjusted Operating Income Margin(1) of 6.0% to 7.0%, and Free Cash Flow(1) of $150 to $200 million."

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[1] The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures, included anywhere in this press release, include "Adjusted Net Income", "Adjusted Net Earnings per Share (on a basic and diluted basis)", "Adjusted Operating Income", "Adjusted EBITDA", "Free Cash Flow" and "Net Debt". The relevant IFRS financial measure, as applicable, and a reconciliation of certain non-IFRS financial measures to measures determined in accordance with IFRS are contained in the Company's Management Discussion and Analysis for the three and six months ended June 30, 2023 and in this press release.

He added: “I am pleased to announce that we have been awarded new business representing $150 million in annualized sales at mature volumes, consisting of $90 million in Propulsion Systems, including $65 million with General Motors as well as Daimler, Volvo, and others, and $60 million in Lightweight Structures with Mercedes-Benz and General Motors. Year to date, new business awards now total $220 million in annualized sales at mature volumes, which already exceeds the total amount of new wins in 2022.”

Fred Di Tosto, Chief Financial Officer, stated: “Sales for the second quarter, excluding tooling sales of $109.9 million, were $1,251.1 million, and Net Earnings per Share(1) was $0.62. Second quarter Operating Income of $82.4 million increased over the first quarter, and Adjusted EBITDA(1) of $160.6 million set a new quarterly record for the Company, as Pat noted. Second quarter Free Cash Flow(1) turned positive, coming in at $25.4 million, a nice improvement over ($31.6) million in the first quarter of 2023, driven by higher Adjusted EBITDA(1), lower capex, and the seasonal increase in working capital in the first quarter which did not repeat in the second quarter. We expect to generate an increasing amount of Free Cash Flow(1) in the back half of the year as our 2023 outlook implies, driven by higher Adjusted EBITDA(1), positive working capital flows, and significantly lower cash taxes compared to the first half.”

He continued: “Net Debt(1) declined by approximately $18 million quarter over quarter, to $937.4 million. Our Net Debt to Adjusted EBITDA(1) ratio (excluding the impact of IFRS 16) was 1.71x, down from 1.90x in the first quarter of 2023 and within striking distance of our long-term target of 1.5x or better. Our leverage ratio should naturally improve in the coming quarters as we generate an increasing amount of Free Cash Flow(1).”

Rob Wildeboer, Executive Chairman, stated: “We are pleased with our performance in the second quarter. Things are coming together. The overall environment continues to improve, we are making great progress operationally, our balance sheet is in good shape, and we are executing on our capital allocation priorities. We believe the industry is in the early stages of a period of stability and overall growth in volumes, especially in North America. The economy is in good shape, unemployment is low, household balance sheets are strong, and vehicle demand is robust while inventories remain low. Overall inflation is normalizing, which should bring with it some normalization in interest rates. I want to thank the Martinrea team for their dedication and hard work in delivering another strong quarterly performance.”

He added: “During the quarter, we repurchased just over 815,000 shares for cancellation under our normal course issuer bid for a total cost of $10.0 million. The average price paid per share repurchased in the quarter was approximately $12.30. We believe an investment in our own company is a good investment, particularly at the current low valuation. We intend to be active with our normal course issuer bid again this quarter, following the end of our blackout period. In addition to share buybacks, we paid down debt, and paid our usual $0.05 per share quarterly dividend to our shareholders. With our increasing Free Cash Flow(1) profile, we anticipate having an increasing amount of flexibility to allocate capital in the best interest of the Company.”

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, 2023 (“MD&A”), the Company’s interim condensed consolidated financial statements for the three and six months ended June 30, 2023 (the “interim financial statements”) and the Company’s Annual Information Form for the year ended December 31, 2022 can be found at www.sedarplus.ca.

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, 2023 and 2022. Refer to the Company’s interim financial statements for the three and six months ended June 30, 2023 for a detailed account of the Company’s performance for the periods presented in the tables below.

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change	% Change
Sales	$	1,361,055	$	1,113,875	247,180	22.2%
Gross Margin		173,589		125,789	47,800	38.0%
Operating Income		82,436		45,543	36,893	81.0%
Net Income for the period		49,900		25,471	24,429	95.9%
Net Earnings per Share - Basic and Diluted	$	0.62	$	0.32	0.30	93.8%
Non-IFRS Measures*						
Adjusted Operating Income	$	82,436	$	45,543	36,893	81.0%
% of Sales		*6.1 %*		*4.1 %*		
Adjusted EBITDA		160,612		114,292	46,320	40.5%
% of Sales		*11.8 %*		*10.3 %*		
Adjusted Net Income		49,900		25,471	24,429	95.9%
Adjusted Net Earnings per Share - Basic and Diluted	$	0.62	$	0.32	0.30	93.8%

		Six months ended June 30, 2023		Six months ended June 30, 2022	$ Change	% Change
Sales	$	2,664,944	$	2,268,913	396,031	17.5%
Gross Margin		340,975		248,225	92,750	37.4%
Operating Income		157,613		85,592	72,021	84.1%
Net Income for the period		98,071		50,679	47,392	93.5%
Net Earnings per Share - Basic and Diluted	$	1.22	$	0.63	0.59	93.7%
Non-IFRS Measures*						
Adjusted Operating Income	$	157,613	$	89,829	67,784	75.5%
% of Sales		*5.9 %*		*4.0 %*		
Adjusted EBITDA		313,116		226,671	86,445	38.1%
% of Sales		*11.7 %*		*10.0 %*		
Adjusted Net Income		93,497		50,313	43,184	85.8%
Adjusted Net Earnings per Share - Basic	$	1.17	$	0.63	0.54	85.7%
Adjusted Net Earnings per Share - Diluted	$	1.16	$	0.63	0.53	84.1%

***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, 2023		Three months ended June 30, 2022
Net Income	$	49,900	$	25,471
Adjustments, after tax*		-		-
Adjusted Net Income	$	49,900	$	25,471

		Six months ended June 30, 2023		Six months ended June 30, 2022
Net Income	$	98,071	$	50,679
Adjustments, after tax*		(4,574)		(366)
Adjusted Net Income	$	93,497	$	50,313

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

		Three months ended June 30, 2023		Three months ended June 30, 2022
Net Income	$	49,900	$	25,471
Income tax expense		11,630		8,907
Other finance expense (income)		568		(1,446)
Share of loss of equity investments		652		1,265
Finance expense		19,686		11,346
Adjustments, before tax*		-		-
Adjusted Operating Income	$	82,436	$	45,543
Depreciation of property, plant and equipment and right-of-use assets		75,532		66,233
Amortization of development costs		2,670		2,598
Gain on disposal of property, plant and equipment		(26)		(82)
Adjusted EBITDA	$	160,612	$	114,292

		Six months ended June 30, 2023		Six months ended June 30, 2022
Net Income	$	98,071	$	50,679
Income tax expense		23,709		17,127
Other finance expense (income)		344		(1,130)
Share of loss of equity investments		2,030		2,366
Finance expense		38,732		20,600
Adjustments, before tax*		(5,273)		187
Adjusted Operating Income	$	157,613	$	89,829
Depreciation of property, plant and equipment and right-of-use assets		150,204		131,605
Amortization of development costs		5,283		5,319
Loss (gain) on disposal of property, plant and equipment		16		(82)
Adjusted EBITDA	$	313,116	$	226,671

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

SALES

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change	% Change
North America	$	1,047,067	$	826,724	220,343	26.7%
Europe		288,023		255,832	32,191	12.6%
Rest of the World		36,566		38,673	(2,107)	(5.4%)
Eliminations		(10,601)		(7,354)	(3,247)	(44.2%)
Total Sales	$	1,361,055	$	1,113,875	247,180	22.2%

The Company’s consolidated sales for the second quarter of 2023 increased by $247.2 million or 22.2% to $1,361.1 million as compared to $1,113.9 million for the second quarter of 2022. 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 2023 in the Company’s North America operating segment increased by $220.3 million or 26.7% to $1,047.1 million from $826.7 million for the second quarter of 2022. The increase was due generally to the launch and ramp up of new programs during or subsequent to the second quarter of 2022, including Mercedes' new electric vehicle platform (EVA2), General Motors' new electric vehicle platform (BEV3), and a Toyota/Lexus SUV; overall higher second quarter OEM light vehicle production volumes, which increased in North America by approximately 15% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; 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 2023 of $53.8 million as compared to the second quarter of 2022; the impact of commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales; and an increase in tooling sales of $43.7 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over year-production volumes of certain light vehicle platforms including the GM Equinox/Terrain, Ford Mustang Mach E, and Lucid Air.

Sales for the second quarter of 2023 in the Company’s Europe operating segment increased by $32.2 million or 12.6% to $288.0 million from $255.8 million for the second quarter of 2022. The increase was due generally to the launch and ramp up of new programs, including Mercedes' new electric vehicle platform (EVA2); overall higher second quarter OEM light vehicle production volumes, which increased in Europe by approximately 14% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the second quarter of 2023 of $16.8 million as compared to the second quarter of 2022; the impact of commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales; and a $4.9 million increase in tooling sales. These positive factors were partially offset by lower year-over year-production volumes of certain platforms, namely the Lucid Air and an engine block for Ford.

Sales for the second quarter of 2023 in the Company’s Rest of the World operating segment decreased by $2.1 million or 5.4% to $36.6 million from $38.7 million in the second quarter of 2022. The decrease was largely driven by lower year-over-year production volumes on Geely's new electric vehicle platform (PMA); partially offset by higher production volumes with General Motors and Mercedes, and an increase in tooling sales of $1.0 million.

Overall tooling sales increased by $48.7 million (including outside segment sales eliminations) to $109.9 million for the second quarter of 2023 from $61.2 million for the second quarter of 2022.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

		Six months ended June 30, 2023		Six months ended June 30, 2022	$ Change	% Change
North America	$	2,021,059	$	1,686,424	334,635	19.8%
Europe		591,493		517,294	74,199	14.3%
Rest of the World		70,448		78,426	(7,978)	(10.2%)
Eliminations		(18,056)		(13,231)	(4,825)	(36.5%)
Total Sales	$	2,664,944	$	2,268,913	396,031	17.5%

The Company’s consolidated sales for the six months ended June 30, 2023 increased by $396.0 million or 17.5% to $2,664.9 million as compared to $2,268.9 million for the six months ended June 30, 2022. The total increase in sales was driven by year-over-year 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, 2023 in the Company’s North America operating segment increased by $334.6 million or 19.8% to $2,021.1 million from $1,686.4 million for the six months ended June 30, 2022. The increase was due generally to the launch and ramp up of new programs, including Mercedes' new electric vehicle platform (EVA2), General Motors' new electric vehicle platform (BEV3), and a Toyota/Lexus SUV; overall higher OEM light vehicle production volumes during the first six months of the year, which increased in North America by approximately 12% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; 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, 2023 of $100.0 million as compared to the corresponding period of 2022; the impact of material passthrough and commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales; and an increase in tooling sales of $59.9 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes of certain light vehicle platforms including the GM Equinox/Terrain, Ford Mustang Mach E and Lucid Air.

Sales for the six months ended June 30, 2023 in the Company’s Europe operating segment increased by $74.2 million or 14.3% to $591.5 million from $517.3 million for the six months ended June 30, 2022. The increase can be attributed to the launch and ramp up of new programs, including Mercedes' new electric vehicle platform (EVA2); overall higher OEM light vehicle production volumes during the first six months of the year, which increased in Europe by approximately 16% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2023 of $18.2 million as compared to the corresponding period of 2022; and the impact of material passthrough and commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales. These positive factors were partially offset by lower year-over year-production volumes of certain platforms, namely the Lucid Air and an engine block for Ford; and a $1.0 million decrease in tooling sales.

Sales for the six months ended June 30, 2023 in the Company’s Rest of the World operating segment decreased by $8.0 million or 10.2% to $70.4 million from $78.4 million for the six months ended June 30, 2022. The decrease was largely driven by lower year-over-year production volumes on Geely's new electric vehicle platform (PMA) and with Jaguar Land Rover; partially offset by an increase in tooling sales of $2.0 million.

Overall tooling sales increased by $60.4 million (including outside segment sales eliminations) to $174.3 million for the six months ended June 30, 2023 from $113.9 million for the six months ended June 30, 2022.

