

LINAMAR

CORPORATION

ANNUAL INFORMATION FORM

for the year ended December 31, 2005

March 9, 2006

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## 1. Corporate Structure

### 1.1 Name and Incorporation

Linamar Corporation ("Linamar" or the "Company") was incorporated pursuant to the *Business Corporations Act* (Ontario) on August 17, 1966. Linamar has subdivided its outstanding common shares several times since incorporation, most recently by Articles of Amendment dated May 1, 1998 when it subdivided each of its issued and outstanding common shares into three issued and outstanding common shares. Linamar has also undertaken a number of amalgamations with one or more of its wholly-owned subsidiaries since incorporation, most recently on January 1, 2005 with four such subsidiaries. The Company's registered and head office is located at 287 Speedvale Avenue West, Guelph, Ontario, N1H 1C5.

Unless the context requires otherwise, the terms "Linamar" and "Company" used herein refer to Linamar and its subsidiaries.

### 1.2 Intercorporate Relationships

The following is a list of the principal subsidiaries of the Company as of December 31, 2005 and their respective jurisdictions of incorporation. The percentages of voting securities owned by the Company, or over which the Company exercises control or direction, are indicated.

Subsidiary	Jurisdiction of Incorporation	Ownership Percentage
Linamar Hungary RT	Hungary	58.6%
Linamar Holdings Inc.	Ontario	100
Skyjack Inc.	Ontario	100
Industrias de Linamar S.A. de C.V.	Mexico	100

## 2. General Development of the Business

### 2.1 Overview

Linamar designs, develops and manufactures precision machined components, modules and assembly for brakes, engine, steering and suspension, and transmission and driveline applications ("B.E.S.T."), for sale primarily to original equipment manufacturers ("OEMs") and Tier 1 customers for the North American and European car and light to heavy truck markets. Linamar's business includes industrial products that utilize the Company's core competencies of precision machining and assembly. Linamar also produces agricultural implements in Hungary for worldwide use.

The Company conducts its operations in five geographic segments, Canada, the United States, Mexico, Asia-Pacific and Europe. Linamar's business operations are currently carried out by approximately 10,694 people in 36 manufacturing facilities, five product research development centres and nine sales offices. Linamar's four largest customers in 2005, as measured by consolidated sales, were the General Motors group of companies ("GM"), DaimlerChrysler AG ("Chrysler"), Caterpillar Inc. ("CAT") and Ford Motor Company ("Ford"). The Company's Canadian segment accounted for approximately 77% of total revenues.

The Company has historically grouped operating facilities into five areas of expertise, Chassis, Transmission, Engine, Europe and Industrial. In 2005, Asia-Pacific was added as a sixth group. Each group has a President, Director of Finance, Director of Human Resources and a Director of Sales. Linamar believes this structure is necessary to support the expected future growth of the Company.

## **2.2 Facilities Expansions and New Programs**

Through its precision machining businesses, Linamar principally engages in machining and assembly for the automotive industry, which generally involves long-run processes for long-term contracts. Linamar has continued to add manufacturing space for its precision machining business over the past several years in order to facilitate the launch of new programs. Linamar continues to develop its manufacturing processes to include more large components and multiple component assemblies, and develop its product design capabilities as well. The company has benefited from this strategy by being awarded new large programs.

Many new programs launched throughout 2003 and 2004 have reached close to or full expected production volumes in 2004 and 2005. This has contributed to the continued growth of North American automotive sales. Also contributing to increased North American automotive sales are some existing programs and the strong medium and heavy duty truck market.

The Company continues to advance in several of its current expansions. Work is ongoing in the establishment of the facilities in China and Korea and the preparations to launch various new programs. The temporary facility in Wuxi, China is occupied and plans are proceeding regarding the construction of the larger, permanent facility. The Asia-Pacific headquarters has been created in Shanghai, China, with the Asia-Pacific Group President located there to oversee the work and expansion in this region. A permanent corporate and physical presence was also established in Japan ("Linamar Japan") during 2005.

In Guelph, the refurbishment of the old Emtol facility was completed in 2005, and the newly-named Linamar Performance Centre ("LPC") is operating. Similarly, Linamar's newest greenfield site, Camcor Manufacturing, was constructed during 2005 and is currently installing and commissioning equipment.

Finally, Skyjack has been preparing for the re-introduction of an aerial work platform boom lifts into its product line. This is expected to occur in mid to late 2006 and will complement its aerial work platform scissor lift offerings to customers.

During the past several years, Linamar Hungary has also secured new contracts for automotive-related components. During 2002, the GM continuous variable transmission ("CVT") program at the Linamar Hungary facility experienced lower than expected production volumes, and the program was delayed for approximately 8 weeks during the third quarter of 2002 while GM addressed certain technical and design issues. Volumes increased during 2003. However, during the third quarter of 2004, as a result of non-Linamar related issues, GM cancelled the CVT program, with a resulting negative impact on the Company's European sales.

In 2003, Industrias de Linamar S.A. de C.V. ("ILSA") launched new programs for GM and CAT. ILSA also machined engine components and assembled them into equivalent engines for Renault at its Torréon, Mexico facility. The production of assembled engines for Renault ceased by the end of 2005, with low service volumes carrying on from that point.

Overall Mexican sales continued to improve, with an increase of 13.9% in 2005 over 2004.

## **2.3 Significant Acquisitions and Dispositions**

The Company continues to pursue business opportunities that will further develop its product and process technology and/or utilize its machining and manufacturing expertise both outside and within the automotive sector.

On June 25, 2003, the Company purchased the remaining 45% of Torréon International Holdings International Inc., which owns 100% of ILSA, in exchange for cash consideration of \$20.0 million. As a result of this transaction, Linamar now owns 100% of ILSA.

On June 25, 2003, the Company completed the purchase of 96% of Salzgitter Antriebstechnik GmbH & Co. KG located in Crimmitschau, Germany for consideration of \$24.1 million. ETC Elektronenstrahl Technologie GmbH ("ETC") owned the minority interest. The company now operates as Linamar Antriebstechnik GmbH ("LAT"). During 2005, ETC filed for creditor protection in Germany. As part of a settlement reached with the court-appointed Administrator of ETC, Linamar acquired ETC's minority interest in LAT for a payment of € \$0.5 million and an agreement on future royalty payments. As a result, Linamar now owns 100% of LAT. The purchase of this business adds to Linamar's hydroforming capability with application to camshafts. The business is expected to be a significant contributor in the long term future of Linamar Europe.

In September 2003, the company completed the planned acquisition of McLaren Performance Technologies, Inc. ("McLaren Performance") located in Detroit, Michigan. The total consideration of \$26.7 million includes \$0.8875 per share in cash paid to each McLaren Performance shareholder, plus debt assumed, and acquisition costs. McLaren Performance is an engineering firm that provides a variety of services to the automotive OEM and Tier 1 supply base, in particular, engineering analysis capability with respect to engines. It has a test facility in Michigan which has 16 test cells capable of doing endurance and reliability testing, steady state emissions testing, engine build and tear down evaluation, power train engineering and design, noise and vibration studies, warranty failure analysis and catalyst aging and development. During 2005, Linamar began integrating McLaren Performance with its Product Development Team ("PDT"), located in Guelph, in order to fully utilize the Company's technological capabilities.

