

CONSOLIDATED FINANCIAL STATEMENTS

Linamar Corporation

December 31, 2020 and December 31, 2019
(in thousands of dollars)

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management of Linamar Corporation (the "Company") is responsible for the preparation of all information included in this annual report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards, and necessarily include some amounts that are based on management's best estimates and judgements. Financial information included elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains a system of internal accounting controls to provide reasonable assurance that the consolidated financial statements are accurate and reliable and that the assets are safeguarded from loss or unauthorized use.

The Company's independent auditor, appointed by the shareholders, has prepared their report, which outlines the scope of their examination and expresses their opinion on the consolidated financial statements.

The Board of Directors, through its Audit Committee, is responsible for assuring that management fulfills its financial reporting responsibilities. The Audit Committee is composed of independent directors who are not employees of the Company.

The Audit Committee meets periodically with management and with the auditors to review and to discuss accounting policy, auditing and financial reporting matters. The Committee reports its findings to the Board of Directors for their consideration in reviewing and approving the consolidated financial statement for issuance to the shareholders.

(Signed) "Linda Hasenfratz"

Linda Hasenfratz
Chief Executive Officer

(Signed) "Dale Schneider"

Dale Schneider
Chief Financial Officer

March 10, 2021

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Linamar Corporation

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Linamar Corporation and its subsidiaries (together, the Company) as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- ◆ the consolidated statements of financial position as at December 31, 2020 and 2019;
- ◆ the consolidated statements of earnings for the years then ended;
- ◆ the consolidated statements of comprehensive earnings for the years then ended;
- ◆ the consolidated statements of changes in equity for the years then ended;
- ◆ the consolidated statements of cash flows for the years then ended; and
- ◆ the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>Goodwill impairment assessment for MacDon Group of Companies and Montupet Group of Companies cash generating units (CGUs)</p> <p><i>Refer to Note 3 - Significant accounting policies and Note 11 - Goodwill to the consolidated financial statements.</i></p> <p>Management performs an impairment assessment annually for goodwill, or more frequently when there is an indication of impairment. An impairment loss is recognized if the carrying value of a CGU or grouped CGUs to which the goodwill relates exceeds its recoverable amount. The carrying values of goodwill for the MacDon Group of Companies and Montupet Group of Companies CGUs are \$388.8 million and \$470.9 million respectively. The recoverable amounts of those CGUs were determined on a value in use calculation (the method) using discounted future operating cash flows (the models) covering a five-year period. The key assumptions used in the models included forecast growth rates, discount rates, forecasted operating costs and capital expenditures. No impairment loss was recognized as a result of the current year impairment assessment.</p> | <p>Our approach to addressing the matter involved the following procedures, amongst others:</p> <p>Evaluated how management determined the recoverable amounts of the MacDon Group of Companies and Montupet Group of Companies CGUs, which included the following:</p> <ul style="list-style-type: none"> ◆ Evaluated the appropriateness of the method used and the mathematical accuracy of the models for the five year period. ◆ Evaluated the reasonableness of the forecast growth rates, and forecasted operating costs and capital expenditures applied by management in the models by (i) comparing to the approved budget, (ii) comparing to current and past performance of the CGUs, (iii) assessing consistency with available third party published industry data, (iv) evaluating whether these assumptions were consistent with management's strategic plans. ◆ Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rates applied by management based on available data of comparable companies. ◆ Tested the underlying data used in the models. |

INDEPENDENT AUDITOR'S REPORT

| | |
|---|---|
| <p>We considered this a key audit matter due to the judgement made by management in determining the recoverable amounts of the CGUs, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing audit procedures to test the key assumptions. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.</p> | <ul style="list-style-type: none">♦ Tested the disclosures made in the consolidated financial statements related to goodwill. |
|---|---|

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our

INDEPENDENT AUDITOR'S REPORT

opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- ◆ Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ◆ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Michael Eric Clarke.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario

