MANAGEMENT’S DISCUSSION AND ANALYSIS

This management’s discussion and analysis of financial condition and results of operations (“MD&A”) for ABC Technologies Holdings Inc. was prepared as of February 10, 2023 and provides information concerning its financial condition and results of operations and is intended to assist readers in understanding the business environment, strategies and performance and risk factors of ABC Technologies Holdings Inc. The MD&A should be read together with ABC Technologies Holdings Inc.'s unaudited interim condensed consolidated financial statements for the three and six months ended December 31, 2022 (“interim financial statements”), as well as the Company’s audited consolidated financial statements and MD&A for the year ended June 30, 2022 together with the notes thereto. Additional information about ABC Technologies Holdings Inc. can be found on SEDAR at www.sedar.com.

Overview

ABC Technologies Holdings Inc. together with its consolidated subsidiaries and interests in its joint ventures ("ABC", the "Company", "we", "us" and "our") is a leading manufacturer and supplier of custom, highly engineered, technical plastics and lightweighting innovations to the North American light vehicle industry, serving more than 25 original equipment manufacturer customers globally through a strategically located footprint. ABC Technologies’ integrated service offering includes manufacturing, design, engineering, material compounding, machine, tooling and equipment building that are supported by a worldwide team. The Company offers three product groups: Interior Systems, Exterior Systems and HVAC, Fluids & Other.

Basis of Presentation

All references in this MD&A to "YTD Fiscal 2023" are to the six months ended December 31, 2022 and "YTD Fiscal 2022" are to the six months ended December 31, 2021. All references in this MD&A to "Q2 Fiscal 2023" are to the three months ended December 31, 2022 and "Q2 Fiscal 2022" are to the three months ended December 31, 2021. The references to "Fiscal 2022" are to the fiscal year ended June 30, 2022.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) and IFRS applicable to the preparation of interim financial statements, including IAS 34 - *Interim Financial Reporting*, as issued by the International Accounting Standards Board ("IASB"). All tabular figures presented in this MD&A are in thousands of U.S. dollars, except earnings per share, number of shares and where otherwise noted.

Recent Developments

Acquisition of dlhBowles, Inc., Karl Etzel GmbH and SAM-GmbH

On March 1, 2022, the Company acquired 100% of the shares of MPE Flow House, Inc., which owned 100% of the shares of dlhBowles, Inc. (collectively, “dlhBOWLES”), from MPE Partners, L.P. Based in North Canton, Ohio, United States of America. dlhBOWLES is a recognized leader in the North American market for camera and sensor cleaning systems, windshield washer systems, sunroof drains, powertrain, and chassis solutions. The acquisition of dlhBOWLES was made to further solidify the Company’s position in the washer systems market and strengthen its existing product portfolio. dlhBOWLES is included in the North America segment.

On March 4, 2022, the Company acquired 89.9% of the shares of Karl Etzel GmbH and SAM-GmbH, as well as land and buildings from a party related to the owner of Karl Etzel GmbH (collectively, “Etzel”) from the Schürrle family. Based in Mühlacker, Germany, Etzel is a leading tier-1 and tier-2 supplier to the German luxury automotive market and has expertise in injection molding plastics for automotive interiors and exteriors. The acquisition of Etzel provides the Company an opportunity to meaningfully expand its scale in Europe while entering the interior products space on the continent with a strong customer base of luxury OEMs portfolio. Etzel is included in the Rest of the World segment.

Financing arrangement

On April 29, 2022, the Company entered into an agreement for the sale and leaseback of all of its real estate properties located in Mühlacker, Germany obtained through the recent acquisition of Etzel. On August 31, 2022, the Company closed part of the sale and leaseback transaction and received gross proceeds of EUR 37.2 million ($44.5 million) and EUR 1.5 million ($1.4 million) was a holdback in accordance with the terms of agreement. On December 16, 2022, the Company closed the remaining part of the transaction and received gross proceeds of EUR 14.3 million (14.9 million). The holdback amount is expected to be received by the end of the second quarter of fiscal year 2024.

Refer to the Company's interim condensed consolidated financial statements for the quarter ended December 31, 2022, for further details.

Change to Operating Model and Work Force Reduction

During Q1 Fiscal 2023, the Company implemented a customer-focused, business excellence operating model. This model removes unnecessary complexity and variability while strengthening subject matter expertise in manufacturing, engineering and process standardization while aligning the technical community around three product groups, a reduction from the previous six. These changes include the addition of several senior leaders with extensive automotive experience to assist in the transformation and establish a framework for future growth. In addition, the reorganization resulted in a head count reduction in excess of 190 that will streamline the organization around the new operating model.

Reorganization of Poland operations

On October 25, 2022, the Board of Directors approved a plan to shut down the Company's plant in Poland. For the Company, the plant in Poland is a small operation that was not able to overcome the dramatic increase in costs for utilities, freight, material and labor experienced in that market. The Company is proactively working with its customers to assist them with securing alternative production sources within and/or outside the Company's operations. The plant is expected to be shut down when that activity is completed. The Company recorded an impairment charge relating to property, plant and equipment of $8.2 million in Fiscal 2022 and a write-down relating to the tooling inventories of $2.0 million in Q1 Fiscal 2023. The Company also incurred $1.1 million of severance costs in Q2 Fiscal 2023.

Acquisition of WMG Technologies

On December 22, 2022, the Company entered into an agreement to acquire WMG Technologies ("WMGT") from the Bierer family for approximately $165.0 million and with earn-out payments that may become payable upon the achievement of certain profitability targets within the next 24 months (the "WMGT Acquisition"). Based in Windsor, Ontario, Canada, with facilities across North America, WMGT is a leading tier-1 and tier-2 supplier of exterior products, complex tooling for injection molded exterior and interior parts, and other products to global automotive OEMs. The closing of this transaction is subject to the completion of certain customary closing conditions and regulatory approvals and is expected to be closed during the third quarter of fiscal year 2023.

Impairment of investment in joint venture

The Company owns 50% interest in ABC INOAC Exterior Systems, LLC., a spoiler and body molding manufacturer with painting capabilities located in the United States. During the three and six months ended December 31, 2022, the Company performed an impairment test of its investment in the joint venture in accordance with IAS 36 - Impairment of Assets, as there were indicators that the carrying value of the investment may not be recoverable. The indicators of impairment included significant cost increases in recent periods and a change in market conditions. The impairment test indicated that the carrying amount of the Company's investment in ABC INOAC Exterior Systems, LLC. exceeded the recoverable amount by $20.8 million. As a result, the Company recorded an impairment loss of $20.8 million in the interim condensed consolidated statement of comprehensive income (loss). Refer to subsequent events section below for details on the sale of interest in joint ventures.

Global Semiconductor Shortage and Supply Chain Disruptions

The Company's financial results during the last half of Fiscal 2021 and Fiscal 2022 were significantly impacted by disruptions and shortages in the supply of critical components and materials globally, particularly semiconductors, which were indirect outcomes of the COVID-19 pandemic. When the COVID-19 pandemic caused a significant drop in vehicle sales in spring 2020, OEMs cut their orders of all parts and materials, including the semiconductors needed for functions ranging from touchscreen displays to collision-avoidance systems. In the fall of 2020, when demand for passenger vehicles rebounded, OEMs were not able to secure adequate supply of semiconductors as chip manufacturers were already committed to supplying other customers in consumer electronics. The global semiconductor shortage resulted in temporary shut-downs or slowdowns of the production lines at the majority of our OEM customers beginning in February and March 2021, which impacted the production levels in our plants that supply those customers. In Fiscal 2022, primarily Q1 and Q2, COVID-19 had a more direct effect on operations. Outbreaks in major semiconductor manufacturing countries, such as Malaysia, resulted in the temporary shutdown of the manufacturing sector in the countries. As a result, the lost production exacerbated the shortage of semiconductors, leading to increased shutdowns by nearly all OEMs. These shutdowns, frequently with very short notice, resulted in inefficiencies at the Company’s production facilities. In the second half of Fiscal 2022 and the first half of Fiscal 2023, supply chain disruptions to OEM customers abated to some extent, but not completely. Supply chain disruptions and economic conditions, which also include the conflict between Russia and Ukraine have introduced higher levels of inflation for costs including, but not limited to, labor, freight, utilities, resin, glass, rubber, paint and steel.

We believe these conditions are temporary for many of our costs and will abate over time when supply conditions are successfully resolved. Presently we expect costs to remain elevated from now until the end of calendar year 2023. However, it is notable that increased costs in several areas, including, but not limited to labor, benefits, freight and utilities costs are likely not temporary and will remain part of the cost of the business. The Company is in discussions with its largest customers to adjust its prices for the effects of inflation that were not present when the programs were awarded to the Company. The Company is also refining its quoting practices to more proactively address input and conversion costs in its pricing to customers.