GROSS MARGIN

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

	Three months ended June 30, 2023	Three months ended June 30, 2022	$ Change	% Change
Gross margin	$ 173,589	$ 125,789	47,800	38.0 %
% of Sales	12.8 %	11.3 %		

The gross margin percentage for the second quarter of 2023 of 12.8% increased as a percentage of sales by 1.5% as compared to the gross margin percentage for the second quarter of 2022 of 11.3%. The increase in gross margin as a percentage of sales was generally due to overall higher production sales volume and corresponding higher utilization of assets, and productivity and efficiency improvements at certain operating facilities. These factors were partially offset by operational inefficiencies at certain operating facilities, and a negative sales mix. Overall market related inflationary pressures on labour, material and energy costs, along with offsetting commercial settlements, were generally stable for the quarter on a year-over-year basis.

Gross margin for the second quarter of 2023 continued to be impacted by production inefficiencies related to the industry-wide supply chain disruptions driven by the unpredictability of customer production schedules, although the stability of OEM production volumes has improved year-over-year.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Gross margin	$ 340,975	$ 248,225	92,750	37.4%
% of Sales	12.8%	10.9%		

The gross margin percentage for the six months ended June 30, 2023 of 12.8% increased as a percentage of sales by 1.9% as compared to the gross margin percentage for the six months ended June 30, 2022 of 10.9%. The increase in gross margin as a percentage of sales was generally due to:

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

These factors were partially offset by:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities;
- a negative sales mix; and
- the impact of material passthrough on customer pricing.

Gross margin for the six months ended June 30, 2023 continued to be impacted by production inefficiencies related to the industry-wide supply chain disruptions driven by the unpredictability of customer production schedules, although the stability of OEM production volumes has improved year-over-year.

ADJUSTMENTS TO NET INCOME

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

TABLE A

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

No adjustments were noted during the three months ended June 30, 2023 and 2022.

TABLE B

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change
NET INCOME	**$ 98,071**	**$ 50,679**	**$ 47,392**
Adjustments:			
Net gain on disposal of equity investments (1)	(5,273)	-	(5,273)
Gain on dilution of equity investments (2)	-	(4,050)	4,050
Restructuring costs (3)	-	4,237	(4,237)
ADJUSTMENTS, BEFORE TAX	**$ (5,273)**	**$ 187**	**$ (5,460)**
Tax impact of adjustments	699	(553)	1,252
ADJUSTMENTS, AFTER TAX	**$ (4,574)**	**$ (366)**	**$ (4,208)**
ADJUSTED NET INCOME	**$ 93,497**	**$ 50,313**	**$ 43,184**
Number of Shares Outstanding – Basic (‘000)	80,241	80,370	
Adjusted Basic Net Earnings Per Share	$ 1.17	$ 0.63	
Number of Shares Outstanding – Diluted (‘000)	80,293	80,370	
Adjusted Diluted Net Earnings Per Share	$ 1.16	$ 0.63	

(1) Net gain on disposal of equity investments

On March 24, 2023, Martinrea sold its equity interest in VoltaXplore Inc. ("VoltaXplore) to NanoXplore Inc. ("NanoXplore") for 3,420,406 common shares of NanoXplore at $2.92 per share representing an aggregate consideration of $10.0 million. The sale transaction resulted in a gain on disposal of equity investments during the first quarter of 2023 as follows:

Gross gain (Total consideration of $10.0 million less book value of investment)	$	6,821
Less: gain attributable to indirect retained interest		(1,548)
Net gain on disposal of equity investments	$	5,273

Subsequent to this transaction, the Company no longer holds a direct equity interest in VoltaXplore while its equity ownership interest in NanoXplore increased from 21.1% to 22.7%.

(2) Gain on dilution of equity investments

As at December 31, 2021, the Company held 35,045,954 common shares of 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.

(3) 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.

NET INCOME

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change	% Change
Net Income	$	49,900	$	25,471	24,429	95.9%
Net Earnings per Share						
Basic and Diluted	$	0.62	$	0.32		

Net Income for the second quarter of 2023 increased by $24.4 million to $49.9 million or $0.62 per share, on a basic and diluted basis, from a Net Income of $25.5 million or $0.32 per share, on a basic and diluted basis, for the second quarter of 2022.

Net Income for the second quarter of 2023, as compared to the second quarter of 2022, was positively impacted by the following:

- higher gross margin on higher year-over-year sales volume as previously explained; and
- a lower effective tax rate (18.9% for the second quarter of 2023 compared to 25.9% for the second quarter of 2022).

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense, as previously explained;
- an $8.3 million year-over-year increase in finance expense as a result of increased debt levels and borrowing rates on the Company's revolving bank debt; and
- a net foreign exchange loss of $0.7 million for the second quarter of 2023 compared to a gain of $1.2 million for the second quarter of 2022.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Net Income	$ 98,071	$ 50,679	47,392	93.5%
Adjusted Net Income	93,497	50,313	43,184	85.8%
Net Earnings per Share				
Basic and Diluted	$ 1.22	$ 0.63		
Adjusted Net Earnings per Share				
Basic	$ 1.17	$ 0.63		
Diluted	$ 1.16	$ 0.63		

Net Income, before adjustments, for the six months ended June 30, 2023 increased by $47.4 million to $98.1 million or $1.22 per share, on a basic and diluted basis, from a Net Income of $50.7 million or $0.63 per share, on a basic and diluted basis, for the six months ended June 30, 2022. Excluding the adjustments explained in Table B under "Adjustments to Net Income", Adjusted Net Income for the six months ended June 30, 2023 increased by $43.2 million to $93.5 million or $1.17 per share on a basic basis, and $1.16 on a diluted basis, from $50.3 million or $0.63 per share, on a basic and diluted basis, for the six months ended June 30, 2022.

Adjusted Net Income for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, was positively impacted by the following:

- higher gross margin on higher year-over-year sales volume as previously explained; and
- a lower effective tax rate (19.8% for the six months ended June 30, 2023 compared to 26.0% for the six months ended June 30, 2022).

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense, as previously explained;
- an $18.1 million year-over-year increase in finance expense as a result of increased debt levels and borrowing rates on the Company's revolving bank debt; and
- a net foreign exchange loss of $0.6 million for the six months ended June 30, 2023 compared to a gain of $0.9 million for the six months ended June 30, 2022.

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, 2023, on or about October 15, 2023.

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 58 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 Wednesday, August 9, 2023 at 6:00 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 8029740#. 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 – 5701857#). The rebroadcast will be available until September 10, 2023.

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 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, or expected response to, or growth of, improvements in, expansion of and/or guidance or outlook (including for 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, net debt to adjusted EBITDA(1), debt repayment, Adjusted EBITDA(1), capex levels, working capital levels, cash tax levels, progress on commercial negotiations, 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 ongoing, or expectation for improvements in, supply chain issues or disruptions, inflation, labour market conditions, production volatility, 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; intentions to purchase under the normal course issuer bid; the Company's views on its liquidity, operating cash flow and leverage ratios and ability to deal with present or future economic conditions, the potential for fluctuation of operating results, 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 and MD&A for the year ended December 31, 2022, and other public filings which can be found at www.sedarplus.ca:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- 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;
- COVID-19 Pandemic;
- Russian Invasion of Ukraine;
- Semiconductor Chip Shortages and Price Increases;
- Inflationary Pressures;
- Regional Energy Shortages;
- Dependence Upon Key Customers;
- Customer Consolidation and Cooperation;
- Emergence of Potentially Disruptive EV OEMs;
- Outsourcing and Insourcing Trends;
- Financial Viability of Suppliers and Key Suppliers and Supply Disruptions;
- Competition;
- Customer Pricing Pressures, Contractual Arrangements, Cost and Risk Absorption and Purchase Orders;
- Material and Commodity Prices and Volatility;
- Scrap Steel/Aluminum Price Volatility;
- Quote/Pricing Assumptions;
- Launch and Operational Costs and Cost Structure;
- Fluctuations in Operating Results;
- Product Warranty, Repair/Replacement Costs, 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;
- Joint Ventures;
- Private or Public Equity Investments in Technology Companies;
- Potential Tax Exposures;
- Potential Rationalization Costs, Turnaround Costs and Impairment Charges;
- Labour Relations Matters;
- Trade Restrictions or Disputes;
- 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;
- 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;
- Evolving Business Risk Profile;
- 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; 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, 2023

The following management discussion and analysis ("MD&A") was prepared as of August 9, 2023 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, 2023 ("interim financial statements") as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2022, 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, 2022, can be found at www.sedarplus.ca.

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 19,000 skilled and motivated people in 58 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

Semiconductor chip shortage and other supply chain issues

The industry-wide shortage of semiconductor chips and other supply chain disruptions resulting, in part, from the COVID-19 pandemic, continue to have a negative impact on OEM light vehicle production globally. Although improved, OEM customers continue to take action in response to these supply chain disruptions, including: 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 costs to expedite shipments. While the Company has experienced some recovery in production volumes and an improvement in the stability of production, it remains unclear when supply and demand for automotive semiconductor chips and other components will fully rebalance and it continues to be difficult to predict the full impact of the chip shortage and any other supply chain disruptions.

Inflation and interest rates

The Company continues to experience higher commodity, freight and energy costs, as well as wage pressures in some markets, which are expected to persist in 2023. 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.

Increased global inflation rates have spurred a cycle of monetary policy tightening through aggressive interest rate increases by central banks, which has significantly increased the interest paid on the debt of the Company. Further, both the availability and cost of credit are factors affecting consumer confidence, which is a critical driver of vehicle sales and thus automotive production. A material, sustained decrease in consumer demand for vehicles could result in reductions to vehicle production, which could have an adverse effect on earnings.

Russia Ukraine conflict

Although the Company does not have any operations in Russia or Ukraine, the ongoing conflict between Russia and Ukraine 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.

Any of the foregoing could have an adverse effect on the Company's business and results of operations.

Significant industry trends, the Company's business strategy and all other major risks the Company faces are discussed further in "Description of the Business and Trends" and "Risk Factors" in the Company's AIF dated March 2, 2023 available through SEDAR at www.sedarplus.ca.

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, 2023 and 2022. Refer to the Company's interim financial statements for the three and six months ended June 30, 2023 for a detailed account of the Company's performance for the periods presented in the tables below.

	Three months ended June 30, 2023	Three months ended June 30, 2022	$ Change	% Change
Sales	$ 1,361,055	$ 1,113,875	247,180	22.2%
Gross Margin	173,589	125,789	47,800	38.0%
Operating Income	82,436	45,543	36,893	81.0%
Net Income for the period	49,900	25,471	24,429	95.9%
Net Earnings per Share - Basic and Diluted	$ 0.62	$ 0.32	0.30	93.8%
Non-IFRS Measures*				
Adjusted Operating Income	$ 82,436	$ 45,543	36,893	81.0%
% of Sales	*6.1 %*	*4.1 %*		
Adjusted EBITDA	160,612	114,292	46,320	40.5%
% of Sales	*11.8 %*	*10.3 %*		
Adjusted Net Income	49,900	25,471	24,429	95.9%
Adjusted Net Earnings per Share - Basic and Diluted	$ 0.62	$ 0.32	0.30	93.8%

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Sales	$ 2,664,944	$ 2,268,913	396,031	17.5%
Gross Margin	340,975	248,225	92,750	37.4%
Operating Income	157,613	85,592	72,021	84.1%
Net Income for the period	98,071	50,679	47,392	93.5%
Net Earnings per Share - Basic and Diluted	$ 1.22	$ 0.63	0.59	93.7%
Non-IFRS Measures*				
Adjusted Operating Income	$ 157,613	$ 89,829	67,784	75.5%
% of Sales	*5.9 %*	*4.0 %*		
Adjusted EBITDA	313,116	226,671	86,445	38.1%
% of Sales	*11.7 %*	*10.0 %*		
Adjusted Net Income	93,497	50,313	43,184	85.8%
Adjusted Net Earnings per Share - Basic	$ 1.17	$ 0.63	0.54	85.7%
Adjusted Net Earnings per Share - Diluted	$ 1.16	$ 0.63	0.53	84.1%

***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, 2023	Three months ended June 30, 2022
Net Income	$ 49,900	$ 25,471
Adjustments, after tax*	-	-
Adjusted Net Income	$ 49,900	$ 25,471

	Six months ended June 30, 2023	Six months ended June 30, 2022
Net Income	$ 98,071	$ 50,679
Adjustments, after tax*	(4,574)	(366)
Adjusted Net Income	$ 93,497	$ 50,313