March 10, 2021

LINAMAR CORPORATION
Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

| | December 31 2020 \$ | December 31 2019 \$ |
|---|---------------------------|---------------------------|
| ASSETS | | |
| Cash and cash equivalents | 861,100 | 338,226 |
| Accounts and other receivables (Note 26) | 888,206 | 988,245 |
| Inventories (Note 7) | 864,155 | 991,759 |
| Income taxes recoverable (Note 8) | 8,961 | 47,216 |
| Current portion of long-term receivables (Note 26) | 66,135 | 118,095 |
| Current portion of derivative financial instruments (Note 26) | 26,398 | 6,415 |
| Other current assets | 34,847 | 40,879 |
| Current Assets | 2,749,802 | 2,530,835 |
| Long-term receivables (Note 26) | 310,315 | 403,811 |
| Derivative financial instruments (Note 26) | 5,073 | 84,758 |
| Property, plant and equipment (Note 9) | 2,624,004 | 2,758,764 |
| Investments | 6,579 | 6,642 |
| Deferred tax assets (Note 8) | 106,358 | 61,840 |
| Intangible assets (Note 10) | 864,478 | 873,616 |
| Goodwill (Note 11) | 890,081 | 858,541 |
| Assets | 7,556,690 | 7,578,807 |
| LIABILITIES | | |
| Short-term borrowings | - | 5,561 |
| Accounts payable and accrued liabilities (Note 26) | 1,452,323 | 1,271,856 |
| Provisions (Note 12) | 38,441 | 40,358 |
| Income taxes payable (Note 8) | 83,882 | 23,188 |
| Current portion of long-term debt (Note 13) | 577,335 | 26,186 |
| Current portion of derivative financial instruments (Note 26) | 45,236 | - |
| Current Liabilities | 2,197,217 | 1,367,149 |
| Long-term debt (Note 13) | 725,879 | 1,865,942 |
| Derivative financial instruments (Note 26) | 363 | 20,153 |
| Deferred tax liabilities (Note 8) | 279,733 | 295,808 |
| Liabilities | 3,203,192 | 3,549,052 |
| EQUITY | | |
| Capital stock (Note 14) | 146,204 | 132,356 |
| Retained earnings | 4,073,591 | 3,830,666 |
| Contributed surplus | 25,546 | 27,578 |
| Accumulated other comprehensive earnings (loss) | 108,157 | 39,155 |
| Equity | 4,353,498 | 4,029,755 |
| Liabilities and Equity | 7,556,690 | 7,578,807 |

The accompanying notes are an integral part of these consolidated financial statements.

On behalf of the Board of Directors:

(Signed) "Frank Hasenfratz"

Frank Hasenfratz
Director

(Signed) "Linda Hasenfratz"

Linda Hasenfratz
Director

LINAMAR CORPORATION

Consolidated Statements of Earnings

For the years ended December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars, except per share figures)

| | 2020 | 2019 |
|---|-----------|-----------|
| | \$ | \$ |
| Sales (Note 15) | 5,815,573 | 7,416,624 |
| Cost of sales (Note 16) | 5,027,150 | 6,350,782 |
| Gross Margin | 788,423 | 1,065,842 |
| Selling, general and administrative (Note 16) | 353,628 | 414,449 |
| Other income and (expenses) (Note 19) | (10,603) | (26,892) |
| Operating Earnings (Loss) | 424,192 | 624,501 |
| Share of net earnings (loss) of investments accounted for using the equity method | (22,899) | (10,984) |
| Finance income and (expenses) (Note 20) | (26,909) | (49,110) |
| Net Earnings (Loss) before Income Taxes | 374,384 | 564,407 |
| Provision for (recovery of) income taxes (Note 8) | 95,251 | 133,966 |
| Net Earnings (Loss) for the Year | 279,133 | 430,441 |
| Net Earnings (Loss) per Share: (Note 21) | | |
| Basic | 4.27 | 6.59 |
| Diluted | 4.27 | 6.56 |

The accompanying notes are an integral part of these consolidated financial statements.

LINAMAR CORPORATION**Consolidated Statements of Comprehensive Earnings**

For the years ended December 31, 2020 and December 31, 2019

(in thousands of Canadian dollars)

| | 2020 | 2019 |
|---|----------|-----------|
| | \$ | \$ |
| Net Earnings (Loss) for the Year | 279,133 | 430,441 |
| Items that may be reclassified subsequently to net income | | |
| Unrealized gains (losses) on translating financial statements of foreign operations | 100,700 | (209,644) |
| Change in unrealized gains (losses) on net investment hedges (Note 26) | (59,811) | 63,442 |
| Change in unrealized gains (losses) on cash flow hedges (Note 26) | (12,368) | (52,911) |
| Change in cost of hedging (Note 26) | 2,177 | 9,494 |
| Reclassification to earnings of gains (losses) on cash flow hedges (Note 26) | 27,738 | 55,109 |
| Tax impact of above (Note 8) | 10,566 | (18,784) |
| Other Comprehensive Earnings (Loss) | 69,002 | (153,294) |
| Comprehensive Earnings (Loss) for the Year | 348,135 | 277,147 |

The accompanying notes are an integral part of these consolidated financial statements.

LINAMAR CORPORATION

Consolidated Statements of Changes in Equity

For the years ended December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars)