As a result of the global semiconductor shortages and production disruptions, inventories for new vehicles had reached historic lows, but have been bouncing back toward more normal levels. The high consumer demand for vehicles, lower than normal inventory supply and inflationary price increases has pushed prices for both new and used vehicles to record levels. Several OEMs are recording strong earnings as the average price of new models has increased. Due to the scarcity of new vehicles, used vehicle prices experienced new highs, at times exceeding the price of new vehicles, as customers turned to alternatives when new models were not available for purchase. Recently, used prices have diminished somewhat, but continue to be elevated relative to previous years.

Subsequent Events

Termination of proposed acquisition of Continental's Washer Systems product line

On June 28, 2022, the Company entered into a conditional agreement to acquire the Washer Systems product line of Continental Automotive GmbH ("Continental") for approximately EUR 20.5 million ($20.2 million).

On January 12, 2023, the Company entered into a settlement agreement with Continental, whereby the parties agreed to terminate the purchase agreement and the proposed transaction effective upon the payment of EUR 10.3 million ($10.2 million) by the Company to Continental, which occurred on January 18, 2023.

Sale of interest in joint ventures

On January 18, 2023, the Company entered into definitive agreements to sell its 50% interest in ABC INOAC Exterior Systems, LLC. to INOAC Corporation for approximately $10.0 million and sell its 50% interest in ABC INOAC Exterior Systems Inc. to INOAC Canada Limited for approximately $13.0 million. Both of these companies are spoiler and body molding manufacturers with painting capabilities. ABC INOAC Exterior Systems, LLC. is located in United States and ABC INOAC Exterior Systems Inc. is located in Canada and Mexico. On February 1, 2023, the Company closed both of these transactions.

Exercise of purchase option

On February 2, 2023, the Company exercised its option to purchase the remaining 10.1% interest in Etzel for an exercise price of EUR 6.0 million ($6.0 million). Refer to the Company's interim financial statements for the period ended December 31, 2022 for details.

Non-IFRS Measures and Key Indicators

This MD&A uses certain non-IFRS financial measures and ratios. Management uses these non-IFRS financial measures for purposes of comparison to prior periods, to prepare annual operating budgets, and for the development of future projections and earnings growth prospects. This information is also used by management to measure the profitability of ongoing operations and in analyzing our financial condition, business performance and trends. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of our results of operations from management's perspective. Accordingly, they should not be considered in isolation, nor as a substitute, for analysis of our financial information reported under IFRS. We use non-IFRS financial measures including Net Debt, EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Free Cash Flow, Trade Working Capital and Net Working Capital to provide supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when using IFRS financial measures. We believe that the presentation of these financial measures enhances an investor's understanding of our financial performance as these measures are widely used by investors, securities analysts and other interested parties.

"Net Debt" means (i) long-term debt less cash plus (ii) proportionate long-term debt held at joint ventures less proportionate cash held at joint ventures.

"EBITDA" means net earnings (loss) before interest expense, income tax expense (recovery), depreciation of property, plant and equipment, depreciation of right-of-use assets, and amortization of intangible assets.

"Adjusted EBITDA" means EBITDA plus: loss on disposal and write-down of assets, unrealized loss (gain) on derivative financial instruments, transactional, recruitment, and other bonuses, EBITDA from Poland operations which is being shut down, business transformation and related costs (which may include severance and restructuring expenses), impairment of investment in joint venture and write-down of inventories less: our share of loss (income) of joint ventures plus the Company's proportionate share of the EBITDA generated by our joint ventures, and share-based compensation expense (reversal). We also present Adjusted EBITDA excluding the impact of IFRS 16 by charging the lease payments applicable to those periods to expense as was the case prior to IFRS 16 – Leases ("IFRS 16").

"Adjusted EBITDA Margin" means Adjusted EBITDA divided by sales adjusted to include the proportional share of joint venture sales attributable to ABC.

“Adjusted Free Cash Flow” means Net Cash Flows from (used in) Operating Activities less: purchases of property, plant and equipment, additions to intangible assets, lease payments, net impact of hedge monetization, plus: proceeds from disposal of property, plant, and equipment, cash dividends received from joint ventures, and one-time advisory, bonus and other costs.

“Trade Working Capital” means trade and other receivables and inventories less trade payables.

“Net Working Capital” means trade and other receivables, inventories, prepaid expenses and other, less: trade payables, accrued liabilities and other payables and current portion of provisions.

Summary of Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us. These factors are also subject to, and may pose, a number of inherent risks and challenges. See "Risk Factors" section in ABC Technologies Holdings Inc.'s AIF dated September 28, 2022 available through SEDAR at www.sedar.com, for further information.

Selected Quarterly Consolidated Financial Information

The following tables provide selected consolidated financial data for the periods indicated.

	For the three months ended December 31,		For the six months ended December 31,	
Selected statement of comprehensive income data	**2022**	**2021**	**2022**	**2021**
Sales	**$ 321,001**	$ 203,439	**$ 639,865**	$ 366,854
Cost of sales	**270,352**	188,265	**558,606**	350,828
Gross profit	**50,649**	15,174	**81,259**	16,026
Selling, general and administrative	**42,299**	29,061	**88,222**	57,189
Impairment of investment in joint venture	**20,797**	—	**20,797**	—
Other expense (income)	**(2,160)**	(19)	**(2,022)**	418
Share of loss (income) of joint ventures	**1,124**	(1,168)	**1,164**	406
Operating loss	**(11,411)**	(12,700)	**(26,902)**	(41,987)
Interest expense, net	**11,397**	7,856	**21,256**	15,222
Loss before income tax	**(22,808)**	(20,556)	**(48,158)**	(57,209)
Income tax expense (recovery)				
Current	**1,241**	752	**12,268**	1,855
Deferred	**(1,310)**	(4,882)	**(14,238)**	(14,452)
Total income tax recovery	**(69)**	(4,130)	**(1,970)**	(12,597)
Net loss	**$ (22,739)**	$ (16,426)	**$ (46,188)**	$ (44,612)
Earnings (loss) per share - basic and diluted	**$ (0.20)**	$ (0.31)	**$ (0.40)**	$ (0.85)
Other financial and operating metrics				
Adjusted EBITDA	**$ 41,732**	$ 11,496	**$ 65,652**	$ 181
Adjusted EBITDA margin	**11.7%**	4.9%	**9.2%**	0.0%
Adjusted Free Cash Flow	**$ (9,295)**	$ 4,969	**$ (6,891)**	$ (54,541)

		December 31, 2022		June 30, 2022[3]
Selected statement of financial position data				
Cash	**$**	**38,499**	$	25,400
Proportionate cash held at joint ventures[1]		**6,190**		5,436
Cash including proportionate cash held at joint ventures	**$**	**44,689**	$	30,836
Trade working capital		**131,404**		126,672
Net working capital		**11,405**		46,354
Total assets		**1,266,941**		1,278,073
Long-term debt[2]		**370,000**		400,000
Net debt		**325,311**		369,164
Total liabilities		**947,076**		902,313
Total shareholders' equity		**319,865**		375,760

1. Represents 50% of cash held at joint ventures, which corresponds to the Company's proportionate share of ownership in the joint ventures.
2. Long-term debt held at joint ventures is $nil as at December 31, 2022 (June 2022: $nil).
3. The amounts as at June 30, 2022 have been revised as a result of the finalization of purchase price allocations. Refer to the interim condensed consolidated financial statements for the six months ended December 31, 2022 for details.

	For the three months ended December 31,				For the six months ended December 31,			
		2022		2021		2022		2021
Reconciliation of Net loss to Adjusted EBITDA								
Net loss	**$**	**(22,739)**	$	(16,426)	**$**	**(46,188)**	$	(44,612)
Adjustments:								
Income tax recovery		**(69)**		(4,130)		**(1,970)**		(12,597)
Interest expense		**11,397**		7,856		**21,256**		15,222
Depreciation of property, plant and equipment		**16,915**		11,991		**34,186**		23,958
Depreciation of right-of-use assets		**4,487**		3,690		**8,713**		7,316
Amortization of intangible assets		**7,978**		5,457		**15,722**		10,643
EBITDA	**$**	**17,969**	$	8,438	**$**	**31,719**	$	(70)
Loss on disposal and write-down of assets		**137**		129		**824**		105
Unrealized loss (gain) on derivative financial instruments		**(2,297)**		(200)		**(2,846)**		217
Transactional, recruitment and other bonuses		**780**		2,363		**780**		2,374
EBITDA from Poland operations[1]		**(327)**		—		**1,062**		—
Write-down of inventories[2]		**—**		—		**2,030**		—
Business transformation related costs[3]		**9,139**		5,720		**22,367**		6,884
Share of loss (income) of joint ventures		**1,124**		(1,168)		**1,164**		406
EBITDA from joint ventures[4]		**979**		1,472		**1,995**		794
Impairment of investment in joint venture[5]		**20,797**		—		**20,797**		—
Share-based compensation expense (reversal)		**202**		768		**(824)**		1,481
Lease payments, net of sublease receipts		**(6,771)**		(6,026)		**(13,416)**		(12,010)
Adjusted EBITDA	**$**	**41,732**	$	11,496	**$**	**65,652**	$	181

1. Represents net impact on EBITDA from Poland operations that are planned to be shut down in Q4 Fiscal 2023. Refer to the recent developments section for more details.
2. A write-down relating to Poland tooling inventories of $2.0 million was recorded in Q1 Fiscal 2023.
3. Includes $2.6 million (2021: $0.2 million) and $9.9 million (2021: $0.2 million) of costs incurred in Q2 Fiscal 2023 and YTD Fiscal 2023, respectively, in connection with the restructuring activities, which mainly relates to the severance and asset relocation expenses. Refer to the recent development section for more details. In addition, $6.6 million (2021: $5.2 million) and $9.2 million (2021: $5.2

million) of costs were incurred in Q2 Fiscal 2023 and YTD Fiscal 2023, respectively, in connection with the ongoing work to evaluate potential acquisition targets.