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

	Three months ended June 30, 2023	Three months ended June 30, 2022
Net Income	$ 49,900	$ 25,471
Income tax expense	11,630	8,907
Other finance expense (income)	568	(1,446)
Share of loss of equity investments	652	1,265
Finance expense	19,686	11,346
Adjustments, before tax*	-	-
Adjusted Operating Income	$ 82,436	$ 45,543
Depreciation of property, plant and equipment and right-of-use assets	75,532	66,233
Amortization of development costs	2,670	2,598
Gain on disposal of property, plant and equipment	(26)	(82)
Adjusted EBITDA	$ 160,612	$ 114,292

		Six months ended June 30, 2023		Six months ended June 30, 2022
Net Income	$	98,071	$	50,679
Income tax expense		23,709		17,127
Other finance expense (income)		344		(1,130)
Share of loss of equity investments		2,030		2,366
Finance expense		38,732		20,600
Adjustments, before tax*		(5,273)		187
Adjusted Operating Income	$	157,613	$	89,829
Depreciation of property, plant and equipment and right-of-use assets		150,204		131,605
Amortization of development costs		5,283		5,319
Loss (gain) on disposal of property, plant and equipment		16		(82)
Adjusted EBITDA	$	313,116	$	226,671

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

SALES

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change	% Change
North America	$	1,047,067	$	826,724	220,343	26.7%
Europe		288,023		255,832	32,191	12.6%
Rest of the World		36,566		38,673	(2,107)	(5.4%)
Eliminations		(10,601)		(7,354)	(3,247)	(44.2%)
Total Sales	$	1,361,055	$	1,113,875	247,180	22.2%

The Company’s consolidated sales for the second quarter of 2023 increased by $247.2 million or 22.2% to $1,361.1 million as compared to $1,113.9 million for the second quarter of 2022. 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 2023 in the Company’s North America operating segment increased by $220.3 million or 26.7% to $1,047.1 million from $826.7 million for the second quarter of 2022. The increase was due generally to the launch and ramp up of new programs during or subsequent to the second quarter of 2022, including Mercedes' new electric vehicle platform (EVA2), General Motors' new electric vehicle platform (BEV3), and a Toyota/Lexus SUV; overall higher second quarter OEM light vehicle production volumes, which increased in North America by approximately 15% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; 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 2023 of $53.8 million as compared to the second quarter of 2022; the impact of commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales; and an increase in tooling sales of $43.7 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over year-production volumes of certain light vehicle platforms including the GM Equinox/Terrain, Ford Mustang Mach E, and Lucid Air.

Sales for the second quarter of 2023 in the Company’s Europe operating segment increased by $32.2 million or 12.6% to $288.0 million from $255.8 million for the second quarter of 2022. The increase was due generally to the launch and ramp up of new programs, including Mercedes' new electric vehicle platform (EVA2); overall higher second quarter OEM light vehicle production volumes, which increased in Europe by approximately 14% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the second quarter of 2023 of $16.8 million as compared to the second quarter of 2022; the impact of commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales; and a $4.9 million increase in tooling sales. These positive factors were partially offset by lower year-over year-production volumes of certain platforms, namely the Lucid Air and an engine block for Ford.

Sales for the second quarter of 2023 in the Company's Rest of the World operating segment decreased by $2.1 million or 5.4% to $36.6 million from $38.7 million in the second quarter of 2022. The decrease was largely driven by lower year-over-year production volumes on Geely's new electric vehicle platform (PMA); partially offset by higher production volumes with General Motors and Mercedes, and an increase in tooling sales of $1.0 million.

Overall tooling sales increased by $48.7 million (including outside segment sales eliminations) to $109.9 million for the second quarter of 2023 from $61.2 million for the second quarter of 2022.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

		Six months ended June 30, 2023		Six months ended June 30, 2022	$ Change	% Change
North America	$	2,021,059	$	1,686,424	334,635	19.8%
Europe		591,493		517,294	74,199	14.3%
Rest of the World		70,448		78,426	(7,978)	(10.2%)
Eliminations		(18,056)		(13,231)	(4,825)	(36.5%)
Total Sales	$	2,664,944	$	2,268,913	396,031	17.5%

The Company's consolidated sales for the six months ended June 30, 2023 increased by $396.0 million or 17.5% to $2,664.9 million as compared to $2,268.9 million for the six months ended June 30, 2022. The total increase in sales was driven by year-over-year 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, 2023 in the Company's North America operating segment increased by $334.6 million or 19.8% to $2,021.1 million from $1,686.4 million for the six months ended June 30, 2022. The increase was due generally to the launch and ramp up of new programs, including Mercedes' new electric vehicle platform (EVA2), General Motors' new electric vehicle platform (BEV3), and a Toyota/Lexus SUV; overall higher OEM light vehicle production volumes during the first six months of the year, which increased in North America by approximately 12% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; 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, 2023 of $100.0 million as compared to the corresponding period of 2022; the impact of material passthrough and commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales; and an increase in tooling sales of $59.9 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by lower year-over-year production volumes of certain light vehicle platforms including the GM Equinox/Terrain, Ford Mustang Mach E and Lucid Air.

Sales for the six months ended June 30, 2023 in the Company's Europe operating segment increased by $74.2 million or 14.3% to $591.5 million from $517.3 million for the six months ended June 30, 2022. The increase can be attributed to the launch and ramp up of new programs, including Mercedes' new electric vehicle platform (EVA2); overall higher OEM light vehicle production volumes during the first six months of the year, which increased in Europe by approximately 16% year-over-year, primarily as a result of the industry-wide supply chain disruptions which impacted 2022 to a greater degree compared to 2023; the impact of foreign exchange on the translation of Euro denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2023 of $18.2 million as compared to the corresponding period of 2022; and the impact of material passthrough and commercial settlements (to partially offset inflationary cost increases) on customer pricing and sales. These positive factors were partially offset by lower year-over year-production volumes of certain platforms, namely the Lucid Air and an engine block for Ford; and a $1.0 million decrease in tooling sales.

Sales for the six months ended June 30, 2023 in the Company's Rest of the World operating segment decreased by $8.0 million or 10.2% to $70.4 million from $78.4 million for the six months ended June 30, 2022. The decrease was largely driven by lower year-over-year production volumes on Geely's new electric vehicle platform (PMA) and with Jaguar Land Rover; partially offset by an increase in tooling sales of $2.0 million.

Overall tooling sales increased by $60.4 million (including outside segment sales eliminations) to $174.3 million for the six months ended June 30, 2023 from $113.9 million for the six months ended June 30, 2022.

GROSS MARGIN

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

	Three months ended June 30, 2023	Three months ended June 30, 2022	$ Change	% Change
Gross margin	$ 173,589	$ 125,789	47,800	38.0 %
% of Sales	12.8 %	11.3 %		

The gross margin percentage for the second quarter of 2023 of 12.8% increased as a percentage of sales by 1.5% as compared to the gross margin percentage for the second quarter of 2022 of 11.3%. The increase in gross margin as a percentage of sales was generally due to overall higher production sales volume and corresponding higher utilization of assets, and productivity and efficiency improvements at certain operating facilities. These factors were partially offset by operational inefficiencies at certain operating facilities, and a negative sales mix. Overall market related inflationary pressures on labour, material and energy costs, along with offsetting commercial settlements, were generally stable for the quarter on a year-over-year basis.

Gross margin for the second quarter of 2023 continued to be impacted by production inefficiencies related to the industry-wide supply chain disruptions driven by the unpredictability of customer production schedules, although the stability of OEM production volumes has improved year-over-year.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Gross margin	$ 340,975	$ 248,225	92,750	37.4%
% of Sales	12.8%	10.9%		

The gross margin percentage for the six months ended June 30, 2023 of 12.8% increased as a percentage of sales by 1.9% as compared to the gross margin percentage for the six months ended June 30, 2022 of 10.9%. The increase in gross margin as a percentage of sales was generally due to:

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

These factors were partially offset by:

- higher labour, material and energy costs;
- operational inefficiencies at certain operating facilities;
- a negative sales mix; and
- the impact of material passthrough on customer pricing.

Gross margin for the six months ended June 30, 2023 continued to be impacted by production inefficiencies related to the industry-wide supply chain disruptions driven by the unpredictability of customer production schedules, although the stability of OEM production volumes has improved year-over-year.

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

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

	Three months ended June 30, 2023	Three months ended June 30, 2022	$ Change	% Change
Selling, general & administrative	$ 77,449	$ 68,130	9,319	13.7 %
% of Sales	5.7 %	6.1 %		

SG&A expense for the second quarter of 2023 increased by $9.3 million to $77.4 million as compared to SG&A expense for the second quarter of 2022 of $68.1 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 2022 as a result of overall higher volumes and general activity; and an increase in travel and related costs as COVID-related restrictions loosened.

SG&A expense as a percentage of sales decreased to 5.7% for the second quarter of 2023 compared to 6.1% for the second quarter of 2022 in light of higher year-over-year sales.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

		Six months ended June 30, 2023		Six months ended June 30, 2022	$ Change	% Change
Selling, general & administrative	$	155,972	$	133,453	22,519	16.9%
% of Sales		5.9%		5.9%		

SG&A expense for the six months ended June 30, 2023 increased by $22.5 million to $156.0 million as compared to SG&A expense for the six months ended June 30, 2022 of $133.5 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 2022 as a result of overall higher volumes and general activity; an increase in overall performance-based variable compensation expense, including equity-based compensation expense related to deferred, restricted, and performance share units; and an increase in travel and related costs as COVID-related restrictions loosened.

SG&A expense as a percentage of sales for the six months ended June 30, 2023 of 5.9% was in-line with the corresponding period of 2022.

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

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$	71,153	$	62,324	8,829	14.2%
Depreciation of PP&E and right-of-use assets (non-production)		4,379		3,909	470	12.0%
Amortization of development costs		2,670		2,598	72	2.8%
Total depreciation and amortization	$	78,202	$	68,831	9,371	13.6%

Total depreciation and amortization expense for the second quarter of 2023 increased by $9.4 million to $78.2 million as compared to $68.8 million for the second quarter of 2022. 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 2022.

A significant portion of the Company’s recent investments relates to various new programs that commenced during or subsequent to the second quarter of 2022 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 its operations in light of its backlog of business and global footprint.

Total depreciation and amortization expense as a percentage of sales decreased year-over-over to 5.7% for the second quarter of 2023 from 6.2% for the second quarter of 2022 due mainly to higher overall sales volume.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Depreciation of PP&E and right-of-use assets (production)	$ 141,459	$ 123,981	17,478	14.1%
Depreciation of PP&E and right-of-use assets (non-production)	8,745	7,624	1,121	14.7%
Amortization of development costs	5,283	5,319	(36)	(0.7%)
Total depreciation and amortization	$ 155,487	$ 136,924	18,563	13.6%

Total depreciation and amortization expense for the six months ended June 30, 2023 increased by $18.6 million to $155.5 million as compared to $136.9 million for the six months ended June 30, 2022. 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, 2022.

Total depreciation and amortization expense as a percentage of sales decreased year-over-over to 5.8% for the six months ended June 30, 2023 from 6.0% for the six months ended June 30, 2022 due mainly to higher overall sales volume.

ADJUSTMENTS TO NET INCOME

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

TABLE A

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

No adjustments were noted during the three months ended June 30, 2023 and 2022.

TABLE B

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change
NET INCOME	**$ 98,071**	**$ 50,679**	**$ 47,392**
Adjustments:			
Net gain on disposal of equity investments (1)	(5,273)	-	(5,273)
Gain on dilution of equity investments (2)	-	(4,050)	4,050
Restructuring costs (3)	-	4,237	(4,237)
ADJUSTMENTS, BEFORE TAX	**$ (5,273)**	**$ 187**	**$ (5,460)**
Tax impact of adjustments	699	(553)	1,252
ADJUSTMENTS, AFTER TAX	**$ (4,574)**	**$ (366)**	**$ (4,208)**
ADJUSTED NET INCOME	**$ 93,497**	**$ 50,313**	**$ 43,184**
Number of Shares Outstanding – Basic (‘000)	80,241	80,370	
Adjusted Basic Net Earnings Per Share	$ 1.17	$ 0.63	
Number of Shares Outstanding – Diluted (‘000)	80,293	80,370	
Adjusted Diluted Net Earnings Per Share	$ 1.16	$ 0.63	

(1) Net gain on disposal of equity investments

On March 24, 2023, Martinrea sold its equity interest in VoltaXplore Inc. ("VoltaXplore) to NanoXplore Inc. ("NanoXplore") for 3,420,406 common shares of NanoXplore at $2.92 per share representing an aggregate consideration of $10.0 million. The sale transaction resulted in a gain on disposal of equity investments during the first quarter of 2023 as follows:

Gross gain (Total consideration of $10.0 million less book value of investment)	$	6,821
Less: gain attributable to indirect retained interest		(1,548)
Net gain on disposal of equity investments	$	5,273

Subsequent to this transaction, the Company no longer holds a direct equity interest in VoltaXplore while its equity ownership interest in NanoXplore increased from 21.1% to 22.7%.

