



INTERIM REPORT

Linamar Announces Fourth Quarter Results Linamar's Continued Growth Driving Record Sales and Earnings

March 9, 2006, Guelph, Ontario, Canada – Linamar Corporation (TSX:LNR) (“Linamar” or “the company”), a global supplier who designs, develops and manufactures precision machined components, modules and systems for engine, transmission, chassis and industrial applications primarily for the North American, European and Asia Pacific automotive marketplace, today announced its financial results for the fourth quarter ended December 31, 2005.

(CDN dollars in thousands except per share figures)

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Sales	523,455	474,224	2,161,410	1,844,187
Gross Margin	70,865	60,456	278,674	235,596
Operating Earnings ¹	44,308	35,696	176,015	144,715
Earnings from Continuing Operations	26,385	24,245	101,024	90,404
Net Earnings	25,402	24,245	100,041	92,513
Diluted Earnings per Share				
from Continuing Operations	0.37	0.34	1.43	1.28
Diluted Earnings per Share	0.36	0.34	1.41	1.31

Fourth Quarter Operating Highlights

In the fourth quarter, sales increased by 10.4% to \$523.4 million compared to \$474.2 million in the same quarter last year.

With respect to fourth quarter sales, Linamar's North American Automotive sales grew by 6.0% as North American automobile production increased by 5.1% over the fourth quarter of 2004. Contributing to the increase were the CAT heavy duty programs, various blocks and heads, Eaton differential case and DCX differential case programs as well as general volume increases with GM in Mexico.

¹ “Operating earnings”, as used by the chief operating decision makers and management, monitors the performance of the business specifically at the segmented level. Operating earnings is calculated by the company as gross margin less selling, general and administrative expenses.

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Gross margin	70,865	60,456	278,674	235,596
Selling, general and administrative	26,557	24,760	102,659	90,881
Operating earnings	44,308	35,696	176,015	144,715

Under Canadian generally accepted accounting principles (“GAAP”), this financial measure does not have a standardized meaning and, therefore is unlikely to be comparable to similar measures presented by other issuers.



In Europe, Linamar's fourth quarter automotive sales declined by 3.9%, primarily due to reduced sales for the Honeywell turbo housing as a result of customer program changes and conclusion of the DCX injector tube program. This result was achieved as European automobile production decreased by 16.7%. The impact of the reduced sales was a decrease of fourth quarter operating results to a loss of \$1.5 million as compared to 2004 earnings of \$2.4 million.

Content per vehicle for the quarter in North America grew to \$89.54, and European content grew to \$7.71 compared to fourth quarter 2004. Asia Pacific registered content of \$0.07.

The Industrial segment experienced higher sales volumes than 2004, resulting in fourth quarter sales of \$70.9 million. This quarter is consistent with a strong market this year for aerial work platforms. Operating earnings for the fourth quarter for this segment improved in 2005 to \$11.0 million as compared to \$3.5 million in 2004.

On a geographic segmented basis, Canadian sales achieved a level of \$403.1 million, an increase of \$29.7 million, over the fourth quarter of 2004. Sales in the quarter were positively impacted by the expanded CAT heavy duty volumes, Skyjack aerial work platforms, volume increases for various programs for Allison and the launch of the Ford 6 speed program. Operating earnings improved to \$38.4 million from \$33.0 million in the fourth quarter of 2004 as plants achieved improved efficiencies due to program launches from late 2004 coming into full production.

The U.S. segmented sales for the fourth quarter increased to \$38.2 million or 21.7% over the fourth quarter of 2004. Increases were due to the Skyjack new unit program and certain cylinder head and bed plate programs. Segmented operating earnings improved to \$7.1 million from \$1.3 million in fourth quarter 2004 as a result of the noted volume increases.

The Mexican segment experienced higher sales during the fourth quarter at \$41.0 million as compared to \$32.1 million in fourth quarter 2004. Newer programs such as the Eaton 8.6 differential case were launched during 2004 and volume increases continued throughout 2005. Volume increases for a variety of GM programs plus the addition of Bosch lines contributed to the sales increase. This segment reversed losses experienced in fourth quarter 2004 of \$1.0 million to an operating profit of \$1.9 million, an improvement of \$2.9 million. The primary contributors to this change were increased volumes and resultant improved efficiencies as programs launched in early 2005 came into full production.

European sales in the fourth quarter were \$41.0 million, a 27.7% increase from 2004. The increase was mainly due to increased Skyjack sales in the United Kingdom. Also contributing to the increased sales was several small programs in Hungary despite being offset by the program changes for the Honeywell turbo housing. Operating earnings of \$2.4 million demonstrated in the fourth quarter of 2004 reversed to a loss of \$1.7 million. This segment has been negatively impacted by a series of one time SG&A costs.

In the quarter, gross margin improved to 13.5% or \$70.9 million compared with 12.7% or \$60.5 million in the same quarter of last year. The improvement arises from a combination of automotive programs reaching maturity in 2005 and increased sales of industrial products over 2004. Amortization was 7.0% of sales as compared to 6.9% for the fourth quarter of last year. This is indicative of the new programs starting production but which are not yet at full capacity by the end of the year.

Overall fourth quarter operating earnings increased by 24.1% to \$44.3 million as compared to \$35.7 million for the same quarter of 2004. This increase was the result of higher sales in every geographic segment and improved efficiencies noted particularly in Canada, the United States and Mexico. SG&A costs were slightly higher in the fourth quarter at 5.3% of sales or \$27.6 million as compared to 5.2% of sales or \$24.8 million in the same quarter of 2004.



Dividends

The Board of Directors today declared a dividend in respect to the quarter ended December 31, 2005 of CDN\$0.06 per share on the common shares of the company, payable on or after March 31, 2006 to shareholders of record on March 22, 2006.

Outlook

In 2006, Linamar anticipates continuing uncertainty in the automotive market, particularly with respect to the North American OEMs 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 for 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.

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. A key factor in the company's future results is the effect of economic fluctuations in the automotive industry and specifically vehicles produced for the markets in which Linamar participates. Variations in these factors can have a significant impact on the industry and Linamar.

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 booms expected in 2006. Industrial sales are expected to increase 12-17% in 2006. These results may not be realised if the residential market decline exceeds expectations.

The stronger Canadian dollar has the impact of lowering sales and to the extent that the company purchases material or supplies in U.S. dollars, this effect is substantially reduced. Equipment is also purchased in U.S. dollars; when the Canadian dollar strengthens, the equipment cost is reduced as is depreciation over future years. Since Linamar's business is capital intensive, U.S. dollar purchases have a notable positive impact on earnings over future periods. The company continues to employ a hedging strategy where appropriate for net U.S. dollar positive cash flows. The stronger Canadian dollar is also reducing price competitiveness for Canadian dollar denominated sales.

Linamar believes that its strategy to focus on the engine, transmission and chassis components of the automobile represents a significant opportunity for growth as products in these applications are expected to be the next major area of outsourcing by the Original Equipment Manufacturers ("OEMs") over the next 10 to 20 years. Other aspects of the vehicles such as interiors, seating, and structural components have already experienced greater levels of outsourcing. In addition, management believes future trends include more involvement by suppliers in component and module design, a move towards global vehicle platforms and supply base consolidation.

The company believes that it is uniquely positioned with its core competencies in precision machining and manufacturing processes, and its range of precision machined and assembled automotive and non-automotive products. To build on this strong business base, Linamar intends to continue to develop the organization and its capabilities by enhancing its existing expertise to produce every machined component in the vehicle. Linamar's strategy is to establish and develop a market leadership position in key components and assemblies, enhancing its design, development and testing expertise, and researching opportunities in product and process innovation.



Other principal challenges and risks that the company faces moving forward are the slow pace 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 (such as China) and technologies that eliminate the need for machining.

In addition, the automotive industry continues to decrease the supply base mainly due to the actions of the OEMs. The OEMs are actively trying to reduce their supply base to become more manageable. Through this reduction, there have been considerable consolidations or acquisitions of smaller suppliers. These consolidations provide Linamar with additional opportunities to expand automotive the sales base.

Strategies employed to address market challenges include focusing, through Linamar's sales and marketing organization and technical resources, on strategic sales products and processes to meet customer and product sales levels. Linamar is making significant capital expenditures (as illustrated in 2005) on various new programs that target key products and expand into assemblies and modules. Expansion into China and Korea is also an important aspect of Linamar's growth strategy.

Risk and Uncertainties (forward looking statements)

Certain information provided by Linamar in these unaudited interim financial statements, MD&A and other documents published throughout the year that are not recitation of historical facts may constitute forward looking statements. The words "estimate", "believe", "expect" and similar expressions are intended to identify forward-looking statements. Persons reading this report 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 risks and uncertainties may cause results to differ from current expectations. The factors which are expected to have the greatest impact on Linamar include but are not limited to (in the various economies in which Linamar operates): the extent of OEM outsourcing, industry cyclicality, trade and labour disruptions, 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, and technological developments by Linamar's competitors.

A large proportion of the company's sales are denominated in U.S. dollars and the company also purchases a significant amount of raw materials, supplies and equipment in U.S. dollars. The strengthening of the Canadian dollar has the potential to have a negative impact on financial results. The company has employed a hedging strategy to attempt to mitigate the impact but cannot be completely assured that the entire exchange effect has been offset.

As a result of current levels of consumer spending on automobiles, the OEMs are constantly facing volume challenges which are reflected in the results of Linamar through reduced volumes 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 factors and risks and uncertainties that could cause results to differ from current expectations are discussed in the MD&A and include, but are not limited to: fluctuations in interest rates, environmental emission and safety regulations, governmental, environmental and regulatory policies, and changes in the competitive environment in which Linamar operates. 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.



For further information regarding this release please contact Linda Hasenfratz or Peggy Mulligan at (519) 836-7550.

A handwritten signature in black ink, appearing to read "F. Hasenfratz".

Frank Hasenfratz
Chairman of the Board

A handwritten signature in black ink, appearing to read "L. Hasenfratz".

Linda Hasenfratz
Chief Executive Officer

Guelph, Ontario
March 9, 2006



LINAMAR CORPORATION
CONSOLIDATED BALANCE SHEETS

As at December 31, 2005 with comparatives as at December 31, 2004 (Unaudited)
(in thousands of dollars)

	December 31 2005	December 31 2004
	\$	\$
ASSETS		
Current Assets		
Cash	44,055	25,508
Accounts receivable	376,371	359,356
Inventories	196,455	193,839
Prepaid expenses	6,783	6,889
Current portion of long-term receivables	3,923	3,772
Future income taxes	-	3,141
Current assets – discontinued operations	3,927	2,962
	631,514	595,467
Deferred Charges	12,318	10,412
Long-Term Receivables	2,793	10,490
Goodwill and Other Intangibles	38,536	33,719
Property, Plant and Equipment	831,366	796,410
Future Income Taxes	22,712	24,510
Property, Plant and Equipment – Discontinued Operations	1,705	1,833
Future Income Taxes – Discontinued Operations	515	605
	1,541,459	1,473,446
LIABILITIES		
Current Liabilities		
Unpresented cheques	16,050	12,997
Short-term bank borrowings	9,999	50,919
Accounts payable and accrued liabilities	326,473	305,161
Income taxes payable	18,529	3,360
Current portion of long-term debt	131,316	7,038
Current portion of deferred gain	-	9,206
Current liabilities – discontinued operations	2,623	2,090
	504,990	390,771
Long-Term Debt	174,864	308,151
Future Income Taxes	54,924	51,604
Non-Controlling Interests	28,087	30,316
	762,865	780,842
SHAREHOLDERS' EQUITY		
Capital Stock	119,242	103,173
Retained Earnings	708,783	625,764
Contributed Surplus (note 2)	-	78
Cumulative Translation Adjustment (Note 7)	(49,431)	(36,411)
	778,594	692,604
	1,541,459	1,473,446

On behalf of the Board of Directors:

Frank Hasenfratz
Director

Linda Hasenfratz
Director

LINAMAR CORPORATION
CONSOLIDATED STATEMENTS OF EARNINGS

For the three months and year ended December 31, 2005 and December 31, 2004 (Unaudited)
(in thousands of dollars, except per share figures)

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
				(Restated – Note 13)
Sales	523,455	474,224	2,161,410	1,844,187
Cost of Sales	416,020	381,105	1,745,517	1,488,599
Amortization	36,570	32,663	137,219	119,992
Gross Margin	70,865	60,456	278,674	235,596
Selling, general and administrative	26,557	24,760	102,659	90,881
Earnings Before the Following:	44,308	35,696	176,015	144,715
Interest on long-term debt	(4,297)	(3,912)	(16,737)	(9,153)
Other interest expense	(470)	(843)	(2,260)	(4,719)
Interest earned	752	745	1,601	1,290
Dilution loss	-	-	-	(248)
Other income (loss)	(32)	143	817	702
	40,261	31,829	159,436	132,587
Provision for Income Taxes				
Current	5,806	2,375	45,941	27,405
Future	7,385	3,761	8,410	11,783
	13,191	6,136	54,351	39,188
Non-Controlling Interests	27,070	25,693	105,085	93,399
	685	1,448	4,061	2,995
Earnings from Continuing Operations	26,385	24,245	101,024	90,404
Discontinued Operations (note 6)	(983)	-	(983)	2,109
Net Earnings for the Period	25,402	24,245	100,041	92,513
Basic Earnings per Share				
from Continuing Operations (note 8)	0.37	0.34	1.43	1.28
Diluted Earnings per Share				
from Continuing Operations (note 8)	0.37	0.34	1.43	1.28
Basic Earnings per Share (note 8)	0.36	0.34	1.41	1.31
Diluted Earnings per Share (note 8)	0.36	0.34	1.41	1.31