Effective September 28, 2001, Linamar adopted a formal plan to divest the Company's wholly owned in-house casting operations, which management considered was subject to significantly different business risks than the precision machining segment. In the fourth quarter of 2005, management announced that one of the casting operations, Diversacast, would be shut down. The target date for the shut down is the end of the first quarter of 2006. The remaining business continues to operate until the disposal plan is completed. Divestiture will be in the form of a sale as a going concern or alternatively, as an asset disposal.

On August 31, 2004, Linamar sold its interest in its 50% joint venture, Weslin Industries Inc. ("Weslin"), to its partner, Wescast Industries Inc. ("Wescast"). Linamar received proceeds of \$53.75 million as consideration, yielding a gain of \$6.7 million after tax and disposal costs.

## **2.4 Sales and Marketing.**

In 2003, Linamar completed its plan to internalize its sales organization. In this regard, it finalized the termination of representation agreements with its two remaining sales agents in Detroit, effective December 31, 2003. Under the termination agreements, Linamar agreed to pay a total of US\$18.2 million as final settlement of all future commissions otherwise payable. This buyout was accounted as a one-time financial cost in the fourth quarter of 2003. The total value of annual commissions that Linamar would otherwise have paid was estimated to average US\$8.9 million until 2006, based on the existing base of business. These commission costs under the representation agreements would have extended beyond the three-year period and estimated cost would depend on new programs added, less programs terminating. In addition, Linamar has the right under the termination agreements to recruit certain key staff of the relevant firms providing continuity in relationships with automotive customers. Of the US\$18.2 million settlement, US \$15.7 million has been paid and the remainder will be paid out on a monthly basis until December 2006.

## **2.5 Credit Facilities**

In December 2003, the Company renewed its Canadian syndicated banking facilities. The non-revolving facility was increased to \$120.0 million term, due in December 2006. The extendible revolving facility was increased by \$45 million to \$182.0 million and is extended to December, 2006. These facilities are guaranteed by the Company and three domestic subsidiaries and are unsecured. As of December 31, 2005, \$170.8 million was available under the revolving credit facility. The outstanding balance on the non-revolving facility represents the total amount available under the facility as the credit agreement calls for the facility to be fully drawn at all times.

The credit agreement requires the Company to maintain certain financial ratios and imposes limitations on specified activities. The Company was in compliance with these covenants at December 31, 2005.

Borrowings under the credit agreement are available by way of: i) Canadian Prime Rate loans, ii) U.S. Base Rate Loans, iii) Banker's Acceptances, and iv) LIBOR Loans, plus applicable interest rate margin. The margin varies depending on the Company meeting specified financial ratios.

In December 2001, the Company entered into an interest swap transaction maturing December 17, 2006 to convert \$102.0 million of variable rate obligation under the Company's non-revolving loan facility to a fixed interest obligation at 4.785% plus applicable margin of 0.7%.

In December 2003, the Company entered into a cross-currency interest swap transaction maturing December 17, 2006 to convert the \$102.00 million fixed interest obligation, achieved by the interest swap transaction noted above, to a variable rate obligation at the three month LIBOR floating rate plus 2.315%.

## **2.6 Trends**

Various trends and technologies are developing in the area of automotive powertrains. Linamar has observed a trend pursuant to which its customers for powertrain systems generally are moving from component outsourcing to module outsourcing. Moreover, Linamar believes that products in all of the B.E.S.T. applications are expected to be the next major area of outsourcing by OEMs over the next 10 to 20 years. Module outsourcing has provided the Company with greater opportunities to supply fully machined and assembled modules rather than individual components and Linamar is positioning itself to take full advantage of these opportunities.

The change to six speed transmission that is picking up momentum has resulted in the Company acquiring significant contracts in North America and Asia.

Outsourcing of brake components and subassemblies has also increased as brake system suppliers typically focus on only the design and assembly of brake systems. Linamar has been awarded contracts for every component in a vehicle's brake system and increased its customer base for these components.

Outsourcing of key engine components by OEMs has increased significantly. Many of these programs are for core components and assemblies such as fully machined cylinder heads, differential components and transmission shafts. Management expects that the outsourcing of engine components will eventually evolve into machining and assembly as with, for example, cylinder heads ready for assembly onto an engine.

As a result of current levels of consumer spending on automobiles, the OEMs are constantly facing volume changes which are reflected in Linamar's results through reduced volume on some existing programs. The OEMs do, however, continue to outsource, although not at expected levels, which allows Linamar to expand and diversify its product base.

Other trends include the lower than expected levels of outsourcing by the OEMs in the powertrain segment, the market share shift to the Japanese automakers, the shortage of qualified technical people in the labour pool, low cost country outsourcing and technologies that eliminate the need for machining. In addition, the automotive industry continues to decrease the supply base such that the number of suppliers is reduced to a more manageable level. The OEMs are also looking for the core suppliers to take more responsibility with respect to product and process design and development. Through this supplier reduction process, there have been considerable consolidations or acquisitions of smaller suppliers.

Strategies used to address these challenges include focusing on strategic sales and platform targeting to meet targeted customer and product sales levels as well as heavy capital expenditure levels with expenditures on various new programs (cylinder head and block programs, connecting rods, differential case assemblies etc.) that target key products and expand into assemblies and modules. Linamar also intends to continue to focus in 2006 on training at all levels, LEAN manufacturing principles and supplier management.

Important new technologies, like hydroforming of camshafts, have been acquired (through the purchase of LAT), as well as the increased capacity to design, test and validate powertrains and their components (through the acquisition of McLaren Performance).

Some inroads have been made with new contracts for Honda and Toyota, and a new permanent Linamar subsidiary was established in 2005 in Yokohama, Japan. As discussed earlier, a new temporary facility was started up in China, along with the Asia-Pacific office, in 2005. Work also began on the new facility in Korea. These efforts will assist the Company in increasing its business with the market share-gaining Japanese and Asian auto makers and address low cost country outsourcing issues.

In 2006, Linamar anticipates continuing uncertainty in the automobile market and, as a result, expects only moderate growth in sales and earnings. The company is expecting to launch new programs, as well as see existing programs achieve their anticipated levels of production in 2006. Growth in content per vehicle in 2006 for both North America and Europe is forecasted at 0-5%. While the Asia-Pacific market is expected to grow in 2006, it will continue in start-up and is not expected to be profitable in 2006.

Sales growth projections are based on program launches which include transmission business (such as differential cases for DCX and Eaton, WK transmission carriers and differential cases, 6R and 6F transmission components, other transmission carriers, as well as output and coupler shafts) engine business (such as 3.7L crankshafts, 4.0L, 3.5L, 3.9L and Gen IV and NG6 camshafts, 6.1L engine block) and continued strength in the industrial products category. Linamar also supplies the medium and heavy truck markets. In 2005, those markets remained strong. Expectations are for continued strength in 2006 and some decrease in 2007, although it is difficult at this time to predict the extent of the decrease.

Earnings growth expectations are based on the launch and sales ramp-ups of the programs noted and the maturity of other programs where efficiencies of production are achieved and maintained. The earnings expectation also assumes that the progress made in the past several years in Mexico will be maintained and on-going performance will also show improvement. Earnings growth also anticipates that LAT will launch and ramp up its camshaft and cylinder head & block programs turning that business from losses in 2004 and 2005 to profitable performance beginning in late 2006. The remaining European businesses based in Hungary will also steadily grow in both sales and earnings as programs with Denso and Delphi (common rails and hydraulic manifolds), Bosch (pump housing) and Honeywell (turbo housings) take effect in the automotive sectors and industrial and agricultural business show some growth as well. The uncertainty in Linamar Hungary caused by the CVT program ended in 2004 as GM cancelled that program, but other Linamar Hungary product areas remain difficult to forecast and predict because markets can be affected by the presence or lack of government subsidies available to purchasers (i.e. agriculture) and/or the success of customers products that are in very competitive markets (such as construction equipment products) or the market acceptance of new customers' technologies (ATI vehicle track systems) .