| | Capital stock \$ | Retained earnings \$ | Contributed surplus \$ | Cumulative translation adjustment \$ | Hedging reserves \$ | Total Equity \$ |
|---|---------------------|----------------------------|------------------------------|---|---------------------------|--------------------|
| Balance at January 1, 2019 | 122,393 | 3,459,841 | 28,449 | 197,221 | (4,772) | 3,803,132 |
| Net Earnings (Loss) | - | 430,441 | - | - | - | 430,441 |
| Other comprehensive earnings (loss) | - | - | - | (160,752) | 7,458 | (153,294) |
| Comprehensive Earnings (Loss) | - | 430,441 | - | (160,752) | 7,458 | 277,147 |
| Share-based compensation | - | - | 2,777 | - | - | 2,777 |
| Shares issued on exercise of options | 11,382 | - | (3,648) | - | - | 7,734 |
| Common shares repurchased and cancelled (Note 14) | (1,419) | (28,285) | - | - | - | (29,704) |
| Dividends | - | (31,331) | - | - | - | (31,331) |
| Balance at December 31, 2019 | 132,356 | 3,830,666 | 27,578 | 36,469 | 2,686 | 4,029,755 |
| Net Earnings (Loss) | - | 279,133 | - | - | - | 279,133 |
| Other comprehensive earnings (loss) | - | - | - | 55,129 | 13,873 | 69,002 |
| Comprehensive Earnings (Loss) | - | 279,133 | - | 55,129 | 13,873 | 348,135 |
| Share-based compensation | - | - | 2,882 | - | - | 2,882 |
| Shares issued on exercise of options | 14,417 | - | (4,914) | - | - | 9,503 |
| Common shares repurchased and cancelled (Note 14) | (569) | (12,711) | - | - | - | (13,280) |
| Dividends | - | (23,497) | - | - | - | (23,497) |
| Balance at December 31, 2020 | 146,204 | 4,073,591 | 25,546 | 91,598 | 16,559 | 4,353,498 |

The accompanying notes are an integral part of these consolidated financial statements.

LINAMAR CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars)

| | 2020 \$ | 2019 \$ |
|---|------------|------------|
| Cash generated from (used in) | | |
| Operating Activities | | |
| Net earnings (loss) | 279,133 | 430,441 |
| Adjustments for: | | |
| Amortization of property, plant and equipment | 406,222 | 360,658 |
| Amortization of other intangible assets | 48,403 | 41,864 |
| Deferred income taxes | (44,737) | 2,407 |
| Asset impairment provision, net of reversals | 16,143 | - |
| Share-based compensation | 2,882 | 2,777 |
| Equity investment (earnings) loss | 22,899 | 10,984 |
| Finance (income) and expenses | 26,910 | 49,110 |
| Other | 13,745 | (820) |
| | 771,600 | 897,421 |
| Changes in operating assets and liabilities | | |
| (Increase) decrease in accounts and other receivables | 95,427 | 255,909 |
| (Increase) decrease in inventories | 139,514 | 192,148 |
| (Increase) decrease in other current assets | 6,490 | (10,386) |
| (Increase) decrease in long-term receivables | 130,237 | (26,078) |
| Increase (decrease) in income taxes | 89,050 | (44,206) |
| Increase (decrease) in accounts payable and accrued liabilities | 203,964 | (105,652) |
| Increase (decrease) in provisions | (2,196) | 8,525 |
| | 662,486 | 270,260 |
| Cash generated from (used in) operating activities | 1,434,086 | 1,167,681 |
| Financing Activities | | |
| Proceeds from (repayments of) short-term borrowings | (6,370) | (10,192) |
| Proceeds from (repayments of) long-term debt | (601,192) | (618,242) |
| Proceeds from exercise of stock options | 9,503 | 7,734 |
| Repurchase of shares | (13,280) | (29,704) |
| Dividends | (23,497) | (31,331) |
| Finance income received (expenses paid) | (23,004) | (42,344) |
| Settlement of forward contracts | 41,428 | - |
| Cash generated from (used in) financing activities | (616,412) | (724,079) |
| Investing Activities | | |
| Payments for purchase of property, plant and equipment | (264,312) | (525,404) |
| Proceeds on disposal of property, plant and equipment | 15,188 | 25,159 |
| Payments for purchase of intangible assets | (27,335) | (33,570) |
| Other | (13,854) | (13,382) |
| Cash generated from (used in) investing activities | (290,313) | (547,197) |
| | 527,361 | (103,595) |
| Effect of translation adjustment on cash | (4,487) | (30,154) |
| Increase (decrease) in cash and cash equivalents | 522,874 | (133,749) |
| Cash and cash equivalents - Beginning of Year | 338,226 | 471,975 |
| Cash and cash equivalents - End of Year | 861,100 | 338,226 |
| Comprised of: | | |
| Cash in bank | 628,537 | 285,884 |
| Short-term deposits | 236,340 | 59,019 |
| Unpresented cheques | (3,777) | (6,677) |
| | 861,100 | 338,226 |

The accompanying notes are an integral part of these consolidated financial statements.

LINAMAR CORPORATION

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars, except where otherwise noted)

1 General Information

Linamar Corporation and its subsidiaries, including jointly controlled entities, (together, the “Company”) is a diversified global manufacturing company of highly engineered products. The Company is incorporated in Ontario, Canada with common shares listed on the Toronto Stock Exchange (“TSX”). The Company is domiciled in Canada and its registered office is 287 Speedvale Avenue West, Guelph, Ontario, Canada.