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the three months and year ended December 31, 2005 and December 31, 2004 (Unaudited)
(in thousands of dollars)

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Balance – Beginning of Period	687,689	604,344	625,764	544,589
Stock based compensation (note 2)	-	-	-	(41)
Balance – Beginning of Period As restated (note 2)	687,689	604,344	625,764	544,548
Net Earnings for the Period	25,402	24,245	100,041	92,513
Dividends	(4,308)	(2,825)	(17,022)	(11,297)
Balance – End of Period	708,783	625,764	708,783	625,764

LINAMAR CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended December 31, 2005 and December 31, 2004 (Unaudited)
(in thousands of dollars)

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
Cash Provided By (Used In)	\$	\$	\$	\$
Operating Activities				
Earnings from continuing operations	26,385	24,245	101,024	90,404
Non-cash charges (credits) to earnings:				
Amortization of property, plant and equipment	36,063	32,663	136,076	119,992
Amortization of other intangible assets	507	-	1,143	-
Future income taxes net of unrealized exchange loss	7,385	3,761	8,410	11,783
Non-controlling interests	685	1,448	4,061	2,995
Unrealized exchange loss (gain) on debt	411	(179)	1,284	(1,628)
Amortization of deferred exchange gain	(2,270)	(6,440)	(9,206)	(20,070)
Loss on disposal of property, plant and equipment	1,306	1,517	1,681	1,999
Other	(242)	(704)	(971)	(4,473)
	70,230	56,311	243,502	201,002
Changes in non-cash working capital:				
Decrease (increase) in accounts receivable	50,216	28,541	(34,234)	(58,468)
Increase in inventories	(12,472)	(20,570)	(7,773)	(34,024)
Decrease (increase) in prepaid expenses	996	1,927	(193)	(567)
Increase (decrease) in income taxes payable	2,704	(10,947)	14,861	(6,177)
Increase in accounts payable and accrued liabilities	3,996	16,246	39,418	53,826
	115,670	71,508	255,581	155,592
Deferred gain	-	2,072	-	4,857
Cash flow – continuing operations	115,670	73,580	255,581	160,449
Cash flow – discontinued operations	(625)	11	(167)	(2,037)
	115,045	73,591	255,414	158,412
Financing Activities				
Repayment of short-term bank borrowings	(43,917)	(149,768)	(38,567)	(101,913)
Proceeds from long-term debt	-	157,940	-	165,710
Repayment of long-term debt	(1,245)	(13,267)	(6,309)	(24,852)
Proceeds from common share issuance	15,456	260	16,022	260
Decrease (increase) in long-term receivables	4,650	23,044	6,548	(2,010)
Dividends to shareholders	(4,308)	(2,825)	(17,022)	(11,297)
	(29,364)	15,384	(39,328)	25,898
Investing Activities				
Payments for purchase of property, plant and equipment	(49,526)	(67,057)	(195,988)	(259,151)
Proceeds of disposal of property, plant and equipment	-	1,274	2,993	2,799
Payments for purchase of intangible assets subject to amortization	(3,958)	-	(3,958)	-
Business acquisitions	-	-	(2,384)	-
Investment by minority shareholders	-	-	-	3,738
Other	-	(9)	-	-
Discontinued operations	-	(146)	-	(146)
Proceeds on disposal of discontinued operation (note 6)	-	-	-	51,726
	(53,484)	(65,938)	(199,337)	(201,034)
	32,197	23,037	16,749	(16,724)
Effect of Translation Adjustment	(87)	(28)	(1,255)	(95)
Increase (decrease) in Cash Position	32,110	23,009	15,494	(16,819)
Cash Position - Beginning of Period	(4,105)	(10,498)	12,511	29,330
Cash Position - End of Period	28,005	12,511	28,005	12,511
Comprised of:				
Cash	44,055	25,508	44,055	25,508
Unpresented cheques	(16,050)	(12,997)	(16,050)	(12,997)
	28,005	12,511	28,005	12,511

LINAMAR CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended December 31, 2005 and December 31, 2004 (Unaudited)

1. Significant Accounting Policies

Management prepared these interim consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles using the historical cost basis of accounting and approximation and estimates based on professional judgments. These interim consolidated financial statements contain all adjustments that management believes are necessary for a fair presentation of the company's financial position, results of operations and changes in cash flows. These interim consolidated financial statements should be used in conjunction with the company's most recent annual consolidated financial statements. These interim consolidated financial statements and the notes thereto have not been reviewed by the company's external auditors pursuant to a review engagement applying review standards set out in the Canadian Institute of Chartered Accountants ("CICA") Handbook. During the year the company adopted the policy of amortizing a new class of equipment asset on a straight line basis over ten years, and as such the Property, Plant and Equipment policy has been modified to include these assets.

2. Stock Based Compensation (in thousands of dollars)

Beginning January 1, 2004 the company adopted revised CICA 3870 retroactively and chose not to restate prior periods as permitted under the revised section. The effect of the adoption was the setup of contributed surplus in the amount of \$78 for the fair value of options granted after January 1, 2002 and a reduction in the balance of opening retained earnings by \$41 as the cumulative effect of the change on prior periods for the amount that would have been expensed. During the year, 8,000 remaining affected options were cancelled.

3. Financial Instruments

At December 31, 2005, the company was committed to a series of monthly zero cost option contracts to sell U.S. dollars. As these zero cost option contracts qualify for accounting as cash flow hedges, the unrealized gains and losses are deferred and recognized in the same period as the sales which generate the cash flows.

The company was also committed to a forward contract to buy Euros that qualifies for accounting as a cash flow hedge. As a cash flow hedge, the unrealized gains and losses are deferred and recognized in the same period as the capital expenditure which generates the cash flows.

The company was also committed to two long-dated forwards to buy U.S. dollars. As these forward exchange contracts qualify for accounting as fair value hedges, they are marked to current exchange rates to offset the exchange gains and losses on the underlying hedged items.

During 2003, the company placed forward contracts to buy U.S. dollars, effectively locking in gains on forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of \$30.5 million. During 2004, the company locked in additional gains of \$4.9 million. The gains have been deferred and have been amortized to revenue based on the terms of the original underlying contracts. There is no deferred amount remaining as of December 31, 2005.

The following table is a list of forward contracts and zero cost option hedges in place at December 31, 2005:

Year	Amount Hedged - Sell (Buy)	Average Exchange Rate	Average Trigger Rate
2006	USD\$ 104,000,000 for Canadian dollars	1.2335	1.3517
2009	USD\$ (80,000,000) with Canadian dollars	1.3029	-
2014	USD\$ (40,000,000) with Canadian dollars	1.3535	-
2006	EUR€ (1,350,000) with Canadian dollars	1.5174	

4. Segmented Sales and Earnings Information (from Continuing Operations in thousands of dollars)

During the year the company formed the Asia Pacific operating group. This group has been segregated as both a geographic and operational segment as management believes this information would be useful to the readers of the financial statements.

Three of the company's six operating groups, Transmission, Engine and Chassis are aggregated into the North American Automotive Systems segment. Substantially all automotive revenue is derived from sales to major North American manufacturers. Europe and Asia Pacific are primarily in the automotive business. During 2004, the Industrial group, which is primarily comprised of the aerial work platform business, became a quantified reportable segment. The corporate headquarters and other small operating entities are now reported in the North American Automotive Systems segment. The company has restated segmented information for prior periods.

Geographic	For the three months ended December 31, 2005			For the twelve months ended December 31, 2005		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
Canada	403,003	1,724	38,331	1,658,612	7,450	149,223
United States	38,172	6,468	7,141	167,576	20,066	22,880
Asia Pacific	222	-	(1,365)	2,439	-	(2,549)
Mexico	41,050	-	1,883	143,349	-	1,835
Europe	41,008	2,199	(1,682)	189,434	10,106	4,626
Total	523,455		44,308	2,161,410		176,015

	For the three months ended December 31, 2004			For the twelve months ended December 31, 2004		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
Canada	373,452	1,762	32,903	1,413,478	4,904	129,597
United States	31,391	2,430	1,342	139,859	7,409	9,275
Asia Pacific	-	-	-	-	-	-
Mexico	32,116	-	(964)	125,844	-	1,621
Europe	37,265	1,411	2,415	165,006	6,688	4,222
Total	474,224		35,696	1,844,187		144,715

Operational	For the three months ended December 31, 2005			For the twelve months ended December 31, 2005		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
N.A. Automotive Systems	422,838	4,819	36,262	1,727,249	16,737	136,871
Europe	29,486	2,199	(1,548)	139,189	10,106	3,161
Asia Pacific	222	-	(1,365)	2,439	-	(2,549)
Industrial	70,909	232	10,959	292,533	680	38,532
Total	523,455		44,308	2,161,410		176,015

	For the three months ended December 31, 2004			For the twelve months ended December 31, 2004		
	Sales to external customers	Inter-segment sales	Operating earnings (loss)	Sales to external customers	Inter-segment sales	Operating earnings (loss)
	\$	\$	\$	\$	\$	\$
N.A. Automotive Systems	398,879	3,091	29,861	1,504,576	10,308	123,718
Europe	30,744	1,411	2,358	131,906	6,688	1,185
Asia Pacific	-	-	-	-	-	-
Industrial	44,601	187	3,477	207,705	638	19,812
Total	474,224		35,696	1,844,187		144,715

5. Business Acquisitions (in millions of dollars except where otherwise noted)

In June 2003, the company completed the purchase of 96.0% of Salzgitter Antriebstechnik GmbH & Co. KG located in Crimmitschau, Germany for consideration of \$24.1. The company operates as Linamar Antriebstechnik GmbH ("LAT"). During the year, additional consideration of \$2.4 was paid for final working capital adjustments. This amount was recognized as an additional cost of the purchase, increasing the related goodwill from \$10.0 to \$12.4.

6. Discontinued operations (in millions of dollars)

In August 2004, the company completed the sale of its 50% joint venture in Weslin Industries Inc. ("Weslin"), a casting and machining facility located in Oroszlany, Hungary to Wescast Industries Inc. in exchange for net cash consideration of \$51.7.

During 2005, management approved the orderly closure of this in-house casting operation. The remaining business, included within the North American Automotive Systems segment, 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.

7. Cumulative Translation Adjustment (in thousands of dollars)

In 2005, as a result of the growing independence of LAT, management determined that it was appropriate to treat this operation as self-sustaining. Effective July 1, 2005 the net assets of this operation were translated using the current rate method. Adjustments arising from the translation are deferred and recorded as a separate component of shareholders' equity. This change was applied prospectively, resulting in an initial charge to equity of \$2,643 at the effective date.

8. Earnings Per Share (in thousands of dollars except for per share figures)

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Earnings from Continuing Operations	26,385	24,245	101,024	90,404
Net Earnings for the Period	25,402	24,245	100,041	92,513
Weighted average common shares	71,259,530	70,616,846	70,796,544	70,606,837
Incremental shares from assumed conversion of stock options	-	330,388	-	275,771
Adjusted weighted average shares for diluted earnings per share	71,259,530	70,947,234	70,796,544	70,882,608
Earnings Per Share from Continuing Operations				
Basic	0.37	0.34	1.43	1.28
Diluted	0.37	0.34	1.43	1.28
Earnings Per Share from Net Earnings				
Basic	0.36	0.34	1.41	1.31
Diluted	0.36	0.34	1.41	1.31

Earnings per share are calculated using the weighted daily average number of shares outstanding during the period.

9. Related Party Transactions (in thousands of dollars)

Included in the purchase of property, plant and equipment are the construction of buildings, building additions and building improvements in the aggregate amount of \$14,690 (2004 - \$5,264) paid to a company owned by the spouse of an officer and director. Included in cost of sales, are maintenance costs of \$775 (2004 - \$656) paid to the same company. Included in selling, general and administrative expenses, is a recovery of \$35 (2004 - \$48) related to equipment and services sold to the same company. Included in cost of sales, are lease costs of \$289 (2004 - \$262) related to property leased from a company owned by two directors.

The company has established an independent process to ensure buildings constructed or improvements are transacted at the fair market value. Other transactions have been recorded at the exchange amount.

During 2003, certain officers and directors of the company exercised their options in Linamar Hungary RT which was subject to government regulatory approval from the Court of Registry in Hungary. During 2004, registration was completed resulting in a dilution of the company's ownership in the subsidiary from 62.8% to 58.6%. No further options in Linamar Hungary RT are outstanding.

10. Pension Costs (in thousands of dollars)

The company has various contributory and non-contributory defined contribution pension plans which cover most employees. Current service pension costs are charged to earnings as they accrue. The following was expensed during the quarter:

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Government sponsored	2,992	2,773	17,340	14,542
Company sponsored	1,908	1,869	8,191	7,691

11. Foreign Exchange (in thousands of dollars)

Included as part of selling, general and administrative expenses is a gain (loss) resulting from foreign exchange as follows:

	Three Months Ended December 31		Year Ended December 31	
	2005	2004	2005	2004
	\$	\$	\$	\$
Foreign Exchange Gain (Loss)	(11)	(507)	(721)	2,009

12. Guarantees (in thousands of dollars)

The company has guaranteed the lease payments of Eagle Manufacturing LLC, a joint venture, for the full term of the lease which ends in 2011. The company is receiving a guarantee fee during the lease term. As at the quarter end the maximum potential amount of future payments is \$28,930 over the remaining lease term, of which \$14,765 is recorded in capital leases.