(2) Gain on dilution of equity investments

As at December 31, 2021, the Company held 35,045,954 common shares of 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.

(3) 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.

NET INCOME

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change	% Change
Net Income	$	49,900	$	25,471	24,429	95.9%
Net Earnings per Share						
Basic and Diluted	$	0.62	$	0.32		

Net Income for the second quarter of 2023 increased by $24.4 million to $49.9 million or $0.62 per share, on a basic and diluted basis, from a Net Income of $25.5 million or $0.32 per share, on a basic and diluted basis, for the second quarter of 2022.

Net Income for the second quarter of 2023, as compared to the second quarter of 2022, was positively impacted by the following:

- higher gross margin on higher year-over-year sales volume as previously explained; and
- a lower effective tax rate (18.9% for the second quarter of 2023 compared to 25.9% for the second quarter of 2022).

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense, as previously explained;
- an $8.3 million year-over-year increase in finance expense as a result of increased debt levels and borrowing rates on the Company's revolving bank debt; and
- a net foreign exchange loss of $0.7 million for the second quarter of 2023 compared to a gain of $1.2 million for the second quarter of 2022.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Net Income	$ 98,071	$ 50,679	47,392	93.5%
Adjusted Net Income	93,497	50,313	43,184	85.8%
Net Earnings per Share				
Basic and Diluted	$ 1.22	$ 0.63		
Adjusted Net Earnings per Share				
Basic	$ 1.17	$ 0.63		
Diluted	$ 1.16	$ 0.63		

Net Income, before adjustments, for the six months ended June 30, 2023 increased by $47.4 million to $98.1 million or $1.22 per share, on a basic and diluted basis, from a Net Income of $50.7 million or $0.63 per share, on a basic and diluted basis, for the six months ended June 30, 2022. Excluding the adjustments explained in Table B under "Adjustments to Net Income", Adjusted Net Income for the six months ended June 30, 2023 increased by $43.2 million to $93.5 million or $1.17 per share on a basic basis, and $1.16 on a diluted basis, from $50.3 million or $0.63 per share, on a basic and diluted basis, for the six months ended June 30, 2022.

Adjusted Net Income for the six months ended June 30, 2023, as compared to the six months ended June 30, 2022, was positively impacted by the following:

- higher gross margin on higher year-over-year sales volume as previously explained; and
- a lower effective tax rate (19.8% for the six months ended June 30, 2023 compared to 26.0% for the six months ended June 30, 2022).

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense, as previously explained;
- an $18.1 million year-over-year increase in finance expense as a result of increased debt levels and borrowing rates on the Company's revolving bank debt; and
- a net foreign exchange loss of $0.6 million for the six months ended June 30, 2023 compared to a gain of $0.9 million for the six months ended June 30, 2022.

ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

Three months ended June 30, 2023 to three months ended June 30, 2022 comparison

	Three months ended June 30, 2023	Three months ended June 30, 2022	$ Change	% Change
Additions to PP&E	$ 78,163	$ 91,291	(13,128)	(14.4%)

Additions to PP&E decreased by $13.1 million to $78.2 million or 5.7% of sales for the second quarter of 2023 as compared to $91.3 million or 8.2% in the second quarter of 2022, as the Company's capital expenditures program normalizes after a cycle of significant investment in new program capital and other projects.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Additions to PP&E	$ 141,453	$ 159,080	(17,627)	(11.1%)

Additions to PP&E decreased by $17.6 million to $141.5 million or 5.3% of sales for the six months ended June 30, 2023 compared to $159.1 million or 7.0% of sales for the six months ended June 30, 2022, as the Company's capital expenditures program normalizes after a cycle of significant investment in new program capital and other projects.

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, 2023 and 2022 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, 2023 to three months ended June 30, 2022 comparison

	SALES		OPERATING INCOME (LOSS)	
	Three months ended June 30, 2023	Three months ended June 30, 2022	Three months ended June 30, 2023	Three months ended June 30, 2022
North America	$ 1,047,067	$ 826,724	$ 80,657	$ 41,242
Europe	288,023	255,832	1,508	4,425
Rest of the World	36,566	38,673	271	(124)
Eliminations	(10,601)	(7,354)	-	-
Total	$ 1,361,055	$ 1,113,875	$ 82,436	$ 45,543

North America

Operating Income in North America increased by $39.4 million to $80.7 million or 7.7% of sales for the second quarter of 2023 from $41.2 million or 5.0% of sales for the second quarter of 2022. The increase in Operating Income as a percentage of sales was generally due to overall higher production sales volume and corresponding higher utilization of assets; productivity and efficiency improvements at certain operating facilities; and a lower SG&A expense as a percentage of sales. These positive factors were partially offset by operational inefficiencies at certain operating facilities, and a negative sales mix.

Europe

Operating Income in Europe decreased by $2.9 million to $1.5 million or 0.5% of sales for the second quarter of 2023 from $4.4 million or 1.7% of sales for the second quarter of 2022. The decrease in Operating Income was generally due to operational inefficiencies at certain operating facilities; partially offset by incremental contribution from higher year-over-year sales, and productivity and efficiency improvements at certain operating facilities.

Rest of the World

Operating Income in the Rest of the World increased by $0.4 million to $0.3 million or 0.7% of sales for the second quarter of 2023 from a loss of $0.1 million or (0.3)% of sales for the second quarter of 2022, due generally to lower launch related costs; partially offset by the negative impact on margins from lower year-over-year production sales.

Six months ended June 30, 2023 to six months ended June 30, 2022 comparison

	SALES		OPERATING INCOME*	
	Six months ended June 30, 2023	**Six months ended June 30, 2022**	**Six months ended June 30, 2023**	**Six months ended June 30, 2022**
North America	$ 2,021,059	$ 1,686,424	$ 154,903	$ 85,857
Europe	591,493	517,294	519	3,833
Rest of the World	70,448	78,426	2,191	139
Eliminations	(18,056)	(13,231)	-	-
Adjusted Operating Income			$ 157,613	$ 89,829
Adjustments*	-	-	-	(4,237)
Total	$ 2,664,944	$ 2,268,913	$ 157,613	$ 85,592

** Operating Income 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 for six months ended June 30, 2022 was recognized in North America.*

North America

Adjusted Operating Income in North America increased by $69.0 million to $154.9 million or 7.7% of sales for the six months ended June 30, 2023 from $85.9 million or 5.1% of sales for the six months ended June 30, 2022. The increase in Adjusted Operating Income as a percentage of sales was generally due to overall higher production sales volume and corresponding higher utilization of assets; favourable commercial settlements; and productivity and efficiency improvements at certain operating facilities. These positive factors were partially offset by higher labour and material costs; operational inefficiencies at certain operating facilities; a negative sales mix; and the impact of material passthrough on customer pricing.

Europe

Adjusted Operating Income in Europe decreased by $3.3 million to $0.5 million or 0.1% of sales for the six months ended June 30, 2023 from $3.8 million or 0.7% of sales for the six months ended June 30, 2022. The decrease in Adjusted Operating Income was generally due to higher material and energy costs, and operational inefficiencies at certain operating facilities; partially offset by incremental contribution from higher year-over-year sales; favourable commercial settlements; and productivity and efficiency improvements at certain operating facilities.

Rest of the World

Adjusted Operating Income in the Rest of the World increased by $2.1 million to $2.2 million or 3.1% of sales for the six months ended June 30, 2023 from $0.1 million or 0.2% of sales for the six months ended June 30, 2022, due to favourable settlements on indirect tax matters and lower launch related costs; partially offset by the negative impact on margins from lower year-over-year production sales.

SUMMARY OF QUARTERLY RESULTS
(unaudited)

	2023		2022				2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	$1,361,055	$1,303,889	$1,294,592	$1,194,083	$1,113,875	$1,155,038	$1,053,440	$ 848,497
Gross Margin	173,589	167,386	158,504	152,534	125,789	122,436	63,032	50,007
Operating Income (Loss)	82,436	75,177	70,560	61,627	45,543	40,049	(2,900)	(16,234)
Adjusted Operating Income (Loss)	82,436	75,177	70,560	69,730	45,543	44,286	(2,900)	(16,234)
Net Income (Loss) for the period	49,900	48,171	46,227	35,932	25,471	25,208	(9,653)	(17,120)
Adjusted Net Income (Loss)	49,900	43,597	46,227	45,072	25,471	24,842	(9,653)	(17,120)
Basic and Diluted Net Earnings (Loss) per Share	0.62	0.60	0.58	0.45	0.32	0.31	(0.12)	(0.21)
Adjusted Basic and Diluted Net Earnings (Loss) per Share	0.62	0.54	0.58	0.56	0.32	0.31	(0.12)	(0.21)

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;
- a maturity date of April 2025; and
- no mandatory principal repayment provisions.

On June 14, 2023, the Company amended its banking facility to change the interest rate benchmark of the U.S. revolving credit line from London Interbank Offered Rate ("LIBOR") to Term Secured Overnight Financing Rate ("SOFR").

As at June 30, 2023, the Company had drawn US $491 million (December 31, 2022 - US $476 million) on the U.S. revolving credit line and $395 million (December 31, 2022 - $380 million) on the Canadian revolving credit line. As at June 30, 2023, the Company had total liquidity of $283 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 $260 million was available as at June 30, 2023. At June 30, 2023, the weighted average effective interest rate of the banking facility credit lines was 7.2% (December 31, 2022 - 6.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2023.

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 industry-wide 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 supply chain disruptions, and other factors.

Debt leverage ratios:

Excluding the impact of IFRS 16:		**June 30, 2023**		**March 31, 2023**		**December 31, 2022**		**September 30, 2022**		**June 30, 2022**
Long-term debt	$	1,083,161	$	1,112,455	$	1,070,368	$	1,086,724	$	1,046,941
Less: Cash and cash equivalents		(145,755)		(156,585)		(161,655)		(158,505)		(115,863)
Net Debt	$	937,406	$	955,870	$	908,713	$	928,219	$	931,078
Trailing 12-month Adjusted EBITDA	$	548,420	$	502,724	$	465,789	$	382,583	$	289,779
Net Debt to Adjusted EBITDA ratio		1.71x		1.90x		1.95x		2.43x		3.21x

Including the impact of IFRS 16:		**June 30, 2023**		**March 31, 2023**		**December 31, 2022**		**September 30, 2022**		**June 30, 2022**
Long-term debt	$	1,083,161	$	1,112,455	$	1,070,368	$	1,086,724	$	1,046,941
Lease liabilities		262,049		266,969		273,120		249,669		243,619
		1,345,210		1,379,424		1,343,488		1,336,393		1,290,560
Less: Cash and cash equivalents		(145,755)		(156,585)		(161,655)		(158,505)		(115,863)
Net Debt	$	1,199,455	$	1,222,839	$	1,181,833	$	1,177,888	$	1,174,697
Trailing 12-month Adjusted EBITDA	$	602,333	$	556,013	$	515,888	$	430,137	$	334,808
Net Debt to Adjusted EBITDA ratio		1.99x		2.20x		2.29x		2.74x		3.51x

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, 2023		**March 31, 2023**		**December 31, 2022**		**September 30, 2022**		**June 30, 2022**
Trailing 12-month Adjusted EBITDA - including the impact of IFRS 16	$	602,333	$	556,013	$	515,888	$	430,137	$	334,808
Principal payments of lease liabilities		(43,738)		(43,634)		(41,174)		(39,259)		(37,074)
Interest on lease liabilities		(10,175)		(9,655)		(8,925)		(8,295)		(7,955)
Trailing 12-month Adjusted EBITDA - excluding the impact of IFRS 16	$	548,420	$	502,724	$	465,789	$	382,583	$	289,779

The Company's Net Debt (excluding the impact of IFRS 16) decreased by $18.5 million during the second quarter of 2023 to $937.4 million from $955.9 million at the end of the first quarter of 2023 due largely to foreign exchange translation driven by the appreciation of the Canadian Dollar against US Dollar during the quarter. The Company's Net Debt to Adjusted EBITDA ratio (excluding the impact of IFRS 16) decreased to 1.71x from 1.90x at the end of the first quarter of 2023, due largely to an increase in trailing 12-month Adjusted EBITDA.

The Company was in compliance with its debt covenants as at June 30, 2023. The Company's debt covenants are based on leverage ratios excluding the impact of IFRS 16.