In the company's industrial products business, which is comprised mainly of Linamar's Skyjack operations, the market is expected to remain highly competitive throughout 2006 as a series of large projects commence construction. This may be offset partially by an expected cooling off in the residential market during the same period. Growth in the European construction market is expected to gain momentum allowing Skyjack further market penetration in that region. Continued growth of the overall business is also based upon the re-introduction of the booms in 2006. Industrial sales are expected to increase in 2006. These results may not be realized if the residential market decline exceeds expectations.

Overall, these expectations assume consistent levels of North American and European automobile production, no unforeseen changes in the existing business base, and are subject to overall economic conditions and world political events and factors. As well, in 2006, Linamar will continue to realize the benefits provided by the Linamar Production System. The system is based on lean principles developed by Taiichi Ohno, a Toyota Motor Corporation ("Toyota") executive.

### **3. Description of the Company's Business**

#### **3.1 General**

The Company currently operates primarily in the North American Automotive Systems industry segment and in five geographic segments, Canada, United States, Mexico, Europe and Asia-Pacific. The Company also has smaller industry segments that are not individually reportable. These include the manufacture and sale of castings, and the transportation of the Company's products. Along with the corporate headquarters, these small operating entities are now reported in the North American Automotive Systems industry segment. Substantially all automotive revenue is derived from sales to major North American manufacturers.

Linamar's operating facilities have been aligned into groups to provide a better focus on the B.E.S.T. areas of the vehicle and develop more efficient production methods for similar products. The Company has grouped its operating facilities into six areas of expertise, Chassis, Transmission, Engine, Europe and Industrial and Asia-Pacific. Of the six groups, Transmission, Engine and Chassis are aggregated into the North American Automotive Systems segment. Europe and Asia-Pacific each stand alone as a segment and are primarily in the automotive business. During 2004, the Industrial Group, which is comprised of the aerial work platform business, became a quantified reportable segment. Unless otherwise noted, the following descriptions refer to all operational segments.

### **3.2 North American Automotive Segment**

The North American Automotive Segment brings together the Chassis, Transmission and Engine Groups. It has 30 manufacturing facilities (one through the Eagle Manufacturing LLC joint venture), three development centres and five sales and service offices in Canada, the United States, Mexico and Japan.

The Chassis Group manufactures all of the precision-machined components and assemblies that are used in high quality steering, suspension, driveline and braking systems. Its focus is on core components, steering knuckles and assemblies, drums and rotors as well as complete steering and suspension sub-assemblies and modules, control arms and assemblies, power steering and rack housings, gears, joints and fittings, power steering pumps, cross members and assemblies, column components and assemblies, races and flanges, bearing caps, yokes, sprockets, carriers and cases, and axle shaft assemblies.

The Transmission Group manufactures and assembles all of the precision-machined components and assemblies that are used in high quality transmission systems. Its focus is on core components, transmission cases, shafts, shafts and shell assemblies, clutch modules, and valve bodies, as well as torque converters, pumps, planetary gear assemblies and components, housing and covers, transmission sub-assemblies and modules for all types of drivetrain configurations.

The Engine Group manufactures and assembles every key mechanical component of today's modern engine. It can provide a fully assembled and dressed engine, or an engine module. Its focus is on core components, cylinder blocks and assemblies, cylinder heads and complete head assemblies, camshaft assemblies, crankshaft assemblies, and connecting rods, as well as intake manifolds, gears, flywheels, covers and housings, liners and pistons, injectors, cases, vacuum pumps, oil pumps and water pumps.

The principal customers for the North American Automotive Segment are OEMs with operations in North America and their suppliers, including GM, Ford, Delphi, Chrysler and CAT.

For 2005, sales for the North American Automotive Systems segment show an increase of \$222.7 million from \$1,504.6 million in 2004 to \$1,727.3 million for 2005. The programs with the largest impact for the year have been the DCX differential cases, various medium and heavy duty CAT cylinder heads, GM connecting rods, Ford cylinder heads, Allison Transmission components and Visteon differential cases. Growth in the heavy truck vehicle market also contributed to the Company's sales growth in 2005 as well as the growth in external sales in the company's transportation division. The impact of the declining U.S. dollar against the Canadian dollar and the Mexican Peso is estimated to be a reduction of \$80.2 million for the year, indicating an increase otherwise of about \$302.9 million on a consistent exchange rate basis.

### **3.3 Europe**

The Europe Group brings together in one organization world-class focused resources for Engine, Transmission, Chassis and Industrial components and systems. It focuses on full-service engineering and manufacturing support for all the engine, transmission and chassis products for the entire European automotive and commercial vehicle market. The same advanced manufacturing and leading-edge technologies are also employed in its agricultural and industrial products. The Europe Group has four manufacturing facilities (in Hungary and Germany), two development centres (in Germany and Hungary) and four sales offices (in Hungary, Germany and the United Kingdom).

Linamar Hungary, part of the Company's Europe Group, machines and assembles highly engineered components and assemblies for the automotive industry, and manufactures corn heads and other agricultural components, subassemblies and equipment. It also assembles aerial lift platforms and manufactures and assembles other industrial products. Linamar Hungary operates through three separate divisions, two of which manufacture products for the automotive sector and one of which manufactures agricultural equipment. The automotive divisions operate in two new facilities and one

original building from the date Linamar Hungary was first purchased. Linamar Hungary's manufacturing facilities are located in Orosháza and Békéscsaba, Hungary.

The principal customers of the European segment are European OEMs and their suppliers, including GM, Perkins, BMW, Volkswagen AG, the Newage division of Cummins, Magna Steyr, Borg Warner Inc. and Honeywell International Inc.

European sales in 2005 increased \$7.3 million to \$139.2 million from \$131.9 million in 2004. The agriculture sales at Linamar Hungary were consistent with prior year levels.

### **3.4 Industrial Group**

The Industrial Group is a leading manufacturer of elevating work platforms, focused on production of the industry's most reliable scissor lifts. Skyjack offers innovative products through creative engineering driven designs, complete customer and product support and the Skyjack commitment to exceed customers' expectations. As noted earlier, Skyjack will be re-introducing an aerial work boom into its product offering in mid to late 2006. The majority of Skyjack's sales are in the North American market with the European market representing 17% of its sales in 2005. Products include both battery powered and combustion engine powered scissor lifts. It has two facilities in Canada, two in the United States and one in Europe. Since 2002, two models of Skyjack scissor lifts have been produced by Linamar Hungary's agricultural division for the European Market. Sales for the Industrial Group increased to \$292.5 million for 2005. The increase relates to the increased market demand for Skyjack aerial lifts.

Operating earnings in the Industrial segment improved in the year as compared to 2004 by \$18.7 million. The results in this segment improved due to increased sales volumes and the continued efforts of the Skyjack operations to reduce operating costs and alter the manufacturing strategy from one of complete component manufacturer to one of design, assembly of key component manufacturing and marketing/distribution strategy.

### **3.5 Asia-Pacific**

Sales in the Asia-Pacific operating group of \$2.4 million in 2005 were related to the sales of various GM prototypes for programs awarded during the past year. This new operating group had a loss of \$2.6 million for the year as the group prepares to launch various programs in China and Korea.