The company has various other guarantees for a maximum potential future payment of \$25,241 over various terms of 4 to 5 years. The company has estimated recourse, in the form of equipment, in the amount of \$19,984.

13. Contingent Liabilities and Commitments (in thousands of dollars)

The company is involved in certain lawsuits and claims. Management believes that adequate provisions have been recorded in the accounts. Although it is not possible to estimate the potential costs and losses, if any, management is of the opinion that there will not be any significant additional liability other than amounts already provided for in these financial statements.

As at December 31, 2005, outstanding commitments for capital expenditures under purchase orders and contracts amounted to approximately \$64,882.

13. Comparative Figures

Certain comparative figures have been reclassified in accordance with the current quarter's presentation.

LINAMAR CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2005

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") of Linamar Corporation ("Linamar" or the "company") should be read in conjunction with its consolidated financial statements for the year ended December 31, 2005 and related notes thereto.

This MD&A has been prepared as at March 9, 2006.

Additional information regarding Linamar, including copies of its continuous disclosure materials such as its annual information form, is available on its website at www.linamar.com or through the SEDAR website at www.sedar.com.

In this MD&A, reference is made to operating earnings which is not a measure of financial performance under Canadian generally accepted accounting principles ("GAAP"). Operating earnings is calculated by the company as gross margin less selling, general and administrative expenses. The company has included information concerning this measure because it is used by management as a measure of performance and management believes it is used by certain investors and analysts as a measure of the company's financial performance. This measure is not necessarily comparable to similarly titled measures used by other companies and should not be construed as an alternative to net earnings or cash flows from operating activities as determined in accordance with Canadian GAAP or as a measure of liquidity.

DISCLOSURE CONTROLS AND PROCEDURES

As of December 31, 2005, Linamar's management evaluated the effectiveness of the design and operation of its disclosure controls and procedures, as defined under the rules adopted by the Canadian securities regulatory authorities. This evaluation was performed under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO").

Disclosure controls are procedures designed to ensure that information required to be disclosed in reports filed with securities regulatory authorities is recorded, processed, summarized and reported on a timely basis, and is accumulated and communicated to the company's management, including the CEO and the CFO, as appropriate, to allow timely decisions regarding required disclosure.

The company's management, including the CEO and the CFO, does not expect that the company's disclosure controls will prevent or detect all misstatements due to error or fraud. Because of the inherent limitations in all control systems, an evaluation of controls can provide only reasonable, not absolute assurance, that all disclosure issues, if any, within the company have been detected. The company is continually evolving and enhancing its systems of controls and procedures.

Based on the evaluation of disclosure controls over financial reporting, the CEO and the CFO have concluded that, subject to the inherent limitations noted above, the company's disclosure controls are effective in ensuring that material information relating to the company is made known to management on a timely basis, and is fairly presented in all material respects in the company's consolidated financial statements for the year ended December 31, 2005.

OVERALL CORPORATE PERFORMANCE

Overview of the Business

Linamar designs, develops and manufactures precision machined components, modules and assemblies for brakes, engine, steering and suspension, transmission and driveline applications for sale primarily to

original equipment manufacturers (“OEMs”) and Tier 1 customers for the North American, European and Asia Pacific car and light to heavy truck markets. Linamar’s business also includes industrial products that utilize the company’s core competencies of precision machining and assembly. The company also produces agricultural implements in Hungary for worldwide use.

The following table sets out certain highlights of the company’s performance in 2005:

<i>(in millions of dollars, except content per vehicle numbers)</i>	2005	2004
Sales	\$2,161.4	\$1,844.2
Gross Margin	278.7	235.6
Operating Earnings ²	176.0	144.7
Earnings from Continuing Operations	101.0	90.4
Net Earnings	100.0	92.5
Content per Vehicle – North America	\$92.84	\$81.52
Content per Vehicle – Europe	\$7.66	\$7.73
Content per Vehicle – Asia Pacific	\$0.07	-

Overall Corporate Results

Sales for the year have increased \$317.2 million or 17.2%, to \$2,161.4 million, compared to \$1,844.2 million in 2004. The sales growth has been driven by both automotive and industrial product sales. The primary factors behind the increase in sales of automotive components were volumes on the heavy and medium duty Caterpillar Inc. (“CAT”) cylinder heads, Allison Transmission (“Allison”) transmission components, a DaimlerChrysler (“DCX”) differential case program, Ford Motor Company (“Ford”) cylinder heads as well as a Visteon Corporation (“Visteon”) differential case program. Industrial product sales have increased \$84.8 million for the year or 40.8%. The increase in industrial products has been predominantly driven by market demand for aerial work platforms produced by Skyjack Inc. (“Skyjack”).

North American content per vehicle was \$92.84 as compared to \$81.52 in 2004. European content per vehicle was \$7.66, down slightly from \$7.73 in 2004. Asia Pacific content was \$0.07 for this start-up year.

The effect of the stronger Canadian dollar compared with the U.S. dollar and other world currencies in 2005 versus 2004 reduced sales by \$80.2 million. Sales would have otherwise increased by 21.5% for the year.

The company’s operating earnings grew by \$31.3 million or 21.6% for 2005 compared with 2004. Operationally, the improvement is attributed to growth in both the automotive and industrial businesses. Automotive is now realizing the anticipated volumes on previous launches such as a highly automated DCX differential case program, various medium and heavy duty CAT cylinder heads and Ford cylinder heads. These programs are now utilizing the planned production capacity in place at launch. Industrial products, which provide superior margins, have been positively impacted by continued sales volume increases.

Geographically and operationally, the Asia Pacific segment has been segregated from the Canadian and North American Automotive Systems segment during the year. This segment is currently experiencing planned losses related to the commencement of operations in both China and Korea.

² “Operating earnings”, as used by the chief operating decision makers and management, monitors the performance of the business specifically at the segmented level. Operating earnings is calculated by the company as gross margin less selling, general and administrative expenses.

<i>(in millions of dollars)</i>	Year Ended December 31	
	2005	2004
Gross Margin	\$ 278.7	\$ 235.6
Selling, general and administrative	102.7	90.9
Operating Earnings	\$ 176.0	\$ 144.7

Under Canadian GAAP, this financial measure does not have a standardized meaning and, therefore is unlikely to be comparable to similar measures presented by other issuers.

Earnings from continuing operations for the year were \$101.0 million (4.7% of sales) versus \$90.4 million (4.9% of sales) in 2004, an increase of 11.7%. The increased earnings can be attributed to the growth in operating earnings partially offset by higher interest costs related to additional financing obtained in October 2004, increased selling, general and administrative expenses, and a higher effective tax rate.

Linamar continues to be focused and proactive in the management of its accounts receivable, particularly related to at-risk customers. The company continues to monitor and manage its relationship with Delphi Corporation ("Delphi") through its reorganization process. It is the belief of Linamar that the bankruptcy proceeding for Delphi will not have a material effect on the results of the company.

Selected Annual Information

The following table sets out selected financial data relating to the company's years ended December 31, 2005, 2004 and 2003 prepared in accordance with GAAP and reported in Canadian dollars. This financial data should be read in conjunction with the company's audited consolidated financial statements for these years:

<i>(in millions of dollars, except per share amounts)</i>	2005	2004	2003
Sales	\$2,161.4	\$1,844.2	\$1,509.8
Earnings from Continuing Operations	101.0	90.4	48.1
Discontinued Operations, net of Income Tax Provision	(1.0)	2.1	(7.6)
Net Earnings for the year	100.0	92.5	40.5
Total Assets	1,541.5	1,473.4	1,296.7
Total Long-term Liabilities	257.9	390.1	195.5
Cash Dividends declared per share	\$0.24	\$0.16	\$0.16
Earnings Per Share From Continuing Operations			
Basic	\$1.43	\$1.28	\$0.68
Diluted	1.43	1.28	0.68
Earnings Per Share From Net Earnings			
Basic	\$1.41	\$1.31	\$0.57
Diluted	1.41	1.31	0.57

Sales

<i>(in millions of dollars)</i>	2005	2004
Canada	\$1,666.1	\$1,418.4
U.S.	187.6	147.3
Asia Pacific	2.4	-
Mexico	143.4	125.8
Europe	199.5	171.7
Intersegment	(37.6)	(19.0)
Total external sales	\$2,161.4	\$1,844.2

In 2005, sales grew 17.2% for a total of \$2,161.4 million. The increase in sales is due to a combination of net new business awarded and net volume increases on existing automotive programs, offset by the impact of the stronger Canadian dollar.

The strong sales results for 2005 were driven by the heavy and medium duty CAT cylinder head programs, Ford cylinder head programs, Allison transmission components, Visteon and Eaton Corporation ("Eaton") differential case programs as well as certain General Motors Corporation ("GM") connecting rods. A large DCX differential case program reached full production levels during 2005 as compared to a launch phase in 2004. These gains were slightly offset by anticipated reductions related to Honeywell International Inc. ("Honeywell") turbo chargers and various programs for ZF Friedrichshafen AG ("ZF").

Sales improvements were also experienced in the year through increased agricultural implement sales by the company's Hungarian subsidiary.

Industrial product sales continued to increase in 2005 as compared to 2004. Results were driven primarily by the aerial work platform business as well as growth in marine and power generation precision machined components.

The stronger Canadian dollar lowered sales in 2005 by \$80.2 million. Excluding the estimated effect of the stronger Canadian dollar on exchange rates, revenues would have increased by 21.5% for the year.

Vehicle Production Volumes

North American vehicle production units used by Linamar for the determination of the company's content per vehicle (see table below) include medium and heavy truck volumes. European vehicle production units exclude medium and heavy trucks.

North American vehicle production volumes for 2005 increased slightly to 16.4 million versus 2004 production of 16.3 million.

European vehicle production decreased 5.0% to 15.5 million units for the year from 16.3 million units in 2004.

Automotive Sales and Content per Vehicle (i)

Automotive sales in the following discussion are based on content per vehicle determined by the final vehicle production location and, as such, there are differences in the figures as reported under the North American Automotive Systems segment which is based primarily on the company's location of manufacturing. These differences are the result of products being sold directly to one continent, and the final vehicle being assembled on another continent. It is necessary to show the sales based on the vehicle build location to provide accurate comparisons to the production vehicle units for each continent.

The impact of the stronger Canadian dollar accounted for a reduction of approximately \$77.0 million in total automotive revenue for North America and Europe in 2005. If the estimated impact of the stronger dollar is removed, total automotive revenues for these groups for the year would have increased \$265.1 million or 18.3%.

North American automotive sales increased \$195.2 million or 14.7% to \$1,520.7 million. Despite vehicle production remaining relatively constant, content per vehicle increased 13.9% to \$92.84 from \$81.52 a year earlier. North American automotive sales benefited from the ramping up of a number of new and expanding programs as well as customer driven volume increases. Significant programs which contributed to the growth during the year were the CAT medium and heavy duty cylinder head programs and DCX differential cases both launched in the prior year, as well as DCX carriers and the Ford cylinder head programs launched in the second quarter of 2005. Newer programs such as the DCX carrier and differential cases, Ford cylinder heads, Visteon heavy duty differential case program and various Allison components all contributed to North American content.

European automotive sales declined by \$7.1 million to \$118.7 million as compared to 2004. Vehicle production volumes have decreased 5.0%, however content per vehicle only declined 0.9% from \$7.73 in 2004 to \$7.66. The decline in content is due to the decrease in automotive products for Renault. This is largely mitigated by the addition of Perkins Engines Company Ltd. ("Perkins") cylinder heads and blocks, and other automotive programs which have recently begun production or experienced volume increases.

Content per vehicle for Asia Pacific has started at a low level as anticipated, with sales for customers such as GM and Daewoo International.

Automotive tooling sales were \$63.5 million as compared to \$42.7 million in 2004. The results are primarily due to programs for a DCX rear carrier, a Ford cylinder head, Eaton transmission components, continuation of the DCX differential case, Allison volume increase on various components and the Ford, GM and DCX 6-speed transmission programs. Tooling sales for 2004 relate to the launch of a large DCX

differential case program, DCX carriers and bed plate intake, and exhaust manifold programs for International Truck and Engine Corporation.

<i>North America</i>	2005	2004	% Change
Vehicle Production Units (ii)	16.38	16.26	0.7%
Automotive Sales (iii)	\$1,520.7	\$1,325.5	14.7%
Content Per Vehicle	\$92.84	\$81.52	13.9%
<i>Europe</i>			
Vehicle Production Units (ii)	15.48	16.29	(5.0)%
Automotive Sales (iii)	\$118.7	\$125.8	(5.6)%
Content Per Vehicle	\$7.66	\$7.73	(0.9)%
<i>Asia Pacific</i>			
Vehicle Production Units (ii)	17.43	-	-
Automotive Sales (iii)	\$1.3	-	-
Content Per Vehicle	\$0.07	-	-

(i) Measured as the amount of Linamar automotive sales dollars per vehicle, not including tooling sales

(ii) Vehicle production units are shown in millions of units

(iii) Automotive sales are shown in millions of dollars

Other Sales

Industrial product sales continue to grow, reporting \$292.5 million in 2005 compared to \$249.8 million in 2004, primarily due to continued increased demand for Skyjack's aerial work platforms and the services of their reconditioning division.