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 provided 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, was 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 returned to 3.0x thereafter.

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, semiconductor chip shortage, and other supply chain disruptions. The Board will assess future dividend payment levels from time to time, in light of market conditions, the current supply chain situation, the Company's financial performance and anticipated needs at that time.

Cash flow

	Three months ended June 30, 2023	Three months ended June 30, 2022	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 166,734	$ 120,717	46,017	38.1%
Change in non-cash working capital items	(966)	18,597	(19,563)	(105.2%)
	165,768	139,314	26,454	19.0%
Interest paid	(24,464)	(14,012)	(10,452)	(74.6%)
Income taxes paid	(31,206)	(7,963)	(23,243)	(291.9%)
Cash provided by operating activities	110,098	117,339	(7,241)	(6.2%)
Cash used in financing activities	(41,830)	(3,820)	(38,010)	(995.0%)
Cash used in investing activities	(79,621)	(87,441)	7,820	8.9%
Effect of foreign exchange rate changes on cash and cash equivalents	523	(6,551)	7,074	108.0%
Increase (Decrease) in cash and cash equivalents	$ (10,830)	$ 19,527	(30,357)	(155.5%)

Cash provided by operating activities during the second quarter of 2023 was $110.1 million, compared to $117.3 million in the corresponding period of 2022. The components for the second quarter of 2023 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $166.7 million;
- working capital use of cash of $1.0 million comprised of a decrease in trade, other payables and provisions of $28.1 million; partially offset by a decrease in inventories of $20.0 million, a decrease in trade and other receivables of $4.9 million, and a decrease in prepaid expenses and deposits of $2.2 million;
- income taxes paid of $31.2 million; and
- interest paid of $24.5 million;

Cash used in financing activities during the second quarter of 2023 was $41.8 million, compared to $3.8 million in the corresponding period of 2022. The components for the second quarter of 2023 primarily include the following:

- a $16.1 million net decrease in long-term debt;
- principal payments of lease liabilities of $11.9 million;
- repurchase of common shares under the normal course issuer bid (as described in note 11 of the interim condensed consolidated financial statements) of $10.0 million; and
- $4.0 million in dividends paid.

Cash used in investing activities during the second quarter of 2023 was $79.6 million, compared to $87.4 million in the corresponding period of 2022. The components for the second quarter of 2023 primarily include the following:

- cash additions to PP&E of $76.4 million;
- capitalized development costs relating to upcoming new program launches of $2.4 million; and
- an investment in Equispheres Inc. ("Equispheres") of $1.0 million.

Taking into account the opening cash balance of $156.6 million at the beginning of the second quarter of 2023, and the activities described above, the cash and cash equivalents balance at June 30, 2023 was $145.8 million.

Cash flow

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	$ 320,295	$ 226,318	93,977	41.5%
Change in non-cash working capital items	(44,124)	(45,041)	917	2.0%
	276,171	181,277	94,894	52.3%
Interest paid	(47,763)	(23,971)	(23,792)	(99.3%)
Income taxes paid	(63,783)	(9,974)	(53,809)	(539.5%)
Cash provided by operating activities	164,625	147,332	17,293	11.7%
Cash used in financing activities	(13,949)	(1,691)	(12,258)	(724.9%)
Cash used in investing activities	(164,671)	(177,324)	12,653	7.1%
Effect of foreign exchange rate changes on cash and cash equivalents	(1,905)	(5,745)	3,840	66.8%
Decrease in cash and cash equivalents	$ (15,900)	$ (37,428)	21,528	57.5%

Cash provided by operating activities during the six months ended June 30, 2023 was $164.6 million, compared to $147.3 million in the corresponding period of 2022. The components for the six months ended June 30, 2023 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $320.3 million;
- working capital use of cash of $44.1 million comprised of an increase in trade and other receivables of $127.0 million, and an increase in inventories of $1.9 million; partially offset by an increase in trade, other payables and provisions of $79.3 million, and a decrease in prepaid expenses and deposits of $5.5 million;
- income taxes paid of $63.8 million; and
- interest paid of $47.8 million.

Cash used in financing activities during the six months ended June 30, 2023 was $13.9 million, compared to $1.7 million in the corresponding period of 2022. The components for the six months ended June 30, 2023 primarily include the following:

- a $26.8 million net increase in long-term debt;
- principal payments of lease liabilities of $22.9 million;
- repurchase of common shares under the normal course issuer bid (as described in note 11 of the interim condensed consolidated financial statements) of $10.0 million; and
- $8.0 million in dividends paid.

Cash used in investing activities during the six months ended June 30, 2023 was $164.7 million, compared to $177.3 million in the corresponding period of 2022. The components for the six months ended June 30, 2023 primarily include the following:

- cash additions to PP&E of $159.9 million;
- capitalized development costs relating to upcoming new program launches of $4.2 million; and
- an investment in Equispheres of $1.0 million.

Taking into account the opening cash balance of $161.7 million at the beginning of 2023, and the activities described above, the cash and cash equivalents balance at June 30, 2023 was $145.8 million.

Free Cash Flow

		Three months ended June 30, 2023		Three months ended June 30, 2022	$ Change
Adjusted EBITDA	$	160,612	$	114,292	46,320
Add (deduct):					
Change in non-cash working capital items		(966)		18,597	(19,563)
Purchase of property, plant and equipment (excluding capitalized interest)		(76,440)		(85,570)	9,130
Cash proceeds on disposal of property, plant and equipment		255		416	(161)
Capitalized development costs		(2,436)		(2,287)	(149)
Interest paid		(24,464)		(14,012)	(10,452)
Income taxes paid		(31,206)		(7,963)	(23,243)
Free cash flow	$	25,355	$	23,473	1,882

Free cash flow for the second quarter of 2023 increased year-over-year due largely to higher Adjusted EBITDA and a decrease in cash purchases of property, plant and equipment; partially offset by higher income taxes paid; an increase in non-cash working capital; 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 $1.9 million as at June 30, 2023, a decrease from $3.7 million as at March 31, 2023 and an increase from ($17.8) million as at June 30, 2022.

Reconciliation of IFRS "Cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the three months ended June 30, 2023 and 2022:

	Three months ended June 30, 2023	Three months ended June 30, 2022
Cash provided by operating activities	$ 110,098	$ 117,339
Add (deduct):		
Purchase of property, plant and equipment (excluding capitalized interest)	(76,440)	(85,570)
Cash proceeds on disposal of property, plant and equipment	255	416
Capitalized development costs	(2,436)	(2,287)
Unrealized loss on foreign exchange contracts	(4,701)	(2,593)
Deferred and restricted share units expense	(1,775)	(1,632)
Stock options expense	(111)	(195)
Pension and other post-employment benefits expense	(700)	(854)
Contributions made to pension and other post-retirement benefits	597	295
Net unrealized foreign exchange loss (gain) and other expense (income)	568	(1,446)
Free cash flow	$ 25,355	$ 23,473

	Six months ended June 30, 2023	Six months ended June 30, 2022	$ Change
Adjusted EBITDA	$ 313,116	$ 226,671	86,445
Add (deduct):			
Change in non-cash working capital items	(44,124)	(45,041)	917
Purchase of property, plant and equipment (excluding capitalized interest)	(159,856)	(173,114)	13,258
Cash proceeds on disposal of property, plant and equipment	386	416	(30)
Capitalized development costs	(4,201)	(3,626)	(575)
Interest paid	(47,763)	(23,971)	(23,792)
Income taxes paid	(63,783)	(9,974)	(53,809)
Free cash flow	$ (6,225)	$ (28,639)	22,414

Free cash flow for the six months ended June 30, 2023 increased year-over-year due largely to higher Adjusted EBITDA, and a decrease in cash purchases of property, plant and equipment; partially offset by higher income taxes paid, 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, 2023 and 2022:

	Six months ended June 30, 2023	Six months ended June 30, 2022
Cash provided by operating activities	$ 164,625	$ 147,332
Add (deduct):		
Purchase of property, plant and equipment (excluding capitalized interest)	(159,856)	(173,114)
Cash proceeds on disposal of property, plant and equipment	386	416
Capitalized development costs	(4,201)	(3,626)
Restructuring costs	-	4,237
Unrealized gain (loss) on foreign exchange contracts	83	(1,756)
Deferred and restricted share units expense	(7,211)	(545)
Stock options expense	(221)	(391)
Pension and other post-employment benefit expense	(1,394)	(1,722)
Contributions made to pension and other post-retirement benefits	1,220	1,660
Net unrealized foreign exchange loss (gain) and other expense (income)	344	(1,130)
Free cash flow	$ (6,225)	$ (28,639)

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 2, 2023 available through SEDAR at www.sedarplus.ca which are incorporated herein by reference. The disclosure in this MD&A and, in particular under "Recent Developments" supplements those risk factors described in the AIF.

DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 9, 2023, the Company had 79,592,540 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 9, 2023, options to acquire 2,328,500 common shares were outstanding.

On March 29, 2023, the Toronto Stock Exchange ("TSX") accepted a notice of intention of the Company to make a normal course issuer bid ("NCIB") permitting the Company to purchase for cancellation up to 5 million common shares over a 12-month period ending on or about April 3, 2024.

During the second quarter of 2023, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 815,555 common shares for an aggregate purchase price of $10.0 million resulting in a reduction to stated capital of $6.7 million and a decrease to retained earnings of $3.3 million. The shares were purchased and cancelled directly under the NCIB.

CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the six months ended June 30, 2023, there have been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2022.

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 unless the sale on the corresponding tooling project has been recognized, at which point a tooling trade payable on the project is recorded. At June 30, 2023, the amount of the off-balance sheet program financing was $15.5 million (December 31, 2022 - $4.6 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 ranges 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, 2023, 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	$	58,020	17.2355	1

The aggregate value of these forward contracts as at June 30, 2023 was a pre-tax gain of $0.1 million and was recorded in trade and other receivables (December 31, 2022 - pre-tax gain of $2.1 million).

INVESTMENTS

		June 30, 2023		December 31, 2022
Investment in common shares of NanoXplore Inc.	$	55,914	$	48,749
Investment in common shares and convertible debentures of AlumaPower Corp.		2,669		2,669
Investment in convertible debentures of Equispheres Inc.		1,000		-
Other		500		500
Investment in common shares of VoltaXplore Inc.		-		3,940
	$	60,083	$	55,858

As at June 30, 2023, the Company held 38,466,360 common shares of NanoXplore representing a 22.7% 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. 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 March 24, 2023, Martinrea sold its equity interest in VoltaXplore to NanoXplore for 3,420,406 common shares of NanoXplore at $2.92 per share representing an aggregate consideration of $10.0 million. The sale transaction resulted in a gain on disposal of equity investments during the first quarter of 2023 as follows:

Gross gain (Total consideration of $10.0 million less book value of investment)	$	6,821
Less: gain attributable to indirect retained interest		(1,548)
Net gain on disposal of equity investments	$	5,273

Subsequent to this transaction, the Company no longer holds a direct equity interest in VoltaXplore while its equity ownership interest in NanoXplore increased from 21.1% to 22.7%.

As at June 30, 2023, 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.

On April 20, 2023, the Company acquired convertible debentures of Equispheres in the amount of $1.0 million. Equispheres is a private company developing technologies for the production and use of advanced materials in additive manufacturing.

The Company applies equity accounting to its equity investments in NanoXplore and VoltaXplore (up to the date of disposal of March 24, 2023) 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 in AlumaPower are classified as fair value through other comprehensive income, while the convertible debentures in AlumaPower and Equispheres are classified as amortized cost. 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, 2021	$ 48,748	$ 3,925
Additions	-	1,000
Gain on dilution of equity investments	4,050	-
Share of loss for the period	(4,089)	(985)
Share of other comprehensive income for the period	40	-
Net as of December 31, 2022	$ 48,749	$ 3,940
Additions	8,452	-
Share of loss for the period	(1,269)	(761)
Share of other comprehensive loss for the period	(18)	-
Disposal	-	(3,179)
Net as of June 30, 2023	$ 55,914	$ -

As at June 30, 2023, the market value of the shares held in NanoXplore by the Company was $124.6 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, or expected response to: the global semi-conductor chip shortage, supply chain issues or disruptions, the conflict between Russia and Ukraine 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 and MD&A for the year ended December 31, 2022, and other public filings which can be found at www.sedarplus.ca:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- 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;
- COVID-19 Pandemic;

- Russian Invasion of Ukraine;
- Semiconductor Chip Shortages and Price Increases;
- Inflationary Pressures;
- Regional Energy Shortages;
- Dependence Upon Key Customers;
- Customer Consolidation and Cooperation;
- Emergence of Potentially Disruptive EV OEMs;
- Outsourcing and Insourcing Trends;
- Financial Viability of Suppliers and Key Suppliers and Supply Disruptions;
- Competition;
- Customer Pricing Pressures, Contractual Arrangements, Cost and Risk Absorption and Purchase Orders;
- Material and Commodity Prices and Volatility;
- Scrap Steel/Aluminum Price Volatility;
- Quote/Pricing Assumptions;
- Launch and Operational Costs and Cost Structure;
- Fluctuations in Operating Results;
- Product Warranty, Repair/Replacement Costs, 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;
- Joint Ventures;
- Private or Public Equity Investments in Technology Companies;
- Potential Tax Exposures;
- Potential Rationalization Costs, Turnaround Costs and Impairment Charges;
- Labour Relations Matters;
- Trade Restrictions or Disputes;
- 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;
- 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;
- Evolving Business Risk Profile;
- 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; 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, 2023

Martinrea International Inc.