The consolidated annual financial statements of the Company for the year ended December 31, 2020 were authorized for issue in accordance with a resolution of the Company’s Board of Directors on March 10, 2021.

2 Basis of Preparation

The Company has prepared its consolidated annual financial statements in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and with interpretations of the International Financial Reporting Issues Committee.

3 Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of Measurement

These consolidated financial statements were prepared on a going concern basis, under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value.

Basis of Consolidation

Subsidiaries are all entities over which the Company has control and all subsidiaries are wholly owned. These consolidated financial statements include the accounts of the Company and its subsidiaries. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company and are deconsolidated from the date that control ceases. All significant inter-company transactions are eliminated on consolidation.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred for the acquisition of a subsidiary is the fair value (at the date of exchange) of the assets acquired, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Any excess of the acquisition cost over the fair value of the net assets acquired and liabilities and contingent liabilities recognized, is recorded in assets as goodwill. If this consideration is lower than the fair value of the net assets acquired, the difference is recognized in profit or loss. Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the acquirer is recognized and estimated at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with the applicable standard either in net earnings or as a change to other comprehensive earnings. If the contingent consideration is classified as equity, it shall not be re-measured and shall be accounted for within equity.

The Company has partial ownership in joint ventures over whose activities the Company has joint control, established by contractual agreements and requiring unanimous consent for strategic, financial and operating decisions. The Company accounts for the jointly controlled entities using the equity method whereby the Company’s investment is originally recognized at cost. The consolidated financial statements include the Company’s share of the income and expenses and equity movements of the jointly controlled entity, after adjustments to align the accounting policies with those of the Company, from the date that the significant influence of joint control commences until the date that significant influence or joint control ceases. Dividends are recognized as a reduction in the carrying amount of the investment.

Unrealized gains on transactions between the Company and the jointly controlled entities are eliminated to the extent of the Company’s interest in the joint venture. Unrealized losses are eliminated unless the transaction provides evidence of impairment.

LINAMAR CORPORATION

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars, except where otherwise noted)

Foreign Currency Translation

Functional and presentation currency

The Company's consolidated financial statements are presented in Canadian dollars ("dollars"), which is also the Company's functional currency. Each entity in the Company maintains its accounting records in its functional currency. An entity's functional currency is the currency of the principal economic environment in which it operates.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the average exchange rate of the reporting period. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are re-translated at period end exchange rates. Non-monetary assets and liabilities, which are measured in terms of historical cost in a foreign currency, are not re-translated. Foreign exchange gains and losses arising from borrowings are presented in the statement of earnings within finance expenses and all other foreign exchange gains and losses are presented within operating earnings except for those which relate to qualifying cash flow hedges or are attributable to part of the net investment in a foreign operation, which are presented in other comprehensive earnings within accumulated other comprehensive earnings until realized.

Foreign Operations

For the purposes of presenting consolidated financial statements, the results and financial position of all entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) Assets and liabilities are translated at the closing rate at the reporting period end date;
- (b) Income and expenses are translated at average exchange rates for the reporting period; and
- (c) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is sold, or there is a disposal involving a loss of control, exchange differences that were recorded in equity are recognized in the statement of earnings as part of the gain or loss on sale or disposal.

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank and short-term deposits. Cash equivalents are short-term, highly liquid investments, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Investments normally qualify as cash equivalents if they have a term to maturity at the date of purchase of three months or less.

Receivables

Current

Receivables are amounts due from customers for products sold or services performed in the ordinary course of business.

The Company applies the simplified approach, as defined in IFRS, to measure expected credit losses, which requires the use of the lifetime expected credit loss provision for all trade receivables. To measure lifetime expected credit losses, trade receivables are first categorized by groups with shared credit characteristics and the age of past due receivables followed by an assessment of the Company's historical experience of bad debts including customers' ability to pay and the current and future economic conditions which are expected during the life of the balance. The loss allowance is determined according to a provision matrix incorporating historical experiences adjusted for current and future conditions expected for the life of the balance.

Long-term

The Company provides financing to certain customers through direct financing loans for the sale of industrial access equipment.

The Company applies the simplified approach, as defined in IFRS, to measure expected credit losses for receivables that contain a significant financing component (long-term receivables) and applies this approach consistently for all such receivables. To measure lifetime expected credit losses, long-term receivables are first categorized by groups with shared credit characteristics and the age of past due receivables followed by an assessment of the Company's historical experience of bad debts including customers' ability to pay and the current and future economic conditions which are expected during the life of the balance. The loss allowance is determined according to the provision matrix incorporating historical experience by credit risk rating as well as current conditions and forward looking information. These may include internal credit ratings, external credit ratings (as available), actual or expected significant adverse changes in business, financial or economic conditions, changes in the value of collateral and macroeconomic information such as market interest rates.