4. Represents 50% of joint ventures' EBITDA, which corresponds to the Company's proportionate share ventures.
5. Represents impairment loss of $20.8 million recorded by the Company in Q2 Fiscal 2023 relating to its investment in ABC INOAC Exterior Systems, LLC. Refer to the recent developments section above for details on the sale of interest in joint ventures.

	For the three months ended December 31,		For the six months ended December 31,	
	2022	**2021**	**2022**	**2021**
Calculation of Adjusted EBITDA Margin				
Sales	**$ 321,001**	$ 203,439	**$ 639,865**	$ 366,854
Proportionate share of joint venture sales[1]	**36,433**	31,010	**74,076**	56,392
Adjusted sales	**$ 357,434**	$ 234,449	**$ 713,941**	$ 423,246
Adjusted EBITDA	**$ 41,732**	$ 11,496	**$ 65,652**	$ 181
Adjusted EBITDA Margin	**11.7 %**	4.9 %	**9.2 %**	0.0 %

1. Represents 50% of joint ventures' sales, which corresponds to the Company's proportionate share of ownership in the joint ventures.

	December 31, 2022	**June 30, 2022**
Calculation of Net Debt		
Long-term debt	**$ 370,000**	$ 400,000
Cash and cash equivalents	**(38,499)**	(25,400)
Proportionate cash held at joint ventures[1]	**(6,190)**	(5,436)
Net Debt	**$ 325,311**	$ 369,164

1. Represents 50% of cash held at joint ventures, which corresponds to the Company's proportionate share of ownership in the joint ventures.

	December 31, 2022	**June 30, 2022[1]**
Calculation of Trade Working Capital		
Trade and other receivables	**$ 103,335**	$ 122,192
Inventories	**164,007**	152,461
Trade payables	**(135,938)**	(147,981)
Trade Working Capital	**$ 131,404**	$ 126,672

1. The amounts as at June 30, 2022 have been revised as a result of the finalization of purchase price allocations. Refer to the interim condensed consolidated financial statements for the six months ended December 31, 2022 for details.

	December 31, 2022	**June 30, 2022[1]**
Calculation of Net Working Capital		
Trade and other receivables	**$ 103,335**	$ 122,192
Inventories	**164,007**	152,461
Prepaid expenses and other	**34,972**	42,094
Trade payables	**(135,938)**	(147,981)
Accrued liabilities and other payables	**(135,804)**	(98,280)
Provisions	**(19,167)**	(24,132)
Net Working Capital	**$ 11,405**	$ 46,354

1. The amounts as at June 30, 2022 have been revised as a result of the finalization of purchase price allocations. Refer to the interim condensed consolidated financial statements for the six months ended December 31, 2022 for details.

Results of operations for Q2 Fiscal 2023 compared with Q2 Fiscal 2022

Sales

Sales were $321.0 million in Q2 Fiscal 2023 compared with $203.4 million for Q2 Fiscal 2022, an increase of $117.6 million or 57.8%. Of this increase, $49.8 million is attributable to the dlhBOWLES and Etzel acquisitions completed in Q3 Fiscal 2022, accounting for 42.3% of the increase. Additionally, the Company recovered amounts from certain of its customers during Q2 Fiscal 2023 to alleviate the inflationary pressures it has been experiencing due to the current economic conditions. The Company also enjoyed slightly better than industry growth as a result of improved sales to a number of significant customers due to its product mix relative to the industry. According to IHS Markit reports, industry production in North America increased by 8.1% in Q2 Fiscal 2023 compared to Q2 Fiscal 2022.

Cost of sales

Cost of sales was $270.4 million in Q2 Fiscal 2023 compared with $188.3 million for Q2 Fiscal 2022, an increase of $82.1 million or 43.6%. As a percentage of sales, cost of sales was 84.2% in Q2 Fiscal 2023 compared with 92.5% in Q2 Fiscal 2022. Gross margin in Q2 Fiscal 2023 was higher than the comparable prior year quarter primarily due to the recoveries received from customers in Q2 Fiscal 2023 that were recognized in sales. Gross margin continued to be affected by higher labor and freight costs, and increased raw material costs, primarily resin, glass, rubber, paint and steel which the Company attributes to inflationary trends seen throughout both the industry and general economy.

Selling, general and administrative expenses

Selling, general and administrative expenses were $42.3 million in Q2 Fiscal 2023 compared with $29.1 million for Q2 Fiscal 2022, an increase of $13.2 million or 45.6%, of which $5.9 million is attributable to dlhBOWLES and Etzel acquisitions completed in Q3 Fiscal 2022. As a percentage of sales, selling, general and administrative expenses were 13.2% in Q2 Fiscal 2023 compared with 14.3% in Q2 Fiscal 2022.

Significant differences quarter over quarter include:

- wages, benefits and professional fees were $18.5 million in Q2 Fiscal 2023 as compared to $9.4 million in Q2 Fiscal 2022, an increase of $9.1 million mainly driven by normalized bonus in Q2 Fiscal 2023.
- business transformation related costs were $9.1 million in Q2 Fiscal 2023 as compared to 5.7 million in Q2 Fiscal 2022, an increase of $3.4 million mainly driven by higher restructuring and acquisition related costs.
- depreciation and amortization expense was $8.8 million in Q2 Fiscal 2023 as compared to $6.2 million in Q2 Fiscal 2022, an increase of $2.6 million mainly due to the acquisitions which were completed in Q3 Fiscal 2022.

partially offset by;

- transactional recruitment, and other bonuses were $0.8 million in Q2 Fiscal 2023 as compared to $2.4 million in Q2 Fiscal 2022, a decrease of $1.6 million.
- foreign exchange gain was $1.2 million in Q2 Fiscal 2023 as compared to a foreign exchange loss of $0.2 million, a change of $1.4 million.
- share-based compensation expense was $0.2 million in Q2 Fiscal 2023 as compared to $0.8 million in Q2 Fiscal 2022, a decrease of $0.6 million.

Impairment of investment in joint venture

Impairment of investment in joint venture relates to an impairment loss of $20.8 million recorded by the Company in Q2 Fiscal 2023 relating to its investment in ABC INOAC Exterior Systems, LLC. Refer to recent developments section for details.

Other expense (income)

Other income includes gains or losses on derivative financial instruments, and losses on disposal and write-down of assets. Other income was $2.2 million for the Q2 Fiscal 2023 compared with $0.0 million in Q2 Fiscal 2022 primarily due to higher gain on derivative financial instruments in Q2 Fiscal 2023 compared to Q2 Fiscal 2022.

Share of loss (income) of joint ventures

Share of loss of joint ventures was $1.1 million in Q2 Fiscal 2023 compared with an income of $1.2 million in Q2 Fiscal 2022, a decrease of $2.3 million or 196.2%, primarily as a result of higher costs in Q2 Fiscal 2023.

Interest expense (net)

Interest expense (net) was $11.4 million in Q2 Fiscal 2023 compared with $7.9 million in Q2 Fiscal 2022, an increase of $3.5 million primarily due to higher interest rates and a higher debt balance in Q2 Fiscal 2023 compared to Q2 Fiscal 2022.

Total income tax recovery

Total income tax recovery was $0.1 million in Q2 Fiscal 2023 compared with $4.1 million in Q2 Fiscal 2022. The effective rate in Q2 Fiscal 2023 was 0.3% as compared to 20.1% in Q2 Fiscal 2022. The difference in the effective tax rate was primarily due to the change in the mix of earnings between jurisdictions and higher non-deductible expenses in Q2 Fiscal 2023.

Net loss

Net loss was $22.7 million in Q2 Fiscal 2023 compared with $16.4 million in Q2 Fiscal 2022, an increase of $6.3 million or 38.4%. Primary contributors to the change between periods are a decrease of $1.3 million in operating loss due to the reasons noted above, lower tax recoveries of $4.2 million and higher interest expense of $3.5 million.

Adjusted EBITDA

Adjusted EBITDA was $41.7 million in Q2 Fiscal 2023 compared with $11.5 million in Q2 Fiscal 2022, an increase of $30.2 million or 263.0%, primarily due to higher sales and gross profit from both existing operations as well as recently acquired companies.

