# MARTINREA INTERNATIONAL INC.

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## REPORT TO SHAREHOLDERS

## FOR THE SECOND QUARTER ENDING JUNE 30, 2021

# SECOND QUARTER REPORT

June 30, 2021

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## MESSAGE TO SHAREHOLDERS

The Company experienced a solid second quarter in the face of production declines in the industry caused by semi-conductor chip shortages, as reflected in the attached materials. Our financial position remains strong and our future is bright, as the industry and the economy rebound from the effects of the pandemic and related lockdowns.

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 10, 2021**

## MARTINREA INTERNATIONAL INC. REPORTS SECOND-QUARTER RESULTS, DECLARES DIVIDEND, AND REITERATES POSITIVE LONG-TERM OUTLOOK

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, 2021 and declared a quarterly cash dividend of $0.05 per share.

**HIGHLIGHTS**

- Total sales of $884.9 million, up 92.1% year-over-year; production sales of $838.9 million
- Second quarter diluted net earnings per share of $0.30
- Second quarter Adjusted Net Earnings per Share(1) of $0.34
- Second quarter results impacted by the ongoing global semiconductor shortage
- Longer term outlook remains positive
- Balance sheet remains strong, with a net-debt-to-Adjusted EBITDA(1) ratio of approximately 1.8x
- New business awards of approximately $40 million in annualized sales at mature volumes; year-to-date awards now total approximately $170 million
- Quarterly cash dividend of $0.05 declared

**OVERVIEW**

Pat D'Eramo, President and Chief Executive Officer, stated: "We continued to experience short-term headwinds in the second quarter, as customer releases have fluctuated due to the shortage of semiconductors and other supply constraints. In addition, we are progressing through a heavy new business launch cycle which is having a greater impact on margins than what is normal in a typical year. Labour availability has also been challenging in certain regions, and we have had to adjust wages in select locations as a result. On a positive note, vehicle demand remains very strong, and vehicle inventories are at record lows. Our current launch activity is expected to generate future sales growth as well as strong margins once supply bottlenecks are removed, and production normalizes. Our future remains bright, and our team continues to manage well under challenging circumstances. I would like to thank our global team for their continued dedication and commitment to our organization."

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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". 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, 2021 and in this press release.

He added: "I am also pleased to announce new business wins since we reported last quarter totaling $40 million in annualized sales at mature volumes, including approximately $30 million in our Lightweight Structures commercial group with various customers, including General Motors, Ford and Toyota, and approximately $10 million in our Propulsion Systems commercial group with Volkswagen and Ford. Year to date, new business wins now total approximately $170 million."

Fred Di Tosto, Chief Financial Officer, stated: "Sales for the second quarter, excluding tooling sales of $45.9 million, were $838.9 million, and our Adjusted Net Earnings per Share was $0.34, both below the range of our previously-disclosed guidance, reflecting the impact the industry-wide shortage of semiconductor chips had on OEM light vehicle production. Our expectation is that supply-driven challenges will persist, in some form, through at least the third quarter and quite possibly the fourth quarter. Given the elevated uncertainty and volatility our Company and our industry is facing in the short term, we have opted not to provide guidance for the third quarter at this time. Current challenges notwithstanding, we remain confident in the longer-term outlook for our business given strong customer demand for vehicles, rock-bottom vehicle inventory levels, and our healthy order book. Our strong balance sheet leaves us well-positioned to navigate through any near-term challenges we face, with a net-debt-to-Adjusted EBITDA ratio well within our comfort range."

Rob Wildeboer, Executive Chairman, stated: "Our conviction in the longer-term prospects for our business and our Company has never been better. The demand picture is as good as it has been in years. We see evidence of this at the dealership level, where customers are having to wait months to take delivery of popular models, and in some cases paying thousands of dollars over the manufacturer's suggested retail price. We also see it in used vehicle prices, which are currently near all-time highs. Anecdotally, we also hear stories of people putting off vehicle purchase decisions given limited model options, which suggests that pent-up demand exists. We don't know when the semiconductor shortage will work itself out – quite frankly, no one does. However, few, if any expect the situation to drag on beyond 2022. And as we look into 2023, our outlook calling for total sales of between $4.6 and $4.8 billion, an adjusted operating income margin exceeding 8%, and Free Cash Flow in excess of $200 million, we continue to be confident that we will achieve such goals. Our track record of delivering on our financial targets speaks for itself, and we are confident this will continue to be the case as we deliver on our 2023 outlook."

## 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, 2021 ("MD&A"), the Company's interim condensed consolidated financial statements for the second quarter ended June 30, 2021 (the "interim financial statements") and the Company's Annual Information Form for the year ended December 31, 2020 can be found at www.sedar.com.

## OVERALL RESULTS

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

The following table sets out certain highlights of the Company's performance for the three and six months ended June 30, 2021 and 2020. Refer to the Company's interim financial statements for the three and six months ended June 30, 2021 for a detailed account of the Company's performance for the periods presented in the table below.

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Sales | $ 884,866 | $ 460,564 | 424,302 | 92.1% |
| Gross Margin | 111,728 | (12,459) | 124,187 | 996.8% |
| Operating Income (Loss) | 34,621 | (163,365) | 197,986 | 121.2% |
| Net Income (Loss) for the period | 23,952 | (146,886) | 170,838 | 116.3% |
| Net Earnings (Loss) per Share - Basic and Diluted | $ 0.30 | $ (1.84) | 2.14 | 116.3% |
| **Non-IFRS Measures*** | | | | |
| Adjusted Operating Income (Loss) | $ 39,065 | $ (68,470) | 107,535 | 157.1% |
| *% of Sales* | *4.4%* | *(14.9%)* | | |
| Adjusted EBITDA | 99,618 | (8,177) | 107,795 | 1,318.3% |
| *% of Sales* | *11.3%* | *(1.8%)* | | |
| Adjusted Net Income (Loss) | 27,026 | (73,115) | 100,141 | 137.0% |
| Adjusted Net Earnings (Loss) per Share - Basic and Diluted | $ 0.34 | $ (0.91) | 1.25 | 137.4% |

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Sales | $ 1,882,016 | $ 1,333,270 | 548,746 | 41.2% |
| Gross Margin | 232,585 | 107,778 | 124,807 | 115.8% |
| Operating Income (Loss) | 82,051 | (114,160) | 196,211 | 171.9% |
| Net Income (Loss) for the period | 62,653 | (117,923) | 180,576 | 153.1% |
| Net Earnings (Loss) per Share - Basic and Diluted | $ 0.78 | $ (1.47) | 2.25 | 153.1% |
| **Non-IFRS Measures*** | | | | |
| Adjusted Operating Income (Loss) | $ 87,524 | $ (17,718) | 105,242 | 594.0% |
| *% of Sales* | *4.7%* | *(1.3%)* | | |
| Adjusted EBITDA | 209,433 | 99,547 | 109,886 | 110.4% |
| *% of Sales* | *11.1%* | *7.5%* | | |
| Adjusted Net Income (Loss) | 59,657 | (42,992) | 102,649 | 238.8% |
| Adjusted Net Earnings (Loss) per Share - Basic and Diluted | $ 0.74 | $ (0.54) | 1.28 | 237.0% |

***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 (Loss)”, “Adjusted Net Earnings (Loss) per Share (on a basic and diluted basis)”, “Adjusted Operating Income (Loss)”, "Adjusted EBITDA”, “Free Cash Flow” and “Net Debt”.

The following tables provide a reconciliation of IFRS “Net Income (Loss)” to Non-IFRS “Adjusted Net Income (Loss)”, “Adjusted Operating Income (Loss)” and “Adjusted EBITDA”.

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 |
|---|---|---|---|---|
| Net Income (Loss) | $ | 23,952 | $ | (146,886) |
| Unusual and Other Items (after-tax)* | | 3,074 | | 73,771 |
| Adjusted Net Income (Loss) | $ | 27,026 | $ | (73,115) |

| | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Net Income (Loss) | $ | 62,653 | $ | (117,923) |
| Unusual and Other Items (after-tax)* | | (2,996) | | 74,931 |
| Adjusted Net Income (Loss) | $ | 59,657 | $ | (42,992) |

**Unusual and Other Items are explained in the "Adjustments to Net Income (Loss)" section of this Press Release.*

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 |
|---|---|---|---|---|
| Net Income (Loss) | $ | 23,952 | $ | (146,886) |
| Income tax expense (benefit) | | 7,378 | | (29,932) |
| Other finance (income) expense | | (5,588) | | 4,286 |
| Share of loss of equity investments | | 983 | | 881 |
| Finance expense | | 7,896 | | 8,286 |
| Unusual and Other Items (before-tax)* | | 4,444 | | 94,895 |
| Adjusted Operating Income (Loss) | $ | 39,065 | $ | (68,470) |
| Depreciation of property, plant and equipment and right-of-use assets | | 57,219 | | 56,953 |
| Amortization of intangible assets | | 3,268 | | 3,340 |
| Loss on disposal of property, plant and equipment | | 66 | | - |
| Adjusted EBITDA | $ | 99,618 | $ | (8,177) |

| | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 |
|---|---|---|---|---|
| Net Income (Loss) | $ | 62,653 | $ | (117,923) |
| Income tax expense (benefit) | | 20,332 | | (18,722) |
| Other finance (income) expense | | (11,350) | | 3,156 |
| Share of loss of equity investments | | 1,909 | | 1,581 |
| Finance expense | | 16,307 | | 17,748 |
| Unusual and Other Items (before-tax)* | | (2,327) | | 96,442 |
| Adjusted Operating Income (Loss) | $ | 87,524 | $ | (17,718) |
| Depreciation of property, plant and equipment and right-of-use assets | | 115,277 | | 110,807 |
| Amortization of intangible assets | | 6,566 | | 6,458 |
| Loss on disposal of property, plant and equipment | | 66 | | - |
| Adjusted EBITDA | $ | 209,433 | $ | 99,547 |

**Unusual and Other Items are explained in the "Adjustments to Net Income (Loss)" section of this Press Release.*

## SALES

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| North America | $ 635,823 | $ 318,134 | 317,689 | 99.9% |
| Europe | 210,976 | 99,988 | 110,988 | 111.0% |
| Rest of the World | 44,556 | 45,807 | (1,251) | (2.7%) |
| Eliminations | (6,489) | (3,365) | (3,124) | (92.8%) |
| Total Sales | $ 884,866 | $ 460,564 | 424,302 | 92.1% |

The Company's consolidated sales for the second quarter of 2021 increased by $424.3 million or 92.1% to $884.9 million as compared to $460.6 million for the second quarter of 2020. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a slight year-over-year decrease in the Rest of the World.

Sales for the second quarter of 2021 in the Company's North America operating segment increased by $317.7 million or 99.9% to $635.8 million from $318.1 million for the second quarter of 2020. The increase was due generally to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; the launch of new programs during or subsequent to the second quarter of 2020 including the new Ford Mach E Mustang, Nissan Rogue, and a six cylinder aluminum engine block for Ford; and an increase in tooling sales of $10.8 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the second quarter of 2021 of $65.7 million as compared to the second quarter of 2020.

Sales for the second quarter of 2021 in the Company's Europe operating segment increased by $111.0 million or 111.0% to $211.0 million from $100.0 million for the second quarter of 2020. The increase can be attributed to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; and the launch of new programs during or subsequent to the second quarter of 2020, mainly with Volvo. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the second quarter of 2021 of $4.3 million as compared to the second quarter of 2020, and a $3.8 million decrease in tooling sales.

Sales for the second quarter of 2021 in the Company's Rest of the World operating segment decreased by $1.3 million or 2.7% to $44.6 million from $45.8 million in the second quarter of 2020. The decrease can be attributed to a $2.9 million decrease in tooling sales; a $2.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2020; lower year-over-year production volumes on the Cadillac CT6 vehicle platform in China; and a program with Ford in China that ended production during or subsequent to the second quarter of 2020. These negative factors were largely offset by a post-COVID recovery of production volumes in Brazil.