LINAMAR CORPORATION

Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019
(in thousands of Canadian dollars, except where otherwise noted)

Impairment

The Company defines default of a financial asset when the Company is no longer reasonably assured of the timely collection of the full amount of principal and interest. The Company writes off its receivables when there is no realistic prospect of recovery. This is generally when a debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to write off or fails to engage in a repayment plan with the Company. Where receivables have been written off, the Company continues to engage in enforcement activities to attempt to recover the receivable due. Losses are reversed when recoveries are made or the future economic conditions have improved.

Leases

An agreement is a lease if the agreement conveys the right to obtain substantially all of the economic benefit from the use of the identified asset and the right to direct the use of the identified asset.

Company as a lessee

The Company leases certain property, plant and equipment as right-of-use assets. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Assets and liabilities arising from a lease are initially measured on a present value basis, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Lease liabilities include the present value of fixed and variable payments, residual value guarantees, exercise of purchase options if reasonably certain to be exercised and any penalties for terminating the lease if reasonably certain to terminate. Right-of-use assets are measured at cost comprised of the amount of the initial measurement of the lease liability plus any lease payments made before the lease commencement date, any initial direct costs and restoration costs. Lease payments are allocated between finance charges and a reduction of the outstanding lease obligation. Finance charges are recognized in net earnings, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the Company's general policy on borrowing costs. If the underlying right-of-use asset transfers to the lessee at the end of the lease term or the lessee is reasonably certain to exercise a purchase option, the depreciation shall be the useful life of the right-of-use asset in accordance with the Company's depreciation methods and rates based on the class of the right-of-use asset. Otherwise, the right-of-use assets are depreciated over the shorter of the useful life of the asset and the lease term on a straight-line basis. The Company is exposed to potential future increases in variable lease payments based on an index or rate which are not included in the lease liability until they take effect. When the adjustments for variable payments take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

For any contracts with a short-term or if the present value of the right-of-use asset has a low-value, the Company will expense the lease payments as incurred and no right-of-use asset will be recorded.

Company as a lessor

The Company leases certain industrial access products to customers. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership. All other leases are classified as operating leases. Amounts due from lessees under operating lease arrangements are recognized as revenue over the course of the lease arrangement. Contingent rents are recognized as revenue in the period in which they are earned. Amounts due from lessees under finance lease arrangements are recognized as receivables at the amount of the Company's net investments in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant rate of return on the Company's net investment outstanding.

Sale of Receivables

The sale of receivables is recognized when the Company transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a borrowing for the proceeds received. For some transfers, the Company may provide security in the form of a limited guarantee in regards to the risk of default.

Inventories

Inventories are valued at the lower of cost and net realizable value. The cost of finished goods and work-in-process is comprised of material costs, direct labour costs and other direct costs and related production overheads (based on normal operating capacity). Costs are allocated to inventory on the basis of weighted average costs. Net realizable value for finished goods and work-in-process is the estimated selling price in the ordinary course of business, less estimated costs of completion and applicable variable selling expenses. For raw materials and general stores inventories the replacement cost is considered to be the best available measure of net realizable value.

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The amount of inventories recognized as an expense during the period is shown in cost of sales. Write-downs for inventories are recorded when the net realizable value is lower than cost. The write-downs may be reversed if the circumstances which caused them no longer exist.

Taxation

Income taxes recoverable and payable

The taxes currently payable are based on taxable earnings for the reporting period. Taxable earnings differs from earnings as reported in the consolidated statement of earnings because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period, in each jurisdiction that the Company operates in.

Deferred tax assets and liabilities

Deferred tax assets and liabilities are recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable earnings will be available against which those deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill.

Deferred tax assets and liabilities are not recognized for temporary differences between the carrying amount and tax bases of investments in foreign operations where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable earnings against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The ability to realize the tax benefits for tax loss carry-forwards is dependent upon a number of factors, including the future profitability of operations in the jurisdictions in which the tax losses arose.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Provision for current and deferred income taxes

Income tax expense represents the sum of the current and deferred income taxes for the period.

Current and deferred tax are recognized as an expense or income in net earnings, except when they relate to items that are recognized outside net earnings (whether in other comprehensive earnings or directly in equity), in which case the tax is also recognized outside net earnings, or where they arise from the initial accounting for a business acquisition. In the case of a business acquisition, the tax effect is included in the accounting for the business acquisition.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost less accumulated amortization and impairment. Amortization of property, plant and equipment commences when they are ready for their intended use. Amortization is charged to earnings in amounts sufficient to depreciate the cost of property, plant and equipment over their estimated useful lives using the diminishing balance and straight-line methods as follows:

| | |
|-----------------|--|
| Land-use rights | Straight-line over the life of the contract |
| Buildings | 5% diminishing balance |
| Machinery | Straight-line over 5 - 20 years or 15% - 20% diminishing balance |

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| | |
|--------------------------|---|
| Office equipment | Straight-line over 2 - 3 years or 20% diminishing balance |
| Transportation equipment | 10% - 30% diminishing balance |
| Tooling | Straight-line over 1 – 5 years |

Where components of more substantial assets have differing useful lives, these are depreciated separately. Subsequent costs are capitalized in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The assets' residual values, useful lives and amortization methods are reviewed, and adjusted if appropriate, at the end of each reporting period. Repair and maintenance costs are expensed as incurred, except where they serve to increase productivity or to prolong the useful life of an asset, in which case they are capitalized.