Gross Margin

<i>(in millions of dollars)</i>	2005	2004
Sales	\$2,161.4	\$1,844.2
Cost of sales	1,745.5	1,488.6
Amortization	137.2	120.0
Gross Margin	\$278.7	\$235.6
Gross Margin Percentage	12.9%	12.8%

Gross margin percentage after amortization was 12.9% for the year, a slight improvement from 12.8% for 2004. The improvement in margin is attributed to automated product lines on certain DCX differential cases and CAT cylinder heads attaining full utilization of planned production capacity from the launch in 2004 and the strong increase in industrial sales which also boast higher margins.

Offsetting this improvement was an increase in material content for the year largely due to the CAT heavy duty cylinders and the Visteon throttle bodies, which previously had materials consigned and are now purchased. Also contributing to the higher material cost of sales are increased volumes from higher material content lines such as DCX carrier and Visteon differential case, along with the reduction of programs such as Ford brake drums, which have lower material content. Gross margin is also affected by the number of new programs launched in 2005 which have yet to achieve their full operational efficiency.

Labour as a percent of sales continued to improve as programs such as the highly automated DCX differential cases, Ford cylinder heads, and DCX carriers, all launched in 2004, have reached full anticipated volumes in 2005. Labour gains are partially offset by labour costs associated with programs

beginning to launch such as the Ford, GM and DCX 6-speed transmission programs, DCX crankshafts, and the shafts for Detroit Diesel Corporation and Cummins Inc. (“Cummins”).

Amortization increased \$17.2 million over 2004. As a percent of sales, amortization declined slightly from 6.5% to 6.3%. The improvement, relative to sales, reflects the volume increases on the larger programs launched in 2004 such as certain DCX differential case programs, the CAT cylinder heads program, DCX carrier programs, the 6-speed transmission programs, and an Eaton differential case program.

Operating Earnings

<i>(in millions of dollars)</i>	2005	2004
Gross margin	\$278.7	\$235.6
Selling, general and administrative	102.7	90.9
Operating Earnings	\$176.0	\$144.7
Operating Earnings Percentage	8.1%	7.8%

Selling, general and administrative (“SG&A”) costs were \$102.7 million in 2005, compared to \$90.9 million in 2004. As a percentage of sales, SG&A costs were 4.8% in 2005 as compared to 4.9% in 2004. The primary contributing factors to the increase were expanded infrastructure to support continued business growth, costs related to the start up of the Asia Pacific operations and costs relating to the Enterprise Resource Planning (“ERP”) system selection and implementation compared with 2004.

The company’s foreign exchange hedging strategy has resulted in a nominal 2005 loss of \$0.7 million compared with a gain of \$2.0 million in 2004. The company continues to manage increases in the Canadian dollar against other world currencies through a hedging strategy.

The Canadian dollar strengthened against the U.S. dollar, the British Pound sterling and the Euro in 2005. This resulted in a small overall loss in North America on the Pound sterling and Euro net assets. This loss was offset by small gains in Europe. The major contributor to exchange losses in 2005 was the result of the strengthening Mexican peso against the U.S. dollar. This negatively impacted exchange for the company’s Mexican facilities’ U.S. denominated net receivables. In 2004 the continuous strengthening of the Hungarian forint lead to exchange gains on Euro denominated loans.

During 2003, the company placed forward contracts to buy U.S. dollars, effectively locking in gains on forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of \$30.5 million. The gain was deferred and amortized to revenue based on the terms of the original underlying contracts. During 2005, the remaining \$9.2 million gain was recognized.

INCOME BY SEGMENT

The following should be read in conjunction with note 22 to Linamar’s consolidated financial statements for the financial year ended December 31, 2005.

Operational

Three of the company’s six operating groups, Transmission, Engine, and Chassis are aggregated into the North American Automotive Systems segment. Substantially all automotive revenue for this group is derived from sales to major North American manufacturers. Europe and Asia Pacific stand alone as segments and are primarily in the automotive business. The Industrial group is primarily comprised of the aerial work platform business. The corporate headquarters and other small operating entities are reported in the North American Automotive Systems segment.

North American Automotive Systems sales reached \$1,727.3 million, an increase of \$222.7 million from the prior year. The 14.8% increase was achieved despite the impact of the declining U.S. dollar against the Canadian dollar and Mexican peso which resulted in an estimated reduction of \$74.7 million in sales for the year. Given a constant exchange rate, revenues would have increased \$297.4 million or 19.8%.

Revenue growth in the segment is led by programs such as DCX differential cases, various medium and heavy duty CAT cylinder heads, GM connecting rods, and Ford cylinder heads. Contributions to revenues continue from newer programs such as various Allison transmission components, various DCX carriers and differential cases, further Ford cylinder heads, as well as Visteon differential cases. Ramp up continues for these programs and will replace anticipated program ends such as ZF's various pins, flanges, differential cases and hubs, and GM bearing caps and manifolds.

North American Automotive Systems operating earnings increased to \$136.9 million in 2005 from \$123.7 million in 2004 or 10.6%. Again, sales for DCX differential cases, CAT cylinder heads, and numerous other lines, which are now reaching anticipated volumes and realizing planned production efficiency, have contributed to these earnings. The launch of new lines such as Cummins bearing caps, GM heads and blocks, and the newest engine plant's various programs contribute to sales however, are not yet contributing at expected levels thereby offsetting earnings gains on mature programs.

European sales of \$139.2 million for the year improved from \$131.9 million a year ago for an increase of \$7.3 million or 5.5%. Agricultural sales at Linamar Hungary's operations for items such as corn heads as well as automotive components continue to drive sales. Automotive programs such as common rails for various customers and the continued ramp up of Perkins cylinder heads and blocks, and camshafts for a German automaker provide an offset to programs ending such as camshafts for Audi and other turbo housings.

Operating earnings in Europe are \$3.2 million in 2005 which is an increase from \$1.2 million in 2004. European automotive sales continue to change their mix from high material components, such as Honeywell turbo chargers, to lower material content programs for customers such as Robert Bosch GmbH ("Bosch"), Delphi and Danfoss Maneurop S.A. The continued ramp up of automotive programs such as Perkins heads and blocks and camshafts for a German auto maker continue to improve overall earnings. Improved cost controls achieved through the application of the Linamar Production System have also contributed to increased earnings. The Linamar Production System is based on lean manufacturing principles found in the Toyota Motor Corporation's ("Toyota") Production System.

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 \$2.5 million for the year as the group prepares to launch various new programs in China and Korea.

The Industrial operating segment sales have increased 40.8% to \$292.5 million in 2005 from \$207.7 million in 2004. The strong sales for aerial work platforms are a reflection of the current construction market conditions in North America. Significant improvements in European sales to independent customers, along with a growing reconditioning division have also bolstered the Industrial segments sales.

Operating earnings in the Industrial segment improved by \$18.7 million to \$38.5 million in 2005 compared to \$19.8 million in 2004. Although primarily volume driven by market demand, operating earnings continue to increase through a balanced and effective control of material and labour costs.

Geographical

Canadian segmented sales for the year have increased 17.3% or \$245.1 million to \$1,658.6 million from \$1,413.5 million a year earlier. Allison transmission components, DCX differential cases, and heavy and medium duty CAT cylinder heads continue to lead revenue increases. New programs such as Delphi brake control bodies, GM blocks and heads, GM connecting rods, and Cummins bearing caps contributed to sales along with prior year program launches. Along with the automotive systems sales growth, market demand for aerial work platforms through fleet replacements and reconditioning services at Skyjack, have helped propel the Canadian geographic segment sales to a record \$1.7 billion.

The operating earnings for the Canadian segment increased \$19.6 million to \$149.2 million in 2005 from \$129.6 million in the prior year. Volume increases on existing programs during the quarter including GM connecting rods, along with the many new jobs launched over the past year, continue to outpace planned production decreases in ZF and Ford transmission components. Higher sales and the benefit of reaching

sustained volumes in the ramp up of components such as various Ford cylinder head programs have contributed to the more effective use of planned production capacity in the Canadian automotive business.

The U.S. geographic segment has enjoyed a 19.8% increase in sales by reaching \$167.6 million during the year, an increase of \$27.7 million over 2004. Sales to the U.S. customers of Skyjack have been driven by market demand. Sales have remained steady for McLaren Performance Technologies Inc., the testing and engineering development business acquired by the company in late 2003, and increased slightly at the company's engine plant in Kentucky through sales demand for cylinder heads, bedplates, and other volume increases.

Operating earnings for the U.S. segment have increased a significant 146.2% or \$13.6 million to \$22.9 million from \$9.3 million over 2004, reflected in the sales for aerial work platforms which continue to be driven by fleet replacements and a strong overall industrial market.

Sales in the Asia Pacific geographic group reached \$2.4 million for the year with an operating loss of \$2.5 million. This reflects the company's entrance into the Asian automotive parts market through the establishment of plants in China and Korea during 2005.

Mexican sales continue to improve reaching \$143.3 million during 2005, a 13.9% increase or \$17.5 million over 2004. The new Eaton differential case ramp up has more than offset GM transmission facility shutdowns impacting one facility. Programs with volume increases during the year, such as the Honeywell truck turbochargers, GM cylinder heads and CAT liners, have accompanied new business such as DCX engine blocks.

Operating earnings in Mexico have increased marginally to \$1.8 million from \$1.6 million. Delays in the launch of an Eaton differential case and volume reductions via plant shutdowns at GM have eroded operating earnings in relation to sales gains. The Eaton program commenced shipments during the second quarter this year.

Sales in Europe increased \$24.4 million or 14.8% to \$189.4 million in 2005. This increase includes growth in agricultural implement sales and various automotive components such as the Bosch fuel rail in Hungary and the Perkins heads and blocks in Germany. Sales of Honeywell products continue to decrease as planned; however, this decline is outpaced by sales related to various automotive programs such as fuel rails, flanges, and other drive train components.

European operating earnings have increased \$0.4 million to \$4.6 million from \$4.2 million in 2004. Earnings continue to be driven by strong automotive and agricultural sales at Linamar's Hungarian subsidiary. Strengthening sales for programs such as Bosch fuel rails and various other components continue to contribute to operating earnings through the utilization of planned capacity. Offsetting the earnings growth are the costs associated with the launches of the Perkins head, block and a German auto maker's camshaft. Operating earnings from the European Skyjack operations did not grow at the same pace based on sales mix of products.

NET EARNINGS AND BALANCE SHEET DATA

The following financial data has been derived from, and should be read in conjunction with, Linamar's audited consolidated financial statements for the financial years ended December 31, 2005 and 2004.

<i>(in millions of dollars, except per share amounts)</i>	2005	2004
Sales	\$2,161.4	\$1,844.2
Gross Margin	278.7	235.6
Operating Earnings	176.0	144.7
Net interest expense	(17.4)	(12.6)
Dilution loss	-	(0.2)
Other income	0.8	0.7
Provision for Income Taxes	(54.3)	(39.2)
Non-Controlling Interests	(4.1)	(3.0)
Earnings from Continuing Operations	\$101.0	\$90.4
Discontinued Operations, net of Income Tax Provision	(1.0)	2.1
Net Earnings for the Year	\$100.0	\$92.5
Earnings Per Share From Continuing Operations		
Basic	\$1.43	\$1.28
Diluted	1.43	1.28
Net Earnings Per Share		
Basic	\$1.41	\$1.31
Diluted	1.41	1.31
Total Long-Term Liabilities	\$257.9	\$390.1
Cash Dividends declared per share	0.24	0.16
Total Assets	\$1,541.5	\$1,473.4

Net Earnings and Earnings per Share

The effective tax rate for 2005 was 34.1%, an increase from 29.6% in 2004. Approximately \$3.6 million in prior year tax credits relating to Mexican operations were recognized in 2004. Management's assessment was that it was more likely than not that the credits would be used before expiry. Removing the impact of the recovery, the 2004 rate was 32.3%. The 2005 rate is a return to historical levels. The effective tax rate is impacted by the results generated by operations in Mexico and Hungary. Certain Mexican facilities have experienced losses in the year which have not been tax affected. The Hungarian operations enjoy the benefit of a tax holiday through a tax credit system which management expects will continue until 2011.

Net earnings from continuing operations for 2005 improved \$10.6 million to \$101.0 million from \$90.4 million in 2004. As a percentage of sales the net earnings from continuing operations in 2005 was 4.7% whereas in 2004 it was 4.9% of sales.

For the year, earnings per share from continuing operations were \$1.43. The improvement is due to growth in both the automotive and industrial businesses. Automotive improvement is largely due to significant programs that were launched in 2004 reaching full productive volumes in 2005, and achieving anticipated utilization of program resources. Industrial products have been positively impacted by continued sales volume increases and continuing expansion of the reconditioning business.

Interest

Interest on long-term debt increased \$7.6 million over 2004 to \$16.7 million. The increase is due to the private placement of senior unsecured notes completed in October 2004. The consolidated year to date effective interest rate was higher in 2005 at 5.4% as compared to 4.8% in 2004 primarily due to the new private placement rate. Partially offsetting the increases are lower effective rates on Euro debt held by

Linamar Hungary RT. The Euro debt in Hungary affords a lower rate of interest compared to debt held in Hungarian Forints and assists Linamar Hungary in reducing exchange rate exposure as the company's Euro based sales grow.

Other interest expense is lower by \$2.5 million for the year as in 2004 there was an increased utilization of short term debt before the receipt of the private placement funds in October of that year. The short-term borrowings in 2004 were used to support significant capital spending required for the launch of many new long-term differential case and cylinder head programs. Interest earned has increased slightly over 2004 and arises from overnight placement of surplus funds and gain on sale of receivables.