Overall tooling sales increased by $4.1 million to $45.9 million for the second quarter of 2021 from $41.8 million for the second quarter of 2020.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| North America | $ 1,339,953 | $ 1,005,662 | 334,291 | 33.2% |
| Europe | 465,045 | 259,885 | 205,160 | 78.9% |
| Rest of the World | 91,069 | 73,666 | 17,403 | 23.6% |
| Eliminations | (14,051) | (5,943) | (8,108) | (136.4%) |
| Total Sales | $ 1,882,016 | $ 1,333,270 | 548,746 | 41.2% |

The Company's consolidated sales for the six months ended June 30, 2021 increased by $548.7 million or 41.2% to $1,882.0 million as compared to $1,333.3 million for the six months ended June 30, 2020. Sales for the six months ended June 30, 2021 increased across all operating segments.

Sales for the six months ended June 30, 2021 in the Company's North America operating segment increased by $334.3 million or 33.2% to $1,340.0 million from $1,005.7 million for the six months ended June 30, 2020. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, accounted for $35.0 million of the year-over-year increase in sales (including a $1.7 million increase in tooling sales). Excluding the acquired operations, sales for the six months ended June 30, 2021 in North America increased year-over-year by $299.3 million or 30.3%. The increase was due generally to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; higher year-over-year production volumes on General Motors' pick-up truck and large SUV platform; the launch of new programs during or subsequent to the six months ended June 30, 2020, including the new Ford Mach E Mustang, Nissan Rogue, and a six cylinder aluminum engine block for Ford; and a $30.1 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2021 of approximately $86.3 million as compared to the corresponding period of 2020.

Sales for the six months ended June 30, 2021 in the Company's Europe operating segment increased by $205.2 million or 78.9% to $465.0 million from $259.9 million for the six months ended June 30, 2020. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, accounted for $68.5 million of the year-over-year increase in sales (including a $3.0 million increase in tooling sales). Excluding the acquired operations, sales for the six months ended June 30, 2021 in Europe increased year-over-year by $136.7 million or 63.7%. The increase can be attributed to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; the launch of new programs during or subsequent to the six months ended June 30, 2020, mainly with Volvo and Ford; and 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, 2021 of $8.2 million as compared to the corresponding period of 2020. These positive factors were partially offset by a $2.2 million decrease in tooling sales.

Sales for the six months ended June 30, 2021 in the Company's Rest of the World operating segment increased by $17.4 million or 23.6% to $91.1 million from $73.7 million for the six months ended June 30, 2020. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, accounted for $13.7 million of the year-over-year increase in sales. Excluding the acquired operations, sales for the six months ended June 30, 2021 in the Rest of the World increased year-over-year by $3.7 million or 7.9%. The increase can be attributed to the post-COVID recovery of production volumes; partly offset by a $5.6 million decrease in tooling sales, a $4.0 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2020, lower year-over-year production volumes on the Cadillac CT6 vehicle platform in China, and a program with Ford in China that ended production during or subsequent to the six months ended June 30, 2020.

Overall tooling sales increased by $27.0 million to $119.0 million for the six months ended June 30, 2021 from $92.0 million for the six months ended June 30, 2020.

## GROSS MARGIN

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 111,728 | $ (12,459) | 124,187 | 996.8% |
| % of Sales | 12.6% | (2.7%) | | |

The gross margin percentage for the second quarter of 2021 improved to 12.6% as compared to a negative gross margin percentage of (2.7%) for the second quarter of 2020. The increase in gross margin as a percentage of sales was generally due to:

- higher sales volume and corresponding higher utilization of assets, driven primarily by the post-COVID recovery of overall production volumes; and
- productivity and efficiency improvements at certain operating facilities.

These factors were partially offset by:

- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs;
- higher labour and material costs driven largely by shortages of both across the industry;
- a negative sales mix; and
- a decrease in COVID-related government subsidies.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 232,585 | $ 107,778 | 124,807 | 115.8% |
| % of Sales | 12.4% | 8.1% | | |

The gross margin percentage for the six months ended June 30, 2021 of 12.4% increased as a percentage of sales by 4.3% as compared to the gross margin percentage for the six months ended June 30, 2020 of 8.1%. The increase in gross margin as a percentage of sales was generally due to:

- higher sales volume and corresponding higher utilization of assets, driven primarily by the post-COVID recovery of overall production volumes; and
- productivity and efficiency improvements at certain operating facilities.

These factors were partially offset by:

- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs;
- an increase in the cost of aluminum raw material in conjunction with a temporary lag in the offsetting contractual increase in selling prices to the Company's customers, largely in the first quarter of 2021;
- higher labour and other material costs driven largely by shortages of both across the industry;
- a negative sales mix; and
- a decrease in COVID-related government subsidies.

**ADJUSTMENTS TO NET INCOME (LOSS)**

Adjusted Net Income (Loss) excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses Adjusted Net Income (Loss) 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, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 (a) | Three months ended June 30, 2020 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (LOSS) (A)** | **$23,952** | **($146,886)** | **$170,838** |
| **Add Back - Unusual and Other Items:** | | | |
| Restructuring costs (1) | 4,444 | 8,170 | (3,726) |
| Impairment of assets (3) | - | 85,783 | (85,783) |
| Transaction costs associated with operations acquired from Metalsa (recorded as SG&A) (4) | - | 942 | (942) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | **$4,444** | **$94,895** | **($90,451)** |
| Tax impact of above items | (1,370) | (21,124) | 19,754 |
| **TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)** | **$3,074** | **$73,771** | **($70,697)** |
| **ADJUSTED NET INCOME (LOSS) (A + B)** | **$27,026** | **($73,115)** | **$100,141** |
| Number of Shares Outstanding – Basic (‘000) | 80,329 | 79,961 | |
| Adjusted Basic Net Earnings (Loss) Per Share | $0.34 | ($0.91) | |
| Number of Shares Outstanding – Diluted (‘000) | 80,458 | 79,961 | |
| Adjusted Diluted Net Earnings (Loss) Per Share | $0.34 | ($0.91) | |

**TABLE B**

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 (a) | Six months ended June 30, 2020 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (LOSS) (A)** | **$62,653** | **($117,923)** | **$180,576** |
| **Add Back - Unusual and Other Items:** | | | |
| Restructuring costs (1) | 5,473 | 8,170 | (2,697) |
| Gain on dilution of equity investments (2) | (7,800) | - | (7,800) |
| Impairment of assets (3) | - | 85,783 | (85,783) |
| Transaction costs associated with operations acquired from Metalsa (recorded as SG&A) (4) | - | 2,489 | (2,489) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | **($2,327)** | **$96,442** | **($98,769)** |
| Tax impact of above items | (669) | (21,511) | 20,842 |
| **TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)** | **($2,996)** | **$74,931** | **($77,927)** |
| **ADJUSTED NET INCOME (LOSS) (A + B)** | **$59,657** | **($42,992)** | **$102,649** |
| Number of Shares Outstanding – Basic ('000) | 80,312 | 80,041 | |
| Adjusted Basic Net Earnings (Loss) Per Share | $0.74 | ($0.54) | |
| Number of Shares Outstanding – Diluted ('000) | 80,487 | 80,041 | |
| Adjusted Diluted Net Earnings (Loss) Per Share | $0.74 | ($0.54) | |

1) **Restructuring costs**

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

Additions to the restructuring provision recognized during the second quarter of 2020 totaled $8.2 million and represent employee-related severance resulting from a reduction in the Company's workforce globally in response to the COVID-19 global pandemic. Of the total addition to the restructuring provision, $6.6 million relates to North America, $1.0 million to Europe, and $0.6 million to the Rest of the World.

2) **Gain on dilution of equity investments**

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

**3) Impairment of assets**

The significant reduction in volumes and industry production projections as a result of the COVID-19 global pandemic negatively impacted the recoverable amount of certain of the Company's production-related assets and also changed the expected usage of certain other assets. As a result, during the second quarter of 2020, the Company completed an analysis of its asset base and concluded there existed certain indicators of impairment for specific assets and cash-generating units ("CGU"). Accordingly, the Company tested these assets and CGUs for recoverability using projected sales and cash flows modelled from industry production projections. Based on the results of this testing, during the second quarter of 2020, the Company recorded impairment charges on property, plant and equipment, right-of-use assets, intangible assets and inventories across its three operating segments totaling $85.8 million, including specific assets that are no longer expected to be redeployed or transferred to other facilities. The charges related to assets and CGUs across various jurisdictions in the Company's segments, including the United States, Slovakia, China and Brazil. Of the total impairment charge, $72.2 million was recognized in North America, $1.3 million in Europe, and $12.3 million in the Rest of the World. For the specific assets that are no longer expected to be redeployed or transferred, the impairment charges are based on the estimated salvage value of the assets. For the CGUs, the impairment charges were recorded where the carrying amount of the CGUs exceeded their estimated recoverable amounts.

**4) Transaction costs associated with the operations acquired from Metalsa (recorded as SG&A)**

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa S.A, de C.V. Included in SG&A expense are transaction costs related to the acquisition totaling $0.9 million and $2.5 million for the three and six months ended June 30, 2020, respectively.

## NET INCOME

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Net Income (Loss) | $ | 23,952 | $ | (146,886) | 170,838 | 116.3% |
| Adjusted Net Income (Loss) | $ | 27,026 | $ | (73,115) | 100,141 | 137.0% |
| Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.30 | $ | (1.84) | | |
| Adjusted Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.34 | $ | (0.91) | | |

Net Income, before adjustments, for the second quarter of 2021 increased by $170.8 million to $24.0 million from a Net Loss of $146.9 million for the second quarter of 2020. Excluding the unusual and other items explained in Table A under "Adjustments to Net Income (Loss)", Adjusted Net Income for the second quarter of 2021 increased to $27.0 million or $0.34 per share, on a basic and diluted basis, from an Adjusted Net Loss of $73.1 million or ($0.91) per share, on a basic and diluted basis, for the second quarter of 2020.

Adjusted Net Income for the second quarter of 2021, as compared to the Adjusted Net Loss for second quarter of 2020, was positively impacted by the following:

- higher gross profit on higher year-over-year sales volume, as previously explained, due primarily to the post-COVID recovery of overall production volumes; and
- a net foreign exchange gain of $5.2 million for the second quarter of 2021 compared to a net foreign exchange loss of $4.3 million for the second quarter of 2020.

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in research and development costs; and

- a higher effective tax rate on adjusted Net Income (Loss) (24.5% for the second quarter of 2021 compared to 10.8% for the second quarter of 2020).

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | | **Six months ended June 30, 2021** | | **Six months ended June 30, 2020** | **$ Change** | **% Change** |
|---|---|---|---|---|---|---|
| Net Income (Loss) | $ | 62,653 | $ | (117,923) | 180,576 | 153.1% |
| Adjusted Net Income (Loss) | $ | 59,657 | $ | (42,992) | 102,649 | 238.8% |
| Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.78 | $ | (1.47) | | |
| Adjusted Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.74 | $ | (0.54) | | |

Net Income, before adjustments, for the six months ended June 30, 2021 increased by $180.6 million to $62.7 million from a Net Loss of $117.9 million for the six months ended June 30, 2020. Excluding the unusual and other items explained in Table B under “Adjustments to Net Income (Loss)”, Adjusted Net Income for the six months ended June 30, 2021 increased to $59.7 million or $0.74 per share, on a basic and diluted basis, from an Adjusted Net Loss of $43.0 million or ($0.54) per share, on a basic and diluted basis, for the six months ended June 30, 2020.

Adjusted Net Income for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, was positively impacted by the following:

- Higher gross profit on higher year-over-year sales volume, as previously explained, due primarily to the post-COVID recovery of overall production volumes; and
- a net foreign exchange gain of $10.5 million for the six months ended June 30, 2021 compared to a net foreign exchange loss of $3.3 million for the six months ended June 30, 2020.

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in research and development costs; and
- a higher effective tax rate on adjusted Net Income (Loss) (26.0% for the six months ended June 30, 2021 compared to (6.9%) for the six months ended June 30, 2020).

## 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, 2021, on or about October 15, 2021.

## ABOUT MARTINREA INTERNATIONAL INC.

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

## CONFERENCE CALL DETAILS

A conference call to discuss the financial results will be held on Tuesday, August 10, 2021 at 5:30 p.m. Eastern Time. To participate, please dial 416-641-6104 (Toronto area) or 800-952-5114 (toll free Canada and US) and enter participant code 4636275#. Please call 10 minutes prior to the start of the conference call.

The conference call will also be webcast live in listen-only mode and archived for twelve months. The webcast and accompanying presentation can be accessed online 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 – 4851137#). The rebroadcast will be available until September 8, 2021.