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Martinrea International Inc.

Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note		June 30, 2023		December 31, 2022
ASSETS					
Cash and cash equivalents		$	145,755	$	161,655
Trade and other receivables	2		902,455		789,931
Inventories	3		656,123		665,316
Prepaid expenses and deposits			30,296		36,237
Income taxes recoverable			18,099		6,454
TOTAL CURRENT ASSETS			1,752,728		1,659,593
Property, plant and equipment	4		1,928,478		1,948,773
Right-of-use assets	5		242,727		254,065
Deferred tax assets			193,054		166,680
Intangible assets			43,707		45,916
Investments	6		60,083		55,858
Pension assets			15,459		12,234
TOTAL NON-CURRENT ASSETS			2,483,508		2,483,526
TOTAL ASSETS		$	4,236,236	$	4,143,119
LIABILITIES					
Trade and other payables		$	1,353,075	$	1,315,380
Provisions	7		5,769		7,906
Income taxes payable			35,292		39,216
Current portion of long-term debt	8		15,374		16,198
Current portion of lease liabilities	9		45,029		43,665
TOTAL CURRENT LIABILITIES			1,454,539		1,422,365
Long-term debt	8		1,067,787		1,054,170
Lease liabilities	9		217,020		229,455
Pension and other post-retirement benefits			41,585		41,912
Deferred tax liabilities			26,485		18,312
TOTAL NON-CURRENT LIABILITIES			1,352,877		1,343,849
TOTAL LIABILITIES			2,807,416		2,766,214
EQUITY					
Capital stock	11		657,271		663,646
Contributed surplus			45,682		45,558
Accumulated other comprehensive income			93,020		124,065
Retained earnings			632,847		543,636
TOTAL EQUITY			1,428,820		1,376,905
TOTAL LIABILITIES AND EQUITY		$	4,236,236	$	4,143,119

Contingencies (note 16)

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, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
SALES		$ 1,361,055	$ 1,113,875	$ 2,664,944	$ 2,268,913
Cost of sales (excluding depreciation of property, plant and equipment and right-of-use assets)		(1,116,313)	(925,762)	(2,182,510)	(1,896,707)
Depreciation of property, plant and equipment and right-of-use assets (production)		(71,153)	(62,324)	(141,459)	(123,981)
Total cost of sales		(1,187,466)	(988,086)	(2,323,969)	(2,020,688)
GROSS MARGIN		173,589	125,789	340,975	248,225
Research and development costs		(9,351)	(8,289)	(18,629)	(17,401)
Selling, general and administrative		(77,449)	(68,130)	(155,972)	(133,453)
Depreciation of property, plant and equipment and right-of-use assets (non-production)		(4,379)	(3,909)	(8,745)	(7,624)
Gain (loss) on disposal of property, plant and equipment		26	82	(16)	82
Restructuring costs		-	-	-	(4,237)
OPERATING INCOME		82,436	45,543	157,613	85,592
Share of loss of equity investments	6	(652)	(1,265)	(2,030)	(2,366)
Net gain on disposal of equity investments	6	-	-	5,273	-
Gain on dilution of equity investments	6	-	-	-	4,050
Finance expense	13	(19,686)	(11,346)	(38,732)	(20,600)
Other finance income (expense)	13	(568)	1,446	(344)	1,130
INCOME BEFORE INCOME TAXES		61,530	34,378	121,780	67,806
Income tax expense	10	(11,630)	(8,907)	(23,709)	(17,127)
NET INCOME FOR THE PERIOD		$ 49,900	$ 25,471	$ 98,071	$ 50,679
Basic earnings per share	12	$ 0.62	$ 0.32	$ 1.22	$ 0.63
Diluted earnings per share	12	$ 0.62	$ 0.32	$ 1.22	$ 0.63

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, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
NET INCOME FOR THE PERIOD	$ 49,900	$ 25,471	$ 98,071	$ 50,679
Other comprehensive income (loss), net of tax:				
Items that may be reclassified to net income				
Foreign currency translation differences for foreign operations	(33,648)	17,899	(31,027)	(9,539)
Items that will not be reclassified to net income				
Share of other comprehensive income (loss) of equity investments (note 6)	(7)	306	(18)	285
Remeasurement of defined benefit plans	2,071	2,957	2,446	12,063
Other comprehensive income (loss), net of tax	(31,584)	21,162	(28,599)	2,809
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	$ 18,316	$ 46,633	$ 69,472	$ 53,488

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, 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
Net income for the period	-	-	-	82,159	82,159
Compensation expense related to stock options	-	382	-	-	382
Dividends ($0.10 per share)	-	-	-	(8,038)	(8,038)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	4,503	4,503
Foreign currency translation differences	-	-	82,357	-	82,357
Share of other comprehensive loss of equity investments	-	-	(245)	-	(245)
BALANCE AT DECEMBER 31, 2022	663,646	45,558	124,065	543,636	1,376,905
Net income for the period	-	-	-	98,071	98,071
Compensation expense related to stock options	-	221	-	-	221
Dividends ($0.10 per share)	-	-	-	(7,999)	(7,999)
Exercise of employee stock options	358	(97)	-	-	261
Repurchase of common shares (note 11)	(6,733)	-	-	(3,307)	(10,040)
Other comprehensive income (loss) net of tax					
Remeasurement of defined benefit plans	-	-	-	2,446	2,446
Foreign currency translation differences	-	-	(31,027)	-	(31,027)
Share of other comprehensive loss of equity investments	-	-	(18)	-	(18)
BALANCE AT JUNE 30, 2023	$ 657,271	$ 45,682	$ 93,020	$ 632,847	$ 1,428,820

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, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES:				
Net income for the period	$ 49,900	$ 25,471	$ 98,071	$ 50,679
Adjustments for:				
Depreciation of property, plant and equipment and right-of-use assets	75,532	66,233	150,204	131,605
Amortization of development costs	2,670	2,598	5,283	5,319
Unrealized loss (gain) on foreign exchange forward contracts	4,701	2,593	(83)	1,756
Finance expense	19,686	11,346	38,732	20,600
Income tax expense	11,630	8,907	23,709	17,127
Loss (gain) on disposal of property, plant and equipment	(26)	(82)	16	(82)
Deferred and restricted share units expense	1,775	1,632	7,211	545
Stock options expense	111	195	221	391
Share of loss of equity investments	652	1,265	2,030	2,366
Net gain on disposal of equity investments	-	-	(5,273)	-
Gain on dilution of equity investments	-	-	-	(4,050)
Pension and other post-retirement benefits expense	700	854	1,394	1,722
Contributions made to pension and other post-retirement benefits	(597)	(295)	(1,220)	(1,660)
	166,734	120,717	320,295	226,318
Changes in non-cash working capital items:				
Trade and other receivables	4,872	(12,287)	(126,996)	(202,699)
Inventories	20,080	(34,946)	(1,895)	(58,128)
Prepaid expenses and deposits	2,190	(2,201)	5,449	(5,850)
Trade, other payables and provisions	(28,108)	68,031	79,318	221,636
	165,768	139,314	276,171	181,277
Interest paid	(24,464)	(14,012)	(47,763)	(23,971)
Income taxes paid	(31,206)	(7,963)	(63,783)	(9,974)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 110,098	$ 117,339	$ 164,625	$ 147,332
FINANCING ACTIVITIES:				
Increase (decrease) in long-term debt (net of deferred financing fees)	(11,763)	17,519	35,331	37,519
Repayment of long-term debt	(4,336)	(5,662)	(8,576)	(11,021)
Principal payments of lease liabilities	(11,933)	(11,829)	(22,887)	(20,323)
Dividends paid	(4,019)	(4,019)	(8,038)	(8,037)
Exercise of employee stock options	261	171	261	171
Repurchase of common shares	(10,040)	-	(10,040)	-
NET CASH USED IN FINANCING ACTIVITIES	$ (41,830)	$ (3,820)	$ (13,949)	$ (1,691)
INVESTING ACTIVITIES:				
Purchase of property, plant and equipment (excluding capitalized interest)*	(76,440)	(85,570)	(159,856)	(173,114)
Capitalized development costs	(2,436)	(2,287)	(4,201)	(3,626)
Increase in investments (note 6)	(1,000)	-	(1,000)	(1,000)
Proceeds on disposal of property, plant and equipment	255	416	386	416
NET CASH USED IN INVESTING ACTIVITIES	$ (79,621)	$ (87,441)	$ (164,671)	$ (177,324)
Effect of foreign exchange rate changes on cash and cash equivalents	523	(6,551)	(1,905)	(5,745)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(10,830)	19,527	(15,900)	(37,428)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	156,585	96,336	161,655	153,291
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 145,755	$ 115,863	$ 145,755	$ 115,863

*As at June 30, 2023, $67,112 (December 31, 2022 - $94,754) 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. ("Martinrea" or 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, 2022.

(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, 2022.

(c) 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.

(d) Recently adopted accounting standards and policies

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 Company adopted the amendments to IAS 8 effective January 1, 2023. The adoption of amendments to IAS 8 did not 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 Company adopted the amendments to IAS 1 and IFRS Practice Statement 2 effective January 1, 2023. The adoption of amendments to IAS 1 and IFRS Practice Statement 2 did not have a material impact on the interim condensed consolidated financial statements.

Amendments to IAS 12, International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)

On May 23, 2023, the IASB issued International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12). The amendments provide a temporary relief from accounting for deferred taxes arising from the Organization for Economic Co-operation and Development's (OECD) international tax reform.

The amendments include:

- a temporary, mandatory exemption from accounting for deferred taxes resulting from the introduction of the global minimum taxation; and
- targeted disclosure requirements to help investors better understand a company's exposure to income taxes arising from the reform, particularly before legislation implementing the rules is in effect.

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

The accounting exemption is to be applied immediately after publication of the amendment. The disclosures relating to the known or reasonably estimable exposure to Pillar Two income taxes are required for annual reporting periods beginning on or after 1 January 2023, but they are not required to be disclosed in interim financial reports for any interim period ending on or before December 31, 2023.

The Company adopted the amendments to IAS 12 effective May 23, 2023. The adoption of amendments to IAS 12 did not have material impact on the interim condensed consolidated financial statements.

(e) Recently issued accounting standards

The IASB issued the following amendments to existing standards:

Amendments to IFRS 16, Leases - Lease Liability in a sale and Leaseback
On September 22, 2022, the IASB issued Lease Liability in a Sale and Leaseback (Amendments to IFRS 16). The amendments introduce a new accounting model which impacts how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments clarify that on initial recognition, the seller-lessee includes variable lease payments when it measures a lease liability arising from a sale-and-leaseback transaction. After initial recognition, the seller-lessee applies the general requirements for subsequent accounting of the lease liability such that it recognises no gain or loss relating to the right of use it retains.

The amendments are effective for annual periods beginning on or after January 1, 2024. The adoption of amendments to IFRS 16 is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1, Non-current Liabilities with Covenants
On October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments specify that covenants to be complied with after the reporting date do not affect the classification of debts as current or non-current at the reporting date. Instead, the amendments require a company to disclose information about these covenants in the notes to the consolidated financial statements.

The amendments are effective for annual periods beginning on or after January 1, 2024. The adoption of amendments to IAS 1 is not expected to have a material impact on the consolidated financial statements.

2. TRADE AND OTHER RECEIVABLES

	June 30, 2023	December 31, 2022
Trade receivables	$ 845,958	$ 737,199
Other receivables	56,414	50,618
Foreign exchange forward contracts not accounted for as hedges (note 15(d))	83	2,114
	$ 902,455	$ 789,931

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 15.