Results of Operations for YTD Fiscal 2023 compared with YTD Fiscal 2022

Sales

Sales were $639.9 million in YTD Fiscal 2023 compared with $366.9 million in YTD Fiscal 2022, an increase of $273.0 million or 74.4%. Of this increase, $106.6 million is attributable to the dlhBOWLES and Etzel acquisitions completed in Q3 Fiscal 2022, accounting for 39.1% of the increase. The Company also enjoyed better than industry growth as a result of improved sales to a number of significant customers due to its product mix relative to the industry. According to IHS Markit reports, industry production in North America increased by 15.3% YTD Fiscal 2023 compared to YTD Fiscal 2022. Additionally, the Company recovered amounts from certain of its customers during Q2 Fiscal 2023 to alleviate the inflationary pressures it has been experiencing due to the current economic conditions.

Cost of sales

Cost of sales was $558.6 million in YTD Fiscal 2023 compared with $350.8 million in YTD Fiscal 2022, an increase of $207.8 million or 59.2%, of which $92.7 million or 44.6% is attributable to dlhBOWLES and Etzel acquisitions completed in Q3 Fiscal 2022. As a percentage of sales, cost of sales was 87.3% in YTD Fiscal 2023 compared with 95.6% in YTD Fiscal 2022. Gross margin YTD Fiscal 2023 was higher than the comparable prior year quarter resulting from improved efficiencies due to a decrease in semiconductor shortages allowing for increased production volumes. Gross margin continued to be affected by higher labor and freight costs, and increased raw material costs, primarily resin, glass, rubber, paint and steel which the Company attributes to inflationary trends seen throughout both the industry and general economy. Gross margin YTD Fiscal 2023 was also higher due to recoveries received from customers in Q2 Fiscal 2023 that were recognized in sales.

Selling, general and administrative expenses

Selling, general and administrative expenses were $88.2 million in YTD Fiscal 2023 compared with $57.2 million in YTD Fiscal 2022, an increase of $31.0 million or 54.3%, of which $11.7 million is attributable to dlhBOWLES and Etzel acquisitions completed in Q3 Fiscal 2022. As a percentage of sales, selling, general and administrative expenses were 13.8% in Q2 Fiscal 2023 compared with 15.6% in Q2 Fiscal 2022.

Significant differences quarter over quarter include:

- business transformation related costs were $22.4 in YTD Fiscal 2023 as compared to $6.9 million in YTD Fiscal 2022, an increase of $15.5 million mainly driven by higher restructuring and acquisition related costs.
- wages, benefits and professional fees were $36.9 million in YTD Fiscal 2023 as compared to $25.3 million in YTD Fiscal 2022, an increase of $11.7 million mainly driven by normalized bonus in YTD Fiscal 2023.
- depreciation and amortization expense was $17.3 million in YTD Fiscal 2023 and $12.1 million in YTD Fiscal 2022, an increase of $5.2 million mainly due to the acquisitions which were completed in Q3 Fiscal 2022.

partially offset by;

- share-based compensation reversal of $0.8 million in YTD Fiscal 2023 as compared to a share-based expense of $1.5 million in YTD Fiscal 2022, a change of $2.3 million.
- transactional recruitment, and other bonuses were $0.8 million in YTD Fiscal 2023 as compared to $2.4 million in YTD fiscal 2022, a decrease of $1.6 million.

Impairment of investment in joint venture

Impairment of investment in joint venture relates to an impairment loss of $20.8 million recorded by the Company in YTD Fiscal 2023 relating to its investment in ABC INOAC Exterior Systems, LLC. Refer to recent developments section for details.

Other expense (income)

Other expense (income) includes gains or losses on derivative financial instruments, and losses on disposal and write-down of assets. Other income was $2.0 million in YTD Fiscal 2023 compared with other expense of $0.4 million in YTD Fiscal 2022 primarily due to a gain on derivative financial instruments in YTD Fiscal 2023 of $2.9 million as compared to a loss on derivative financial instruments of $0.3 million in YTD Fiscal 2022.

Share of loss (income) of joint ventures

Share of loss of joint ventures was $1.2 million in YTD Fiscal 2023 compared with $0.4 million in YTD Fiscal 2022, an increase of $0.8 million or 186.7%, primarily as a result of higher costs in YTD Fiscal 2023.

Interest expense (net)

Interest expense (net) was $21.3 million in YTD Fiscal 2023 compared with $15.2 million in YTD Fiscal 2022, an increase of $6.0 million primarily due to higher interest rates and a higher debt balance in YTD Fiscal 2023 compared to YTD Fiscal 2022.

Total income tax recovery

Total income tax recovery was $2.0 million in YTD Fiscal 2023 compared with $12.6 million in YTD Fiscal 2022. The effective rate in YTD Fiscal 2023 was 4.1% compared with 22.0% in YTD Fiscal 2022. The difference in the effective tax rate was primarily due to the change in the mix of earnings between jurisdictions and higher non-deductible expenses in YTD Fiscal 2023.

Net loss

Net loss was $46.2 million in YTD Fiscal 2023 compared with $44.6 million in YTD Fiscal 2022, an increase of $1.6 million or 3.5%. Primary contributors to the change between periods are a decrease of $15.1 million in operating loss due to the reasons noted above, lower tax recoveries of $10.6 million and higher interest expense of $6.1 million.

Adjusted EBITDA

Adjusted EBITDA was $65.7 million in YTD Fiscal 2023 compared with $0.2 million in YTD Fiscal 2022, an increase of $65.5 million primarily due to higher sales and gross profit from both existing operations as well as recently acquired companies.

Segment Performance

Results of Operations for Q2 Fiscal 2023 compared with Q2 Fiscal 2022

For the three months ended December 31, 2022	North America	Rest of World	Joint Ventures[1,3]	Total	Adjustments[2]	Total Reportable Segments
Revenue						
External customers	$ 285,388	$ 35,613	$ 36,433	$ 357,434	$ (36,433)	$ 321,001
Inter-segment revenues	1,224	146	2,143	3,513	(3,513)	—
Total revenue	**$ 286,612**	**$ 35,759**	**$ 38,576**	**$ 360,947**	**$ (39,946)**	**$ 321,001**
Operating income (loss)[3]	$ 12,048	$ (1,538)	$ (20,887)	$ (10,377)	$ (1,034)	$ (11,411)
Adjusted EBITDA	38,985	1,768	979	41,732	—	41,732

For the three months ended December 31, 2021	North America	Rest of World	Joint Ventures[1]	Total	Adjustments[2]	Total Reportable Segments
Revenue						
External customers	$ 193,253	$ 10,186	$ 31,010	$ 234,449	$ (31,010)	$ 203,439
Inter-segment revenues	2,649	199	1,769	4,617	(4,617)	—
Total revenue	**$ 195,902**	**$ 10,385**	**$ 32,779**	**$ 239,066**	**$ (35,627)**	**203,439**
Operating income (loss)	$ (11,659)	$ (2,209)	$ 1,356	$ (12,512)	$ (188)	$ (12,700)
Adjusted EBITDA	11,366	(1,342)	1,472	11,496	—	11,496

1. The joint venture segment is presented on a 50% basis, which corresponds to the Company's proportionate share of ownership in the joint ventures.
2. The adjustments and eliminations include the reversal of the joint ventures at 50%.
3. Q2 Fiscal 2023 operating income (loss) includes an impairment loss of $20.8 million on the Company's investment in joint venture. Refer to commentary below for more detail.

North America

North America external customer revenue was $285.4 million in Q2 Fiscal 2023 compared with $193.3 million in Q2 Fiscal 2022, an increase of $92.1 million or 47.7%. The shortage of semiconductors in Q2 Fiscal 2022 that forced OEMs to significantly reduce the production of vehicles cascaded to the Company in reduced orders in that period. Additionally, the Company recovered amounts from certain of its customers during Q2 Fiscal 2023 to alleviate the inflationary pressures it has been experiencing due to the current economic conditions. In Q2 Fiscal 2023, production improved and was 8.1% higher than the corresponding prior year quarter according to IHS Markit. Q2 Fiscal 2023 included sales of $28.1 million from the dlhBOWLES business that was acquired during Q3 Fiscal 2022.

North America Adjusted EBITDA was $39.0 million in Q2 Fiscal 2023 compared with $11.4 million in Q2 Fiscal 2022, an increase of $27.6 million or 243.0%. Adjusted EBITDA in Q2 Fiscal 2023 was better than Q2 Fiscal 2022 primarily due to the recoveries received from customers in Q2 Fiscal 2023 that were recognized in sales, as well as higher sales volumes.

Rest of World

Rest of World external customer revenue was $35.6 million in Q2 Fiscal 2023 compared with $10.2 million in Q2 Fiscal 2022, an increase of $25.4 million or 249.6%. The increase is primarily due to the results from the Etzel business that was acquired during Q3 Fiscal 2022.

Rest of World Adjusted EBITDA was $1.8 million in Q2 Fiscal 2023 compared with a negative EBITDA of $1.3 million in Q2 Fiscal 2022, an increase of $3.1 million. The increase is primarily due to higher sales and the results from the Etzel business that was acquired during Q3 Fiscal 2022.