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

## FORWARD-LOOKING INFORMATION

### *Special Note Regarding Forward-Looking Statements*

This Press Release and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws Including statements related to the Company's beliefs or views or expectations of, improvements in, expansion of and/or guidance or outlook as to future revenue, sales, production sales, margin, gross margin, earnings, earnings per share, adjusted earnings per share, adjusted net earnings per share, operating income margins, operating margins, adjusted operating income margins, cash flow, free cash flow, including outlook for 2023; the expected impact of or duration of the COVID-19 pandemic; on the Company's financial position, its business and operations, on its employees, on the automotive industry, or on the business of any OEM or suppliers, including expectations challenges will persist possibly into the fourth quarter; the Company's current and future strategy; the growth of the Company and pursuit of, and belief in, its strategies; the impact of or the expected duration of the semiconductor shortage; the Company's views of longer term outlook or results of future increases or growth in production; the ramping up and launching of new business; continued investments and expected benefit of those investments in its business and technologies; the opportunity to increase sales; the Company's views on its ability to deal with present or future economic conditions; 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. Certain forward-looking financial assumptions are presented as non-IFRS information and we do not provide reconciliation to IFRS for such assumptions. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2020 and other public filings which can be found at www.sedar.com:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- The highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political Unrest, and Other Outbreaks
- The Company's dependence on key customers
- Financial Viability of Suppliers;
- Competition;
- The increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Increased pricing of raw materials and commodities;
- Outsourcing and Insourcing Trends;
- The risk of increased costs associated with product warranty liability and recalls together with the associated liability;
- Product Development and Technological Change;
- Dependence on Key Personnel;
- Availability of Consumer Credit or Cost of Borrowing;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;
- Risks associated with the integration of acquisitions;

- Potential Tax Exposures;
- Cybersecurity Threats;
- Costs associated with rationalization of production facilities;
- Launch and Operational Cost Structure;
- Labour Relations Matters;
- Trade Restrictions;
- Changes in Governmental Regulations;
- Litigation and Regulatory Compliance and Investigations;
- Quote/Pricing Assumptions;
- Currency Risk - Hedging;
- Currency Risk – Competitiveness in Certain Jurisdictions;
- Fluctuations in Operating Results;
- Internal Controls Over Financial Reporting and Disclosure Controls and Procedures;
- Environmental Regulation and Climate Change;
- Loss of Use of Key Manufacturing Facilities;
- A Shift Away from Technologies in Which the Company is Investing;
- Intellectual Property;
- Competition with Low Cost Countries;
- The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets;
- Risks of conducting business in foreign countries, including China, Brazil and other markets;
- Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates;
- The risks associated with Pension Plan and Other Post-Employment Benefits
- Impairment Charges;
- Potential Volatility of Share Prices;
- Dividends;
- Risks associated with private or public investment in technology companies;
- Risks associated with joint ventures;
- 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, 2021

The following management discussion and analysis ("MD&A") was prepared as of August 10, 2021 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, 2021 ("interim financial statements"), as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2020 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 for the year ended December 31, 2020, can be found at www.sedar.com.

## OVERVIEW

Martinrea International Inc. (TSX:MRE) ("Martinrea" or the "Company") is a diversified and global automotive supplier engaged in the design, development and manufacturing of highly engineered, value-added Lightweight Structures and Propulsion Systems. Martinrea currently employs over 16,000 skilled and motivated people in 57 locations (including sales and engineering centres) in Canada, the United States, Mexico, Brazil, Germany, Spain, South Africa, Slovakia, China, and Japan.

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

## RECENT DEVELOPMENTS

### COVID-19 PANDEMIC AND IMPACT ON OUR BUSINESS

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

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

The Company's response to the COVID-19 pandemic has been measured, prudent and decisive with an emphasis on safety, cash conservation and liquidity. The health and safety of our employees, their families, our customers and our communities is, and will continue to be, our top priority. The Company has implemented various protocols throughout its global footprint to ensure a safe work environment, including: the use of personal protection equipment; reworking processes to provide social distancing; restricting access

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

The Company will continue to respond to the COVID-19 pandemic in a measured, prudent and decisive manner with continued emphasis on health and safety, cash conservation and the maintenance of its liquidity position.

The Company continues to work with all its stakeholders to address the challenges, including:

- our supply base to deal with their challenges, including maintaining production and safety protocols;
- our customers to assist with meeting production requirements, as well as the development of new programs and products;
- our governmental and regulatory authorities to ensure safety and the economic well-being of our industry;
- our capital providers to ensure liquidity; and
- our employees to minimize the impacts of the pandemic, including a safe and healthy work environment.

As the pandemic and public response to it continue to evolve, it is difficult to accurately assess COVID-19's continued magnitude, outcome and duration. A prolonged pandemic would likely:

- deteriorate economic conditions, resulting in lower consumer confidence, which typically translates into lower vehicle sales and production levels;
- reduce our customers' production volume levels, including as a result of intermittent facility shutdowns due to the industry-wide shortage of semiconductor chips or other such material shortages;
- elevate the financial pressure on our customers, which likely increase pricing pressure on the Company; and
- reduce our production levels, including as a result of intermittent shutdowns of our manufacturing facilities.

Additionally, a prolonged pandemic could:

- cause potential shortages of employees to staff our facilities, or the facilities of our customers or suppliers;
- lead to prolonged disruptions of critical components, including as a result of the bankruptcy/insolvency of one or more suppliers due to worsening economic conditions; or
- result in governmental regulation adversely impacting our business.

Any or all of the above impacts of a prolonged pandemic could have a rapid, unexpected and material adverse effect on our business, financial condition and results of operations.

**ACQUISITION**

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa S.A, de C.V. ("Metalsa"). The Company acquired certain assets and liabilities in Mexico and 100% of the outstanding shares of entities in the other jurisdictions. The operations acquired by the Company specialize in a wide variety of metal forming technologies, including chassis components such as cradles, control arms, and trailing arms; body components such as side rails, A and B pillars, door beams, wheel housings and bumpers; and several other components such as fuel tanks. The operations also have some leading edge technologies in multi-material joining further promoting Martinrea's lightweighting strategies. The acquisition added six manufacturing facilities to the Martinrea footprint, including facilities in Germany, the United States, Mexico, South Africa, and two in China. The largest customers of the acquired business are Daimler, BMW, Volkswagen and Audi.

The purchase price for the transaction was US $19.9 million ($26.5 million), inclusive of working capital less cash on hand, and on a debt-free basis.

The acquisition was accounted for using the acquisition method in accordance with IFRS 3, Business Combinations, with the results of operations consolidated with those of the Company effective March 2, 2020. As a result of the acquisition, year-over-year financial results may not be directly comparable.

## OVERALL RESULTS

Results of operations may include certain unusual and other 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, 2021 and 2020. Refer to the Company's interim financial statements for the three and six months ended June 30, 2021 for a detailed account of the Company's performance for the periods presented in the tables below.

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Sales | $ | 884,866 | $ | 460,564 | 424,302 | 92.1% |
| Gross Margin | | 111,728 | | (12,459) | 124,187 | 996.8% |
| Operating Income (Loss) | | 34,621 | | (163,365) | 197,986 | 121.2% |
| Net Income (Loss) for the period | | 23,952 | | (146,886) | 170,838 | 116.3% |
| Net Earnings (Loss) per Share - Basic and Diluted | $ | 0.30 | $ | (1.84) | 2.14 | 116.3% |
| **Non-IFRS Measures*** | | | | | | |
| Adjusted Operating Income (Loss) | $ | 39,065 | $ | (68,470) | 107,535 | 157.1% |
| *% of Sales* | | *4.4%* | | *(14.9%)* | | |
| Adjusted EBITDA | | 99,618 | | (8,177) | 107,795 | 1,318.3% |
| *% of Sales* | | *11.3%* | | *(1.8%)* | | |
| Adjusted Net Income (Loss) | | 27,026 | | (73,115) | 100,141 | 137.0% |
| Adjusted Net Earnings (Loss) per Share - Basic and Diluted | $ | 0.34 | $ | (0.91) | 1.25 | 137.4% |

| | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Sales | $ | 1,882,016 | $ | 1,333,270 | 548,746 | 41.2% |
| Gross Margin | | 232,585 | | 107,778 | 124,807 | 115.8% |
| Operating Income (Loss) | | 82,051 | | (114,160) | 196,211 | 171.9% |
| Net Income (Loss) for the period | | 62,653 | | (117,923) | 180,576 | 153.1% |
| Net Earnings (Loss) per Share - Basic and Diluted | $ | 0.78 | $ | (1.47) | 2.25 | 153.1% |
| **Non-IFRS Measures*** | | | | | | |
| Adjusted Operating Income (Loss) | $ | 87,524 | $ | (17,718) | 105,242 | 594.0% |
| *% of Sales* | | *4.7%* | | *(1.3%)* | | |
| Adjusted EBITDA | | 209,433 | | 99,547 | 109,886 | 110.4% |
| *% of Sales* | | *11.1%* | | *7.5%* | | |
| Adjusted Net Income (Loss) | | 59,657 | | (42,992) | 102,649 | 238.8% |
| Adjusted Net Earnings (Loss) per Share - Basic and Diluted | $ | 0.74 | $ | (0.54) | 1.28 | 237.0% |

## *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 (Loss)”, “Adjusted Net Earnings (Loss) per Share (on a basic and diluted basis)”, “Adjusted Operating Income (Loss)”, "Adjusted EBITDA”, “Free Cash Flow” and “Net Debt”.

The following tables provide a reconciliation of IFRS “Net Income (Loss)” to Non-IFRS “Adjusted Net Income (Loss)”, “Adjusted Operating Income (Loss)” and “Adjusted EBITDA”.

| | | **Three months ended June 30, 2021** | | **Three months ended June 30, 2020** |
|---|---|---|---|---|
| Net Income (Loss) | $ | 23,952 | $ | (146,886) |
| Unusual and Other Items (after-tax)* | | 3,074 | | 73,771 |
| Adjusted Net Income (Loss) | $ | 27,026 | $ | (73,115) |

| | | **Six months ended June 30, 2021** | | **Six months ended June 30, 2020** |
|---|---|---|---|---|
| Net Income (Loss) | $ | 62,653 | $ | (117,923) |
| Unusual and Other Items (after-tax)* | | (2,996) | | 74,931 |
| Adjusted Net Income (Loss) | $ | 59,657 | $ | (42,992) |

**Unusual and Other Items are explained in the "Adjustments to Net Income (Loss)" section of this MD&A.*

| | | **Three months ended June 30, 2021** | | **Three months ended June 30, 2020** |
|---|---|---|---|---|
| Net Income (Loss) | $ | 23,952 | $ | (146,886) |
| Income tax expense (benefit) | | 7,378 | | (29,932) |
| Other finance (income) expense | | (5,588) | | 4,286 |
| Share of loss of equity investments | | 983 | | 881 |
| Finance expense | | 7,896 | | 8,286 |
| Unusual and Other Items (before-tax)* | | 4,444 | | 94,895 |
| Adjusted Operating Income (Loss) | $ | 39,065 | $ | (68,470) |
| Depreciation of property, plant and equipment and right-of-use assets | | 57,219 | | 56,953 |
| Amortization of intangible assets | | 3,268 | | 3,340 |
| Loss on disposal of property, plant and equipment | | 66 | | - |
| Adjusted EBITDA | $ | 99,618 | $ | (8,177) |

| | | **Six months ended June 30, 2021** | | **Six months ended June 30, 2020** |
|---|---|---|---|---|
| Net Income (Loss) | $ | 62,653 | $ | (117,923) |
| Income tax expense (benefit) | | 20,332 | | (18,722) |
| Other finance (income) expense | | (11,350) | | 3,156 |
| Share of loss of equity investments | | 1,909 | | 1,581 |
| Finance expense | | 16,307 | | 17,748 |
| Unusual and Other Items (before-tax)* | | (2,327) | | 96,442 |
| Adjusted Operating Income (Loss) | $ | 87,524 | $ | (17,718) |
| Depreciation of property, plant and equipment and right-of-use assets | | 115,277 | | 110,807 |
| Amortization of intangible assets | | 6,566 | | 6,458 |
| Loss on disposal of property, plant and equipment | | 66 | | - |
| Adjusted EBITDA | $ | 209,433 | $ | 99,547 |

**Unusual and Other Items are explained in the "Adjustments to Net Income (Loss)" section of this MD&A.*

## SALES

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| North America | $ 635,823 | $ 318,134 | 317,689 | 99.9% |
| Europe | 210,976 | 99,988 | 110,988 | 111.0% |
| Rest of the World | 44,556 | 45,807 | (1,251) | (2.7%) |
| Eliminations | (6,489) | (3,365) | (3,124) | (92.8%) |
| Total Sales | $ 884,866 | $ 460,564 | 424,302 | 92.1% |

The Company's consolidated sales for the second quarter of 2021 increased by $424.3 million or 92.1% to $884.9 million as compared to $460.6 million for the second quarter of 2020. The total increase in sales was driven by year-over-year increases in the North America and Europe operating segments, partially offset by a slight year-over-year decrease in the Rest of the World.