SUMMARY OF QUARTERLY RESULTS OF OPERATIONS

The following table sets forth unaudited information for each of the eight quarters ended March 31, 2004 through December 31, 2005. This information has been derived from our unaudited consolidated financial statements which, in the opinion of management, have been prepared on a basis consistent with the audited consolidated financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for fair presentation of our financial position and results of operations for those periods.

(in millions of dollars, except per share amounts)	Mar 31, 2004	June 30, 2004	Sept 30, 2004	Dec 31, 2004	Mar 31, 2005	June 30, 2005	Sept 30, 2005	Dec 31, 2005
Sales	430.6	460.6	478.8	474.2	529.5	578.7	529.7	523.5
Earnings from Continuing Operations	21.7	24.7	19.8	24.2	22.4	29.7	22.5	25.0
Earnings per Share from Continuing Operations								
Basic	0.31	0.35	0.28	0.34	0.32	0.42	0.32	0.37
Diluted	0.31	0.34	0.28	0.34	0.32	0.42	0.32	0.37
Net Earnings per Share								
Basic	0.29	0.32	0.36	0.34	0.32	0.42	0.32	0.36
Diluted	0.29	0.32	0.35	0.34	0.32	0.42	0.32	0.36

The quarterly results of the company are impacted by the seasonality of certain operational units. Earnings in the second quarter are positively impacted by the high selling season for both the aerial work platform, other industrial, and agricultural businesses. The third quarter is generally negatively impacted by the scheduled summer shutdowns at automotive customers. The company takes advantage of summer shutdowns for maintenance activities that would otherwise disrupt normal production schedules.

The results above have been restated to reflect the sale of the company's 50% interest in Weslin Industries Inc. ("Weslin") in the third quarter of 2004. The operational results of Weslin and the gain realized on the sale have been reclassified to discontinued operations for all periods reported.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

<i>(in millions of dollars)</i>	2005	2004
Cash provided by (used in):		
Operating Activities	\$255.4	\$158.4
Financing Activities	(39.3)	25.9
Investing Activities	(199.3)	(201.0)
Effect of Translation Adjustment	(1.3)	(0.1)
Net Increase (decrease) in Cash Position	15.5	(16.8)
Cash Position – Beginning of Year	12.5	29.3
Cash Position – End of Year	28.0	12.5
Comprised of:		
Cash	44.1	25.5
Unpresented Cheques	(16.1)	(13.0)
	\$28.0	\$12.5

Linamar's cash position (net of unpresented cheques) at December 31, 2005 was \$28.0 million, an increase of \$15.5 million from the prior year. Cash proceeds from operating activities are higher compared to 2004 due to improved operating activities and increased sales volumes. Non-cash working capital contributed \$12.1 million, primarily from increases in accounts payable, offset by increases in accounts receivable.

During the year, financing activities used \$39.3 million, primarily due to the repayment of short term borrowings and dividends offset by proceeds from issuance of common shares of \$16.0 million. In 2004 financing activities provided \$25.9 million, primarily from long term debt advancements, offset somewhat by the repayment of short term borrowings. Increases in the company's dividend payout policy have consumed an additional \$5.7 million in the year as the quarterly dividend rate increased to \$0.06 from \$0.04 per share commencing in the first quarter of 2005.

Investing activities continue to be dominated by payments for the purchase of property, plant and equipment in 2005, however at a reduced rate from 2004. Long-term receivables from industrial business continue to be collected or sold under a portfolio purchase agreement entered into at the end of 2004.

Operating Activities

<i>(in millions of dollars)</i>	2005	2004
Earnings from continuing operations	\$101.0	\$90.4
Non-cash charges (credits) to earnings	142.5	110.6
Cash provided from operations	\$243.5	\$201.0
Changes in non-cash working capital	12.1	(45.4)
Deferred gain	-	4.8
Cash flow – continuing operations	\$255.6	\$160.4
Cash flow – discontinued operations	(0.2)	(2.0)
Cash provided from operating activities	\$255.4	\$158.4

Cash provided by continuing operations, before the effect of changes in non-cash working capital, increased to \$243.5 million in 2005 from \$201.0 million in 2004. Cash provided from operations are driven by large programs initiated in 2004 meeting anticipated full volumes in 2005.

Incremental proceeds from non-cash working capital were \$12.1 million, compared to an investment of \$45.4 million in 2004. The current year benefit compared to the prior year resulted primarily from increases in accounts and taxes payable, partially offset by an increase in accounts receivable and inventories.

Financing Activities

<i>(in millions of dollars)</i>	2005	2004
Repayment of short-term bank borrowings	\$(38.5)	\$(101.9)
Proceeds from long-term debt	-	165.7
Repayment of long-term debt	(6.3)	(24.9)
Proceeds from common share issuance	16.0	0.3
Decrease (increase) in long-term receivables	6.5	(2.0)
Dividends to shareholders	(17.0)	(11.3)
Cash provided from financing activities	\$(39.3)	\$25.9

Financing activities consumed \$39.3 million of cash during the year, compared to generating \$25.9 million in 2004.

Repayment of short term borrowings in 2005 has consumed \$38.5 million while in 2004 \$101.9 million was used. Subsequent to the third quarter of 2004, the company completed a private debt placement of US \$120 million. The proceeds were used to reduce short term borrowings. Linamar Hungary continues to replace short-term forint borrowings with long-term Euro debt, thereby reducing financing costs.

At the end of the year, there was \$170.8 million in credit available in the revolving term facility under the Canadian syndicated credit agreement.

Stock options were exercised in 2005 for proceeds of \$16.0 million. The company continued its dividend policy with payments made quarterly at a rate of \$0.06 per share in 2005 as compared to \$0.04 per share in 2004.

Long term receivables regularly arise in the industrial products marketplace. In order to manage the associated cash flow, the company periodically securitizes portions of the receivable balance. During 2005 the company's long term receivables declined from the prior year by \$6.5 million.

During the year the company classified as current, the bank term loan facility maturing December 2006. This loan facility was fully classified as long term in 2004. Renewal of this loan facility is expected to be completed without issue prior to maturity which would result in a reclassification of the full amount as long term. All of the company's debt covenants remained in compliance throughout the year.

Investing Activities

<i>(in millions of dollars)</i>	2005	2004
Payments for purchases of property, plant and equipment	\$(196.0)	\$(259.1)
Proceeds from disposal of property, plant and equipment	3.0	2.8
Payments for purchase of intangible assets subject to amortization	(3.9)	-
Business acquisitions	(2.4)	-
Investment by minority shareholders	-	3.7
Discontinued operations	-	(0.1)
Proceeds from disposal of discontinued operation	-	51.7
Cash used for investing activities	\$(199.3)	\$(201.0)

Cash spent on investing activities for 2005 was \$199.3 million while during 2004 the total spent was \$201.0 million which exceeds the 2005 levels by \$1.7 million. During 2005 the company invested in capital equipment for various programs that are expected to come online in 2006 and 2007.

During the year additional consideration to finalize the Linamar Antriebstechnik GmbH & Co. KG ("LAT") acquisition, which commenced in June 2003, was paid in respect of working capital adjustments, in the amount of \$2.4 million.

At December 31, 2005, outstanding commitments for capital expenditures under purchase orders and contracts amounted to \$64.9 million (December 31, 2004 - \$93.7 million).

Financing Resources

At December 31, 2005, cash on hand was \$44.1 million, with unrepresented cheques and short-term bank borrowings of \$26.0 million. At this time, the company's syndicated revolving facility had available credit of \$170.8 million. Of the company's consolidated long-term available lines, \$302.0 million is due for renewal in the next 12 months.

Contractual Obligations

The following table summarizes contractual obligations by category and the associated payment for the next five years.

Contractual Obligations	Payment Due by Period (in millions of dollars)						
	Total	2006	2007	2008	2009	2010	Thereafter
Long-Term Debt Principal, Excluding							
Capital Leases	\$291.3	\$128.4	\$9.8	\$1.3	\$101.2	-	\$50.6
Capital Lease Obligations ³	17.4	3.8	3.8	3.8	3.8	2.1	0.1
Operating Leases	19.9	4.9	4.5	3.9	3.2	2.5	0.9
Purchase Obligations ⁴	64.9	64.9	-	-	-	-	-
Total Contractual Obligations	\$393.5	\$202.0	\$18.1	\$9.0	\$108.2	\$4.6	\$51.6

Shareholders' Equity

Book value per share⁵ grew to \$10.80 per share at December 31, 2005, as compared to \$9.81 per share at December 31, 2004. Earnings net of dividends contributed \$83.0 million for the year to retained earnings. During the year 23,000 options expired unexercised, 26,000 options were cancelled and 1,481,000 options were exercised for proceeds of \$16.0 million. The number of options outstanding as at December 31, 2005 is 1,479,000.

Foreign Currency Activities

Linamar pursues a strategy of balancing its foreign currency cash flows, to the largest extent possible, in each region in which it operates. The company's foreign currency outflows for the purchases of materials and capital equipment denominated in foreign currencies are naturally hedged when contracts to sell products are denominated in those same foreign currencies. To manage the residual exposure, Linamar employs hedging programs where rate-appropriate primarily through the use of forward exchange contracts. The contracts are purchased based on the projected net foreign cash flows from operations. The company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities.

The amount and timing of forward contracts is dependent upon a number of factors, including anticipated production delivery schedules, anticipated customer payment dates, anticipated foreign currency costs, and expectations with respect to future foreign exchange rates. Linamar is exposed to credit risk from

³ "Capital Lease Obligations" includes the interest component in accordance with the definition of minimum lease payments under GAAP.

⁴ "Purchase Obligations" means an agreement to purchase goods or services that is enforceable and legally binding that specifies all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction.

⁵ See page 27 for discussion of non-GAAP measures. "Book Value Per Share", as used by the chief operating decision makers and management, indicates the value of the company based on the carrying value of the company's net assets. Book value per share is calculated by the company as Shareholders' Equity divided by shares outstanding.

	December 31, 2005	December 31, 2004
(in millions of dollars except share and per share figures)		
Shareholders' Equity	\$ 778.6	\$ 692.6
Shares outstanding	72,108,476	70,627,476
Book Value Per Share	\$ 10.80	\$ 9.81

Under Canadian GAAP, this financial measure does not have a standardized meaning and, therefore is unlikely to be comparable to similar measures presented by other issuers.

potential default by counterparties on its foreign exchange contracts and attempts to mitigate this risk by dealing only with Canadian chartered banks. Despite these measures, significant long-term movements in relative currency values could affect the company's results of operations. Linamar does not hedge the business activities of its self-sustaining foreign subsidiaries and, accordingly, results of operations could be further affected by a significant change in the relative values of the Canadian dollar, U.S. dollar, Euro, Hungarian forint and Mexican peso.

At December 31, 2005, the company was committed to a series of monthly forward and zero cost option contracts to buy and sell U.S. dollars. As these zero cost option contracts qualify for accounting as cash flow hedges, the unrealized gains and losses are deferred and recognized in the same period as the sales which generate the underlying cash flow. The company was also committed to a forward contract to buy Euros that qualifies for accounting as a cash flow hedge. As a cash flow hedge, the unrealized gains and losses are deferred and recognized in the same period as the capital expenditure which generates the cash flows.

The company was also committed to two long-dated forwards to buy U.S. dollars. As these forward exchange contracts qualify for accounting as fair value hedges, they are marked to current exchange rates to offset the exchange gains and losses on the underlying hedged items.

At December 31, 2005, the net unrecognized gain on the U.S. contracts was approximately \$1.3 million (2004 - \$0.7 million). The unrecognized gain on the British Pound contracts was approximately \$Nil (2004 - \$0.1 million). The unrecognized loss on the Euro contracts was approximately \$0.2 million (2004 - \$Nil).

During 2003, the company placed forward contracts to buy U.S. dollars, effectively locking in gains on forward contracts in place at December 31, 2002. This transaction resulted in cash proceeds of \$30.5 million. During 2004, the company locked in additional gains of \$4.9 million. The gains have been deferred and have been amortized to revenue based on the terms of the original underlying contracts. There is no deferred amount remaining as of December 31, 2005.

Off Balance Sheet Arrangements

The company leases transport trucks and trailers through its subsidiaries Linamar Transportation Inc. and Linamar Transportation USA, Inc. These subsidiaries are ISO 9001-2000 registered companies, providing the best possible delivery service to their customers. The company currently leases approximately 98 trucks and 121 trailers from Penske Truck Leasing and Ryder Truck Rental Canada, Ltd. The amount due under these operating leases are reflected under the heading "Operating Leases" in the table set out in the "Contractual Obligations" section of this document. The company is allowed to return up to 20% of the fleet at any time without incurring any charges. Should the entire arrangement be terminated, the company would be responsible for the balance of the amount owing under the leases.

The company also has various operating leases for office equipment, computers, fork trucks, and other such items.

Please see note 16 of the consolidated financial statements incorporated herein.

Under a portfolio purchase agreement signed in 2004, the company regularly sells certain long-term receivables. Although title is transferred and no entitlement or obligated repurchase agreement is in place before maturity, the company remains exposed to certain risks of default on the amount of proceeds from the receivables under securitization, less recourse in the form of the underlying physical asset. Under the agreement, receivables are sold on a fully serviced basis so that the company continues to administer the collection of such receivables. The company receives no fee for administration of the collection of such receivables.

Guarantees

Linamar is a party to certain financial guarantees and contingent liabilities with respect to government assistance as discussed in notes 14, 23, and 24 of the consolidated financial statements that are incorporated herein.