### **3.6 Sales and Marketing**

Linamar's precision machining operations sell its products directly to its customers in Canada and the United States through its Canadian and U.S. sales offices. During 2003, the Company terminated the Representation Agreements with two sales agents in the United States. The Company is now using its own sales force and has experienced a cost savings under the new organization structure. This change will also allow a more direct relationship with customers and strengthen the Linamar brand. As well, the Company has now established sales offices in the United States, Mexico, the United Kingdom, Germany, Japan and China. The various internal divisions and subsidiaries of the OEMs generally initiate their own purchasing decisions and thus each OEM may constitute, in effect, several different purchasers.

Substantially all of Linamar's sales in its precision machining operations are to the automotive industry. Companies which supply directly to the OEMs and which may be involved in the design, engineering, manufacture and quality control testing are generally referred to in the automotive industry as "Tier 1" suppliers. Tier 1 suppliers (including Linamar) may be awarded longer term purchase orders by OEMs as a result of their involvement in the development of components with the OEMs. Many parts are now being manufactured and assembled into components, assemblies, modules or systems by Tier 1 suppliers. OEMs purchase components, assemblies, modules or systems and then complete the assembly of the vehicle. Tier 1 suppliers generally have the capability to supply these components, assemblies, modules

or systems to the OEMs on a just-in-time basis, which helps OEMs reduce or otherwise manage inventory levels.

In producing assemblies, modules or systems for OEMs, Tier 1 suppliers may rely on other suppliers for some components or parts. Depending on their level of sophistication in respect of engineering, manufacturing and other relevant skills, these and other suppliers are generally referred to as either "Tier 2" or "Tier 3" suppliers.

Linamar believes that there are significant opportunities for growth as a result of the continued trend for OEMs to outsource to suppliers a greater proportion of the supply of components, assemblies, modules and systems within the powertrain and other areas, and in particular larger and more complex products with increased content and features. Additionally, as the product lifecycles of engines and transmissions tend to be relatively longer than those of other automotive systems, management believes that where Linamar has been able to obtain production contracts for new or redesigned product introductions from its customers, it will have an opportunity to supply such products for longer lifecycles. The production runs or lifecycles for engine and transmission components of the type produced by Linamar typically continue for between five and ten years.

The Company usually receives contracts to produce particular parts for one or more model years. Firm orders are usually only created when Linamar receives a release under such a contract, authorizing it to produce and deliver specific quantities of the product. Such releases are generally issued for planning, raw material and production purposes over a three to four month period in advance of anticipated delivery dates. The actual number of parts produced by the Company under any specific contract in any given year is dependent upon the number of vehicles produced by the OEM of the specific model or model type in which the part is incorporated. OEM production levels of a particular vehicle model or engine or transmission type may vary significantly from OEM estimates and such production may be delayed or cancelled, often without any compensation to Linamar. Although OEMs are not usually contractually committed to using a particular manufacturer to supply a product throughout the time the OEM requires such product, it has been Linamar's experience that, once it has received a commercial production order to produce a part for a particular vehicle model or model type, it will ordinarily continue to produce the part throughout the time the OEM utilizes such part for that vehicle.

The Company also obtains production programs on a re-sourcing basis. Such programs are typically already in production at OEM facilities or at the facilities of one of the Company's competitors and are, for various reasons, such as capacity or production problems, re-sourced to Linamar for production at its facilities.

### **3.7 Quality Control**

Linamar has identified and pursues quality control as a key driver of its business. The Company has invested heavily in advanced measuring and monitoring equipment and utilizes a program known as "Statistical Process Control". This program gives a machine operator the ability to rectify deviations that might otherwise lead to quality problems or unnecessary machine wear. The Company also performs ongoing machine, process and gauge capability studies to ensure that quality and productivity are maintained or improved where possible. At March 9, 2006, 28 of the Company's facilities were either QS-9000 or TS16949 registered suppliers. Linamar's active pursuit of these registrations demonstrates to its customers the Company's dedication to quality. Linamar's dedication to the quality of the environment is also demonstrated by the fact that 30 of its facilities are ISO-14001 registered.

The Company traditionally has experienced a very low level of warranty claims. As Linamar becomes more involved in the design of products, however, it is possible that in the future the number of such claims may rise.

Linamar has, since 2002, followed the Linamar Production System ("LPS"), which is based upon the Toyota Production System. LPS is aimed at eliminating waste both in the production process and

throughout the organization to help the Company achieve its goal of being a lean, cost effective entity. LPS can be divided into three steps. The first step in the system is to develop value stream maps which allow the Company to determine its current processes, the changes it wants to implement to improve these processes and the method for implementing the changes. The second step involves the establishment of standardized work instructions and the development of the best possible work instructions for an activity to eliminate waste. The last step of this system is the implementation of a 5S Work Place Organization Plan. The 5Ss are letters from words that lead to work place organization – sort, straighten, sweep, standardize and sustain. Throughout 2005, LPS has been successfully implemented at each facility and continues to be an ongoing focus of activity.

### **3.8     *Research and Development***

Linamar's research and development activities encompass both process and product development. Much activity is undertaken at each facility by the regular line personnel in response to opportunities as they arise.

The Company has five development centres – two in Ontario and one each in Michigan, Germany and Hungary. The acquisition of McLaren Performance in 2003 provide additional capabilities in terms of product design, development, testing and analysis. McLaren Performance is particularly known for its expertise in the engine area.

### **3.9     *Intellectual Property Rights***

Linamar uses its patents, trademarks and copyrights in its manufacturing businesses, and both licenses to third parties, and is licensed to use third party, intellectual property. The Company's intellectual property rights are an important asset, but the loss of any particular right would not have a material effect on its business.

### **3.10    *Engineering and Design***

Linamar's employees and sales representatives attempt to become involved as early as possible in the OEM vehicle, engine and transmission development programs and to develop components, modules or systems that either replace products currently produced by Linamar or represent strategically important product opportunities for Linamar. It has been the Company's experience that early involvement by a supplier in the development cycle of a new vehicle model or new engine or transmission type often leads to orders for commercial production of the components, modules or systems for such vehicles, engines or transmissions.

It has become increasingly common for OEMs to identify a supplier as the source for a component, module or system during the product design phase, provided the supplier meets various price, service and quality standards. When a supplier is pre-sourced in this manner, the OEM and supplier cooperate on design, product and process engineering and establish the selling price and other relevant considerations through a negotiation process.

Linamar recognizes that in order to remain a Tier 1 supplier, it must maintain its ability to provide complete engineering, development, prototype, testing and production capabilities. Of course, the addition of McLaren Performance, discussed above, enhances the Company's abilities in this regard. Linamar's product development team ("Product Development Team") was expanded in 2002 to be able to offer more services to customers in Europe as well as North America. As noted earlier, during 2005, PDT was integrated with McLaren Performance in order to maximize the Company's technical capabilities and offerings to it customers. As of December 31, 2005, the Product Development Team, plus the engineering and design staff consisted of approximately 466 people in all Linamar's plants. Recently, the Product Development Team has been very successful in vacuum pump re-designs, and has also played a key role in the cost saving for CAT, which lead to Linamar being named strategic supplier of cylinder heads for CAT. As a result, Linamar expects to be involved in all future design products for CAT's

cylinder heads. During the year, the Company has been awarded significant design programs for the Big Three OEM's. This work has been won as a result of Linamar's increased focus on people and testing capabilities in the engineering and design area. Two such awards illustrate this point. As a result of the Company's engineering, design, and design for manufacturing work, Linamar was awarded the manufacturing work for the cylinder heads of the Viper high performance vehicle for DCX. Secondly, the Company's design input and design for manufacturing led to the award for production of a differential case assembly for a European automotive customer.