Sales for the second quarter of 2021 in the Company's North America operating segment increased by $317.7 million or 99.9% to $635.8 million from $318.1 million for the second quarter of 2020. The increase was due generally to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; the launch of new programs during or subsequent to the second quarter of 2020 including the new Ford Mach E Mustang, Nissan Rogue, and a six cylinder aluminum engine block for Ford; and an increase in tooling sales of $10.8 million, which are typically dependent on the timing of tooling construction and final acceptance by the customer. These positive factors were partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the second quarter of 2021 of $65.7 million as compared to the second quarter of 2020.

Sales for the second quarter of 2021 in the Company's Europe operating segment increased by $111.0 million or 111.0% to $211.0 million from $100.0 million for the second quarter of 2020. The increase can be attributed to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; and the launch of new programs during or subsequent to the second quarter of 2020, mainly with Volvo. These positive factors were partially offset by the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the second quarter of 2021 of $4.3 million as compared to the second quarter of 2020, and a $3.8 million decrease in tooling sales.

Sales for the second quarter of 2021 in the Company's Rest of the World operating segment decreased by $1.3 million or 2.7% to $44.6 million from $45.8 million in the second quarter of 2020. The decrease can be attributed to a $2.9 million decrease in tooling sales; a $2.6 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the second quarter of 2020; lower year-over-year production volumes on the Cadillac CT6 vehicle platform in China; and a program with Ford in China that ended production during or subsequent to the second quarter of 2020. These negative factors were largely offset by a post-COVID recovery of production volumes in Brazil.

Overall tooling sales increased by $4.1 million to $45.9 million for the second quarter of 2021 from $41.8 million for the second quarter of 2020.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| North America | $ 1,339,953 | $ 1,005,662 | 334,291 | 33.2% |
| Europe | 465,045 | 259,885 | 205,160 | 78.9% |
| Rest of the World | 91,069 | 73,666 | 17,403 | 23.6% |
| Eliminations | (14,051) | (5,943) | (8,108) | (136.4%) |
| Total Sales | $ 1,882,016 | $ 1,333,270 | 548,746 | 41.2% |

The Company's consolidated sales for the six months ended June 30, 2021 increased by $548.7 million or 41.2% to $1,882.0 million as compared to $1,333.3 million for the six months ended June 30, 2020. Sales for the six months ended June 30, 2021 increased across all operating segments.

Sales for the six months ended June 30, 2021 in the Company's North America operating segment increased by $334.3 million or 33.2% to $1,340.0 million from $1,005.7 million for the six months ended June 30, 2020. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, accounted for $35.0 million of the year-over-year increase in sales (including a $1.7 million increase in tooling sales). Excluding the acquired operations, sales for the six months ended June 30, 2021 in North America increased year-over-year by $299.3 million or 30.3%. The increase was due generally to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; higher year-over-year production volumes on General Motors' pick-up truck and large SUV platform; the launch of new programs during or subsequent to the six months ended June 30, 2020, including the new Ford Mach E Mustang, Nissan Rogue, and a six cylinder aluminum engine block for Ford; and a $30.1 million increase in tooling sales. These positive factors were partially offset by the impact of foreign exchange on the translation of U.S. denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2021 of approximately $86.3 million as compared to the corresponding period of 2020.

Sales for the six months ended June 30, 2021 in the Company's Europe operating segment increased by $205.2 million or 78.9% to $465.0 million from $259.9 million for the six months ended June 30, 2020. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, accounted for $68.5 million of the year-over-year increase in sales (including a $3.0 million increase in tooling sales). Excluding the acquired operations, sales for the six months ended June 30, 2021 in Europe increased year-over-year by $136.7 million or 63.7%. The increase can be attributed to the post-COVID recovery of overall light vehicle production volumes, tempered by the impact the industry-wide shortage of semiconductor chips has had on OEM production of certain vehicle platforms; the launch of new programs during or subsequent to the six months ended June 30, 2020, mainly with Volvo and Ford; and 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, 2021 of $8.2 million as compared to the corresponding period of 2020. These positive factors were partially offset by a $2.2 million decrease in tooling sales.

Sales for the six months ended June 30, 2021 in the Company's Rest of the World operating segment increased by $17.4 million or 23.6% to $91.1 million from $73.7 million for the six months ended June 30, 2020. The operations acquired from Metalsa, results for which were consolidated with those of the Company effective March 2, 2020, accounted for $13.7 million of the year-over-year increase in sales. Excluding the acquired operations, sales for the six months ended June 30, 2021 in the Rest of the World increased year-over-year by $3.7 million or 7.9%. The increase can be attributed to the post-COVID recovery of production volumes; partly offset by a $5.6 million decrease in tooling sales, a $4.0 million negative foreign exchange impact from the translation of foreign denominated production sales as compared to the corresponding period of 2020, lower year-over-year production volumes on the Cadillac CT6 vehicle platform in China, and a program with Ford in China that ended production during or subsequent to the six months ended June 30, 2020.

Overall tooling sales increased by $27.0 million to $119.0 million for the six months ended June 30, 2021 from $92.0 million for the six months ended June 30, 2020.

## GROSS MARGIN

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 111,728 | $ (12,459) | 124,187 | 996.8% |
| % of Sales | 12.6% | (2.7%) | | |

The gross margin percentage for the second quarter of 2021 improved to 12.6% as compared to a negative gross margin percentage of (2.7%) for the second quarter of 2020. The increase in gross margin as a percentage of sales was generally due to:

- higher sales volume and corresponding higher utilization of assets, driven primarily by the post-COVID recovery of overall production volumes; and
- productivity and efficiency improvements at certain operating facilities.

These factors were partially offset by:

- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs;

- higher labour and material costs driven largely by shortages of both across the industry;
- a negative sales mix; and
- a decrease in COVID-related government subsidies.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Gross margin | $ 232,585 | $ 107,778 | 124,807 | 115.8% |
| % of Sales | 12.4% | 8.1% | | |

The gross margin percentage for the six months ended June 30, 2021 of 12.4% increased as a percentage of sales by 4.3% as compared to the gross margin percentage for the six months ended June 30, 2020 of 8.1%. The increase in gross margin as a percentage of sales was generally due to:

- higher sales volume and corresponding higher utilization of assets, driven primarily by the post-COVID recovery of overall production volumes; and
- productivity and efficiency improvements at certain operating facilities.

These factors were partially offset by:

- operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs;
- an increase in the cost of aluminum raw material in conjunction with a temporary lag in the offsetting contractual increase in selling prices to the Company's customers, largely in the first quarter of 2021;
- higher labour and other material costs driven largely by shortages of both across the industry;
- a negative sales mix; and
- a decrease in COVID-related government subsidies.

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

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Selling, general & administrative | $ 60,494 | $ 47,534 | 12,960 | 27.3% |
| % of Sales | 6.8% | 10.3% | | |

SG&A expense for the second quarter of 2021 increased by $13.0 million to $60.5 million as compared to SG&A expense for the second quarter of 2020 of $47.5 million.

Excluding transaction costs related to the operations acquired from Metalsa expensed as SG&A in the second quarter of 2020, as explained in Table A under "Adjustments to Net Income (Loss)", SG&A expense for the second quarter of 2021 increased by $13.9 million year-over-year. The increase can be attributed to higher overall employee related costs as compared to the second quarter of 2020 when the Company took actions to reduce its costs and curtail discretionary and non-production spending in response to the COVID-19 related shutdowns and corresponding lower production levels; partially offset by a $3.4 million year-over-year decrease in equity-based compensation related to deferred/restricted share units.

Excluding adjustments, SG&A expense as a percentage of sales decreased to 6.8% for the second quarter of 2021 compared to 10.1% for the second quarter of 2020 for the factors noted above and in light of higher year-over-year sales.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Selling, general & administrative | $ | 121,244 | $ | 104,942 | 16,302 | 15.5% |
| % of Sales | | 6.4% | | 7.9% | | |

SG&A expense for the six months ended June 30, 2021 increased by $16.3 million to $121.2 million as compared to SG&A expense for the six months ended June 30, 2020 of $104.9 million.

Excluding transaction costs related to the operations acquired from Metalsa expensed as SG&A during the six months ended June 30, 2020, as explained in Table B under "Adjustments to Net Income (Loss)", SG&A expense for the six months ended June 30, 2021 increased by $18.8 million year-over-year. The increase can be attributed to higher employee related costs as compared to the six months ended June 30, 2020 when the Company took actions to reduce its costs and curtail discretionary and non-production spending in response to the COVID-19 related shutdowns and corresponding lower production levels, in particular during the second quarter of 2020. The addition of the operations acquired from Metalsa also contributed to the year-over-year increase in SG&A expense. These factors were partially offset by a $0.9 million year-over-year decrease in equity-based compensation related to deferred/restricted share units.

Excluding adjustments, SG&A expense as a percentage of sales decreased to 6.4% for the six months ended June 30, 2021 compared to 7.7% for the six months ended June 30, 2020 for the factors noted above and in light of higher year-over-year sales.

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

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Depreciation of PP&E and right-of-use assets (production) | $ | 53,303 | $ | 53,109 | 194 | 0.4% |
| Depreciation of PP&E and right-of-use assets (non-production) | | 3,916 | | 3,844 | 72 | 1.9% |
| Amortization of development costs | | 3,268 | | 2,999 | 269 | 9.0% |
| Amortization of customer contracts and relationships | | - | | 341 | (341) | (100.0%) |
| Total depreciation and amortization | $ | 60,487 | $ | 60,293 | 194 | 0.3% |

Total depreciation and amortization expense for the second quarter of 2021 of $60.5 million was generally consistent with total depreciation and amortization expense for the second quarter of 2020. An increase in total depreciation and amortization expense resulting from a larger PP&E asset base relating to new and replacement business that commenced during or subsequent to the second quarter of 2020, was essentially offset by a decrease in depreciation and amortization expense resulting from the impairment charges recorded in the second quarter of 2020.

A significant portion of the Company's recent investments relates to various new programs that commenced during or subsequent to the second quarter of 2020 and new and replacement programs scheduled to launch over the next two to three years in all of the Company's various product offerings. The Company continues to make significant investments in the operations of the Company in light of its growing backlog of business and growing global footprint.

Depreciation of PP&E and right-of-use assets (production) as a percentage of sales decreased year-over-over to 6.0% for the second quarter of 2021 from 11.5% for the second quarter of 2020 due essentially to higher overall sales volume.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Depreciation of PP&E and right-of-use assets (production) | $ 107,522 | $ 103,092 | 4,430 | 4.3% |
| Depreciation of PP&E and right-of-use assets (non-production) | 7,755 | 7,715 | 40 | 0.5% |
| Amortization of development costs | 6,566 | 5,817 | 749 | 12.9% |
| Amortization of customer contracts and relationships | - | 641 | (641) | (100.0%) |
| Total depreciation and amortization | $ 121,843 | $ 117,265 | 4,578 | 3.9% |

Total depreciation and amortization expense for the six months ended June 30, 2021 increased by $4.6 million to $121.8 million as compared to $117.3 million for the six months ended June 30, 2020. The increase in total depreciation and amortization expense for the six months ended June 30, 2021 was primarily due to an increase in depreciation expense on a larger PP&E base connected to new and replacement business that commenced during or subsequent to the six months ended June 30, 2020, partially offset by a decrease in depreciation and amortization expense resulting from the impairment charges recorded in the second quarter of 2020.