Transactions with Related Parties

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 (December 31, 2004 - \$5.3 million) to Kiwi-Newton Construction Ltd., a company owned by the spouse of an officer and a director. Cost of sales includes maintenance costs of \$0.8 million (December 31, 2004 - \$0.7 million) paid to the same company. Selling, general and administrative expenses includes a recovery of approximately \$0.04 million (December 31, 2004 - \$0.05 million) related to equipment and services sold to the same company. On a periodic basis the company entertains a closed-bid process to ensure that it receives the market price for the work done by a related party.

Lease costs, included in cost of sales, of \$0.3 million (December 31, 2004 - \$0.3 million) is related to property leased from a company owned by two directors.

A component of the company's Human Resources and Corporate Governance Committee mandate is to establish and monitor adherence to procedures for identifying and entering into transactions with related parties.

FOURTH QUARTER

In the fourth quarter, sales increased by 10.4% to \$523.5 million compared to \$474.2 million in the same quarter last year.

With respect to fourth quarter sales, Linamar's North American Automotive sales grew by 6.0% as North American automobile production increased by 5.1% over the fourth quarter of 2004. Contributing to the increase were the CAT heavy duty programs, various blocks and heads, Eaton differential case and DCX differential case programs as well as general volume increases with GM in Mexico.

In Europe, Linamar's fourth quarter automotive sales declined by 3.9%, primarily due to reduced sales for the Honeywell turbo housing as a result of customer program changes and conclusion of the DCX injector tube program. This result was achieved as European automobile production decreased by 16.7%. The impact of the reduced sales was a decrease of fourth quarter operating results to a loss of \$1.5 million as compared to 2004 earnings of \$2.4 million.

Content per vehicle for the quarter in North America grew to \$89.54, and European content grew to \$7.71 compared to fourth quarter 2004. Asia Pacific registered content of \$0.07.

The Industrial segment experienced higher sales volumes than 2004, resulting in fourth quarter sales of \$70.9 million. This quarter is consistent with a strong market this year for aerial work platforms. Operating earnings for the fourth quarter for this segment improved in 2005 to \$11.0 million as compared to \$3.5 million in 2004.

On a geographic segmented basis, Canadian sales achieved a level of \$403.1 million, an increase of \$29.7 million, over the fourth quarter of 2004. Sales in the quarter were positively impacted by the expanded CAT heavy duty volumes, Skyjack aerial work platforms, volume increases for various programs for Allison and the launch of the Ford 6-speed program. Operating earnings improved to \$38.4 million from \$33.0 million in the fourth quarter of 2004 as plants achieved improved efficiencies due to program launches from late 2004 coming into full production.

The U.S. segmented sales for the fourth quarter increased to \$38.2 million or 21.7% over the fourth quarter of 2004. Increases were due to the Skyjack new unit program and certain cylinder head and bed

plate programs. Segmented operating earnings improved to \$7.1 million from \$1.3 million in fourth quarter 2004 as a result of the noted volume increases.

The Mexican segment experienced higher sales during the fourth quarter at \$41.0 million as compared to \$32.1 million in fourth quarter 2004. Newer programs such as the Eaton differential case were launched during 2004 and volume increases continued throughout 2005. Volume increases for a variety of GM programs plus the addition of Bosch lines contributed to the sales increase. This segment reversed losses experienced in fourth quarter 2004 of \$1.0 million to an operating profit of \$1.9 million, an improvement of \$2.9 million. The primary contributors to this change were increased volumes and resultant improved efficiencies as programs launched in early 2005 came into full production.

European sales in the fourth quarter were \$41.0 million, a 27.7% increase from 2004. The increase was mainly due to increased Skyjack sales in the United Kingdom. Also contributing to the increased sales was several small programs in Hungary despite being offset by the program changes for the Honeywell turbo housing. Operating earnings of \$2.4 million demonstrated in the fourth quarter of 2004 reversed to a loss of \$1.7 million. This segment has been negatively impacted by a series of one time SG&A costs.

In the quarter, gross margin improved to 13.5% or \$70.9 million compared with 12.7% or \$60.5 million in the same quarter of last year. The improvement arises from a combination of automotive programs reaching maturity in 2005 and increased sales of industrial products over 2004. Amortization was 7.0% of sales as compared to 6.9% for the fourth quarter of last year. This is indicative of the new programs starting production but which are not yet at full capacity by the end of the year.

Overall fourth quarter operating earnings increased by 24.1% to \$44.3 million as compared to \$35.7 million for the same quarter of 2004. This increase was the result of higher sales in every geographic segment and improved efficiencies noted particularly in Canada, the United States and Mexico. SG&A costs were slightly higher in the fourth quarter at 5.3% of sales or \$27.6 million as compared to 5.2% of sales or \$24.8 million in the same quarter of 2004.

Proposed Transactions

The company has no material transactions proposed as at March 9, 2006.

RISK MANAGEMENT

Operational Risk

Dependence on Certain Customers

The company provides precision machined products to multiple divisions and suppliers of some of the largest businesses in the automotive and non-automotive industry. As a result, the company typically has a limited number of customers that individually account for more than 10% of its consolidated revenues or receivables at any given time. The sales cycle is extended longer than one year for most transactions. Any disruption in the company's relationships with these major customers or any decrease in revenue from these major customers, given unforeseen events in the automotive industry, could have a material adverse effect on the company's business, financial condition, or results of operations. In addition, as it may require such customers a considerable length of time to find an alternate source and have them tool up thereby reducing risk of significant volume changes, operating results could be adversely affected if one or more of these major customers cancel, delay or reduce significant orders in the future.

Sources and Availability of Raw Materials

The primary raw materials utilized by the precision machining operations are iron and aluminium castings and forgings, which are readily obtained from a variety of suppliers in North America for the Canadian, U.S. and Mexican operations. The company is not dependent on any one supplier. Occasionally, raw material is consigned to the company by its customers and any disruption in supply

is the responsibility of that customer. The European segment sources its raw materials primarily from Europe. The company continues to seek out capable, less costly sources for its castings. By appointing a Director of Asian Business Development, the company is continuing its efforts to locate and develop strategic suppliers in Asia to deliver parts to the company's North American facilities for further manufacturing and to create opportunities to supply the rapidly growing Asian automotive sector. During the year the company continued to source some of its requirements from Asia. This effort will continue as Linamar's presence in Asia increases.

Raw materials supply factors such as allocations, pricing, quality, timeliness of delivery, transportation and warehousing costs may affect the raw material sourcing decisions of Linamar and its plants. When appropriate and available, the company may negotiate long-term agreements with raw material suppliers to ensure continued availability of certain raw materials on favourable terms. In the event of significant unanticipated increase in demand for the company's products and the supply of raw materials, the company may in the future be unable to manufacture certain products in a quantity sufficient to meet its customers demand in any particular period.

Technological Change and Product Launches

The automotive and non-automotive precision machining industry may encounter technological change, new product introductions, product abandonment, and evolving industry requirements and standards. Accordingly, the company believes that its future success depends on its ability to launch new programs as well as enhance or develop current and future products at competitive prices and in a timely manner. The company's inability, given technological or other reasons, to enhance, develop, or launch products in a timely manner in response to changing market conditions or customer requirements could have a material adverse effect on the company's results of operations. For the development and production of products, the ability for the company to compete successfully will depend on its ability to acquire and retain competent trades people, management, and product development staff that allow the company to quickly adapt to technological change and advances in processes. In addition, there can be no assurance that products or technologies developed by others will not render the company's products uncompetitive or obsolete.

Financial and Capital Management Risk

Capital and Liquidity Risk

The amount of financial resources available to invest in a company's growth is dependent upon its size and willingness to utilize debt and issue equity. Since Linamar has a conservative financial policy and is not as large as some competitors, the company has fewer financial resources than some of its principal competitors. If the company exceeds its growth expectations it may require additional debt or equity financing. There is no assurance that the company will be able to obtain additional financial resources that may be required to successfully compete in its markets on favourable commercial terms. Failure to obtain such financing could result in the delay or abandonment of certain strategic plans for product manufacturing or development.

The company's current credit facility requires the company to comply with certain financial covenants. Additionally, certain of the company's credit facilities become due for renewal from time to time. There can be no assurance of the company's ability to continue to comply with these financial covenants, to appropriately service its debt or obtain continued commitments from debt providers given unforeseen events.

Acquisition and Expansion Risk

The company may expand its operations, depending on certain conditions, by acquiring additional businesses, products or technologies. There can be no assurance that the company will be able to identify, acquire or profitably manage additional businesses, or successfully integrate any acquired businesses, products or technologies into the company without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions may involve a number of special risks, including diversion of management's attention, failure to retain key personnel, unanticipated events or

circumstances, and legal liabilities, some or all of which could have a material adverse effect on the company's business, results of operations and financial condition. In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. The failure of the company to manage its acquisition or expansion strategy successfully could have a material adverse effect on the company's business, results of operations and financial condition.

Foreign Currency Risk

Linamar's foreign currency cash flows for the purchases of materials and certain capital equipment denominated in foreign currencies are naturally hedged when contracts to sell products are denominated in those same foreign currencies. In an effort to manage the remaining exposure to foreign currency risk, Linamar employs hedging programs as appropriate, primarily through the use of forward and zero cost option contracts. The contracts are purchased based on the projected foreign cash flows from operations.

The company uses forecasted future cash flows of foreign currencies to determine the residual foreign exchange exposure. The purpose of the company's foreign currency hedging activities is to minimize the effect of exchange rate fluctuations on business decisions and the resulting uncertainty on future financial results. The company does not hold or issue derivative financial instruments for trading or speculative purposes, and controls are in place to detect and prevent these activities. The company's forward and zero cost option contracts are referenced in note 18 to the company's consolidated financial statements for the year ended December 31, 2005 which are included in the Annual Report to shareholders.

Credit Risk

A substantial portion of the company's accounts receivable are with large customers in the automotive, truck and industrial sectors and are subject to credit risks normal to those industries. At December 31, 2005, the accounts receivable from the company's three largest customers amounted to 15.2%, 10.3% and 7.6% of accounts receivable (2004 - 15.0%, 13.4% and 8.1%).

Interest Rate Risk

Interest rate swap agreements are used as part of the company's program to manage the fixed and floating interest rate mix of the company's total debt portfolio and related overall cost of borrowing. The company designates its interest rate hedge agreements as hedges of the underlying debt and accordingly defers gains and losses. The interest rate swap agreements involve the periodic exchange of payments without the exchange of the notional principal amount upon which the payments are based, and interest expense on the debt is adjusted to include the payments made or received under the interest rate swaps. At December 31, 2005, the increase or decrease in net earnings for each 1% change in interest rates on the long-term and short-term borrowings amounts to approximately \$0.9 million (2004 - \$0.9 million) and \$0.1 million (2004 - \$0.3 million) respectively. Please see note 18 of the company's consolidated financial statements.

Seasonality, Industry Growth, and Competition

Historically, earnings in the second quarter are positively impacted by the high selling season for both the general lift platform and agricultural businesses. Vehicle production is typically at its lowest level during the months of July and August due to model changeovers by the OEMs. Since the company's working capital requirements are dependent upon industry production volumes, they are typically at their lowest level at this time. The company takes advantage of summer shutdowns for maintenance activities that would otherwise disrupt normal production schedules. Production volumes in the month of December are usually negatively affected by the holiday season.

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.

Outsourcing of brake components and assemblies, engine components, and powertrain segment by the OEM's has increased.

Management believes there is still more work performed in house by the OEM's than is currently outsourced, and therefore there is still large potential for growth. However, because of various factors affecting the OEM's, such as the level of consumer spending on automobiles, labour contracts, and other economic factors, the OEM's are constantly facing volume changes and decisions on whether to outsource work or not; such changes and decisions are reflected in Linamar's results through reduced volume on some existing programs and the ability to bid on, and receive, new business.

Through its Skyjack subsidiary, the company engages in the production and sale of aerial work platforms. There is a relatively defined sales cycle in this industry segment, as it is closely related to, and affected by, product life cycle and the construction sector. Therefore, the risks and fluctuations in the construction industry in the countries that Skyjack operates in, also affect Skyjack's sales.

The precision machining industry in North America is characterized by a large number of manufacturers. As a result, manufacturers such as Linamar tend to have a relatively small share of the North American market. Nonetheless, Linamar believes that it is currently the sole supplier being used by its customers worldwide for products that represent more than half of the company's consolidated sales.

The company faces numerous sources of competition, including its OEM customers and their affiliated parts manufacturers, other direct competitors and product alternatives. In many product areas, the primary competition comes from in-house divisions of the OEMs. As Linamar's North American customers have faced increased cost pressures, some have decided to "outsource" some of their requirements. This outsourcing has continued to represent an additional source of new business for Linamar.

Other competition in metal machining and assembly work comes from high precision machining companies which typically have several manufacturing locations and substantial capital resources to invest in equipment for high volume, high precision, long-term contracts. Several of these companies are heavily involved in the automotive industry and are suppliers to GM, Ford and Chrysler, as well as major truck manufacturers and OEMs ultimately controlled by persons resident outside North America.

Linamar believes that there are a large number of independent suppliers which have the capability to produce some or all of the components, modules and systems which Linamar currently produces. In addition, some of these competitors are larger and may have access to greater resources than Linamar, but the company believes that none of them are dominant in the markets in which Linamar operates. The basis for supplier selection by OEMs is not typically determined solely by price, but would also typically include such elements as quality, service, historical performance, timeliness of delivery, proprietary technologies, scope of in-house capabilities, existing agreements, responsiveness and the supplier's overall relationship with the OEM, as well as being influenced by the degree of available and unutilized capacity of resources in the OEM's manufacturing facilities, labour relations issues and other factors. The number of competitors that OEMs solicit to bid on any individual product has, in certain circumstances, been significantly reduced and management expects that further reductions will occur as a result of the OEMs' stated intention to deal with fewer suppliers and to award those suppliers longer-term contracts.