Joint Ventures

ABC's proportionate external customer revenue from Joint Ventures was $36.4 million in Q2 Fiscal 2023 compared with $31.0 million in Q2 Fiscal 2022, an increase of $5.4 million or 17.5% due to operations gradually recovering to pre-pandemic levels in Q2 Fiscal 2023.

ABC's proportionate Adjusted EBITDA from joint ventures was $1.0 million in Q2 Fiscal 2023 compared with $1.5 million in Q2 Fiscal 2022, a decrease of $0.5 million or 33.5%. The decrease is primarily due to higher costs in Q2 Fiscal 2023.

Impairment of investment in joint venture

Included in operating income (loss) is an impairment loss of $20.8 million recorded by the Company in Q2 Fiscal 2023 relating to its investment in ABC INOAC Exterior Systems, LLC. Refer to recent developments section for details.

Results of Operations for YTD Fiscal 2023 compared with YTD Fiscal 2022

For the six months ended December 31, 2022	North America	Rest of World	Joint Ventures[1,3]	Total	Adjustments[2]	Total Reportable Segments
Revenue						
External customers	$ 563,124	$ 76,741	$ 74,076	$ 713,941	$ (74,076)	$ 639,865
Inter-segment revenues	2,932	287	4,651	7,870	(7,870)	—
Total revenue	**$ 566,056**	**$ 77,028**	**$ 78,727**	**$ 721,811**	**$ (81,946)**	**$ 639,865**
Operating loss[3]	$ (3,118)	$ (1,822)	$ (20,935)	$ (25,875)	$ (1,027)	$ (26,902)
Adjusted EBITDA	56,477	7,180	1,995	65,652	—	65,652

For the six months ended December 31, 2021	North America	Rest of World	Joint Ventures[1]	Total	Adjustments[2]	Total Reportable Segments
Revenue						
External customers	$ 346,178	$ 20,676	$ 56,392	$ 423,246	$ (56,392)	$ 366,854
Inter-segment revenues	5,331	407	3,546	9,284	(9,284)	—
Total revenue	**$ 351,509**	**$ 21,083**	**$ 59,938**	**$ 432,530**	**$ (65,676)**	**$ 366,854**
Operating loss	$ (37,439)	$ (4,142)	$ (296)	$ (41,877)	$ (110)	$ (41,987)
Adjusted EBITDA	1,854	(2,467)	794	181	—	181

1. The joint venture segment is presented on a 50% basis, which corresponds to the Company's proportionate share of ownership in the joint ventures.

2. The adjustments and eliminations include the reversal of the joint ventures at 50%.

3. YTD Fiscal 2023 operating loss includes an impairment loss of $20.8 million on the Company's investment in joint venture. Refer to commentary below for more detail.

North America

North America external customer revenue was $563.1 million for YTD Fiscal 2023 compared with $346.2 million for YTD Fiscal 2022, an increase of $216.9 million or 62.7%. The shortage of semiconductors in YTD Fiscal 2022 that forced OEMs to significantly reduce the production of vehicles cascaded to the Company in reduced orders in that period. YTD Fiscal 2023 production improved and was 15.3% higher than the corresponding prior year period according to IHS Markit. YTD Fiscal 2023 included sales of $58.1 million from the dlhBOWLES business that was acquired during Q3 Fiscal 2022. Additionally, the Company recovered amounts from certain of its customers during Q2 Fiscal 2023 to alleviate the inflationary pressures it has been experiencing due to the current economic conditions.

North America Adjusted EBITDA was $56.5 million for YTD Fiscal 2023 compared with $1.9 million for YTD Fiscal 2022, an increase of $54.6 million. Adjusted EBITDA in YTD Fiscal 2023 was better than YTD Fiscal 2022 primarily due to higher sales volumes and higher gross margins. YTD Fiscal 2022 results were negatively affected by higher raw material input costs and inefficiencies resulting from the short-notice plant closures of OEM's. In YTD Fiscal 2023 production call offs due to supply shortages were significantly reduced compared to the same period last year. Adjusted EBITDA was also higher YTD Fiscal 2023 due to the recoveries received from customers in Q2 Fiscal 2023.

Rest of World

Rest of World external customer revenue was $76.7 million for YTD Fiscal 2023 compared with $20.7 million for YTD Fiscal 2022, an increase of $56.1 million or 271.2%. The increase is primarily due to the inclusion of results from the Etzel business that was acquired during Q3 Fiscal 2022.

Rest of World Adjusted EBITDA was $7.2 million for YTD Fiscal 2023 compared with $(2.5) million for YTD Fiscal 2022, an increase of $9.6 million. The increase is primarily due to the inclusion of results from the Etzel business that was acquired during Q3 Fiscal 2022.

Joint Ventures

ABC's proportionate external customer revenue from joint ventures was $74.1 million for YTD Fiscal 2023 compared with $56.4 million for YTD Fiscal 2022, an increase of $17.7 million or 31.4% due to operations gradually recovering to pre-pandemic levels in YTD Fiscal 2023.

ABC's proportionate Adjusted EBITDA from joint ventures was $2.0 million for YTD Fiscal 2023 compared with $0.8 million for YTD Fiscal 2022, an increase of $1.2 million or 151.2%. The increase is primarily due to increased sales volumes.

Impairment of investment in joint venture

Included in operating income (loss) is an impairment loss of $20.8 million recorded by the Company in YTD Fiscal 2023 relating to its investment in ABC INOAC Exterior Systems, LLC. Refer to recent developments section for details.

Quarterly Results

The following table summarizes the results of ABC's operations for the eight most-recently completed fiscal quarters. This unaudited quarterly information has been prepared in accordance with IFRS, with the exception of EBITDA and Adjusted EBITDA.

	Fiscal 2023		Fiscal 2022				Fiscal 2021	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Quarterly results								
Sales	$ 321,001	$ 318,864	$ 319,249	$ 285,775	$ 203,439	$ 163,415	$ 233,194	$ 217,926
Net earnings (loss)	(22,739)	(23,449)	(13,607)	(6,321)	(16,426)	(28,186)	(11,748)	(20,695)
EBITDA	17,969	13,750	5,404	32,786	8,438	(8,508)	15,858	13,295
Adjusted EBITDA	41,732	23,920	15,218	30,252	11,496	(11,315)	26,867	25,450

Liquidity and Capital Resources

Overview

The Company’s primary sources of liquidity and capital resources are cash generated from operating activities, as well as borrowings and amounts available to be drawn under its credit facilities. The principal uses of funds are operating expenses, working capital and capital expenditures (together, the “Funding Requirements”).

As at December 31, 2022, the Company’s Trade Working Capital and Net Working Capital were $131.4 million and $11.4 million, respectively, with cash on hand of $38.5 million. The Company actively manages its working capital and believes it is prudent practice to keep its Net Working Capital low or even negative. As such, it manages its trade and other receivables very closely and has low amounts past due and low levels of bad debt. The Company also actively manages its inventory levels, in order to keep low levels of inventory for parts so as to reduce the risk of part obsolescence, and this practice contributes to the Company’s low or negative Net Working Capital levels. Improvement in Working Capital related to the acquisitions will be one of Company's objectives in the future periods. The Company expects that its current resources, including funds available to be drawn under its credit facilities and an ability to sell a portion of its receivables, will be sufficient to fund the Company’s operations and capital expenditures for at least the next 12 months.

We believe that our current sources of liquidity and capital will be sufficient to finance our continued operations and our growth strategy. There can be no assurance, however, that our business will generate sufficient cash flows from operating activities or that future borrowings will be available under our credit facilities or otherwise to enable us to service our indebtedness or to make capital expenditures in the future. Our future operating performance and our ability to service or extend our indebtedness will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Credit Agreement

On September 29, 2021, the Company amended its Credit Agreement to provide greater flexibility in the calculation of its Total Net Debt to EBITDA covenant over the next five fiscal quarters due to the conditions caused by the ongoing supply chain challenges driven by COVID-19. The amendment waived the former requirement to maintain a minimum Total Net Debt to EBITDA ratio for the period from July 1, 2021 to March 30, 2022. Furthermore, EBITDA for financial covenant purposes was excluded for the fiscal quarters ended September 30, 2021 and December 31, 2021, and was annualized accordingly for the remaining quarters in relevant periods.

On February 24, 2022, to facilitate the financing for its recent acquisitions, the Company amended its Credit Agreement to increase the size of its Credit Facilities to $550.0 million, inclusive of two swingline facilities in the aggregate amount of $23.0 million, and a Revolving Facility B amounting to $50.0 million. The Company also extended the maturity of its Credit Agreement to February 2027 for all facilities except Revolving Facility B, which was available until February 2023. As part of the amendment, the Company also changed its interest rate benchmark from London Interbank Offered Rate ("LIBOR") to Secured Overnight Financing Rate ("SOFR").

During the fiscal year ended June 30, 2022, the Company acquired a loan of $21.4 million as part of its acquisition of Etzel. The loan was repaid by the Company immediately after the close of the transaction.