Depreciation of PP&E and right-of-use assets (production) expense as a percentage of sales decreased year-over-year to 5.7% for the six months ended June 30, 2021 from 7.7% for the six months ended June 30, 2020 due mainly to higher overall sales volume.

## ADJUSTMENTS TO NET INCOME (LOSS)

Adjusted Net Income (Loss) excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses Adjusted Net Income (Loss) 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, 2021 to three months ended June 30, 2020 comparison***

| | Three months ended June 30, 2021 (a) | Three months ended June 30, 2020 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (LOSS) (A)** | **$23,952** | **($146,886)** | **$170,838** |
| **Add Back - Unusual and Other Items:** | | | |
| Restructuring costs (1) | 4,444 | 8,170 | (3,726) |
| Impairment of assets (3) | - | 85,783 | (85,783) |
| Transaction costs associated with operations acquired from Metalsa (recorded as SG&A) (4) | - | 942 | (942) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | **$4,444** | **$94,895** | **($90,451)** |
| Tax impact of above items | (1,370) | (21,124) | 19,754 |
| **TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)** | **$3,074** | **$73,771** | **($70,697)** |
| **ADJUSTED NET INCOME (LOSS) (A + B)** | **$27,026** | **($73,115)** | **$100,141** |
| Number of Shares Outstanding – Basic (‘000) | 80,329 | 79,961 | |
| Adjusted Basic Net Earnings (Loss) Per Share | $0.34 | ($0.91) | |
| Number of Shares Outstanding – Diluted (‘000) | 80,458 | 79,961 | |
| Adjusted Diluted Net Earnings (Loss) Per Share | $0.34 | ($0.91) | |

**TABLE B**

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | Six months ended June 30, 2021 (a) | Six months ended June 30, 2020 (b) | (a)-(b) Change |
|---|---|---|---|
| **NET INCOME (LOSS) (A)** | **$62,653** | **($117,923)** | **$180,576** |
| **Add Back - Unusual and Other Items:** | | | |
| Restructuring costs (1) | 5,473 | 8,170 | (2,697) |
| Gain on dilution of equity investments (2) | (7,800) | - | (7,800) |
| Impairment of assets (3) | - | 85,783 | (85,783) |
| Transaction costs associated with operations acquired from Metalsa (recorded as SG&A) (4) | - | 2,489 | (2,489) |
| **TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX** | **($2,327)** | **$96,442** | **($98,769)** |
| Tax impact of above items | (669) | (21,511) | 20,842 |
| **TOTAL UNUSUAL AND OTHER ITEMS - AFTER TAX (B)** | **($2,996)** | **$74,931** | **($77,927)** |
| **ADJUSTED NET INCOME (LOSS) (A + B)** | **$59,657** | **($42,992)** | **$102,649** |
| Number of Shares Outstanding – Basic (‘000) | 80,312 | 80,041 | |
| Adjusted Basic Net Earnings (Loss) Per Share | $0.74 | ($0.54) | |
| Number of Shares Outstanding – Diluted (‘000) | 80,487 | 80,041 | |
| Adjusted Diluted Net Earnings (Loss) Per Share | $0.74 | ($0.54) | |

**(1) Restructuring costs**

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

Additions to the restructuring provision recognized during the second quarter of 2020 totaled $8.2 million and represent employee-related severance resulting from a reduction in the Company’s workforce globally in response to the COVID-19 global pandemic. Of the total addition to the restructuring provision, $6.6 million relates to North America, $1.0 million to Europe, and $0.6 million to the Rest of the World.

**(2) Gain on dilution of equity investments**

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

**(3) Impairment of assets**

The significant reduction in volumes and industry production projections as a result of the COVID-19 global pandemic negatively impacted the recoverable amount of certain of the Company's production-related assets and also changed the expected usage of certain other assets. As a result, during the second quarter of 2020, the Company completed an analysis of its asset base and concluded there existed certain indicators of impairment for specific assets and cash-generating units ("CGU"). Accordingly, the Company tested these assets and CGUs for recoverability using projected sales and cash flows modelled from industry production projections. Based on the results of this testing, during the second quarter of 2020, the Company recorded impairment charges on property, plant and equipment, right-of-use assets, intangible assets and inventories across its three operating segments totaling $85.8 million, including specific assets that are no longer expected to be redeployed or transferred to other facilities. The charges related to assets and CGUs across various jurisdictions in the Company's segments, including the United States, Slovakia, China and Brazil. Of the total impairment charge, $72.2 million was recognized in North America, $1.3 million in Europe, and $12.3 million in the Rest of the World. For the specific assets that are no longer expected to be redeployed or transferred, the impairment charges are based on the estimated salvage value of the assets. For the CGUs, the impairment charges were recorded where the carrying amount of the CGUs exceeded their estimated recoverable amounts.

**(4) Transaction costs associated with the operations acquired from Metalsa (recorded as SG&A)**

On March 2, 2020, the Company completed the acquisition of the structural components for passenger car operations of Metalsa S.A, de C.V. Included in SG&A expense are transaction costs related to the acquisition totaling $0.9 million and $2.5 million for the three and six months ended June 30, 2020, respectively.

## NET INCOME

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Net Income (Loss) | $ | 23,952 | $ | (146,886) | 170,838 | 116.3% |
| Adjusted Net Income (Loss) | $ | 27,026 | $ | (73,115) | 100,141 | 137.0% |
| Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.30 | $ | (1.84) | | |
| Adjusted Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.34 | $ | (0.91) | | |

Net Income, before adjustments, for the second quarter of 2021 increased by $170.8 million to $24.0 million from a Net Loss of $146.9 million for the second quarter of 2020. Excluding the unusual and other items explained in Table A under "Adjustments to Net Income (Loss)", Adjusted Net Income for the second quarter of 2021 increased to $27.0 million or $0.34 per share, on a basic and diluted basis, from an Adjusted Net Loss of $73.1 million or ($0.91) per share, on a basic and diluted basis, for the second quarter of 2020.

Adjusted Net Income for the second quarter of 2021, as compared to the Adjusted Net Loss for second quarter of 2020, was positively impacted by the following:

- higher gross profit on higher year-over-year sales volume, as previously explained, due primarily to the post-COVID recovery of overall production volumes; and
- a net foreign exchange gain of $5.2 million for the second quarter of 2021 compared to a net foreign exchange loss of $4.3 million for the second quarter of 2020.

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in research and development costs; and
- a higher effective tax rate on adjusted Net Income (Loss) (24.5% for the second quarter of 2021 compared to 10.8% for the second quarter of 2020).

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Net Income (Loss) | $ | 62,653 | $ | (117,923) | 180,576 | 153.1% |
| Adjusted Net Income (Loss) | $ | 59,657 | $ | (42,992) | 102,649 | 238.8% |
| Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.78 | $ | (1.47) | | |
| Adjusted Net Earnings (Loss) per Share | | | | | | |
| Basic and Diluted | $ | 0.74 | $ | (0.54) | | |

Net Income, before adjustments, for the six months ended June 30, 2021 increased by $180.6 million to $62.7 million from a Net Loss of $117.9 million for the six months ended June 30, 2020. Excluding the unusual and other items explained in Table B under “Adjustments to Net Income (Loss)”, Adjusted Net Income for the six months ended June 30, 2021 increased to $59.7 million or $0.74 per share, on a basic and diluted basis, from an Adjusted Net Loss of $43.0 million or ($0.54) per share, on a basic and diluted basis, for the six months ended June 30, 2020.

Adjusted Net Income for the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, was positively impacted by the following:

- Higher gross profit on higher year-over-year sales volume, as previously explained, due primarily to the post-COVID recovery of overall production volumes; and
- a net foreign exchange gain of $10.5 million for the six months ended June 30, 2021 compared to a net foreign exchange loss of $3.3 million for the six months ended June 30, 2020.

These factors were partially offset by the following:

- a year-over-year increase in SG&A expense as previously discussed;
- a year-over-year increase in research and development costs; and
- a higher effective tax rate on adjusted Net Income (Loss) (26.0% for the six months ended June 30, 2021 compared to (6.9%) for the six months ended June 30, 2020).

**Three months ended June 30, 2021 actual to guidance comparison:**

On May 6, 2021, the Company provided the following guidance for the second quarter of 2021:

| | | Guidance | | Actual |
|---|---|---|---|---|
| Production sales (in millions) | $ | 850 - 950 | $ | 839 |
| Adjusted Net Earnings per Share | | | | |
| Basic & Diluted | $ | 0.36 - 0.46 | $ | 0.34 |

For the second quarter of 2021, production sales of $839 million and Adjusted Net Earnings per Share of $0.34 were both below the published guidance ranges, reflecting the impact the industry-wide shortage of semiconductor chips had on OEM light vehicle production levels during the quarter.

## ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Additions to PP&E | $ | 88,448 | $ | 44,323 | 44,125 | 99.6% |

Additions to PP&E increased by $44.1 million to $88.4 million or 10.0% of sales in the second quarter of 2021 from $44.3 million or 9.6% of sales in the second quarter of 2020. General timing of expenditures makes quarterly additions to PP&E quite volatile in nature. Certain new program additions, previously delayed during the COVID-related shutdowns in the second quarter of 2020, moved in to the back half of 2020 and 2021 to date, as preparations for upcoming new program launches resumed and continue, despite the recent industry-wide semiconductor chip shortage negatively impacting OEM production volumes. Capital additions also include incremental investments required in equipment related to several customer-driven engineering changes on upcoming 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.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | | Six months ended June 30, 2021 | | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Additions to PP&E | $ | 170,040 | $ | 108,287 | 61,753 | 57.0% |

Additions to PP&E increased by $61.8 million year-over-year to $170.0 million or 9.0% of sales for the six months ended June 30, 2021 compared to $108.3 million or 8.1% of sales for the six months ended June 30, 2020. Consistent with the year-over-year increase in the second quarter of 2021 as explained above, certain new program additions, previously delayed during the COVID-related shutdowns in the second quarter of 2020, moved in to the back half of 2020 and 2021 to date, as preparations for upcoming new program launches resumed and continue. Capital additions also include incremental investments required in equipment related to several customer-driven engineering changes on upcoming new program launches.

## 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 Rest of the World. The Company measures segment operating performance based on operating income (loss).

***Three months ended June 30, 2021 to three months ended June 30, 2020 comparison***

| | SALES | | OPERATING INCOME (LOSS) | |
|---|---|---|---|---|
| | **Three months ended June 30, 2021** | **Three months ended June 30, 2020** | **Three months ended June 30, 2021** | **Three months ended June 30, 2020** |
| North America | $ 635,823 | $ 318,134 | $ 38,400 | $ (40,381) |
| Europe | 210,976 | 99,988 | (4,393) | (33,979) |
| Rest of the World | 44,556 | 45,807 | 5,058 | 5,890 |
| Eliminations | (6,489) | (3,365) | - | - |
| Adjusted Operating Income (Loss) | - | - | $ 39,065 | $ (68,470) |
| Unusual and Other Items* | - | - | (4,444) | (94,895) |
| Total | $ 884,866 | $ 460,564 | $ 34,621 | $ (163,365) |

** Operating income (loss) for the operating segments has been adjusted for unusual and other items. The $4.4 million of unusual and other items for the second quarter of 2021 was recognized in Europe. Of the $94.9 million of unusual and other items for the second quarter of 2020, $79.7 million was incurred in North America, $2.3 million in Europe and $12.9 million in the Rest of the World. The unusual and other items noted are all fully explained under "Adjustments to Net Income (Loss)" in this MD&A.*

**North America**

Adjusted Operating Income in North America increased by $78.8 million to $38.4 million or 6.0% of sales for the second quarter of 2021 from a loss of $40.4 million or (12.7%) of sales for the second quarter of 2020. The increase in Adjusted Operating Income as a percentage of sales was generally due to higher sales volume and corresponding higher utilization of assets, driven primarily by the post-COVID recovery of overall production volumes; productivity and efficiency improvements at certain operating facilities; and lower SG&A expense as a percentage of sales. These positive factors were partially offset by operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; higher material and labour costs driven largely by shortages of both across the industry; a negative sales mix; and a decrease in COVID-related government subsidies.