Foreign Business Risk

The company's operations in Europe, Mexico, China and South Korea, are subject to general business risks that do not exist in Canada or the United States. The political climate and government policies are less stable and less predictable in these countries. As well, Hungary, Mexico, China and South Korea do not have the same economic infrastructure as exists in Canada or the United States.

Operations outside the United States and Canada subject Linamar to other potential risks associated with international operations, including, but not limited to: complications in both compliance with and unexpected changes in foreign government laws and regulations, tariffs and other trade barriers, potential adverse tax consequences, fluctuations in currency exchange rates, difficulty in collecting accounts receivable, difficulty in staffing and managing foreign operations, events of international terrorism, economic effects of public health threats such as Severe Acute Respiratory Syndrome or Avian Flu, recessionary environments in foreign economies, uncertainties in local commercial practices, and uncertainties in local accepted business practices and standards which may not be similar to accepted business practices and standards in Canada and which may create unforeseen business or public relation situations.

Insurance

The company's business subjects it to the risk that it may incur product liability claims, warranty or recall claims, as well as business interruption claims. No assurance can be given that the insurance coverage or insurance coverage limits of the company would be adequate to protect it against any claims for product liability claims, warranty or recall claims, or business interruption claims that may arise. The company may require additional insurance coverage in these areas as the company gets more involved with product design and development. This insurance is expensive and may not be available on acceptable terms, or at all. Any uninsured or underinsured product liability claims, warranty or recall claims, or business interruption claims could have a material adverse effect on the company's financial condition, results of operations and prospects.

Regulatory Risk

Securities Laws Compliance and Corporate Governance Standards

The securities laws in Canada and abroad have been changing since the collapse of Enron Corporation in the United States and the subsequent introduction of strengthened securities and governance laws such as the Sarbanes-Oxley Act. Canada has been implementing similar laws and it is foreseen that this will continue indefinitely. The company is currently implementing the Canadian Securities Administrators ("CSA") Multilateral Instruments 52-109, 52-110 and 52-111 and expects to be in full compliance by the new proposed CSA date.

Tax Laws

The tax laws in Canada and abroad are continuously changing. Recently, corporate tax rates in Canada have been decreasing. There is no assurance that rates will continue to decrease in Canada or remain unchanged in other countries. The company's operations in Hungary are subject to an effective tax holiday but there can be no assurance that this effective holiday will continue up to or beyond its anticipated end date. The company's expansion into Asia via China and South Korea subjects the company to new tax regimes that may change based on political or social conditions. The company currently has tax losses and credits in Mexico and the U.S. that, given unforeseen changes in tax laws, may not continue indefinitely.

Emission Standards

Recent changes in emission standards in the U.S. in certain states, such as California, may affect the future sale of certain automotive products. Even though the company continues to implement changes to certain products via specifications from customers, there can be no assurance that the company will be able to keep pace with these changes. The introduction of the experimental fuel cell automobile by all major automotive manufacturers may affect the products and processes the company employs, the effect of which is currently undetermined. Canada, and other countries where the company's products are sold, has implemented or intend to implement the Kyoto Protocol, which sets limits for emission standards. The effect of this standard has not been fully analyzed by the automotive industry and its full effect on the financial stability of the company and its customers is as yet undetermined.

Environmental Matters

Linamar's manufacturing operations are subject to a wide range of environmental laws and regulations imposed by governmental authority in the jurisdictions in which the company conducts business. Linamar has established an Environment Committee of senior management to oversee Linamar's environmental programs and to ensure that Linamar complies with applicable environmental laws. As well, the company has regular environmental compliance audits performed to check that wastes are disposed of in accordance with such laws. Nineteen of Linamar's manufacturing facilities meet the ISO 14001 standard. All other facilities are working towards qualifying under ISO 14001. To date, environmental laws and regulations have not had a material affect on Linamar's operations or financial condition. Linamar has made, and will continue to make, significant expenditures in connection with environmental matters. Changes in laws and regulations, however, and the enforcement of such laws and regulations, are ongoing and may make environmental compliance, such as emissions control, site clean-ups and waste disposal, increasingly expensive. Senior management regularly assesses the work and costs required to address environmental matters, but is not able to predict the future costs (whether or not material) that may be incurred to meet environmental obligations. Senior management is not aware of any material environmental liability facing the company at this time.

Dependence on Key Personnel

Loss of certain members of the executive team or key technical leaders of the company could have a disruptive effect on the implementation of the company's business strategy and the efficient running of day-to-day operations until their replacement is found. Competition for personnel throughout the industry is intense. The company may be unable to retain its key employees or attract, assimilate, retain or train other necessary qualified employees, which may restrict its growth potential.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. The company bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities. On an ongoing basis, the company evaluates its estimates. However, actual results may differ from these estimates under different assumptions or conditions.

Impairment of Goodwill and Other Intangibles

Management, on an annual basis, must assess for impairment goodwill and intangible assets not subject to amortization. The company must also assess all intangible assets for impairment when events and changes in circumstances indicate that the carrying amounts may not be recoverable. The company believes that the estimate of impairment for goodwill and other intangibles is a "critical accounting estimate" because management is required to make significant forward looking assumptions. Also, different estimates that could be used or changes in estimates from period to period may have a material impact on the company's consolidated balance sheets, statements of cash flows, and statements of earnings. The company uses a discounted cash flow method to assess the fair value of goodwill and other intangible assets. Fair value is evaluated on a quarterly basis or when events or circumstances change. Uncertain changes in the discount rate used, and forward looking assumptions regarding improvement plans, costing assumptions, timing of program launches, and production volumes may affect the fair value of estimates used. No known trends, commitments, events or other uncertainties are currently believed to materially affect the assumptions used.

As at December 31, 2005, goodwill and other intangibles of \$38.5 million (2004 - \$33.7 million) was recorded on the consolidated balance sheet of the company. The amount of goodwill acquired during the prior year was \$Nil and \$2.4 million in 2005. In 2005 the company also acquired \$4.0 million of intangible assets subject to amortization (\$Nil in 2004) and amortization against this and similar assets totalled \$1.1

million. The amount recorded as impaired on the company's consolidated statements of earnings amounted to \$Nil (2004 - \$Nil).

On a geographic segmented basis, the goodwill and other intangibles balance was \$7.2 million in the Canada segment (Skyjack goodwill at \$3.3 million and ERP software at \$3.9 million), \$11.4 million in the U.S. segment (McLaren goodwill at \$10.1 million and the McLaren trade name at \$1.3 million), and \$20.0 million in the Europe segment (LAT goodwill at \$12.4 million and the LAT customer contract at \$7.6 million). On an operation segmented basis, the balance was \$15.3 million in the North American Automotive Systems segment (ERP software at \$3.9 million, McLaren goodwill at \$10.1 million and the McLaren trade name at \$1.3 million), \$20.0 million in the Europe segment (LAT goodwill at \$12.4 million and the LAT customer contract at \$7.6 million), and \$3.3 million in the Industrial segment.

Future Income Tax Assets and Liabilities

Future income tax assets and liabilities result from the timing difference between the financial reporting and tax bases of assets and liabilities. Loss carry forwards also comprise a portion of the temporary differences and result in a future income tax asset. To the extent that management does not consider it to be more likely than not that a future income tax asset will be realized, a valuation allowance is provided. The company considers this allowance a "critical accounting estimate" as highly uncertain assumptions are made at the time of estimation and differing estimates may result due to changes in the assumptions from period to period and may have a material impact on the company's consolidated financial statements. The factors used to assess the likelihood of realization are the company's forecast of future taxable income and available tax planning strategies that could be implemented to realize the future tax assets. The company has and continues to use tax planning strategies to realize future tax assets in order to avoid the potential loss of benefits. Unknown future events and circumstances, such as changes in tax rates and laws, may materially affect the assumptions and estimates made from one period to the next. Any significant change in events, tax laws, and tax rates beyond the control of the company may materially affect the consolidated financial statements.

As at December 31, 2005, the valuation allowance against the tax benefit of tax credits and loss carry forwards as well as other assets with tax value in excess of book value was \$19.3 million (2004 - \$15.5 million) which is based on loss carry forwards and other assets, and is reflected in the net future income tax liability from continuing operations balance of \$32.2 million (2004 - \$24.0 million) on the consolidated balance sheets of the company.

On a geographical segmented basis, the valuation allowance of \$19.3 million was entirely in the Mexico segment. On an operational segmented basis the valuation allowance of \$19.3 million was entirely in the North American Automotive Systems segment.

Impairment of Long-Lived Assets

Management assesses for impairment of long-lived assets when events and changes in circumstances indicate that the carrying amounts may not be recoverable. The company believes that the estimate of impairment for long-lived assets is a "critical accounting estimate" because management is required to make significant forward looking assumptions when events or circumstances indicating impairment arise. Also, different estimates that could have been used or changes in estimates from period to period may have a material impact on the company's consolidated balance sheets, statements of cash flows, and statements of earnings. Recoverability is assessed by comparing the carrying amount first to the estimated undiscounted future cash flows. An impairment loss is measured when the carrying amount of the long lived asset exceeds its fair value which can be determined using the discounted future cash flows the long-lived assets are expected to generate. Uncertain changes in the discount rate used, and forward looking assumptions regarding improvement plans, costing assumptions, timing of program launches, and production volumes may affect the fair value of estimates used. No known trends, commitments, events or other uncertainties are currently believed to affect the assumptions used.

Stock-Based Compensation

Management estimates the fair value of stock-based compensation granted after January 1, 2002. This fair value is amortized to earnings over the remaining vesting period. The fair value of the options issued each year, if applicable, is determined using the Black-Scholes option pricing model. The company believes that the estimate of stock-based compensation is a "critical accounting estimate" because management is required to make significant forward looking assumptions. The varying inputs on which the Black-Scholes option pricing model is based can result in significantly different results and there may be a material impact on the company's consolidated balance sheets, statements of cash flows, and statements of earnings. Uncertain changes in expected stock volatility, the change in expected dividend yields, the expected option term, and changes in assumptions used to form a risk free rate during the expected option term may affect the value derived for stock-based compensation. No known trends, commitments, events or other uncertainties are currently believed to affect the assumptions used.

During the year the remaining options that were priced using the Black-Scholes option pricing model were either exercised or cancelled. Since the fair value of stock-based compensation is determined at the grant date no changes in estimates has occurred over the past two years.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTIONS

The following accounting policies and pronouncements were adopted during the year ended December 31, 2005:

a) In 2003, the CICA issued Accounting Guideline, AcG-15 "Consolidation of Variable Interest Entities" ("AcG-15"). AcG-15 requires that all companies comply with the new guideline for years beginning on or after November 1, 2004. The company adopted the new guideline effective January 1, 2005. AcG-15 sets out criteria for identifying variable interest entities and further establishes criteria to determine which entity, if any, should consolidate them. AcG-15 conforms Canadian GAAP with U.S. GAAP as it applies to variable interest entities. The company consolidates all of its subsidiaries. The adoption and compliance with AcG-15 has not had any effect on the company's financial condition.

b) In 2003 the company purchased Salzgitter Antriebstechnik GmbH & Co. KG, which now operates as LAT. Part of that acquisition included a customer contract valued at \$8.7 million. Previously this intangible asset had not been amortized, however, production associated with the contract commenced in June 2005. CICA Handbook Section 3062 "Goodwill and other intangible assets" ("CICA 3062") establishes criteria for the amortization of the asset. Alternatives available for the amortization of the asset include straight line over the life of the contract, straight line by units of production and diminishing balance. The company has adopted the policy of amortizing this and similar assets over the remaining life of the contract, on a straight line basis once production has physically started as this most closely reflects the benefit of the asset. The term of amortization for each asset will be reviewed at least annually. Amortization of this intangible asset is expected to be complete by June 2009.

During 2005 the company began to implement an ERP program within certain facilities. Implementation is expected to continue throughout the organization into 2008. CICA 3062 establishes criteria for the amortization of assets that have a finite life, including straight line or diminishing balance over its useful life. The company has chosen to amortize the asset on a staggered straight line approach as implementation is achieved at certain facilities.

c) Existing policies for depreciating equipment are to use the straight line method over 5 to 10 years or 15% to 20% diminishing balance method. A block of heat treating furnaces was installed in a certain plant in 2005. This equipment is versatile and has multiple applications, and due to the size and nature of this equipment the company has established a separate category of asset. CICA Handbook Section 3061 "Property, plant and equipment" ("CICA 3061") provides guidance on matters to consider when determining the method and period of amortization for assets. Practical methods of amortization include straight line and diminishing balance. The equipment is technologically mature and is expected to remain viable for many years. Wear on the equipment is expected to be constant over the life, thus the company has adopted the policy of amortizing the asset on a straight line basis over ten years, commencing April 2005.