Borrowing costs that are directly attributable to the acquisition, construction or production of qualified assets are capitalized as part of the acquisition costs of the qualified asset. All other borrowing costs are recognized in net earnings.

Intangibles

Intangible assets acquired through purchase are initially measured at cost. Intangible assets acquired through business combinations are initially measured at fair value at the date of acquisition. Amortization is charged to earnings in amounts sufficient to depreciate the cost of intangible assets over their estimated useful lives using the straight-line method or a unit of production basis as follows:

| | |
|---------------------------|---|
| Trade names | Straight-line over 20 years or indefinite life |
| Customer relationships | Straight-line over 12 - 25 years |
| Technology | Straight-line over 10 - 15 years |
| Product development costs | Unit of production basis or straight-line over 5 – 15 years |
| Software | Straight-line over 3 – 5 years |

The assets' residual values, useful lives and amortization methods are reviewed, and adjusted if appropriate, at the end of each reporting period. Intangible assets with indefinite useful lives are not amortized but are reviewed for impairment annually, or more frequently when there is an indication of impairment.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of the Company's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is not amortized but is reviewed for impairment annually, or more frequently when there is an indication of impairment.

Impairment of Non-Financial Assets

At the end of each reporting period, or more frequently based on specific events or changes in circumstances, the Company reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the assets are grouped at the lowest level for which there are separately identifiable cash inflows and the Company estimates the recoverable amount at the cash-generating or grouped cash-generating units ("CGU") level. The Company has determined a CGU to be an individual entity or group of entities with separately identifiable cash inflows. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

For the purpose of impairment testing, goodwill is allocated to each of the Company's CGUs expected to benefit from the synergies of the combination.

The recoverable amount is the higher of the fair value less costs of disposal or value in use. Value in use calculations utilize discounted future operating cash flows. If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the full impairment loss is charged against earnings and the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU and then to the other assets of the unit on a pro-rata basis to the carrying amount of each asset in the unit.

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Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but not in excess of the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in net earnings. Any impairment loss recognized for goodwill is not reversed in a subsequent period.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligations, its carrying amount is the present value of those cash flows. The increase in the provision due to passage of time is recognized as interest expense.

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Financial Instruments

A financial instrument is any contract that at the same time gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized as soon as the Company becomes a contracting party to the financial instrument.

The classification for some financial assets depends on the entity's business model for managing its financial assets and the contractual terms of the cash flows. Debt instruments are assets that are held for collection of contractual cash flows where those cash flows represent payments of principal and interest or are assets that are held for sale. These are classified as either amortized cost, fair value through other comprehensive income or at fair value through profit or loss. Investments in equity instruments are classified at fair value through profit or loss unless an election is applied to classify the investments through other comprehensive income. Financial liabilities are classified as amortized cost. Derivatives are classified as fair value through profit or loss.

Classification and measurement of financial instruments

At initial recognition for financial assets or liabilities, the Company measures a financial instrument at its fair value including debt issue and other transaction costs that are directly attributable to the acquisition or issuance of the financial instrument. Where a portion of a financial instrument is expected to be realized within 12 months of the end of the reporting period, that portion is included in current assets or liabilities, the remainder is classified as non-current.

- (a) **Amortized cost:** Assets that are held for the collection of contractual cash flows are measured at amortized cost using the effective interest method. Cash and cash equivalents, accounts and other receivables and the portfolios of long-term receivables are included in this classification. Short-term bank borrowings, accounts payable and accrued liabilities and long-term debt are financial liabilities included in this classification.
- (b) **Fair value through other comprehensive income:** Occasionally, a portion of the Company's portfolio of long-term receivables may be determined to be held for collection of contractual cash flows and for selling the financial assets. The recognition of impairment losses or impairment reversals, interest revenue and foreign exchange gains and losses are recognized in profit or loss similar to assets classified at amortized cost; however movements in the carrying value are taken through other comprehensive income until the asset is de-recognized. At that time the cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss. Investments in equity instruments that are strategic in nature and therefore are not held for trading may be classified at fair value through other comprehensive income after an irrevocable election at recognition is completed. The fair value gains and losses on the investments remain in other comprehensive income with no subsequent reclassification of those fair value gains and losses to profit or loss on derecognition of the investment. Dividends from such investments are recognized in profit or loss as finance income when the Company's right to receive payments is established.
- (c) **Fair value through profit or loss:** Derivatives outside of a hedging relationship and investments in equity instruments held for trading have movements in carrying value taken through profit or loss.