**Europe**

Adjusted Operating Loss in Europe decreased by $29.6 million to a loss of $4.4 million or (2.1%) of sales for the second quarter of 2021 from a loss of $34.0 million or (34.0%) of sales for the second quarter of 2020. The decrease in Adjusted Operating Loss was generally due to incremental contribution from the higher year-over-year sales, due primarily to the post-COVID recovery of overall production volumes, and productivity and efficiency improvements at certain operating facilities; partly offset by higher material costs and a decrease in COVID-related government subsidies.

**Rest of the World**

Adjusted Operating Income in the Rest of the World operating segment decreased slightly by $0.8 million to $5.1 million or 11.4% of sales for the second quarter of 2021 from $5.9 million or 12.9% of sales for the second quarter of 2020, due generally to lower year-over-year sales volume and a negative sales mix.

***Six months ended June 30, 2021 to six months ended June 30, 2020 comparison***

| | SALES | | OPERATING INCOME (LOSS) | |
|---|---|---|---|---|
| | **Six months ended June 30, 2021** | **Six months ended June 30, 2020** | **Six months ended June 30, 2021** | **Six months ended June 30, 2020** |
| North America | $ 1,339,953 | $ 1,005,662 | $ 82,435 | $ 9,798 |
| Europe | 465,045 | 259,885 | (4,735) | (33,942) |
| Rest of the World | 91,069 | 73,666 | 9,824 | 6,426 |
| Eliminations | (14,051) | (5,943) | - | - |
| Adjusted Operating Income (Loss) | - | - | $ 87,524 | $ (17,718) |
| Unusual and Other Items* | - | - | (5,473) | (96,442) |
| Total | $ 1,882,016 | $ 1,333,270 | $ 82,051 | $ (114,160) |

** Operating income (loss) for the operating segments has been adjusted for unusual and other items. The $5.5 million of unusual and other items for the six months ended June 30, 2021 was recognized in Europe. Of the $96.4 million of unusual and other items for the six months ended June 30, 2020, $81.2 million was incurred in North America, $2.3 million in Europe and $12.9 million in the Rest of the World. The unusual and other items noted are all fully explained under "Adjustments to Net Income (Loss)" in this MD&A.*

**North America**

Adjusted Operating Income in North America increased by $72.6 million to $82.4 million or 6.2% of sales for the six months ended June 30, 2021 from $9.8 million or 1.0% of sales for the six months ended June 30, 2020. The increase in Adjusted Operating Income as a percentage of sales was generally due to higher sales volume and corresponding higher utilization of assets, driven primarily by the post-COVID recovery of overall production volumes; productivity and efficiency improvements at certain operating facilities; and lower SG&A expense as a percentage of sales. These positive factors were partially offset by operational inefficiencies at certain operating facilities including launch related costs and upfront costs incurred in preparation of upcoming new programs; an increase in the cost of aluminum raw material in conjunction with a temporary lag in the offsetting contractual increase in selling prices to the Company's customers, largely in the first quarter of 2021; higher labour and other material costs driven largely by shortages of both across the industry; a negative sales mix; and a decrease in COVID-related government subsidies.

**Europe**

Adjusted Operating Loss in Europe decreased by $29.2 million to a loss of $4.7 million or (1.0%) of sales for the six months ended June 30, 2021 from a loss of $33.9 million or (13.1%) of sales for the six months ended June 30, 2020. The decrease in Adjusted Operating Loss was generally due to incremental contribution from the higher year-over-year sales, due primarily to the post-COVID recovery of overall production volumes and productivity and efficiency improvements at certain operating facilities; partly offset by an increase in the cost of aluminum raw material in conjunction with a temporary lag in the offsetting contractual increase in selling prices to the Company's customers, largely in the first quarter of 2021, higher other material costs, and a decrease in COVID-related government subsidies.

**Rest of the World**

Adjusted Operating Income in the Rest of the World increased by $3.4 million to $9.8 million or 10.8% of sales for the six months ended June 30, 2021 from $6.4 million or 8.7% of sales for the six months ended June 30, 2020, due generally to higher year over year sales.

**SUMMARY OF QUARTERLY RESULTS**
**(unaudited)**

| | 2021 | | 2020 | | | | 2019 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Sales | $884,866 | $997,150 | $1,070,956 | $971,060 | $460,564 | $872,706 | $917,581 | $974,384 |
| Gross Margin | 111,728 | 120,857 | 155,841 | 151,478 | (12,459) | 120,237 | 129,921 | 143,901 |
| Net Income (Loss) for the period | 23,952 | 38,701 | 44,970 | 45,636 | (146,886) | 28,963 | 51,153 | 46,678 |
| Adjusted Net Income (Loss) | 27,026 | 32,631 | 44,212 | 45,636 | (73,115) | 30,123 | 33,834 | 43,507 |
| Basic Net Earnings (Loss) per Share | 0.30 | 0.48 | 0.56 | 0.57 | (1.84) | 0.36 | 0.63 | 0.57 |
| Diluted Net Earnings (Loss) per Share | 0.30 | 0.48 | 0.56 | 0.57 | (1.84) | 0.36 | 0.63 | 0.56 |
| Adjusted Basic and Diluted Net Earnings (Loss) per Share | 0.34 | 0.41 | 0.55 | 0.57 | (0.91) | 0.38 | 0.42 | 0.53 |

**LIQUIDITY AND CAPITAL RESOURCES**

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

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

As at June 30, 2021, the Company had drawn US $421 million (December 31, 2020 – US $336 million) on the U.S. revolving credit line and $356 million (December 31, 2020 - $348 million) on the Canadian revolving credit line. As at June 30, 2021, the Company had total liquidity of $390 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 $250 million was available as at June 30, 2021.

As at June 30, 2021, the weighted average effective interest rate of the banking facility credit lines was 2.7% (December 31, 2020 - 2.8%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2021.

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.

**Debt leverage ratios:**

| **Excluding the impact of IFRS 16:** | **June 30, 2021** | **March 31, 2021** | **December 31, 2020** | **September 30, 2020** | **June 30, 2020** |
|---|---|---|---|---|---|
| Long-term debt | $ 921,077 | $ 873,322 | $ 835,222 | $ 888,365 | $ 902,205 |
| Less: Cash and cash equivalents | (127,664) | (145,348) | (152,786) | (214,049) | (125,834) |
| Net Debt | $ 793,413 | $ 727,974 | $ 682,436 | $ 674,316 | $ 776,371 |
| Trailing 12-month Adjusted EBITDA | $ 432,369 | $ 324,752 | $ 323,797 | $ 304,716 | $ 294,634 |
| Net Debt to Adjusted EBITDA ratio | 1.84x | 2.24x | 2.11x | 2.21x | 2.64x |

| **Including the impact of IFRS 16:** | **June 30, 2021** | **March 31, 2021** | **December 31, 2020** | **September 30, 2020** | **June 30, 2020** |
|---|---|---|---|---|---|
| Long-term debt | $ 921,077 | $ 873,322 | $ 835,222 | $ 888,365 | $ 902,205 |
| Lease liabilities | 195,450 | 201,526 | 211,813 | 224,405 | 219,130 |
| | 1,116,527 | 1,074,848 | 1,047,035 | 1,112,770 | 1,121,335 |
| Less: Cash and cash equivalents | (127,664) | (145,348) | (152,786) | (214,049) | (125,834) |
| Net Debt | $ 988,863 | $ 929,500 | $ 894,249 | $ 898,721 | $ 995,501 |
| Trailing 12-month Adjusted EBITDA | $ 475,389 | $ 367,594 | $ 365,503 | $ 344,313 | $ 332,482 |
| Net Debt to Adjusted EBITDA ratio | 2.08x | 2.53x | 2.45x | 2.61x | 2.99x |

The Company’s Net Debt (excluding the impact of adopting IFRS 16 and as outlined above) increased by $65.4 million during the second quarter of 2021 to $793.4 million from $728.0 million at the end of the first quarter of 2021, due largely to an increase in non-cash working capital in the second quarter of 2021. The Company’s Net Debt to Adjusted EBITDA ratio (excluding the impact of adopting IFRS 16 and as outlined above) decreased during the quarter to 1.84x from 2.24x at the end of the first quarter of 2021, due largely to a significant increase in trailing 12-month Adjusted EBITDA.

The Company was in compliance with its debt covenants as at June 30, 2021. The Company’s debt covenants are based on leverage ratios excluding the impact of IFRS 16.

**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 installments 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 installments of $0.05 per share commencing at the beginning of 2020. The first such increased dividend was paid on April 14, 2020. The Company has maintained its dividend throughout the pandemic period. The Board will assess future dividend payment levels from time to time, in light of market conditions, the current COVID-19 situation, the Company’s financial performance and anticipated needs at that time.

**Cash flow**

| | | Three months ended June 30, 2021 | | Three months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|---|---|
| Cash provided by (used in) operations before changes in non-cash working capital items | $ | 100,881 | $ | (17,358) | 118,239 | 681.2% |
| Change in non-cash working capital items | | (67,898) | | 16,523 | (84,421) | (510.9%) |
| | | 32,983 | | (835) | 33,818 | 4,050.1% |
| Interest paid | | (8,247) | | (8,559) | 312 | 3.6% |
| Income taxes paid | | (9,438) | | (2,468) | (6,970) | (282.4%) |
| Cash provided by (used in) operating activities | | 15,298 | | (11,862) | 27,160 | 229.0% |
| Cash provided by financing activities | | 46,515 | | 31,687 | 14,828 | 46.8% |
| Cash used in investing activities | | (80,498) | | (49,704) | (30,794) | (62.0%) |
| Effect of foreign exchange rate changes on cash and cash equivalents | | 1,001 | | (802) | 1,803 | 224.8% |
| Decrease in cash and cash equivalents | $ | (17,684) | $ | (30,681) | 12,997 | 42.4% |

Cash provided by operating activities during the second quarter of 2021 was $15.3 million, compared to cash used in operating activities of $11.9 million in the corresponding period of 2020. The components for the second quarter of 2021 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $100.9 million;
- working capital use of cash of $67.9 million comprised of an increase in trade and other receivables of $30.5 million, an increase in inventories of $79.9 million, an increase in prepaid expenses and deposits of $2.0 million; partly offset by an increase in trade and other payables and provisions of $44.5 million;
- interest paid of $8.2 million; and
- income taxes paid of $9.4 million.

Cash provided by financing activities during the second quarter of 2021 was $46.5 million, compared to $31.7 million in the corresponding period of 2020. The components for the second quarter of 2021 primarily include the following:

- a $58.4 million net increase in long-term debt (including drawdowns on the Company's revolving banking facility, partially offset by repayments of equipment loans);
- repayments of lease liabilities of $8.4 million; and
- $4.0 million in dividends paid.

Cash used in investing activities during the second quarter of 2021 was $80.5 million, compared to $49.7 million in the corresponding period of 2020. The components for the second quarter of 2021 primarily include the following:

- cash additions to PP&E of $75.0 million;
- capitalized development costs relating to upcoming new program launches of $1.6 million; and
- investment in VoltaXplore Inc. ("VoltaXplore") of $4.0 million.

Taking into account the opening cash balance of $145.3 million at the beginning of the second quarter of 2021, and the activities described above, the cash and cash equivalents balance at June 30, 2021 was $127.7 million.

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change | % Change |
|---|---|---|---|---|
| Cash provided by operations before changes in non-cash working capital items | $ 213,395 | $ 86,919 | 126,476 | 145.5% |
| Change in non-cash working capital items | (103,175) | 15,442 | (118,617) | (768.1%) |
| | 110,220 | 102,361 | 7,859 | 7.7% |
| Interest paid | (17,423) | (18,480) | 1,057 | 5.7% |
| Income taxes paid | (20,084) | (14,211) | (5,873) | (41.3%) |
| Cash provided by operating activities | 72,713 | 69,670 | 3,043 | 4.4% |
| Cash provided by financing activities | 80,417 | 69,681 | 10,736 | 15.4% |
| Cash used in investing activities | (177,866) | (135,778) | (42,088) | (31.0%) |
| Effect of foreign exchange rate changes on cash and cash equivalents | (386) | 3,288 | (3,674) | (111.7%) |
| (Decrease) increase in cash and cash equivalents | $ (25,122) | $ 6,861 | (31,983) | (466.2%) |

Cash provided by operating activities during the six months ended June 30, 2021 was $72.7 million, compared to $69.7 million in the corresponding period of 2020. The components for the six months ended June 30, 2021 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of $213.4 million;
- working capital use of cash of $103.2 million comprised of an increase in trade and other receivables of $115.3 million, an increase in inventories of $128.0 million, an increase in prepaid expenses and deposits of $4.3 million; partially offset by an increase in trade and other payables and provisions of $144.4 million;
- interest paid of $17.4 million; and
- income taxes paid of $20.1 million.