Linamar's engineering staff use a variety of CAD/CAM systems and work closely with production personnel in providing engineering support as required. Large projects sometimes require supplementing in-house engineering capabilities through the use of subcontractors and other external services. Linamar strives to maintain its technical and engineering staff at approximately 20% of its workforce. Linamar initially worked with non-automotive customers in order to gain the experience necessary for automotive components. For example, the Company has been successful in designing and developing automatic transmissions for the marine industry and trans-axles for the utility vehicle industry. Linamar is now recognized as a full service supplier for transmission shafts, differential assemblies, clutch structural components and transmission support assemblies.

OEMs, particularly in North America, provide varying levels of engineering specifications to suppliers when sourcing parts, components, modules or systems. In some instances, the OEMs will provide basic functional parameters and the supplier will be expected to take total responsibility for engineering and the related technologies. These projects typically involve a greater investment by Linamar in engineering and related costs and may, depending on the value added and other factors, yield a higher margin than other projects. At the other extreme, OEMs may retain complete engineering control and require that the supplier manufacture the particular product to the OEM's specifications. In between these two extremes are projects where OEMs provide functional and space parameters and certain specifications to the supplier, but the engineering responsibility remains a cooperative effort between the OEM and the supplier.

### **3.11 Operating Philosophy**

Linamar's organizational structure is aimed to allow for the Company to focus on performance, opportunity and innovation. The creation of the Company's six operating groups, Chassis, Transmission, Engine, Europe, Asia-Pacific and Industrial aligned facilities around specific components, assemblies and modules has created "centres of excellence" which are designed to deliver superior quality, development, and product launch capabilities. Each facility in a group is operated as a separate profit centre managed by a general manager with production expertise who has discretion, within broad guidelines established by the Group's management, to determine rates of pay, hours of work, sources of supply and contracts to be performed.

The independence of each group allows Linamar to react quickly to new business opportunities. It also allows operational decision-making and cost control to occur at the group and facility level, thus permitting the monitoring of each profit centre and the effective implementation of management incentive programs. The Company encourages its groups and each of their facilities to use Cost Attack Teams ("CATs") to promote efficiency and continuous improvement. CATs focus on a particular product or process and analyze such factors as the utilization of equipment, tools and manpower, interaction with sub-contractors and the movement of parts and products around the facility to identify potential efficiency gains. CATs have been known to achieve approximately 5 – 10% in cost savings.

Linamar coordinates its quoting process for new business through its group offices or the corporate office, with input from applicable facilities and final approval from the corporate office. The Company continues to expand its estimating, quoting and product development resources in order to better meet the expanding needs and expectations of its customers.

Linamar utilizes program management systems in its manufacturing operations to manage product supply from initial concept on through to commercial production and in respect of continuous improvement processes. These systems generally involve cross-functional teams in each plant and incorporate policies and procedures which meet or exceed QS-9000 quality guidelines. Linamar has also established a Technical Review Board comprised of a team of cross-functional experts from manufacturing facilities which determines and tests best practices and optimum use of technology.

### 3.12 Employees

At December 31, 2005, the Company had approximately 10,694 employees worldwide working mainly in the following countries and reportable operating segments:

<u>Country</u>	<u>Approximate No. of Employees</u>	<u>Segment</u>	<u>Approximate No. of Employees</u>
Canada	7,119	North American Automotive Segment	7,727
Germany	83	Asia-Pacific	28
Hungary	1,654	Europe	1722
Mexico	1,226	Other	1217
United States	584		
China	20		
Korea	8		

The Company strives to maintain good relationships with its employees and has a history of resolving labour issues amicably. All facilities have regular employee meetings to keep employees informed of changes within the Company, and an annual employee survey provides an opportunity for employees to share their opinions. The Company utilizes a “balanced scorecard” incentive program as part of a program the Company refers to as its “Stepping Stool of Success”. This program monitors how each separate facility is performing against key measurables in the three areas of customer satisfaction, employee satisfaction and financial satisfaction. This program links the compensation of all employees to achievement of specific goals and provides feedback on successes and areas for improvement.

The health and safety of all employees in the workplace is a priority. In recognition of this, all facilities are subject to annual and quarterly external health and safety surveys. Linamar’s accident frequency per employee is approximately 66% lower than the industry standard and its number of days lost to accidents per employee is 85% better than the industry standard.

Employees working in the facilities located in Mexico and Hungary are covered by labour contracts. Other than Invar Manufacturing (“Invar”) and Standard Induction Castings (“Standard”), divisions of Linamar Holdings Inc., which have labour contracts covering approximately 425 employees, no employees in Canada, the United States, or Germany are subject to a collective agreement. Invar’s collective agreement expires in March 2006, while Standard’s collective agreement expires in August 2008.

### **3.13 Manufacturing Facilities**

The Company currently has 36 active manufacturing facilities, five research and development centres and nine sales and service offices in Canada, the United States, Mexico, Europe and Asia.

The principal facilities utilized by the precision machining segment range in size from 70,000 to 150,000 square feet and generally operate at or near 80% of production capacity. Most of Linamar's existing manufacturing facilities can be adapted to a variety of manufacturing processes without significant capital expenditures, other than for new equipment.

### **3.14 Contingencies**

Linamar is involved in certain lawsuits and claims. Management is of the opinion that the Company will not incur any additional material liability from such lawsuits and claims other than the amounts already provided for in the Company's financial statements for the year ended December 31, 2005.

## **4. Risk Management**

The Company's discussion of risk and risk management is contained on pages 14 to 17 inclusive of the Company's Management Discussion and Analysis for the year ended December 31, 2005, which discussion is incorporated herein by reference.

## **5. Dividends**

Since 1995, Linamar has declared quarterly dividends based on performance in prior years and expected performance. The Company declared cash dividends of \$17.0 million representing 0.24 cents per share in 2005. The payment and amount of future dividends is at the discretion of the board of directors and is subject to, among other things, earnings, cash flow, capital requirements and the financial condition of the Company. Nevertheless, the Company expects that it will continue its established dividend policy in the near future.

## **6. Description of Capital Structure**

### **6.1 General Description of the Capital Structure**

The Company is authorized to issue an unlimited number of common shares and an unlimited number of special shares issuable in series.

The material characteristics of the common shares are: a holder is entitled to attend and vote at all meetings of common shareholders and to one vote per common share; is entitled, subject to the rights, privileges and conditions attaching to any other class of shares, to receive any dividend if, as and when declared by the Company's Board of Directors; and, shall be entitled, subject to the rights, privileges and conditions to any other class of shares, to receive the remaining property of the Corporation upon dissolution.

The material characteristics of the special shares, as a class, are: the special shares may be issued at any time in one or more series, each series to be a fixed number set by the Company's Board of Directors' with respect to each series, the Company's Board of Directors shall determine the designation, rights, privileges, restrictions, conditions and other provisions to be attached to the special shares of each series; the special shares of each series shall rank on a priority with the special shares of every other series with respect to priority on the payment of dividends and with respect to priority on return of capital or any other distribution of assets of the Corporation; the special shares of each series shall be entitled to a preference over the common shares of the Corporation and any other shares that may rank junior to the special shares, with respect to priority in the payment of dividends and in the event of liquidation,

dissolution or winding-up of the Corporation; and the Directors of the Corporation may give the special shares of any series such other preferences as they see fit.