On December 5, 2022, to facilitate the financing of the anticipated WMGT acquisition, the Company amended its Credit Agreement to include a non-revolving Term Facility, under which the Company can withdraw an amount up to $185.0 million within 120 days from the date of Credit Facility amendment upon the closing of WMGT acquisition. The Term Facility, if utilized, is set to mature in February 2027. The Company also merged Revolving Facility A and Revolving Facility B, which resulted in the combined Revolving Facility, inclusive of two swingline facilities, in the aggregate amount of $550.0 million to mature in February 2027.

The Company incurred $2.6 million of financing fees during the fiscal year ended June 30, 2022 and $1.0 million of financing fees during the three and six months ended December 31, 2022, which have been capitalized as deferred financing costs and are included in other long-term assets.

At December 31, 2022, the Company had aggregate amounts outstanding under the Credit Facilities of $370.0 million, maturing February 24, 2027.

Borrowings under the Credit Facilities bear interest at short-term floating rates plus a fixed spread, which varies in accordance with the Company's Total Net Debt to EBITDA Ratio (as defined in the Credit Agreement). The Company has hedged a portion of this interest rate position. As at December 31, 2022, the average interest rate on the Credit Facilities was 7.22% (June 30, 2022: 3.89%) and $1.6 million (June 30, 2022: $2.0 million) of letters of credit were issued against the Credit Facilities.

The Credit Facilities require the Company to maintain certain financial covenants and contain other covenants that, subject to certain exceptions, restrict the ability of the Company and its subsidiaries to create security interests, incur additional indebtedness or dispose of all or substantially all of its assets. As at December 31, 2022, the Company was in compliance with its covenants.

The Credit Facilities are collateralized by a security agreement over the property and assets of a majority of the wholly-owned subsidiaries of the Company.
As at December 31, 2022, the Company had cash balances of $38.5 million (June 30, 2022: $25.4 million) and $178.4 million available on its Credit Facilities subject to covenant limitations (June 30, 2022: $148.0 million). The Company had total liquidity of $216.9 million as at December 31, 2022 (June 30, 2022: $173.4 million).

As at December 31, 2022, the Company had interest rate swap agreements with a total notional amount of $225.0 million (June 30, 2022: $225.0 million) whereby the Company pays a weighted average fixed interest rate of 1.48% (June 30, 2022: 1.48%) and receives interest at a floating rate equal to 1-month USD SOFR on the total notional amount. The interest rate swap agreements mature in May 2023. During the fiscal year ended June 30, 2022, the Company amended the interest rate benchmark of the interest rate swaps from LIBOR to SOFR.

Cash Flows

The following tables and discussion show the significant cash transactions impacting the cash flows of the Company for the three and six months ended December 31, 2022 and 2021.

	For the three months ended December 31,		For the six months ended December 31,	
	2022	**2021**	**2022**	**2021**
Summary cash flow statements				
Net cash flows from (used in) operating activities	**$ 13,448**	$ 26,818	**$ 44,826**	$ (14,829)
Net cash flows used in investing activities	**(22,097)**	(12,885)	**(47,717)**	(29,275)
Net cash flows from (used in) financing activities	**(590)**	2,422	**15,693**	56,082
Net increase (decrease) in cash	**(9,239)**	16,355	**12,802**	11,978
Net foreign exchange difference	**931**	(171)	**297**	(344)
Cash, beginning of period	**46,807**	10,362	**25,400**	14,912
Cash, end of period	**$ 38,499**	$ 26,546	**$ 38,499**	$ 26,546

Reconciliation of net loss to net cash flows from (used in) operating activities

The table below provides a reconciliation of the adjusting items to reconcile net loss to net cash flows from (used in) operating activities for the three and six months ended December 31, 2022 and 2021.

	For the three months ended December 31,		For the six months ended December 31,	
	2022	**2021**	**2022**	**2021**
Reconciliation of net loss to net cash flows from (used in) operating activities				
Net loss	**$ (22,739)**	$ (16,426)	**$ (46,188)**	$ (44,612)
Adjustments for:				
Depreciation of property, plant and equipment	**16,915**	11,991	**34,186**	23,958
Depreciation of right-of-use assets	**4,487**	3,690	**8,713**	7,316
Amortization of intangible assets	**7,978**	5,457	**15,722**	10,643
Loss on disposal and write-down of assets	**137**	129	**824**	105
Unrealized loss (gain) on derivative financial instruments	**(2,297)**	(200)	**(2,846)**	217
Interest expense	**11,397**	7,856	**21,256**	15,222
Share of loss (income) of joint ventures	**1,124**	(1,168)	**1,164**	406
Income tax recovery	**(69)**	(4,130)	**(1,970)**	(12,597)
Share-based compensation expense (reversal)	**202**	768	**(824)**	1,481
Impairment of investment in joint venture	**20,797**	—	**20,797**	—
Write-down of inventories	**—**	—	**2,030**	—
Changes in:				
Trade and other receivables and prepaid expenses and other	**5,269**	2,226	**23,813**	20,425
Inventories	**(8,318)**	5,990	**(14,233)**	(12,919)
Trade payables, accrued liabilities and other payables, and provisions	**(9,294)**	19,044	**4,879**	(7,636)
Cash generated from operating activities	**$ 25,589**	$ 35,227	**$ 67,323**	$ 2,009
Interest received	**130**	84	**250**	213
Income taxes paid	**(1,568)**	(702)	**(2,588)**	(977)
Interest paid on leases, net of interest received	**(3,673)**	(3,425)	**(7,132)**	(6,812)
Interest paid on long-term debt and other	**(7,030)**	(4,366)	**(13,027)**	(9,262)
Net cash flows from (used in) operating activities	**$ 13,448**	$ 26,818	**$ 44,826**	$ (14,829)

Net cash flows from operating activities for Q2 Fiscal 2023 were $13.4 million compared with $26.8 million for Q2 Fiscal 2022, a decrease of $13.4 million or 49.9%. The decrease is primarily due to changes in working capital and higher interest paid, partially offset by higher Adjusted EBITDA in Q2 Fiscal 2023 compared with Q2 Fiscal 2022.

Net cash flows from operating activities for YTD Fiscal 2023 were $44.8 million compared with net cash flows used in operating activities of $14.8 million for YTD Fiscal 2022, an increase of $59.7 million or 402.3%. The increase in net cash flow from operating activities was primarily due to higher Adjusted EBITDA YTD Fiscal 2023 compared with YTD Fiscal 2022, partialy offset by changes in working capital and higher interest paid.

Net cash flows used in investing activities

	For the three months ended December 31,		For the six months ended December 31,	
	2022	**2021**	**2022**	**2021**
Cash flows from (used in) investing activities				
Purchases of property, plant and equipment	**$ (17,870)**	$ (8,490)	**$ (37,729)**	$ (19,505)
Dividends received from joint ventures	**—**	553	**—**	553
Additions to intangible assets	**(4,227)**	(4,948)	**(9,988)**	(10,323)
Net cash flows used in investing activities	**$ (22,097)**	$ (12,885)	**$ (47,717)**	$ (29,275)

Net cash flows used in investing activities were $22.1 million for Q2 Fiscal 2023 compared with $12.9 million for Q2 Fiscal 2022, an increase of $9.2 million or 71.5% due to higher purchased of property, plant and equipment.

Net cash flows used in investing activities were $47.7 million for YTD Fiscal 2023 compared with $29.3 million for YTD Fiscal 2022. The increase in spending on property, plant and equipment and intangible assets YTD Fiscal 2023 over YTD Fiscal 2022 is due to timing of expenditures, which can vary from period to period depending on the requirements to fulfill programs.

Net cash flows from (used in) financing activities

	For the three months ended December 31,		For the six months ended December 31,	
	2022	2021	**2022**	2021
Cash flows from (used in) financing activities				
Net drawings (payments) on revolving credit facilities	**$ (5,000)**	$ 8,163	**$ (30,000)**	$ 65,000
Principal payments of lease liabilities, net of sublease receipts	**(3,098)**	(2,601)	**(6,284)**	(5,198)
Financing costs	**(1,000)**	(44)	**(1,000)**	(624)
Proceeds from other financing arrangement	**14,879**	—	**59,348**	—
Dividends to shareholders	**(6,371)**	(3,096)	**(6,371)**	(3,096)
Net cash flows from (used in) financing activities	**$ (590)**	$ 2,422	**$ 15,693**	$ 56,082

Net cash flows used in financing activities for Q2 Fiscal 2023 were $0.6 million compared with net cash flows from financing activities of $2.4 million for Q2 Fiscal 2022, a decrease of $3.0 million.

Net cash flows from financing activities for YTD Fiscal 2023 were $15.7 million compared with $56.1 million for YTD Fiscal 2022, a decrease of $40.4 million. The decrease primarily relates to a net change in the revolving credit facilities of $95.0 million, which was partially offset by the proceeds from an other financing arrangement of $59.3 million received in YTD Fiscal 2023.