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Fair value hierarchy

The Company estimates fair values related to financial instruments and classifies these measurements using a fair value hierarchy that reflects the significance of their respective inputs. The Level 1, 2 and 3 classifications utilized by the Company are defined as follows:

Level 1 - Fair values are determined using inputs from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Fair values are determined using inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. Derivative financial instruments are valued based on observable market data.

Level 3 - Fair values are determined based on inputs which are not based on observable market data.

The fair value hierarchy is used for all fair value measurement requirements. The Company recognizes transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Derivative financial instruments including hedge accounting

Risk management is predominantly controlled by the corporate treasury department. The corporate treasury department identifies, evaluates and hedges financial risks in close co-operation with the Company's operating entities.

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company uses derivatives as part of its risk management program to mitigate variability associated with changing market values related to the hedged item. Some of the derivatives used meet hedge effectiveness criteria and are designated in a hedge accounting relationship. There are controls in place to detect the holding or issuance of derivative financial instruments for trading or speculative purposes.

The Company applies hedge accounting for certain foreign exchange forward contracts and cross currency interest rate swap contracts as cash flow hedges. The Company uses cash flow hedges for certain risks associated with the cash flows of recognized liabilities and highly probable forecasted transactions. Amounts accumulated in the hedge reserve within other comprehensive earnings are reclassified to net earnings in the period in which the hedged transaction occurs. If the hedged transaction subsequently results in the recognition of a non-financial item, the amounts accumulated in the hedge reserve within other comprehensive earnings are included in the initial cost or other carrying amount of the non-financial item. The deferred amounts are ultimately recognized in net earnings as the non-financial item impacts net earnings. In some hedge relationships the Company excludes from the designation the forward element of hedging instruments. The changes in the forward element of the contract that relate to the hedged item are recognized within other comprehensive earnings in the cost of hedging reserve within equity and if the hedged transaction subsequently results in the recognition of a non-financial item, the amount accumulated in equity is removed from the cost of hedging reserve and included in the initial cost or other carrying amount of the non-financial item. The deferred amounts are ultimately recognized in net earnings as the non-financial item impacts net earnings. For any other cash flow hedges, the amount accumulated in the cost of hedging reserve is reclassified to net earnings as a reclassification adjustment in the same period or periods during which the hedged cash flows affect net earnings.

The Company may designate certain portions of its foreign denominated long-term debt or the spot component of a cross currency interest rate swaps as a net investment hedge. Hedges of net investments are accounted for similarly to cash flow hedges with amounts accumulated in other comprehensive earnings. The amounts accumulated in other comprehensive earnings are reclassified to net earnings in the period in which the foreign operation is partially disposed of or sold. When only the spot component of a financial instrument is designated in the net investment hedge, the change in the forward element of the hedging instrument that relates to the hedged item is recognized within other comprehensive earnings in the cost of hedging reserve within equity. Because the net investment is considered a time period related item, the deferred amounts are recognized in net earnings on a rational basis over the time period during which the hedge adjustment for the included spot component would affect net earnings.

The fair values are determined based on observable market data.

The Company documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Effectiveness is achieved when the hedging relationships meet all of the following hedge effectiveness requirements:

- (a) There is an economic relationship that exists between the hedged item and hedging instrument;

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- (b) The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- (c) The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Company actually hedges and the quantity of the hedging instrument that the Company actually uses to hedge that quantity of hedged item.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in accumulated other comprehensive earnings at that time remains in accumulated other comprehensive earnings until the forecasted transaction is eventually recognized in net earnings. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in accumulated other comprehensive earnings is immediately transferred to net earnings.

Share-based Compensation

Under the Company's share-based compensation plan, the Company with the approval of the Board of Directors may grant equity-settled stock options and, if they so choose, tandem share appreciation rights ("SARs") to its key employees and directors.

The Company recognizes a compensation expense for stock options granted and measures the compensation expense at fair value calculated on the grant date using the Black-Scholes option pricing model. The expense is recognized on a graded-vesting basis in which the fair value of each tranche is recognized over its respective vesting period when all of the specified vesting conditions are satisfied. Contributed surplus consists of accumulated share-based compensation expense less the fair value of options at the grant date that have been exercised and credited to common shares.

Accumulated Other Comprehensive Earnings Reserves

Hedging reserves

The cash flow hedge reserve contains both the effective portion of the cash flow hedge relationships incurred as at the reporting date and the excluded component in the hedging designation which is considered a cost of hedging.

Cumulative translation adjustment

The cumulative translation adjustment reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries along with the effective portion of the net investment hedge relationship incurred as at the reporting date.

Revenue Recognition

Sale of products

The Company enters into contracts with customers to manufacture and sell a range of precision metallic components, modules and systems for powertrain, driveline and body systems designed for global electrified and traditionally powered vehicle and industrial markets for the Transportation segment. These contracts are entered into with a customer when the Company can identify each party's rights and the contract has commercial substance, which generally is when the customer has made a firm volume commitment. In addition, the Company manufactures and sells a range of industrial equipment such as aerial work platforms, telehandlers and agricultural equipment. Revenue is recognized when control of the products and equipment has transferred to the customer, generally being when the products and equipment are shipped. This represents the point in time the customer obtains significant risk and rewards of ownership and the Company has the right to payment for the products or equipment.