To date, only common shares of the Corporation have been issued. There are no special shares of any series issued or outstanding.

## 7. Market for Securities

The common shares of the Company are listed and posted for trading on the Toronto Stock Exchange under the trading symbol "LNR".

The price range and volume of trading of the common shares of Linamar Corporation on the Toronto Stock Exchange for the period from January 2005 to December 2005 are as follows:

Linamar	High Price	Low Price	Close Price <sup>(1)</sup>	Volume
Jan	15.49	13.22	13.88	2,065,700
Feb	14.90	13.79	13.93	1,329,900
Mar	15.00	12.50	13.10	2,971,900
Apr	14.48	12.80	13.63	1,809,600
May	15.12	13.50	14.60	1,735,100
Jun	15.75	14.40	15.45	2,693,700
Jul	16.49	15.25	15.75	3,249,300
Aug	17.98	15.27	16.70	3,442,700
Sep	17.95	15.85	16.10	1,534,800
Oct	16.98	13.02	14.75	2,456,000
Nov	15.78	10.81	11.05	3,676,000
Dec	12.10	10.90	11.72	5,436,100

<sup>(1)</sup> Closing price on the last trading day of the month.

### 7.1 Prior Sales

In October 2004, Linamar was successful in completing a private placement of U.S. \$120 million aggregate principal amount of senior unsecured notes. Of the total, U.S. \$80 million of the notes have a five-year term bearing interest at a rate of 4.44% per annum. The remaining U.S. \$40 million principal amount has a ten-year term and an interest rate of 5.33% per annum.

## 8. Directors and Officers

The following table sets forth information with respect to each of the directors of Linamar. Each director will hold office until the close of the next annual meeting of shareholders of the Company or until his or

her successor is elected or appointed. The Board of Directors has established two standing committees, an Audit Committee and a Human Resources and Corporate Governance Committee, and has prescribed their respective responsibilities and mandates. The Audit Committee and the Human Resources and Corporate Governance Committee are both comprised of entirely outside directors.

**Name, Address, Occupation and Security Holdings**

<b>Name &amp; Municipality of Residence</b>	<b>Director Since</b>	<b>Other Positions and Offices currently held with the Company</b>	<b>Principal Occupation</b>
<b>Frank Hasenfratz</b> Ariss, Ontario, Canada	1966	Chairman of the Board	Chairman of the Board of the Company
<b>Linda Hasenfratz</b> Guelph, Ontario, Canada	1998	Chief Executive Officer	Chief Executive Officer of the Company
<b>Mark Stoddart</b> Guelph, Ontario, Canada	1999	Chief Technology Officer & Executive Vice President of Marketing	Chief Technology Officer and Vice President of Marketing of the Company
<b>William Harrison</b> <sup>2</sup> Guelph, Ontario, Canada	1990	None	Chairman and Chief Executive Officer of Lift Technologies Inc. (manufacturing)
<b>David Buehlow</b> <sup>1,2</sup> Bright, Ontario, Canada	1998	None	Retired Partner of Coopers & Lybrand LLP, a predecessor firm of PricewaterhouseCoopers LLP (accounting firm)
<b>Terry Reidel</b> <sup>1,2</sup> Kitchener, Ontario, Canada	2003	None	President & Chief Operating Officer of Kuntz Electroplating Inc. (manufacturing)
<b>Margaret Cornish</b> <sup>1</sup> Corburg, Ontario, Canada	2005	None	Executive Director, Canada China Business Council

During the last five years, all of the Company's directors have held the principal occupations noted above except for: (i) Frank Hasenfratz, who was also President of the Company from February 1998 to April 1999 and Chief Executive Officer from August, 1996 to August, 2002 (ii) Linda Hasenfratz, who became Chief Executive Officer of the Company on August 12, 2002 and was President of the Company from April 1999 until August 2, 2004 and was Chief Operating Officer of the Company from September 1997 to September 1999; and (iii) Terry Reidel, who was a Managing Partner of Ernst & Young from March 1996 to February 2001; and Margaret Cornish, who was a Principal with Cornish & Co. from 2000 until June 2003.

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<sup>1</sup> Member of Audit Committee.

<sup>2</sup> Member of Human Resources Corporate and Governance Committee

The following table sets forth information with respect to the officers of the Company.

<b>Name &amp; Municipality of Residence</b>	<b>Principal Occupation</b>
<b>Linda Hasenfratz</b> Guelph, Ontario, Canada	Chief Executive Officer
<b>Jim Jarrell</b> Guelph, Ontario, Canada	President & Chief Operating Officer
<b>Margaret Mulligan</b> Mississauga, Ontario, Canada	Executive Vice President, Chief Financial Officer & Treasurer
<b>Mark Stoddart</b> Guelph, Ontario, Canada	Chief Technology Officer & Executive Vice President of Marketing
<b>Michael Annable</b> Guelph, Ontario, Canada	Executive Vice President, Administration
<b>Roger Fulton</b> Burlington, Ontario, Canada	Executive Vice President, General Counsel & Corporate Secretary
<b>Francis Gobbi</b> Guelph, Ontario, Canada	Group President - Engine
<b>Csaba Havasi</b> Peterborough, United Kingdom	Group President – Europe
<b>Robert Mallette</b> Guelph, Ontario, Canada	Group President – Chassis
<b>Ken Myers</b> Windsor, Ontario, Canada	Group President - Transmission
<b>Lloyd Spalding</b> Hamilton, Ontario, Canada	Group President – Industrial
<b>Brian Wade</b> Shanghai, China	Group President – Asia-Pacific
<b>Nick Adams</b> Clarkston, Michigan, USA	Vice President, Global Sales
<b>Brian Ahlborn</b> Pittsburgh, Pennsylvania, USA	Vice President, Corporate Development
<b>Derek Jones</b> Belwood, Ontario, Canada	Vice President, Manufacturing

During the last five years, the Company's officers have held the principal occupations noted above except for: (i) Michael Annable, who was Director of Human Resources, IT and Administration of the Company until March 2002 and Vice President of Human Resources, Information Technology and Administration from March 2002 until December 2004; (ii) Csaba Havasi, who was Group Vice-President from July, 1999 to September, 2002 (iii) Ken Myers, who was until joining Linamar in September, 2002 General Manager of Roof Systems of Arvin Meritor Inc., a Tier 1 automotive supplier; (iv) Lloyd Spalding who was Chief Executive Officer of American Equipment Leasing, a division of ABN AMRO Bank, North America between January 1997 and July 2002; (v) Roger Fulton, who was General Manager – Human Resources

and Legal Affairs, Stelco Hamilton from September 2000 to August 2003,; (vi) Francis Gobbi, who was Vice-President of Operations, Engine Group from March 2004 to January 2005, and General Manager of Camtac Mfg. and Ariss Mfg. from October 2003 to March 2004, and General Manager of Camtac Mfg. and Roctel Mfg. from June 2002 to October 2003, and General Manager of Roctel Mfg. from February 2000 to June 2002; (vii) Robert Mallette, who was Operations Manager for Weslin Industries Inc., the Company's joint venture in Hungary, from November 1999 to December 2001, and General Manager at Weslin Industries from December 2001 to December 2002, and Director of Business Development for the Chassis Group from December 2002 until March 2004, and General Manager of Roctel from March 2004 until December 2005, and Vice President of the Chassis Group from December 2005 until January 2006, and (viii) Brian Wade, who was Vice President – Linamar Antriebstechnik from June 2003 to June 2005, and Director of Sales, Europe from November 2004 to June 2005, and General Manager – Cemtol Mfg. from December 2001 to June 2003, and Engineering Manager-Cemtol Mfg. from June 1998 to December 2001; and (ix) Nick Adams, who was Vice President and Director of Worldwide Automotive Sales for Motorola Inc. from 1999 to June 2005; and (x) Brian Ahlborn, who was Vice President, Sales & Marketing for Axicon Technologies from 1999 to 2003, and Vice President Sales & Marketing for Fishercast Global 2003-2004; and (xi) Margaret Mulligan, who was Executive Vice President, Systems & Operations, The Bank of Nova Scotia from November 1998 to December 2004.