	For the three months ended December 31,		For the six months ended December 31,	
	2022	2021	**2022**	2021
Reconciliation of net cash flows from (used in) operating activities to Adjusted Free Cash Flow				
Net cash flows from (used in) operating activities	**$ 13,448**	$ 26,818	**$ 44,826**	$ (14,829)
Purchases of property, plant and equipment	**(17,870)**	(8,490)	**(37,729)**	(19,505)
Additions to intangible assets[1]	**(4,227)**	(4,948)	**(9,988)**	(10,323)
Principal payments of lease liabilities	**(3,098)**	(2,601)	**(6,284)**	(5,198)
Dividends received from joint ventures	**—**	553	**—**	553
One-time advisory, bonus and other costs	**885**	3,174	**4,028**	4,298
Net impact of hedge monetization	**1,567**	(9,537)	**(1,744)**	(9,537)
Adjusted Free Cash Flow	**$ (9,295)**	$ 4,969	**$ (6,891)**	$ (54,541)

1. Represents capitalized development costs under IAS 38 Intangible Assets.

Adjusted Free Cash Flow was $14.3 million lower for Q2 Fiscal 2023 compared with Q2 Fiscal 2022 primarily due to lower net cash flows from operating activities and higher purchases of property, plant and equipment, partially offset by the net impact of hedge monetization between the two periods.

Adjusted Free Cash Flow was $47.7 million higher for YTD Fiscal 2023 compared with YTD Fiscal 2022 primarily due to higher net cash flows from operating activities and the net impact of hedge monetization, partially offset by higher purchases of property plant and equipment.

Contractual obligations

Our contractual obligations consist of principal repayments on long-term debt, interest on long-term debt, and leases for certain facilities, office equipment and vehicles. Our contractual obligations and commitments as of December 31, 2022 are shown in the following table.

	Within one year	1 - 3 years	4 - 5 years	Thereafter	Total
Contractual obligations					
Long-term debt	$ —	$ —	$ 370,000	$ —	$ 370,000
Interest on long-term debt	26,729	53,457	30,756	—	110,942
Lease payments	28,529	53,248	49,437	194,035	325,249
Purchase Option	6,465	—	—	—	6,465

The Company has committed to purchase, within the next 12 months, machinery and equipment for $39.8 million. The Company also has an existing commitment, subject to closing or other conditions, to acquire WMG Technologies for approximately $165.0 million. Refer to the recent developments section above for details. These commitments will be funded with cash flow from operating activities and/or from existing credit facilities.

Off balance sheet arrangements

As at December 31, 2022, the Company had letters of credit in place, which were issued under our Credit Facilities, amounting to $1.6 million (June 30, 2022: $2.0 million).

Risks and Uncertainties

The Company has a risk management program in place, as approved by the Board, which seeks to limit the impact of these risks on the financial performance of the Company and it is the Company's policy to manage these risks in a non-speculative manner.

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Interest rate risk and sensitivity
- Foreign currency risk and sensitivity
- Commodity price risk and sensitivity
- Credit risk
- Liquidity risk
- Concentration risk

The sections below present information about the Company’s exposure to each of the above risks and the Company’s objectives, policies and processes for measuring and managing the risk.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument or an asset will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk, such as commodity risk. Financial instruments and assets affected by market risk include cash, trade and other receivables, inventories, trade payables, accrued liabilities and other payables, long-term debt, and derivative financial instruments.

Interest rate risk and sensitivity

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company’s exposure to the risk of changes in market interest rates relates primarily to the Company’s long-term debt obligation with floating interest rates. The assumed movement in basis points for the interest rate sensitivity analysis is based on the currently observable market environment, showing a significantly higher volatility than in prior years.

The Company manages its interest rate risk by having a balanced portfolio of fixed and floating rate loans and borrowings. To manage this, the Company entered into interest rate swaps, in which it agreed to exchange, at specified intervals, the difference between fixed and floating rate interest amounts calculated by reference to an agreed-upon notional principal amount. At December 31, 2022, after taking into account the effect of interest rate swaps, approximately 61% (June 30, 2022: 56%) of the Company’s borrowings were at a fixed rate of interest.

With all other variables held constant, an increase in interest rate of 50 basis points would have a negative impact on income (loss) before income tax for the three and six months ended December 31, 2022 of of $0.2 million (2021: 0.2 million) and $0.4 million (2021: $0.2 million), respectively, on a hedged basis.

Foreign currency risk and sensitivity

Our functional currency is the USD. The Company also has transactions denominated in CAD and MXN because we sell into the Canadian and Mexican markets and purchase goods and services from Canada and Mexico. To a lesser extent we also have transactions denominated in Brazilian real, Polish zloty, euros, Japanese yen and Chinese renminbi. As a result, changes in those currencies to USD exchange rates can impact our business, results of operations, and result in foreign currency gains or losses.

The Company manages its foreign currency risk by using foreign currency derivatives to cover forecast purchase transactions that are expected to occur. When a foreign currency derivative is entered into for this purpose, the Company ensures the terms of the foreign currency derivative closely match the maturity dates of the hedged exposure.

Excluding the impact of hedge accounting, a 5% strengthening of the CAD against the USD would have decreased income (loss) before income tax for the three and six months ended December 31, 2022 by approximately $0.1 million (2021: $0.3 million) and $0.3 million (2021: $0.5 million), respectively. A 5% strengthening of the MXN against the USD would have decreased income (loss) before income tax for the three and six months ended December 31, 2022 by approximately $0.6 million (2021: $0.4 million) and $1.2 million (2021: $0.9 million), respectively. A weakening would have had the equal but opposite effect, on the basis that all other variables remain constant. The Company's exposure to foreign currency changes for all other currencies is not material.

Commodity price risk and sensitivity

Management has developed and enacted a risk management strategy for commodity price risk and its mitigation. The Company's operations require the ongoing purchase and manufacture of resin and are affected by the price volatility of resin and its inputs.

A 5% increase in the price of resin (all other variables held constant) would have a negative impact on income (loss) before income tax for the three and six months ended December 31, 2022 of $3.6 million (2021: $1.9 million) and $7.5 million (2021: $3.9 million), respectively, and vice versa.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables), from its deposits with banks and financial institutions and derivative financial instruments.

Trade receivables

	Total	Current and <30 days	30–60 days	61–90 days	>90 days[2]
As at December 31, 2022	**$ 103,335**	**$ 92,368**	**$ 3,432**	**$ 1,027**	**$ 6,508**
As at June 30, 2022[1]	122,192	114,611	1,691	1,161	4,729

1. The amounts as at June 30, 2022 have been revised as a result of the finalization of purchase price allocations. Refer to the interim condensed consolidated financial statements for the six months ended December 31, 2022 for details.
2. Includes certain tooling related receivables that the Company will not receive until specific conditions are met. This is in normal course of business and there are no indications that these balances are not collectible.

Customer credit risk is subject to the Company's established policies, procedures and controls relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard, and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored for collectability.

An impairment analysis is performed at each reporting date on an individual basis for each customer. The calculation is based on actual incurred historical data and forward-looking information available. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Company is exposed to concentration of risk with respect to trade receivables. As at December 31, 2022, the Company's three largest customers accounted for 14.8%, 5.4% and 5.0%, respectively, of all receivables owing (June 30, 2022: 20.0%, 6.0% and 5.7%, respectively).

Deposits with banks and financial institutions

Cash and derivative financial instruments are primarily held with large financial institutions with investment-grade credit ratings. The Company's maximum exposure to credit risk for deposits with banks and financial institutions and derivative financial instruments is their carrying amounts.

Liquidity risk

The Company is exposed to liquidity risk related to its ability to fund its Funding Requirements, including its obligations as they become due. The Company has access to cash and the Credit Facilities, and has the ability to sell a portion of its receivables. The Company monitors its cash balances daily. The Company's objective is to ensure that sufficient liquidity is on hand to meet its Funding Requirements, including its obligations as they fall due while minimizing interest expense.

Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Disclosure of Outstanding Shares

As at February 11, 2023, there were 115,664,147 shares, 324,817 stock options, 147,610 restricted share units ("RSUs"), and 203,992 deferred share units ("DSUs") outstanding. Each option will become exercisable for one share at an exercise price of CAD $10.00 per share.

Transactions with Related Parties

Joint Ventures

The following table provides the total amount of transactions that have been entered into with the joint ventures ("JVs"):

	For the three months ended December 31, 2022		For the six months ended December 31, 2022		As at December 31, 2022	
	Purchases from JVs	Sales to JVs	Purchases from JVs	Sales to JVs	Trade payables to JVs	Trade receivables from JVs
Joint venture in which the Company is a venturer:						
ABC INOAC Exterior Systems Inc.	$ 2,065	$ 2,550	$ 4,034	$ 6,197	$ 1,245	$ 1,844
ABC INOAC Exterior Systems, LLC	229	5,882	1,173	8,032	879	13,131
ABCOR Filters	1,992	—	4,095	—	2,537	97
INOAC Huaxiang	—	—	—	18	—	84

	For the three months ended December 31, 2021		For the six months ended December 31, 2021		As at June 30, 2022	
	Purchases from JVs	Sales to JVs	Purchases from JVs	Sales to JVs	Trade payables to JVs	Trade receivables from JVs
Joint venture in which the Company is a venturer:						
ABC INOAC Exterior Systems Inc.	$ 1,701	$ 3,660	$ 3,374	$ 6,492	$ 1,305	$ 4,619
ABC INOAC Exterior Systems, LLC	—	1,863	36	4,390	128	5,147
ABCOR Filters	1,837	4	3,681	8	1,035	81
INOAC Huaxiang	—	7	—	60	—	126

Receivables from joint ventures are non-interest bearing.