Cash provided by financing activities during the six months ended June 30, 2021 was $80.4 million, compared to $69.7 million in the corresponding period of 2020. The components for the six months ended June 30, 2021 primarily include the following:

- a $104.8 million net increase in long-term debt (reflecting drawdowns on the Company's revolving banking facility, partially offset by repayments of equipment loans);
- repayments of lease liabilities of $17.0 million; and
- $8.0 million in dividends paid.

Cash used in investing activities during the six months ended June 30, 2021 was $177.9 million, compared to $135.8 million in the corresponding period of 2020. The components for the six months ended June 30, 2021 primarily include the following:

- cash additions to PP&E of $165.8 million;
- capitalized development costs relating to upcoming new program launches of $4.2 million; and
- investments in VoltaXplore and NanoXplore of $8.0 million.

Taking into account the opening cash balance of $152.8 million at the beginning of 2021, and the activities described above, the cash and cash equivalents balance at June 30, 2021 was $127.7 million.

**Free Cash Flow**

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 | $ Change |
|---|---|---|---|
| Adjusted EBITDA | $ 99,618 | $ (8,177) | 107,795 |
| Add (deduct): | | | |
| Change in non-cash working capital items | (67,898) | 16,523 | (84,421) |
| Cash purchase of property, plant and equipment | (74,990) | (41,832) | (33,158) |
| Cash proceeds on disposal of property, plant and equipment | 139 | - | 139 |
| Capitalized development costs | (1,611) | (2,872) | 1,261 |
| Interest paid | (8,247) | (8,559) | 312 |
| Income taxes paid | (9,438) | (2,468) | (6,970) |
| Free Cash Flow | (62,427) | (47,385) | (15,042) |

Free Cash Flow for the second quarter of 2021 decreased year-over-year due primarily to an increase in non-cash working capital and cash purchases of property, plant and equipment, partially offset by higher Adjusted EBITDA.

Tooling-related working capital accounts, including inventory, trade receivables and trade payables on a net basis, increased to $50.7 million as at June 30, 2021, from $20.9 million as at March 31, 2021 and $44.8 million as at June 30, 2020.

Reconciliation of IFRS “Cash provided by operating activities” to Non-IFRS “Free Cash Flow” for the three months ended June 30, 2021 and 2020:

| | Three months ended June 30, 2021 | Three months ended June 30, 2020 |
|---|---|---|
| Cash provided by (used in) operating activities | $ 15,298 | $ (11,862) |
| Add (deduct): | | |
| Cash purchases of property, plant and equipment | (74,990) | (41,832) |
| Transaction costs associated with the acquisition of Metalsa | - | 942 |
| Cash proceeds on disposal of property, plant and equipment | 139 | - |
| Capitalized development costs | (1,611) | (2,872) |
| Restructuring costs | 4,444 | 8,170 |
| Unrealized gain (loss) on foreign exchange contracts | 1,440 | (211) |
| Deferred and restricted share units expense | (1,232) | (4,642) |
| Stock options expense | (266) | (604) |
| Pension and other post-employment benefits expense | (1,000) | (1,284) |
| Contributions made to pension and other post-retirement benefits | 939 | 2,524 |
| Net foreign exchange (gain) loss and other (income) expense | (5,588) | 4,286 |
| Free Cash Flow | $ (62,427) | $ (47,385) |

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 | $ Change |
|---|---|---|---|
| Adjusted EBITDA | $ 209,433 | $ 99,547 | 109,886 |
| Add (deduct): | | | |
| Change in non-cash working capital items | (103,175) | 15,442 | (118,617) |
| Cash purchase of property, plant and equipment | (165,801) | (115,886) | (49,915) |
| Cash proceeds on disposal of property, plant and equipment | 139 | 266 | (127) |
| Capitalized development costs | (4,168) | (4,655) | 487 |
| Interest paid | (17,423) | (18,480) | 1,057 |
| Income taxes paid | (20,084) | (14,211) | (5,873) |
| Free Cash Flow | (101,079) | (37,977) | (63,102) |

Free Cash Flow for the six months ended June 30, 2021 decreased year-over-year due primarily to an increase in non-cash working capital and cash purchases of property, plant and equipment, partially offset by higher Adjusted EBITDA.

Reconciliation of IFRS "Cash provided by operating activities" to Non-IFRS "Free Cash Flow" for the six month period ended June 30, 2021:

| | Six months ended June 30, 2021 | Six months ended June 30, 2020 |
|---|---|---|
| Cash provided by operating activities | $ 72,713 | $ 69,670 |
| Add (deduct): | | |
| Cash purchases of property, plant and equipment | (165,801) | (115,886) |
| Transaction costs associated with the acquisition of Metalsa | - | 2,489 |
| Cash proceeds on disposal of property, plant and equipment | 139 | 266 |
| Capitalized development costs | (4,168) | (4,655) |
| Restructuring costs | 5,473 | 8,170 |
| Unrealized gain (loss) on foreign exchange contracts | 2,184 | (319) |
| Deferred and restricted share units benefit (expense) | 475 | (462) |
| Stock options expense | (606) | (1,208) |
| Pension and other post-employment benefits expense | (2,015) | (2,534) |
| Contributions made to pension and other post-retirement benefits | 1,877 | 3,336 |
| Net foreign exchange (gain) loss and other (income) expense | (11,350) | 3,156 |
| Free Cash Flow | $ (101,079) | $ (37,977) |

## 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 Annual Information Form ("AIF") dated March 4, 2021 available through SEDAR at www.sedar.com, which are incorporated herein by reference. The disclosure in this MD&A and, in particular under "Recent Developments: COVID-19 Pandemic and Impact on our Business", supplements those risk factors described in the AIF.

## DISCLOSURE OF OUTSTANDING SHARE DATA

As at August 10, 2021, the Company had 80,352,095 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 10, 2021, options to acquire 2,657,500 common shares were outstanding.

During the first quarter of 2020, the Company purchased for cancellation an aggregate of 300,185 common shares for an aggregate purchase price of $3.4 million, resulting in a decrease to stated capital of $2.5 million and a decrease to retained earnings of $0.9 million. The shares were purchased for cancellation directly under the Company's normal course issuer bid ("NCIB").

In light of the COVID-19 pandemic, the Company suspended the repurchase of common stock under the NCIB, which expired at the end of August 2020.

## CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING

During the six months ended June 30, 2021, there has been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2020.

### Guarantees

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2021, the amount of the off balance sheet program financing was $40.5 million (December 31, 2020 - $42.8 million) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically range up to twenty-four months.

### Financial Instruments

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

At June 30, 2021, the Company had committed to the following foreign exchange contracts

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

| Currency | | Amount of U.S. dollars | Weighted average exchange rate of U.S. dollars | Maximum period in months |
|---|---|---|---|---|
| Buy Mexican Peso | $ | 43,668 | 20.6100 | 1 |

The aggregate value of these forward contracts as at June 30, 2021 was a pre-tax gain of $2.2 million recorded in trade and other receivables (December 31, 2020 – $0.6 million).

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

The Company previously entered into foreign exchange forward contracts to buy Canadian Dollars in order to hedge the variability in certain cash flows of forecasted U.S. dollar sales due to fluctuations in foreign exchange rates. As at June 30, 2021 the U.S. dollar sales transactions can no longer be forecasted with high probability, and accordingly the Company de-designated the hedging relationship and terminated certain forward contracts. The company had no foreign exchange contracts accounted for as hedges and fair valued through OCI as at June 30, 2021 (December 31, 2020 - pre-tax gain of $1.8 million recorded in trade and other receivables).

## INVESTMENTS

As at June 30, 2021, the Company held 35,045,954 common shares of NanoXplore representing a 22.2% equity interest in NanoXplore (on a non-diluted basis). NanoXplore is a publicly listed company on the Toronto Stock Exchange trading under the ticker symbol GRA. It is a manufacturer and supplier of high-volume graphene powder for use in industrial markets, providing customers with a range of graphene-based solutions.

On February 12, 2021, NanoXplore completed a public offering of 11,500,000 common shares for gross proceeds of $46.0 million. In a separate transaction on February 12, 2021, the Company purchased 1,000,000 common shares from NanoXplore's President and Chief Executive Officer for consideration of $4.0 million. Subsequent to these transactions, the Company's net ownership interest decreased to 22.2% from 23.3%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $7.8 million during the first quarter of 2021.

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 approximately $4.0 million into VoltaXplore as start-up capital and to support the construction of a demonstration facility, with each committed to provide up to an additional $6.0 million in development funding if, as and when required. A successful demonstration of improved battery performance using graphene, along with positive feedback from customers, will support the business case for the construction of a battery production facility in Canada.

The Company applies equity accounting to its equity investments based on NanoXplore's and VoltaXplore's most recently available financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date, which represents a reasonable estimate of the change in the Company's interest.

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

## 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

This MD&A and the documents incorporated by reference therein contain 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 expected impact of or duration of the COVID-19 pandemic, or as a result of any current or future government actions or regulations, on the Company's financial position, its business and operations, on its employees, on the automotive industry, or on the business of any OEM or suppliers; the Company's current and future strategy, priorities and response related to COVID-19, and the status of implementation; the expected economic impact resulting from COVID-19, the type of factors affecting the economic impact; the potential effects or issues relating to a prolonged pandemic or lockdown(s), including the financial impact on the Company, its business or operations and global impact, demand for vehicles, the growth of the Company and pursuit of, and belief in, its strategies, the ramping up and launching of new business, continued investments in its business and technologies, the opportunity to increase sales, its ability to finance future capital expenditures, and 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. Certain forward-looking financial assumptions are presented as non-IFRS information and we do not provide reconciliation to IFRS for such assumptions. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's AIF for the year ended December 31, 2020 and other public filings which can be found at www.sedar.com:

- North American and Global Economic and Political Conditions and Consumer Confidence;
- The highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- Pandemics and Epidemics (including the ongoing COVID-19 Pandemic), Force Majeure Events, Natural Disasters, Terrorist Activities, Political Unrest, and Other Outbreaks
- The Company's dependence on key customers
- Financial Viability of Suppliers;
- Competition;
- The increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- Increased pricing of raw materials and commodities;
- Outsourcing and Insourcing Trends;
- The risk of increased costs associated with product warranty liability and recalls together with the associated liability;
- Product Development and Technological Change;
- Dependence on Key Personnel;
- Availability of Consumer Credit or Cost of Borrowing;
- Limited Financial Resources/Uncertainty of Future Financing/Banking;
- Risks associated with the integration of acquisitions;
- Potential Tax Exposures;
- Cybersecurity Threats;
- Costs associated with rationalization of production facilities;
- Launch and Operational Cost Structure;
- Labour Relations Matters;
- Trade Restrictions;
- Changes in Governmental Regulations;
- Litigation and Regulatory Compliance and Investigations;
- Quote/Pricing Assumptions;
- Currency Risk - Hedging;
- Currency Risk – Competitiveness in Certain Jurisdictions;
- Fluctuations in Operating Results;
- Internal Controls Over Financial Reporting and Disclosure Controls and Procedures;
- Environmental Regulation and Climate Change;
- Loss of Use of Key Manufacturing Facilities;
- A Shift Away from Technologies in Which the Company is Investing;
- Intellectual Property;
- Competition with Low Cost Countries;
- The Company's ability to shift its manufacturing footprint to take advantage of opportunities in growing markets;
- Risks of conducting business in foreign countries, including China, Brazil and other markets;
- Change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates;
- The risks associated with Pension Plan and Other Post Employment Benefits
- Impairment Charges;
- Potential Volatility of Share Prices;
- Dividends;
- Risks associated with private or public investment in technology companies;
- Risks associated with joint ventures;
- 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, 2021