As at the date hereof, the directors and senior officers of the Company, as a group 19 persons, owned beneficially or exercised control or direction over a total of 17,722,495 common shares (representing approximately 24.59% of the outstanding shares of the Company).

## **9. Audit Committee**

### **9.1 Audit Committee Mandate**

Attached as Schedule "A" to the Annual Information Form is the mandate for the Company's audit committee (the "Audit Committee").

### **9.2 Composition of the Audit Committee**

Members of the Audit Committee are David Buehlow, Terry Reidel and Margaret Cornish. Each member of the Audit Committee is independent and financially literate.

### **9.3 Relevant Education and Experience**

Mr. Buehlow has extensive financial experience. He attended the University of Western Ontario and received a Bachelor of Arts in Economics in 1957. Mr. Buehlow earned his C.A. designation from Queen's University in 1961. Mr. Buehlow spent the next 37 years of his career at PricewaterhouseCoopers (formally Coopers and Lybrand), and was a partner for 27 years.

Mr. Reidel has extensive financial experience. He is President and Chief Operating Officer of Kuntz Electroplating Inc., a Kitchener-Waterloo company founded in 1948. Mr. Reidel joined Kuntz in March of 2001 as Vice President- Finance. Prior to joining Kuntz, Mr. Reidel spent 39 years with accounting firm of Ernst and Young and was Office Managing Partner of their Waterloo Region Office. Mr. Reidel earned his C.A. designation from Queen's University in 1967.

Ms. Cornish also has extensive financial experience. She is currently the Executive Director of the China Canada Business Council ("CCBC"). Prior to the CCBC, Ms. Cornish was a private consultant with a company she founded in early 2000. From 1988 to 2000, Ms. Cornish was a top ranked industrial products analyst with Scotia Capital. Prior to that, from 1980 to 1988, she served as Director, Sovereign Debt Restructuring in the International Department of Scotiabank. Ms. Cornish served on the Economic Council of Canada from 1983 to 1986. Ms. Cornish teaches occasional business courses on doing business in China and Japan and is Research Associate at the Asian Institute at the Munk Centre of the University of Toronto.

#### **9.4 Pre-Approved Policies and Procedures**

All non-audit services to be provided to the Company or its subsidiary entities must be approved by the Audit Committee prior to the auditors providing such services.

#### **9.5 External Auditor Service Fees**

For the financial years ended December 31, 2005 and December 31, 2004, PwC charged the following fees to the Company:

<b>Type of Service</b>	<b>Fiscal 2005 (\$)</b>	<b>Fiscal 2004 (\$)</b>
Audit Fees	705,435	539,119
Audit Related Fees <sup>1</sup>	17,898	-----
Tax Fees <sup>2</sup>	67,540	235,204
All Other Fees <sup>3</sup>	<u>-</u>	<u>51,835</u>
Total	790,873	826,158

<sup>1</sup> Audit related fees for the year ended December 31, 2005 represent fees paid in respect of the Canadian Public Accountability Board and certain government certification requirements.

<sup>2</sup> In fiscal 2004, other fees represented financial due diligence services in connection with acquisitions and divestitures.

<sup>3</sup> Tax fees for 2004 and 2005 were in respect of advice on general tax related issues and filings.

#### **10. Interest of Management and Others in Material Transactions**

Included in the purchase of property, plant and equipment are the construction of buildings, building additions and building improvements in the aggregate amount of \$14.7 million (2004 - \$5.3 million) to Kiwi-Newton Construction Ltd., a company owned by the spouse of an officer and a director. Included in cost of sales, are maintenance costs of \$0.8 million (2004 - \$0.7 million) by the same company. On a periodic basis the company entertains a closed-bid process to ensure that it receives market price for the work done by a related party.

Included in cost of sales, are lease costs of \$0.3 million (2004 - \$0.3) related to property leased from a company owned by two directors.

#### **11. Transfer Agents and Registrars**

The Company's transfer agent and registrar is Computershare Investor Services Inc., located at 100 University Avenue, 8<sup>th</sup> floor, Toronto, Ontario M5J 2Y1

## **12. Interests of Experts**

The auditors of the Company are PricewaterhouseCoopers, LLP ("PwC"). The Company believes and PwC has confirmed that PwC does not hold any interests in the securities of Linamar.

## **13. Additional Information**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities, options to purchase securities and interests of management and others in material transactions, is contained in the Company's Management Information Circular for the Annual Meeting of Shareholders for the year ended December 31, 2005. Additional financial information, including the comparative consolidated financial statements, and management's discussion and analysis of the financial condition and results of operations of the Company is provided in the Company's Annual Report for the year ended December 31, 2005.

The Company will provide to any person, upon request to the Secretary of the Company, a copy of this Annual Information Form, together with a copy of any documents, or the pertinent pages of any document, incorporated by reference herein, a copy of the comparative financial statements of the Company for the year ended December 31, 2005 together with the accompanying report of the auditors and a copy of any interim financial statements of the Company subsequent to such financial statements, a copy of the Management Information Circular with respect to the most recent meeting of Shareholders that involved the election of Directors and one copy of any annual filing instead of the Management Information Circular. The Company may require the payment of a reasonable charge before providing such documents to a person that is not a shareholder. If the securities of the Company are in the course of a distribution pursuant to a short form prospectus or if a preliminary short form prospectus has been filed in respect of a distribution of the Company's securities, the Company will provide to any person (without charge), upon request to the Secretary of the Company, any of the documents referred to above and a copy of any other document not referred to above that is incorporated by reference into the preliminary short form prospectus or the short form prospectus.

**A Note on Forward Looking Information.** Certain information provided by Linamar in this Annual Information Form and other documents published throughout the year that are not recitation of historical facts may constitute forward-looking statements. The words "may", "would", "could", "will", "likely", "estimate", "believe", "expect", "plan", "forecast" and similar expressions are intended to identify forward-looking statements. Readers are cautioned that such statements are only predictions and the actual events or results may differ materially. In evaluating such forward-looking statements, 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.

Such forward-looking information may involve important risks and uncertainties that could materially alter results in the future from those expressed or implied in any forward-looking statements made by, or on behalf of, Linamar. Some of the factors and risks and uncertainties that cause results to differ from currently expectations discussed in this Annual Information Form include, but are not limited to, changes in the various economies in which Linamar operates, fluctuations in interest rates, environmental emission and safety regulations, the extent of OEM outsourcing, industry cyclicality, trade and labour disruptions, world political events, pricing concessions and cost absorptions, delays in program launches, the Company's dependence on certain engine and transmission programs and major OEM customers, currency exposure, technological developments by Linamar's competitors, governmental, environmental and regulatory policies and changes in the competitive environment in which Linamar operates.