3. INVENTORIES

	June 30, 2023	December 31, 2022
Raw materials	$ 273,454	$ 269,549
Work in progress	77,891	83,119
Finished goods	54,240	54,844
Tooling work in progress and other inventory	250,538	257,804
	$ 656,123	$ 665,316

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

4. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2023			December 31, 2022		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	$ 215,720	$ (44,223)	$ 171,497	$ 215,066	$ (41,633)	$ 173,433
Leasehold improvements	84,799	(56,735)	28,064	85,745	(55,540)	30,205
Manufacturing equipment	2,918,353	(1,635,042)	1,283,311	2,862,421	(1,552,194)	1,310,227
Tooling and fixtures	38,717	(34,051)	4,666	39,590	(34,445)	5,145
Other assets	86,596	(57,627)	28,969	84,321	(53,646)	30,675
Construction in progress	411,971	-	411,971	399,088	-	399,088
	$ 3,756,156	$ (1,827,678)	$ 1,928,478	$ 3,686,231	$ (1,737,458)	$ 1,948,773

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, 2021	$ 146,114	$ 24,609	$ 1,223,955	$ 3,425	$ 28,763	$ 301,048	$ 1,727,914
Additions	151	-	2,836	13	2,139	364,147	369,286
Disposals	-	-	(2,700)	(7)	(7)	(783)	(3,497)
Depreciation	(5,943)	(3,703)	(213,563)	(604)	(9,039)	-	(232,852)
Impairment	-	-	(2,577)	-	(86)	(45)	(2,708)
Transfers from construction in progress	23,871	8,663	241,852	1,955	8,011	(284,352)	-
Foreign currency translation adjustment	9,240	636	60,424	363	894	19,073	90,630
Net as of December 31, 2022	$ 173,433	$ 30,205	$ 1,310,227	$ 5,145	$ 30,675	$ 399,088	$ 1,948,773
Additions	25	-	588	-	162	140,678	141,453
Disposals	-	-	(187)	-	(120)	(95)	(402)
Depreciation	(3,393)	(2,176)	(115,768)	(397)	(4,790)	-	(126,524)
Transfers from construction in progress	4,669	404	111,548	-	3,409	(120,030)	-
Foreign currency translation adjustment	(3,237)	(369)	(23,097)	(82)	(367)	(7,670)	(34,822)
Net as of June 30, 2023	$ 171,497	$ 28,064	$ 1,283,311	$ 4,666	$ 28,969	$ 411,971	$ 1,928,478

5. RIGHT-OF-USE ASSETS

	June 30, 2023			December 31, 2022		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Leased buildings	$ 300,435	$ (124,801)	$ 175,634	$ 297,448	$ (112,167)	$ 185,281
Leased manufacturing equipment	103,023	(37,249)	65,774	97,140	(29,820)	67,320
Leased other assets	4,677	(3,358)	1,319	4,484	(3,020)	1,464
	$ 408,135	$ (165,408)	$ 242,727	$ 399,072	$ (145,007)	$ 254,065

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

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

		Leased buildings		Leased manufacturing equipment		Leased other assets		Total
Net as of December 31, 2021	$	167,632	$	53,846	$	1,456	$	222,934
Additions		18,263		22,964		705		41,932
Lease modifications		20,846		(40)		-		20,806
Depreciation		(27,516)		(13,603)		(736)		(41,855)
Impairment		(834)		-		-		(834)
Foreign currency translation adjustment		6,890		4,153		39		11,082
Net as of December 31, 2022	$	185,281	$	67,320	$	1,464	$	254,065
Additions		-		7,512		330		7,842
Lease modifications		8,559		-		-		8,559
Depreciation		(15,161)		(8,068)		(451)		(23,680)
Foreign currency translation adjustment		(3,045)		(990)		(24)		(4,059)
Net as of June 30, 2023	$	175,634	$	65,774	$	1,319	$	242,727

6. INVESTMENTS

		June 30, 2023		December 31, 2022
Investment in common shares of NanoXplore Inc.	$	55,914	$	48,749
Investment in common shares and convertible debentures of AlumaPower Corp.		2,669		2,669
Investment in convertible debentures of Equispheres Inc.		1,000		-
Other		500		500
Investments in common shares of VoltaXplore Inc.		-		3,940
	$	60,083	$	55,858

As at June 30, 2023, the Company held 38,466,360 common shares of NanoXplore Inc. (“NanoXplore”) representing a 22.7% 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. 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 March 24, 2023, Martinrea sold its equity interest in VoltaXplore to NanoXplore for 3,420,406 common shares of NanoXplore at $2.92 per share representing an aggregate consideration of $10,000. The sale transaction resulted in a gain on disposal of equity investments during the first quarter of 2023 as follows:

Gross gain (Total consideration of $10,000 less book value of investment)	$	6,821
Less: gain attributable to indirect retained interest		(1,548)
Net gain on disposal of equity investments	$	5,273

Subsequent to this transaction, the Company no longer holds a direct equity interest in VoltaXplore while its equity ownership interest in NanoXplore increased from 21.1% to 22.7%.

As at June 30, 2023, 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.

On April 20, 2023, the Company acquired convertible debentures of Equispheres Inc. (“Equispheres”) in the amount of $1,000. Equispheres is a private company developing technologies for the production and use of advanced materials in additive manufacturing.

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

The Company applies equity accounting to its equity investments in NanoXplore and VoltaXplore (up to the date of disposal of March 24, 2023) 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 in AlumaPower are classified as fair value through other comprehensive income, while the convertible debentures in AlumaPower and Equispheres are classified as amortized cost. 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, 2021	$ 48,748	$ 3,925
Additions	-	1,000
Gain on dilution of equity investments	4,050	-
Share of loss for the period	(4,089)	(985)
Share of other comprehensive income for the period	40	-
Net as of December 31, 2022	$ 48,749	$ 3,940
Additions	8,452	-
Share of loss for the period	(1,269)	(761)
Share of other comprehensive loss for the period	(18)	-
Disposal	-	(3,179)
Net as of June 30, 2023	$ 55,914	$ -

As at June 30, 2023, the stock market value of the shares held in NanoXplore by the Company was $124,631.

7. PROVISIONS

	Restructuring	Claims and Litigation	Total
Net as of December 31, 2021	$ 3,185	$ 3,087	$ 6,272
Net additions	7,846	1,410	9,256
Amounts used during the period	(6,648)	(1,338)	(7,986)
Foreign currency translation adjustment	(3)	367	364
Net as of December 31, 2022	$ 4,380	$ 3,526	$ 7,906
Net additions	-	205	205
Amounts used during the period	(1,092)	(1,265)	(2,357)
Foreign currency translation adjustment	(170)	185	15
Net as of June 30, 2023	$ 3,118	$ 2,651	$ 5,769

8. 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 15.

	June 30, 2023	December 31, 2022
Banking facility	$ 1,043,574	$ 1,022,169
Equipment loans	39,587	48,199
	1,083,161	1,070,368
Current portion	(15,374)	(16,198)
	$ 1,067,787	$ 1,054,170

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

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

	Currency	Nominal interest rate	Year of maturity	June 30, 2023 Carrying amount	December 31, 2022 Carrying amount
Banking facility	USD	SOFR + 2.00%	2025	$ 650,452	$ 644,558
	CAD	BA + 2.00%	2025	393,122	377,611
Equipment loans	CAD	2.54%	2026	16,608	19,044
	EUR	1.40%	2026	6,945	8,284
	EUR	2.46%	2026	6,893	8,043
	EUR	1.05%	2024	4,763	7,624
	CAD	5.22%	2025	3,419	4,220
	EUR	0.00%	2028	862	864
	EUR	0.26%	2025	97	120
				$ 1,083,161	$ 1,070,368

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;
- a maturity date of April 2025; and
- no mandatory principal repayment provisions.

On June 14, 2023, the Company amended its banking facility to change the interest rate benchmark of the U.S. revolving credit line from London Interbank Offered Rate ("LIBOR") to Term Secured Overnight Financing Rate ("SOFR").

As at June 30, 2023, the Company had drawn US $491,000 (December 31, 2022 - US $476,000) on the U.S. revolving credit line and $395,000 (December 31, 2022 - $380,000) on the Canadian revolving credit line. At June 30, 2023, the weighted average effective interest rate of the banking facility credit lines was 7.2% (December 31, 2022 - 6.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2023.

Deferred financing fees of $1,878 (December 31, 2022 - $2,389) have been netted against the carrying amount of the long-term debt.

Future annual minimum principal repayments as at June 30, 2023 are as follows:

	Scheduled principal repayments	Scheduled amortization of deferred financing fees	Carrying amount of outstanding loans
Within one year	$ 16,396	$ (1,022)	$ 15,374
One to two years	1,057,772	(852)	1,056,920
Two to three years	9,162	(4)	9,158
Three to four years	1,518	-	1,518
Thereafter	191	-	191
	$ 1,085,039	$ (1,878)	$ 1,083,161

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

Movement in long-term debt is summarized as follows:

		Total
Net as of December 31, 2021	$	1,010,990
Net drawdowns		32,126
Equipment loan proceeds		5,367
Equipment loan repayments		(22,137)
Amortization of deferred financing fees		1,559
Foreign currency translation adjustment		42,463
Net as of December 31, 2022	$	1,070,368
Net drawdowns		35,331
Equipment loan repayments		(8,576)
Amortization of deferred financing fees		511
Foreign currency translation adjustment		(14,473)
Net as of June 30, 2023	$	1,083,161

9. 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, 2021	$	239,777
Net additions		41,932
Lease modifications		20,806
Principal payments of lease liabilities		(41,174)
Foreign currency translation adjustment		11,779
Net as of December 31, 2022	$	273,120
Net additions		7,842
Lease modifications		8,559
Principal payments of lease liabilities		(22,887)
Foreign currency translation adjustment		(4,585)
Net as of June 30, 2023	$	262,049

The maturity of contractual undiscounted lease liabilities as at June 30, 2023 is as follows:

		Total
Within one year	$	55,247
One to two years		51,961
Two to three years		47,250
Three to four years		43,300
Thereafter		106,419
Total undiscounted lease liabilities at June 30, 2023	$	304,177
Interest on lease liabilities		(42,128)
Total present value of minimum lease payments	$	262,049
Current portion		(45,029)
	$	217,020

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

10. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Current income tax expense	$ (13,409)	$ (18,878)	$ (46,808)	$ (37,846)
Deferred income tax recovery	1,779	9,971	23,099	20,719
Total income tax expense	$ (11,630)	$ (8,907)	$ (23,709)	$ (17,127)

11. CAPITAL STOCK

Common shares outstanding:	Number	Amount
Balance as of December 31, 2021	80,367,095	$ 663,415
Exercise of stock options	20,000	231
Balance as of June 30, 2022 and December 31, 2022	80,387,095	663,646
Exercise of stock options	25,000	358
Repurchase of common shares under normal course issuer bid	(815,555)	(6,733)
Balance as of June 30, 2023	79,596,540	$ 657,271

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

Repurchase of capital stock:

On March 29, 2023, the Toronto Stock Exchange ("TSX") accepted a notice of intention of the Company to make a normal course issuer bid ("NCIB") permitting the Company to purchase for cancellation up to 5 million common shares over a 12-month period ending on or about April 3, 2024.

During the second quarter of 2023, after the commencement of the NCIB, the Company purchased for cancellation an aggregate of 815,555 common shares for an aggregate purchase price of $10,040, resulting in a reduction to stated capital of $6,733 and a decrease to retained earnings of $3,307. The shares were purchased and cancelled directly under the NCIB.

Stock options

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

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	2,435,000	$ 13.50	2,622,500	$ 13.32
Exercised during the period	(25,000)	10.44	(20,000)	8.57
Cancelled during the period	(81,500)	12.53	-	-
Expired during the period	-	-	(184,500)	11.14
Balance, end of period	2,328,500	$ 13.56	2,418,000	$ 13.52
Options exercisable, end of period	1,809,500	$ 13.42	1,607,000	$ 13.21

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2023:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
$10.00 - 12.99	608,500	2014 - 2022	2024 - 2032
$13.00 - 16.99	1,720,000	2015 - 2020	2025 - 2030
Total share purchase options	2,328,500		

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

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

For the three and six months ended June 30, 2023, the Company expensed $111 (2022 - $195) and $221 (2022 - $391), 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, 2023 and 2022:

	Six months ended June 30, 2023	Six months ended June 30, 2022
Outstanding, beginning of period	625,148	397,091
Granted and reinvested dividends	90,203	84,006
Redeemed	-	-
Outstanding, end of period	715,351	481,097

The DSUs granted during the six months ended June 30, 2023 and 2022 had a weighted average fair value per unit of $13.79 and $8.09, respectively, on the date of grant. At June 30, 2023, the fair value of all outstanding DSUs amounted to $7,616 (June 30, 2022 - $3,548 and December 31, 2022 - $5,736). For the three and six months ended June 30, 2023, DSU compensation expense reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to $545 (2022 - $717) and $1,881 (2022 - $169), respectively, recorded in selling, general and administrative expense.