During the three and six months ended December 31, 2022, the Company received dividends from its joint ventures in the amounts of $nil (2021: $0.6 million) and $nil (2021: $0.6 million), respectively.

Critical Accounting Estimates

There were no changes to our critical accounting estimates and judgments since the fiscal year ended June 30, 2022. See our Fiscal 2022 Annual MD&A and our Fiscal 2022 Annual Audited Consolidated Financial Statements and notes thereto for a discussion of the critical accounting estimates.

Accounting Standards Changes

For information pertaining to accounting changes effective in Fiscal 2022 and Fiscal 2023 and for future fiscal years, please see the Company's interim financial statements for the period ended December 31, 2022.

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 Statements

Some of the information contained in this MD&A may constitute forward-looking information or contain statements expressing such forward-looking information ("forward-looking statements" and collectively with the forward-looking information expressed thereby, "forward-looking information"). We use words such as "may", "would", "could", "should", "will", "unlikely", "expect", "anticipate", "believe", "intend", "planning", "forecast", "outlook", "projection", "estimate", "target" and similar expressions suggesting future outcomes or events to identify forward-looking information.

Forward-looking information contained herein is based on management’s reasonable assumptions and beliefs in light of the information currently available to us and is presented as of the date of this MD&A. Such forward-looking information is intended to provide information about management's current expectations and plans, and may not be appropriate for other purposes. While we believe we have a reasonable basis for presenting such forward-looking information, any forward-looking statements expressing it are not a guarantee of future performance or outcomes. Whether actual results and developments conform to our expectations and predictions is subject to a number of factors, risks, assumptions and uncertainties, many of which are beyond our control, and the effects of which can be difficult to predict, including, but not limited to:

- the light vehicle industry, including expectations regarding industry trends, growth opportunities, market demand, industry forecasts, overall market growth rates and our growth rates and strategies in light vehicle industry and in light vehicles, both in North America and globally;
- other risks related to automotive industry such as: economic cyclicality regional production volume declines, intense competition; potential restrictions on free trade; trade disputes/tariffs;
- our research and development, innovation, product categories, ongoing development, and our future platforms and programs;
- our OEM customers, including future relationships with our OEM customers and new OEM customers;
- the continuing global semi-conductor shortage;
- the impact and duration of the conflict in Ukraine and the related economic sanctions on, and retaliatory measures taken by, Russia, including disruption in supply, or raising prices, of energy for the member states of the EU and globally;
- other risks related to customer and suppliers, including: OEM consolidation and cooperation; shifts in market shares among vehicles or vehicle segments; shifts in demand for products offered by our OEM customers; dependence on outsourcing; quarterly sales fluctuations; potential loss of any material purchase orders; a deterioration in the financial condition of our supply base, including as a result of the increased financial pressure related to continuing effects of COVID-19 and other global pandemics and outbreaks of contagious diseases, including as a result of COVID-19 pandemic-caused OEM and supplier bankruptcies; effects of ongoing global conflicts on supply chain, raw material costs and costs of logistics
- our assessments of, and outlook for Fiscal 2023, including expected sales, Adjusted EBITDA, and Adjusted Free Cash Flow for Fiscal 2023;
- our business plans and strategies, including our expected sales growth, ability to benefit from our business model and capitalize on our acquisitions;
- our competitive position in our industry;
- expansion of our presence in the European market through the acquisitions completed by the Company in the Fiscal Year 2022;

- prices of raw materials, commodities and other supplies necessary for the Company to conduct its business, including any changes to prices and availability of supply components related to the continuing effects of COVID-19, Russia's invasion of Ukraine; and related international economic sanctions; related disruption of supply of, and increase in prices of energy for the member states of the EU and globally, and other actual or potential ongoing geopolitical conflicts;
- labor disruptions or labor shortages in our facilities, or those of our customers and suppliers, related to the continuing effects of the COVID-19 pandemic and effects of other global pandemics and outbreaks of contagious diseases; COVID-19 pandemic-related shutdowns; supply disruptions including disruptions caused by the COVID-19 pandemic and its continuing effects and applicable costs related to supply disruption mitigation initiatives, including related to the continuing effects COVID-19; attraction/retention of skilled labor including as a result of the continuing effects of COVID-19 pandemic and other global pandemics and outbreaks of contagious diseases;
- effects of ongoing global conflicts and economic sanctions associated with them on logistics and cost of raw materials and components and supply chains;
- increasing inflation and/or rising interest rates;
- climate change risks;
- risks associated with private or public investment in technology companies;
- changes in governmental regulations or laws including any changes to trade;
- risks of conducting business in foreign countries, including China, Japan, Mexico, member states of the EU, Brazil and other markets;
- cybersecurity threats;
- our dividend policy; and
- the potential volatility of the Company's share price.

Forward-looking information in this document includes, but are not limited to, statements relating to: any of the Company's actions made in response to or in connection with the COVID-19 pandemic and other global pandemics and outbreaks of contagious diseases, including with respect to: employee health and safety; potential adjustments to our production plans to align with our customers' production plans, governmental orders and legal requirements; the ability to attract and retain the workforce required to maintain or grow the Company's operations in the context of the effects of the COVID-19 pandemic and other global pandemics and outbreaks of contagious diseases on the workforce in certain markets in which the Company operates; the timing of program launches, the growth of the Company and pursuit of, and belief in, its strategies and development and implementation of new product and business; continued investments in its business and technologies, the 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; and the payment of any dividends as well as other forward-looking statements.

In evaluating forward-looking statements or forward-looking information, we caution readers not to place undue reliance on any forward-looking statement or forward-looking information expressed herein, and readers should specifically consider the various factors that could cause actual events or results to differ materially from those indicated by such forward-looking statements, including the risk factors listed above as well as these and other risks and uncertainties as may be described in greater detail in the Company's public filings made with the Canadian Securities Administrators and publicly available on the Company's profile at www.sedar.com, or other factors that may fall outside any list of risks and uncertainties. We do not undertake to update any forward-looking information whether as a result of new information, future events or otherwise, or to update the reasons why actual results could differ from those reflected in the forward-looking statements except as required under applicable securities laws in Canada.

Outlook

We compete in the light vehicle segment of the global auto parts industry with a principal focus on North America, including Canada, the United States and Mexico. The North American automotive industry experienced multiple headwinds related to supply shortages during Fiscal 2022, with North American light vehicle production 8.9% lower than Fiscal 2021, the most significant reductions occurring in Fiscal Q1 and Q2 2022. The industry saw improvements in Q3 and Q4 Fiscal 2022 that carried into Q1 and Q2 Fiscal 2023, with greater stability in North American vehicle production resulting from improvements in industry supply chains. Based on recent projections by IHS Markit, North American light vehicle production is expected to increase by 11.2% in Fiscal 2023 compared to Fiscal 2022. This increase is from a low base, when production was depressed due to ongoing semiconductor shortages. Despite the projected increase, forecast production lags average annual production by a significant margin. While closures due to COVID-19 and supply chain issues have diminished, labor shortages due to historic low unemployment rates have resulted in increased costs to obtain and retain labor and raw material input costs remain elevated compared to historical values.

Despite progress made in reorganizing the business into a more efficient, customer focused operation, the Company is facing a number of headwinds. Recent automobile production forecasts have been lowered from previous months forecasts, increased interest rates are expected to affect end users ability to purchase vehicles and inflationary pressures impact costs with the timing and quantum of any additional relief from customers uncertain. The Company continues to explore and implement cost saving opportunities and drive for greater efficiency throughout its business.

We believe we are well positioned to continue driving sales growth, profitability and Adjusted Free Cash Flow over the next five years. We expect:

- our sales growth to continue outperforming industry volumes, as forecast by IHS Markit, which are expected to continue to rebound from the COVID-19-related shutdowns;
- to target improvement in Adjusted EBITDA Margin from pre-COVID-19 historical levels;
- to benefit from a capital efficient business model through improvements in capital expenditures versus historical levels and continued working capital initiatives; and
- to opportunistically execute on strategic and accretive acquisitions.

The first two quarters of ABC's Fiscal 2022 provided a cycle of unprecedented volume declines and unpredictable production schedules at our OEM customers, brought on by recurring shortages of semiconductor chips. The third and fourth quarters presented a return to more normal operating conditions in the industry, with a significant reduction in OEM plant closures compared to the earlier quarters. This carried into Q1 and Q2 Fiscal 2023 as well. Despite the recent improvements in production volumes on a relative basis resulting in less sporadic closures of OEM plants, and an expectation of increased vehicle production in Fiscal 2023 based on IHS forecasts, management believes at this time, it is not currently practical to provide guidance. ABC will continually monitor the production schedules of our customers and provide guidance in the future when these factors can be quantified appropriately.