## Martinrea International Inc.
Table of Contents

# Martinrea International Inc.

## Interim Condensed Consolidated Balance Sheets

*(in thousands of Canadian dollars) (unaudited)*

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

**Contingencies (note 20)**

**Subsequent event (note 5)**

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

“Robert Wildeboer” Director

“Terry Lyons” Director

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Operations

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

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

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

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Comprehensive Income

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

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

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Changes in Equity

*(in thousands of Canadian dollars) (unaudited)*

| | Capital stock | Contributed surplus | Accumulated other comprehensive income | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **BALANCE AT DECEMBER 31, 2019** | $ 661,422 | 42,449 | $ 89,107 | $ 425,445 | $ 1,218,423 |
| Net loss for the period | - | - | - | (117,923) | (117,923) |
| Compensation expense related to stock options | - | 1,208 | - | - | 1,208 |
| Dividends ($0.10 per share) | - | - | - | (8,002) | (8,002) |
| Exercise of employee stock options | 1,203 | (347) | - | - | 856 |
| Repurchase of common shares | (2,474) | - | - | (893) | (3,367) |
| Other comprehensive income (loss) net of tax | | | | | |
| Remeasurement of defined benefit plans | - | - | - | (10,296) | (10,296) |
| Foreign currency translation differences | - | - | 73,923 | - | 73,923 |
| Share of other comprehensive income of equity investments | - | - | 71 | - | 71 |
| Cash flow hedging derivative and non-derivative financial instruments: | | | | | |
| Unrealized loss in fair value of financial instruments | - | - | (3,244) | - | (3,244) |
| Reclassification of loss to net income | - | - | 507 | - | 507 |
| **BALANCE AT JUNE 30, 2020** | 660,151 | 43,310 | 160,364 | 288,331 | 1,152,156 |
| Net income for the period | - | - | - | 90,606 | 90,606 |
| Compensation expense related to stock options | - | 1,208 | - | - | 1,208 |
| Dividends ($0.10 per share) | - | - | - | (8,028) | (8,028) |
| Exercise of employee stock options | 2,276 | (658) | - | - | 1,618 |
| Other comprehensive income (loss) net of tax | | | | | |
| Remeasurement of defined benefit plans | - | - | - | 1,883 | 1,883 |
| Foreign currency translation differences | - | - | (70,023) | - | (70,023) |
| Share of other comprehensive loss of equity investments | - | - | (150) | - | (150) |
| Cash flow hedging derivative and non-derivative financial instruments: | | | | | |
| Unrealized gain in fair value of financial instruments | - | - | 5,959 | - | 5,959 |
| Reclassification of loss to net income | - | - | 495 | - | 495 |
| **BALANCE AT DECEMBER 31, 2020** | 662,427 | 43,860 | 96,645 | 372,792 | 1,175,724 |
| Net income for the period | - | - | - | 62,653 | 62,653 |
| Compensation expense related to stock options | - | 606 | - | - | 606 |
| Dividends ($0.10 per share) | - | - | - | (8,033) | (8,033) |
| Exercise of employee stock options | 832 | (196) | - | - | 636 |
| Other comprehensive income (loss) net of tax | | | | | |
| Remeasurement of defined benefit plans | - | - | - | 12,142 | 12,142 |
| Foreign currency translation differences | - | - | (62,366) | - | (62,366) |
| Share of other comprehensive income of equity investments | - | - | 75 | - | 75 |
| Cash flow hedging derivative and non-derivative financial instruments: | | | | | |
| Unrealized gain in fair value of financial instruments | - | - | 892 | - | 892 |
| Reclassification of gain to net income | - | - | (3,054) | - | (3,054) |
| **BALANCE AT JUNE 30, 2021** | $ 663,259 | $ 44,270 | $ 32,192 | $ 439,554 | $ 1,179,275 |

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Cash Flows

*(in thousands of Canadian dollars) (unaudited)*

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

*As at June 30, 2021, $63,648 (December 31, 2020 - $61,207) of purchases of property, plant and equipment remain unpaid and are recorded in trade and other payables.

See accompanying notes to the interim condensed consolidated financial statements.

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

## 1. BASIS OF PREPARATION

### (a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2020.

### (b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2020.

### (c) COVID-19 pandemic

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

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

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

### (d) Presentation currency

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

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

## 2. ACQUISITION

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

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

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

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

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

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

## 3. TRADE AND OTHER RECEIVABLES

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

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

## 4. INVENTORIES

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

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

## 5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

## 6. RIGHT-OF-USE ASSETS

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

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

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

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

## 7. INTANGIBLE ASSETS

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

Movement in intangible assets is summarized as follows:

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

## 8. INVESTMENTS

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

As at June 30, 2021, the Company held 35,045,954 common shares of NanoXplore Inc. (“NanoXplore”) representing a 22.2% equity interest in NanoXplore (on a non-diluted basis). NanoXplore is a publicly listed company on the Toronto Stock Exchange trading under the ticker symbol GRA. It is a manufacturer and supplier of high-volume graphene powder for use in industrial markets providing customers with a range of graphene-based solutions.

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

On February 12, 2021, NanoXplore completed a public offering of 11,500,000 common shares for gross proceeds of $46,000. In a separate transaction pon February 12, 2021, the Company purchased 1,000,000 common shares from NanoXplore's President and Chief Executive Officer for consideration of $4,000. Subsequent to these transactions, the Company's net ownership interest decreased to 22.2% from 23.3%. This dilution resulted in a deemed disposition of a portion of the Company's ownership interest in NanoXplore, resulting in a gain on dilution of $7,800 during the first quarter of 2021.

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

The Company applies equity accounting to its equity investments based on NanoXplore's and VoltaXplore's most recently available financial statements, adjusted for any significant transactions that occur thereafter and up to the Company's reporting date, which represents a reasonable estimate of the change in the Company's interest.

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

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

## 9. PROVISIONS

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

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

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

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

## 10. IMPAIRMENT OF ASSETS

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

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

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

## 11. LONG-TERM DEBT

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

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

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

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

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

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

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

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

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

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

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

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

Movement in long-term debt is summarized as follows:

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

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

## 12. LEASE LIABILITIES

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

Movement in lease liabilities is summarized as follows:

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

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

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

## 13. INCOME TAXES

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

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

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

## 14. CAPITAL STOCK

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

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

**Repurchase of capital stock**

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

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

**Stock options**

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

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

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

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

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

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

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

**Deferred Share Unit ("DSU") Plan**

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

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

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

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

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

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

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

The RSUs and PSUs granted during the six months ended June 30, 2021 and 2020 had a weighted average fair value per unit of $14.46 and $13.10, respectively, on the date of grant. For the three and six months ended June 30, 2021, RSU and PSU compensation expense/benefit reflected in the interim condensed consolidated statement of operations, including changes in fair value during the period, amounted to an expense of $757 (2020 - expense of $2,970) and a benefit of $518 (2020 - benefit of $202), respectively, recorded in selling, general and administrative expense.

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

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

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

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

## 15. EARNINGS (LOSS) PER SHARE

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

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

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

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

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

## 16. FINANCE EXPENSE AND OTHER FINANCE INCOME (EXPENSE)

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

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

## 17. GOVERNMENT SUBSIDIES

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

## 18. OPERATING SEGMENTS

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

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

The accounting policies of the segments are the same as those described in the Company's annual consolidated financial statements for the year ended December 31, 2020. The Company uses operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

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

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

| | Three months ended June 30, 2021 | | | |
|---|---|---|---|---|
| | **Production Sales** | **Tooling Sales** | **Total Sales** | **Operating Income (loss)** |
| North America | | | | |
| Canada | $ 109,739 | $ 52,378 | $ 162,117 | |
| USA | 209,289 | 16,151 | 225,440 | |
| Mexico | 318,469 | 15,902 | 334,371 | |
| Eliminations | (35,938) | (50,167) | (86,105) | |
| | $ 601,559 | $ 34,264 | $ 635,823 | $ 38,400 |
| Europe | | | | |
| Germany | 166,237 | 9,314 | 175,551 | |
| Spain | 24,987 | 263 | 25,250 | |
| Slovakia | 9,023 | 1,152 | 10,175 | |
| | 200,247 | 10,729 | 210,976 | (8,837) |
| Rest of the World | 43,517 | 1,039 | 44,556 | 5,058 |
| Eliminations | (6,391) | (98) | (6,489) | |
| | $ 838,932 | $ 45,934 | $ 884,866 | $ 34,621 |

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

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

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

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

## 19. FINANCIAL INSTRUMENTS

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

**Fair Value**

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

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

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

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

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

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

**Fair values versus carrying amounts**

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

| June 30, 2021 | Fair value through profit or loss | Fair value through other comprehensive income | Financial assets at amortized cost | Amortized cost | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| **FINANCIAL ASSETS:** | | | | | | |
| Trade and other receivables | $ - | $ - | $ 682,750 | $ - | $ 682,750 | $ 682,750 |
| Foreign exchange forward contracts not accounted for as hedges | 2,184 | - | - | - | 2,184 | 2,184 |
| | 2,184 | - | 682,750 | - | 684,934 | 684,934 |
| **FINANCIAL LIABILITIES:** | | | | | | |
| Trade and other payables | - | - | - | (1,087,490) | (1,087,490) | (1,087,490) |
| Long-term debt | - | - | - | (921,077) | (921,077) | (921,077) |
| | - | - | - | (2,008,567) | (2,008,567) | (2,008,567) |
| **Net financial assets (liabilities)** | $ 2,184 | $ - | $ 682,750 | $ (2,008,567) | $ (1,323,633) | $ (1,323,633) |

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

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

**Risk Management**

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

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

**(a) Credit risk**

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

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

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

In the normal course of business, the Company is exposed to credit risk from its customers. The Company has three customers whose sales were 31.1%, 19.3%, and 13.5% of its production sales for the six months ended June 30, 2021 (2020 - 33.4%, 26.0%, and 11.3%). A substantial portion of the Company's trade receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that was past due as at June 30, 2021 is within the normal payment pattern of the industry. The allowance for doubtful accounts is less than 1.0% of total trade receivables for all periods and movements in the period were minimal.

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

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

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12-week period, quarterly through forecasting and annually through the Company's budget process. At June 30, 2021, the Company had cash of $127,664 (2020 - $152,786) and banking facilities available as discussed in note 11. All the Company's financial liabilities other than long-term debt have maturities of approximately 60 days.

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

**(c) Interest rate risk**

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

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

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

**Sensitivity analysis**

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

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

**(d) Currency risk**

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

At June 30, 2021, the Company had committed to the following foreign exchange contracts:

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

| Currency | | Amount of U.S. dollars | Weighted average exchange rate of U.S. dollars | Maximum period in months |
|---|---|---|---|---|
| Buy Mexican Peso | $ | 43,668 | 20.6100 | 1 |

The aggregate value of these forward contracts as at June 30, 2021 was a pre-tax gain of $2,184 and was recorded in trade and other receivables (December 31, 2020 - pre-tax gain of $647 recorded in trade and other receivables).

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

The Company previously entered into foreign exchange forward contracts to buy Canadian Dollars in order to hedge the variability in certain cash flows of forecasted U.S. dollar sales due to fluctuations in foreign exchange rates. As at June 30, 2021 the U.S. dollar sales transactions can no longer be forecasted with high probability, and accordingly the Company de-designated the hedging relationship and terminated certain forward contracts. The company had no foreign exchange contracts accounted for as hedges and fair valued through OCI as at June 30, 2021 (December 31, 2020 - pre-tax gain of $1,826 recorded in trade and other receivables).

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

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

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

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

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

**Sensitivity analysis**

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However, a 10% strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2021 and 2020 by the amounts shown below, assuming all other variables remain constant:

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

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

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

**(e) Capital risk management**

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

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

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

## 20. CONTINGENCIES

### Contingencies

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

### Legal contingency

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

### Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities and most recent developments surrounding the assessments, is approximately $54,961 (BRL $225,438) including interest and penalties to June 30, 2021 (December 31, 2020 - $55,003 or BRL $224,192). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The assessments are at various stages in the process. Two assessments of $41,933 (BRL $172,000) including interest and penalties as at June 30, 2021 have entered the judicial litigation process. The Company's subsidiary may be required to present guarantees related to these assessments up to $17,310 (BRL $71,000) shortly through a pledge of assets, bank letter of credit or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

## 21. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's interim condensed consolidated balance sheet. At June 30, 2021, the amount of the off-balance sheet program financing was $40,516 (December 31, 2020 - $42,863) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2020 or 2021. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory. The term of the guarantee will vary from program to program, but typically range up to twenty-four months.

# MARTINREA INTERNATIONAL INC.

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