The foregoing is not an exhaustive list of the factors that may affect Linamar's forward looking statements. These and other factors should be considered carefully and readers should not place undue reliance on Linamar's forward-looking statements. Linamar assumes no obligation to update the forward-looking statements, or to update the reasons why actual results could differ from those reflected in the forward-looking statements.

## **SCHEDULE A**

### **Mandate of the Audit Committee**

#### **I. Purpose of Audit Committee**

The Audit Committee has been formed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- review and report to the Board on the financial statements, related MD&A and other financial disclosures of the Company;
- monitor the integrity of the financial reporting process and system of internal controls in respect of the Company's financial reporting and accounting compliance;
- monitor the management of the principal risks that could impact the financial reporting and related disclosure of the Company; and
- monitor the independence, qualifications and performance of the Company's external auditors and internal auditing department.
- monitor the Company's compliance with legal and regulatory requirements.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities and has direct access to the external auditors as well as any officer or employee of the Company.

#### **II. Audit Committee Composition, Meetings and Organization**

##### **Composition:**

The Audit Committee members shall meet the requirements of the *Business Corporations Act* (Ontario) (the "OBCA") and Multilateral Instrument 52-110. The Audit Committee shall be comprised of three or more directors as determined by the Board, a majority of whom must be resident Canadians (as defined in the OBCA), each of whom shall be independent directors (as defined in Schedule "A") and none of whom shall be officers or employees of the Company or its affiliates. All members of the Audit Committee shall be financially literate (as defined in Schedule "A"). A director who is not financially literate may be appointed to the Audit Committee provided that such director becomes financially literate within a reasonable period of time following his or her appointment.

##### **Appointment of Members and Chair:**

Members of the Audit Committee shall be appointed by the Board on the recommendation of the Human Resources and Corporate Governance Committee and shall serve at the pleasure of the Board, or until the close of the next annual meeting of shareholders of the Company. If the Chair of the Audit Committee is not designated or present at a duly called meeting of the Audit Committee, the members of the Audit Committee may designate a Chair by a majority vote of the Audit Committee membership.

##### **Meetings:**

The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair, any member of the Audit Committee, the external auditors or the Chairman of the Board may, with reasonable notice, call a meeting of the Audit Committee by notifying the secretary of

the Board who will notify the members of the Audit Committee. The external auditors are entitled to receive notice of every meeting of the Audit Committee and to attend and be heard at such meetings. A majority of the members of the Audit Committee shall constitute a quorum. The Audit Committee Chair shall prepare and approve an agenda in advance of each meeting.

The Audit Committee should meet privately at least annually with management, the external auditors, and as a committee to discuss any matters that the Audit Committee or any of these groups believe should be discussed.

#### **Access to Outside Advisors:**

The Audit Committee shall have the authority to retain external legal counsel and other advisors to assist it in fulfilling its responsibilities. The Company shall provide appropriate funding, as determined by the Audit Committee, for the services of these advisors.

### **III. Audit Committee Responsibilities and Duties**

The Audit Committee shall have the duties and responsibilities set out below as well as any other functions that are specifically delegated to the Audit Committee by the Board. In addition to these duties and responsibilities, the Audit Committee shall perform the duties required of the Audit Committee by the OBCA, binding requirements of the stock exchanges on which the securities of the Company are listed and all other applicable laws. The Audit Committee may designate a sub-committee to review any matter within this Mandate.

#### **(a) Review Procedures**

- (i) The Audit Committee shall review and report to the Board on the Company's annual audited financial statements, unaudited quarterly financial statements, related MD&A, annual and interim earnings press releases and other related financial disclosures (including financial disclosures of the Company provided in prospectuses) prior to filing or distribution. The Audit Committee's review should include discussions with management and the external auditors of significant issues regarding accounting principles, practices, and significant management estimates and judgments.
- (ii) At least annually, in consultation with management and the external auditors, the Audit Committee shall consider the integrity of the Company's financial reporting processes and internal controls. The Audit Committee shall discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. The Audit Committee shall also review significant findings prepared by the external auditors together with management's responses.
- (iii) The Audit Committee shall review the effectiveness of the overall process for identifying the principal risks affecting financial reporting and the steps Management has taken to monitor, control and report thereon and provide the Audit Committee's view to the Board.
- (iv) The Audit Committee shall review and assess the adequacy of this Mandate at least annually and submit this Mandate to the Board for approval.
- (v) The Audit Committee will review any material changes in accounting standards and securities policies or regulation relevant to the Company's financial statements.

- (vi) The Audit Committee shall review with management and the external auditors all matters required to be communicated to the Committee under generally accepted auditing standards.
- (vii) The Audit Committee shall review the process relating to and the certifications of the Chief Executive Officer and the Chief Financial Officer on the integrity of the Company's quarterly and annual consolidated financial statements.

(b) **External Auditors**

- (i) The Audit Committee is responsible for overseeing the work of the external auditors who report directly to the Committee. The Audit Committee shall, at least annually, review the independence and performance of the external auditors, including the qualifications and performance of the lead partners of the external auditors, and recommend to the Board the appointment and the compensation of the external auditors or approve any discharge of the external auditors when circumstances warrant.
- (ii) The Audit Committee shall pre-approve all non-audit services to be provided to the Company or its subsidiary entities by the external auditors.
- (iii) At least annually, the Audit Committee shall review and discuss with the external auditors all significant relationships they have with the Company that could impair the external auditors' independence.
- (iv) At least annually, the Audit Committee shall review the external auditors' audit plan and discuss and approve the audit scope, staffing, locations, reliance upon management, and general audit approach.
- (v) Prior to releasing the year end financial results, the Audit Committee shall discuss the results of the audit with the external auditors and discuss any matters required to be communicated to audit committees in accordance with the standards established by the Canadian Institute of Chartered Accountants.
- (vi) The Audit Committee shall consider the external auditors' judgements about the quality and appropriateness of the Company's accounting principles as applied in the Company's financial reporting.
- (vii) The Audit Committee shall review with the external auditors any audit problems or difficulties and management's response thereto.

(c) **Internal Audit Department and Compliance**

- (i) At least annually, the Audit Committee shall review the independence from management and the plan of the internal audit department review any difficulties encountered by the internal audit department in the course of its work.
- (ii) At least annually, the Audit Committee shall review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or government agencies.

- (iii) At least annually, the Audit Committee shall review the report on compliance with the Company's Code of Conduct and any instances of material deviation therefrom with corrective actions taken.

(d) **Other Audit Committee Responsibilities**

- (i) At least annually, the Audit Committee shall assess its effectiveness and each of its members against this Mandate and report the results of the assessment to the Board.
- (ii) At least annually, the Audit Committee shall disclose this Mandate to shareholders, as required by applicable law.
- (iii) The Audit Committee shall maintain minutes of its meetings and periodically report to the Board on significant results of its activities and deliberations.
- (iv) The Audit Committee shall review senior financial and accounting personnel succession planning within the Company.
- (v) The Audit Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Company.
- (vi) The Audit Committee shall receive reports from management in respect of procedures established for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, including the confidential, anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.
- (vii) At least annually, the Audit Committee shall review a summary of related party transactions and potential conflicts of interest of directors and officers of the Company.
- (vii) The Chair of the Audit Committee shall coordinate orientation and continuing director development programs relating to this Mandate for Audit Committee members.

**IV. Currency of the Audit Committee Mandate**

This Mandate was last reviewed by the Board of Directors on February 13, 2006.