The following accounting pronouncements will be adopted by the company after December 31, 2005:

a) In 2005, the CICA issued Handbook Section 1530 "Comprehensive Income" ("CICA 1530"). CICA 1530 requires that all companies comply with the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 3251 "Equity", CICA 3855 "Financial Instruments – Recognition and Measurement", CICA 3861 "Financial Instruments – Disclosure and Presentation", CICA 3865 "Hedges", CICA 3051 "Investments", and CICA 1651 "Foreign Currency Translation". CICA 1530 requires companies to present comprehensive income and its components, as well as net income, as a separate and distinct financial statement. Comprehensive income is the change in equity of an enterprise during a period arising from transactions and other events and circumstances from non-owner sources and includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. A component of comprehensive income is other comprehensive income which comprises revenues, expenses, gains and losses, in accordance with primary sources of GAAP. Comprehensive income will include exchange gains and losses arising from the translation of the financial statements of the company's self-sustaining foreign operations (as per CICA 1651 "Foreign Currency Translation" below), gains and losses arising from changes in the fair values of available-for-sale financial assets (as per CICA 3855 "Financial Instruments – Recognition and Measurement" below), and the change in fair values of effective cash flow hedging instruments (as per CICA 3865 "Hedges" below). Other than presentation and disclosure, the adoption of CICA 1530 is not expected to have a significant effect on the company's consolidated financial condition.

b) In 2005, the CICA reissued Handbook Section 3251 "Equity" ("CICA 3251") replacing Handbook Section 3250 "Surplus". CICA 3251 requires that all companies comply with the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 1530 "Comprehensive Income", CICA 3855 "Financial Instruments – Recognition and Measurement", CICA 3861 "Financial Instruments – Disclosure and Presentation", CICA 3865 "Hedges", CICA 3051 "Investments", and CICA 1651 "Foreign Currency Translation". CICA 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The main feature of this Section is a requirement for an enterprise to present separately each of the changes in equity during the period, including accumulated other comprehensive income, as well as components of equity at the end of the period. Other than disclosure, the adoption of CICA 3251 is not expected to have an effect on the company's consolidated financial condition.

c) In 2005, the CICA issued Handbook Section 3855 "Financial Instruments – Recognition and Measurement" ("CICA 3855"). CICA 3855 requires that all companies comply with the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 1530 "Comprehensive Income", CICA 3251 "Equity", CICA 3861 "Financial Instruments – Disclosure and Presentation", CICA 3865 "Hedges", CICA 3051 "Investments", and CICA 1651 "Foreign Currency Translation". CICA 3855 establishes standards for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. CICA 3855's primary items or changes include: financial assets are now classified as held for trading, held to maturity, loans and receivables, or available for sale; almost all derivatives, including embedded derivatives that are not closely related to the host contract, are classified as held for trading; financial assets and financial liabilities held for trading are measured at fair value with gains and losses recognized to net income in the periods in which they arise, unless they are part of a hedging relationship; financial assets held to maturity, loans and receivables, and financial liabilities other than those held for trading, are measured at amortized cost; financial assets available for sale are measured at fair value with gains and losses recognized to other comprehensive income until the financial asset is derecognized or becomes impaired; investments in equity instruments that do not have a quoted market price in an active market, other than those held for trading, are measured at cost; a company may elect on initial recognition to measure any financial instrument at fair value with gains or losses recognized in net income in the periods in which they arise. The adoption of CICA 3855, based on its new recognition standards, is expected to have an effect on the company's consolidated financial condition but that effect has yet to be quantified.

d) In 2005, the CICA reissued Handbook Section 3861 "Financial Instruments – Disclosure and Presentation" ("CICA 3861") replacing CICA 3860. CICA 3861 requires that all companies comply with

the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 1530 "Comprehensive Income", CICA 3251 "Equity", CICA 3855 "Financial Instruments – Recognition and Measurement", CICA 3865 "Hedges", CICA 3051 "Investments", and CICA 1651 "Foreign Currency Translation". CICA 3861 establishes standards for accounting policy disclosures, a description of risk management objectives and policies, and sets standards for disclosures about fair value and hedges of anticipated future transactions. Other than disclosure, the adoption of CICA 3861 is not expected to have an effect on the company's consolidated financial condition.

e) In 2005, the CICA issued Handbook Section 3865 "Hedges" ("CICA 3865"). CICA 3865 requires that all companies comply with the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 1530 "Comprehensive Income", CICA 3251 "Equity", CICA 3855 "Financial Instruments – Recognition and Measurement", CICA 3861 "Financial Instruments – Disclosure and Presentation", CICA 3051 "Investments", and CICA 1651 "Foreign Currency Translation". CICA 3865's primary items or changes include: excerpts from the withdrawn AcG-13 "Hedging Relationships" Section; hedges are designated as either fair value hedges, cash flow hedges or hedges of a net investment in a self-sustaining foreign operation; for fair value hedges, the gain or loss from re-measuring a derivative hedging item at fair value or, for a non-derivative hedging item, from re-measuring the foreign currency component of its carrying amount, is recognized in net income in the period of change together with the offsetting loss or gain on the hedged item attributable to the hedged risk. The carrying amount of the hedged item is adjusted for the effect of the hedged risk; for cash flow hedges and a hedge of a net investment in a self-sustaining foreign operation, the effective portion of the hedging item's gain or loss is initially reported in other comprehensive income and subsequently reclassified to net income when the offsetting loss or gain on the hedged item affects net income; and new disclosures about the company's accounting for designated hedging relationships. The adoption of CICA 3865, based on its new recognition standards, is expected to have an effect on the company's consolidated financial condition but that effect has yet to be quantified.

f) In 2005, the CICA reissued Handbook Section 3051 "Investments" ("CICA 3051") replacing Handbook Section 3050 "Long-Term Investments". CICA 3051 requires that all companies comply with the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 1530 "Comprehensive Income", CICA 3251 "Equity", CICA 3855 "Financial Instruments – Recognition and Measurement", CICA 3861 "Financial Instruments – Disclosure and Presentation", CICA 3865 "Hedges", and CICA 1651 "Foreign Currency Translation". CICA 3051 requires portfolio investments be accounted for in accordance with new Handbook Section CICA 3855. CICA 3051 outlines that an other-than-temporary decline in value of an investment occurs when there is a significant or prolonged decline in the fair value of an investment below its carrying value and this is evidence of an other-than-temporary loss in value of an investment. The adoption of CICA 3051 is not expected to have an effect on the company's consolidated financial condition.

g) In 2005, the CICA issued Handbook Section 1651 "Foreign Currency Translation" ("CICA 1651") replacing CICA 1650 "Foreign Currency Translation". CICA 1651 requires that all companies comply with the new Handbook Section for fiscal years beginning on or after October 1, 2006. Companies adopting this Section for a fiscal year beginning before October 1, 2006 must also adopt CICA 1530 "Comprehensive Income", CICA 3251 "Equity", CICA 3855 "Financial Instruments – Recognition and Measurement", CICA 3861 "Financial Instruments – Disclosure and Presentation", CICA 3865 "Hedges", and CICA 3051 "Investments". CICA 1651 requires companies to include, as a component of other comprehensive income, the exchange gains and losses arising from the translation of the financial statements of the company's self-sustaining foreign operations. The effect on the company's financial position is the reclassification of the cumulative translation adjustment from the balance sheet to comprehensive income.

h) In 2005, the CICA issued Handbook Section 3831 "Non-monetary transactions" ("CICA 3831"), replacing Section 3830 "Non-monetary transactions". CICA 3831 requires that an asset exchanged or transferred in a non-monetary transaction must be measured at its fair value except when: the transaction lacks commercial substance (when the company's future cash flows are expected to change significantly as a result of the transaction); the transaction is an exchange of a product or property held for sale in the

ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange; neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or the transaction is a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation. In these cases the transaction must be measured at the carrying value.

Congruent guidance for related party non-monetary transactions is provided in CICA Handbook Section 3840 "Related party transactions" ("CICA 3840") and in CICA Handbook Section 1581 "Business combinations" ("CICA 1581") references to "culmination of the earnings process" have been removed.

CICA 1581, CICA 3831 and CICA 3840 are effective for non-monetary transactions in periods beginning on or after January 1, 2006. Accordingly the company plans to adopt the new requirements effective January 1, 2006. The adoption of CICA 1581, CICA 3831 and CICA 3840 are not expected to have an effect on the company's consolidated financial condition.

OUTSTANDING SHARE DATA

Linamar is authorized to issue an unlimited number of common shares, of which 72,077,076 common shares were outstanding as of March 9, 2006. As of March 9, 2006, options to purchase 1,479,000 common shares were outstanding under Linamar's share option plan.

NON-GAAP MEASURES

The following measures do not have a standardized meaning under Canadian generally accepted accounting principles and, therefore are unlikely to be comparable to similar measures presented by other issuers.

Operating Earnings

Operating earnings, as used by the chief operating decision makers and management, monitors the performance of the business specifically at the segmented level. Operating earnings is calculated by the company as gross margin less selling, general and administrative expenses and equity loss.

December 31 (in millions of dollars)	2005	2004	2003	2002	2001
Gross Margin	\$278.7	\$235.6	\$195.9	\$176.8	\$154.2
Selling, general and administrative	102.7	90.9	84.7	72.0	57.9
Equity loss	-	-	-	0.8	6.9
Operating Earnings	\$176.0	\$144.7	\$111.2	\$104.0	\$89.4

Book Value Per Share

This measure, as used by the chief operating decision makers and management, indicates the value of the company based on the carrying value of the company's net assets. Book value per share is calculated by the company as Shareholders' Equity divided by shares outstanding at year-end.

December 31 (in millions of dollars, except per share amounts)	2005	2004
Shareholders' Equity	\$778.6	\$692.6
Shares outstanding at year-end	72,108,476	70,627,476
Book value per share	\$10.80	\$9.81

Debt to Total Capitalization

This measure, as used by the chief operating decision makers and management, indicates the company's reliance on debt and its financial flexibility. Debt to total capitalization is calculated by the company as the sum of Short-term bank borrowings, Current portion of long-term debt, and Long-Term Debt divided by the sum of this total and Shareholders' Equity.

December 31 (in millions of dollars)	2005	2004
Short-term bank borrowings	\$10.0	\$50.9
Current portion of long-term debt	131.3	7.0
Long-Term Debt	174.9	308.2
Total Debt	\$316.2	\$366.1
Shareholders' Equity	778.6	692.6
Debt to Total Capitalization	28.9%	34.6%

Return on Shareholders' Equity

This measure, as used by the chief operating decision makers and management, indicates the yearly return for shareholders. Return on Shareholders' Equity is calculated by the company as the Earnings from Continuing Operations divided by Shareholders' Equity.

December 31 (in millions of dollars)	2005	2004	2003	2002	2001
Earnings from Continuing Operations	\$101.0	\$90.4	\$48.1	\$64.1	\$58.4
Shareholders' Equity	778.6	692.6	627.1	622.9	557.8
Return on Shareholders' Equity	13.0%	13.1%	7.7%	10.3%	10.5%

OUTLOOK

In 2006, Linamar anticipates continuing uncertainty in the automotive market, particularly with respect to the North American OEMs 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 for 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.

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. A key factor in the company's future results is the effect of economic fluctuations in the automotive industry and specifically vehicles produced for the markets in which Linamar participates. Variations in these factors can have a significant impact on the industry and Linamar.

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 booms expected in 2006. Industrial sales are expected to increase 12-17% in 2006. These results may not be realised if the residential market decline exceeds expectations.

The stronger Canadian dollar has the impact of lowering sales and to the extent that the company purchases material or supplies in U.S. dollars, this effect is substantially reduced. Equipment is also purchased in U.S. dollars; when the Canadian dollar strengthens, the equipment cost is reduced as is depreciation over future years. Since Linamar's business is capital intensive, U.S. dollar purchases have a notable positive impact on earnings over future periods. The company continues to employ a hedging strategy where appropriate for net U.S. dollar positive cash flows. The stronger Canadian dollar is also reducing price competitiveness for Canadian dollar denominated sales.

Linamar believes that its strategy to focus on the engine, transmission and chassis components of the automobile represents a significant opportunity for growth as products in these applications are expected to be the next major area of outsourcing by the OEM over the next 10 to 20 years. Other aspects of the vehicles such as interiors, seating, and structural components have already experienced greater levels of outsourcing. In addition, management believes future trends include more involvement by suppliers in component and module design, a move towards global vehicle platforms and supply base consolidation.

The company believes that it is uniquely positioned with its core competencies in precision machining and manufacturing processes, and its range of precision machined and assembled automotive and non-automotive products. To build on this strong business base, Linamar intends to continue to develop the organization and its capabilities by enhancing its existing expertise to produce every machined component in the vehicle. Linamar's strategy is to establish and develop a market leadership position in key components and assemblies, enhancing its design, development and testing expertise, and researching opportunities in product and process innovation.

Other principal challenges and risks that the company faces moving forward are the slow pace 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 (such as China) and technologies that eliminate the need for machining.

In addition, the automotive industry continues to decrease the supply base mainly due to the actions of the OEMs. The OEMs are actively trying to reduce their supply base to become more manageable. Through this reduction, there have been considerable consolidations or acquisitions of smaller suppliers. These consolidations provide Linamar with additional opportunities to expand the automotive sales base.

Strategies employed to address market challenges include focusing, through Linamar's sales and marketing organization and technical resources, on strategic sales products and processes to meet customer and product sales levels. Linamar is making significant capital expenditures (as illustrated in 2005) on various new programs that target key products and expand into assemblies and modules. Expansion into China and Korea is also an important aspect of Linamar's growth strategy.

FORWARD LOOKING INFORMATION

Certain information provided by Linamar in this Management Discussion and Analysis in the Annual Report and other documents published throughout the year which 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 current expectations discussed in this Management Discussion and Analysis and elsewhere in the Annual Report 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 forwarding 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.