Unrecognized DSU compensation expense as at June 30, 2023 was $1,612 (June 30, 2022 - $690 and December 31, 2022 - $1,510) and will be recognized in profit or loss over the remaining vesting period.

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, 2023 and 2022:

	RSUs	PSUs	Total
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
Granted and reinvested dividends	278,426	223,931	502,357
Redeemed	(98,181)	(98,181)	(196,362)
Cancelled	(1,339)	(1,506)	(2,845)
Outstanding, December 31, 2022	558,474	478,624	1,037,098
Granted and reinvested dividends	140,552	100,046	240,598
Redeemed	-	-	-
Cancelled	-	-	-
Outstanding, June 30, 2023	699,026	578,670	1,277,696

The RSUs and PSUs granted during the six months ended June 30, 2023 and 2022 had a weighted average fair value per unit of $15.25 and $8.36, respectively, on the date of grant. For the three and six months ended June 30, 2023, RSU and PSU compensation expense reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to $1,230 (2022 - $915) and $5,330 (2022 - $376), respectively, recorded in selling, general and administrative expense.

Unrecognized RSU and PSU compensation expense as at June 30, 2023 was $6,191 (June 30, 2022 - $1,836 and December 31, 2022 - $6,137) 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, 2023 and 2022 are shown in the table below:

	Six months ended June 30, 2023	Six months ended June 30, 2022
Expected life (years)	2.61	2.62
Risk free interest rate	3.84%	2.67%

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

12. EARNINGS PER SHARE

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

	Three months ended June 30, 2023		Three months ended June 30, 2022	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	80,095,389	$ 0.62	80,372,206	$ 0.32
Effect of dilutive securities:				
Stock options	52,866	-	-	-
Diluted	80,148,255	$ 0.62	80,372,206	$ 0.32

	Six months ended June 30, 2023		Six months ended June 30, 2022	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	80,241,242	$ 1.22	80,369,651	$ 0.63
Effect of dilutive securities:				
Stock options	51,633	-	-	-
Diluted	80,292,875	$ 1.22	80,369,651	$ 0.63

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, 2023, 1,720,000 options (2022 - 2,418,000) were excluded from the diluted weighted average per share calculation as they were anti-dilutive.

13. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Debt interest, gross	$ (21,690)	$ (11,229)	$ (42,453)	$ (19,575)
Interest on lease liabilities	(2,691)	(2,171)	(5,518)	(4,268)
Capitalized interest - at an average rate of 7.1%, 7.0% (2022 - 3.8%, 3.5%)	4,695	2,054	9,239	3,243
Finance expense	$ (19,686)	$ (11,346)	$ (38,732)	$ (20,600)

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
Net foreign exchange gain (loss)	$ (706)	$ 1,241	$ (636)	$ 906
Other income, net	138	205	292	224
Other finance income (expense)	$ (568)	$ 1,446	$ (344)	$ 1,130

14. 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.

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

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, 2022. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

	Three months ended June 30, 2023			
	Production Sales	**Tooling Sales**	**Total Sales**	**Operating Income**
North America				
Canada	$ 183,962	$ 54,975	$ 238,937	
USA	391,300	31,144	422,444	
Mexico	443,967	52,839	496,806	
Eliminations	(60,397)	(50,723)	(111,120)	
	$ 958,832	$ 88,235	$ 1,047,067	$ 80,657
Europe				
Germany	207,797	20,301	228,098	
Spain	47,444	1,077	48,521	
Slovakia	9,946	1,458	11,404	
	$ 265,187	$ 22,836	$ 288,023	$ 1,508
Rest of the World	35,168	1,398	36,566	271
Eliminations	(8,070)	(2,531)	(10,601)	-
	$ 1,251,117	$ 109,938	$ 1,361,055	$ 82,436

	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

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

	Six months ended June 30, 2023			
	Production Sales	Tooling Sales	Total Sales	Operating Income
North America				
Canada	$ 374,101	$ 109,383	$ 483,484	
USA	733,010	44,806	777,816	
Mexico	897,965	70,194	968,159	
Eliminations	(124,039)	(84,361)	(208,400)	
	$ 1,881,037	$ 140,022	$ 2,021,059	$ 154,903
Europe				
Germany	443,714	30,144	473,858	
Spain	92,617	1,906	94,523	
Slovakia	21,631	1,481	23,112	
	$ 557,962	$ 33,531	$ 591,493	$ 519
Rest of the World	66,788	3,660	70,448	2,191
Eliminations	(15,128)	(2,928)	(18,056)	-
	$ 2,490,659	$ 174,285	$ 2,664,944	$ 157,613

	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

15. 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)

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

June 30, 2023	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 145,755	$ 145,755	$ -	$ -
Investment in common shares and convertible debentures of AlumaPower (note 6)	2,669	-	-	2,669
Investment in convertible debentures of Equispheres (note 6)	1,000	-	-	1,000
Foreign exchange forward contracts not accounted for as hedges (note 2)	83	-	83	-

December 31, 2022	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 161,655	$ 161,655	$ -	$ -
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 2)	2,114	-	2,114	-

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, 2023	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	$ -	$ -	$ 902,372	$ -	$ 902,372	$ 902,372
Investment in common shares and convertible debentures of AlumaPower	-	1,304	-	1,365	2,669	2,669
Investment in convertible debentures of Equispheres	-	-	-	1,000	1,000	1,000
Foreign exchange forward contracts not accounted for as hedges	83	-	-	-	83	83
	$ 83	$ 1,304	$ 902,372	$ 2,365	$ 906,124	$ 906,124
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(1,353,075)	(1,353,075)	(1,353,075)
Long-term debt	-	-	-	(1,083,161)	(1,083,161)	(1,083,161)
	$ -	$ -	$ -	$ (2,436,236)	$ (2,436,236)	$ (2,436,236)
Net financial assets (liabilities)	$ 83	$ 1,304	$ 902,372	$ (2,433,871)	$ (1,530,112)	$ (1,530,112)

December 31, 2022	Fair value through profit or loss	Fair value through other comprehensive income	Financial assets at amortized cost	Amortized cost	Carrying amount	Fair value
FINANCIAL ASSETS:						
Trade and other receivables	$ -	$ -	$ 787,817	$ -	$ 787,817	$ 787,817
Investment in common shares and convertible debentures of AlumaPower	-	1,304	-	1,365	2,669	2,669
Foreign exchange forward contracts not accounted for as hedges	2,114	-	-	-	2,114	2,114
	$ 2,114	$ 1,304	$ 787,817	$ 1,365	$ 792,600	$ 792,600
FINANCIAL LIABILITIES:						
Trade and other payables	-	-	-	(1,315,380)	(1,315,380)	(1,315,380)
Long-term debt	-	-	-	(1,070,368)	(1,070,368)	(1,070,368)
	$ -	$ -	$ -	$ (2,385,748)	$ (2,385,748)	$ (2,385,748)
Net financial assets (liabilities)	$ 2,114	$ 1,304	$ 787,817	$ (2,384,383)	$ (1,593,148)	$ (1,593,148)

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)

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 26.3%, 19.8%, and 16.1% of its production sales for the six months ended June 30, 2023 (2022 - 27.0%, 22.3%, and 14.3%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of trade receivables that were past due as at June 30, 2023 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, 2023	December 31, 2022
0-60 days	$ 836,490	$ 726,066
61-90 days	2,414	4,250
Greater than 90 days	7,054	6,883
	$ 845,958	$ 737,199

(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, 2023, the Company had cash of $145,755 (December 31, 2022 - $161,655) and banking facilities available as discussed in note 8. All of the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

A summary of contractual maturities of long-term debt is provided in note 8.

(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, SOFR or the Banker's Acceptance rates. The interest on the bank facility fluctuates depending on the achievement of certain financial debt ratios.

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

	Carrying amount	
	June 30, 2023	December 31, 2022
Variable rate instruments	$ 1,043,574	$ 1,022,169
Fixed rate instruments	39,587	48,199
	$ 1,083,161	$ 1,070,368

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

Sensitivity analysis

An increase of 1.0% in all variable interest rate debt would, all else being equal, have an effect of $2,714 (2022 - $2,500) on the Company's interim condensed consolidated financial results for the three months ended June 30, 2023 and $5,406 (2022 - $4,929) for the six months ended June 30, 2023.

(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, 2023, 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	$	58,020	17.2355	1

The aggregate value of these forward contracts as at June 30, 2023 was a pre-tax gain of $83 and was recorded in trade and other receivables (December 31, 2022 - pre-tax gain of $2,114).

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

June 30, 2023		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	475,638	€	112,248	$	90,608	R$	44,689	¥	145,416
Trade and other payables		(596,019)		(230,099)		(652,438)		(60,575)		(147,907)
Long-term debt		(491,000)		(13,534)		-		-		-
	$	(611,381)	€	(131,385)	$	(561,830)	R$	(15,886)	¥	(2,491)

December 31, 2022		USD		EURO		PESO		BRL		CNY
Trade and other receivables	$	398,811	€	92,861	$	118,703	R$	46,171	¥	163,299
Trade and other payables		(549,197)		(216,760)		(763,665)		(65,964)		(166,561)
Long-term debt		(476,000)		(17,204)		-		-		-
	$	(626,386)	€	(141,103)	$	(644,962)	R$	(19,793)	¥	(3,262)

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

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022	June 30, 2023	December 31, 2022
USD	1.3562	1.2711	1.3519	1.2708	1.3248	1.3541
EURO	1.4701	1.3751	1.4545	1.4061	1.4452	1.4494
PESO	0.0750	0.0629	0.0729	0.0622	0.0774	0.0695
BRL	0.2672	0.2592	0.2629	0.2460	0.2765	0.2578
CNY	0.1958	0.1959	0.1957	0.1980	0.1825	0.1966

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

Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2023 ended June 30, 2023 and 2022 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2023	Three months ended June 30, 2022	Six months ended June 30, 2023	Six months ended June 30, 2022
USD	$ (5,539)	$ (2,682)	$ (11,449)	$ (5,737)
EURO	(108)	(407)	190	(566)
BRL	(51)	2	(121)	(67)
CNY	125	143	47	129
	$ (5,573)	$ (2,944)	$ (11,333)	$ (6,241)

A weakening of the Canadian dollar against the above currencies at June 30 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Capital risk management

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

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

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

16. 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, however, there can be no assurance as to the final resolution of any claims and any resulting proceedings. If any claims and ensuing proceedings are determined adversely to the Company, the amounts the Company may be required to pay could be material and in excess of any amounts accrued. In addition, 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.

Tax contingencies

The Company is subject to tax audits in various jurisdictions. Reviews by tax authorities generally focus on, but are not limited to, the validity of the Company's intra-company transactions, including financing and transfer pricing policies which may involve subjective areas of taxation and significant judgement, and value added tax ("VAT") credits claimed on certain purchases.

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 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 $41,900 (BRL $151,524) including interest and penalties to June 30, 2023 (December 31, 2022 - $39,589 or BRL $153,586). 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 certain assessments 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 $22,046 (BRL $79,725) including interest and penalties as at June 30, 2023 have entered the judicial litigation process. The Company's subsidiary may be required to present guarantees related to these assessments up to $21,917 (BRL $79,259) 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.

The Company's subsidiary in Queretaro, Mexico, Martinrea Honsel Mexico, S.A. de C.V., is currently being assessed by the Mexican Federal Tax Authorities for tax deductions taken mainly in respect of certain intra-company transactions, for both 2013 and 2015 taxation years. The potential exposure under these assessments, based on the notices issued by the tax authorities, is approximately $86,734 (MXN $1,140,146) including interest and penalties to June 30, 2023 (December 31, 2022 - $69,785 or MXN $1,090,387). 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 such assessments. 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.

17. 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 unless the sale on the corresponding tooling project has been recognized, at which point a tooling trade payable on the project is recorded. At June 30, 2023, the amount of the off-balance sheet program financing was $15,542 (December 31, 2022 - $4,584) 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 2022 or 2023. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory. The term of the guarantee will vary from program to program, but typically range up to twenty-four months.

MARTINREA INTERNATIONAL INC.

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