A receivable is recognized when control of goods transfers to the customer, as indicated above, and consideration is unconditional. Payment terms are generally based on the customers' payment schedules, which typically range from 30 to 90 days from the invoice date. Certain industrial equipment and parts sales have significant financing components and have an average term of 3 to 5 years.

Revenue from these sales is recognized based on the transaction price specified in the purchase order and corresponds to the invoice amount. Sales that include significant financing components are measured and recognized at the purchase order price adjusted for the time value of money. Transportation product sales are recognized net of expected productivity charges. Industrial equipment and part sales are recognized net of the expected discounts, rebates and similar obligations. Contract assets are recognized for incremental costs to obtain or fulfil a contract with a customer when those costs are expected to be recoverable, unless accounted for within another policy. The assets recognized are amortized on a straight-line basis over the term of the specific contract they relate to. Certain costs incurred to obtain a contract relate to consideration paid or payable to the customer, in which case, if not in exchange for distinct goods or services at their fair values, are recorded as a reduction in the transaction price. A contract liability is recognized for the expected amount payable to customers due to these productivity charges, discounts, rebates and similar obligations. Productivity charges, rebates, and other similar obligations are classified as a variable consideration and measured using historical experience and forecasts of expected sales. The Company's obligation to provide a refund or replacement for products built-to-print and equipment not in accordance with design specification is considered a standard warranty and recognized as a provision. It is unlikely that a significant reversal in the amount of

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cumulative revenue recognized will occur given the consistent level of variable consideration. Occasionally for Transportation product sales, the Company recognizes retrospective price amendments as a cumulative catch-up adjustment when the contract modification is approved. When applicable, the revenue from services related to the sale of products is recognized when the services are rendered.

Sale of customer owned assets

The Company enters into contracts with customers to develop, manufacture, and fabricate customer owned assets used for the purposes of parts production. Revenue is recognized when control of the asset has transferred to the customer, which occurs when the asset is substantially complete and the customer approves the initial production sample. This represents the point in time the customer has accepted the asset, significant risk and rewards of ownership have transferred and the Company has the present right to payment.

A receivable is recognized when control of the asset transfers to the customer, as indicated above, and consideration is unconditional. Payment terms are generally based on the customers' payment schedules, which typically range from 30 to 90 days from the invoice date. Payment is typically made through a lump-sum payment, however, milestone payments throughout the asset fabrication process or amortization over parts production are sometimes agreed to. Payments made in advance of transfer of control are recorded as a contract liability and recognized as revenue once control has transferred.

Revenue from these sales is recognized based on the lower of transaction price specified in the purchase order or actual price invoiced by the Company to fabricate the asset. This amount corresponds to the amount invoiced to the customer by the Company. Receivables collected through production parts are adjusted for the time value of money when a significant financing component is present. The invoice amount represents the standalone selling price of the asset, which is consistent with industry practice.

Engineering services

The Company enters into contracts with customers to design and develop a product or process using advanced engineering. Revenue is recognized, for contracts that qualify as a sale of service, as or when the service is being rendered. Revenue recognized over time is generally determined based on the proportion of accumulated expenditures to date as compared to total anticipated expenditures as this depicts the progress towards completion of the service. Revenue is recognized over time for contracts where the Company creates an asset without an alternative use and has the contractual right to payment for performance completed to date. For those contracts where the Company does not have a contractual right to payment for performance completed to date, revenue is recognized at a point in time when the customer approves the product or process.

A receivable is recognized as or when the service is rendered based on stages of completion or at completion as indicated above. This is the point in time that consideration is unconditional. Payment terms are generally based on the customers' payment schedules, which typically range from 30 to 90 days from the invoice date. Certain contracts have significant financing components as payment is amortized over parts production which is collected over the life of the program and are adjusted for the time value of money. Payments made in advance of the service being rendered are recorded as a contract liability and recognized as revenue as the service is performed.

Revenue from these sales is recognized based on the transaction price specified in the purchase order and corresponds to the invoice amount. The invoice amount represents the standalone selling price of engineering services, which is consistent with industry practice.

Practical expedients

The Company has elected to use the practical expedient for significant financing components expected to be collected in one year or less and for incremental costs to obtain a contract that the Company would have recognized in one year or less therefore the Company does not adjust the transaction price for the time value of money and expenses incremental costs when incurred, respectively. No information is provided regarding any remaining performance obligations at the end of the period for a contract that has an original expected duration of one year or less or for which revenue is recognized based on the right to invoice, as allowed by IFRS 15.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers for the Company who are responsible for allocating resources and assessing performance of the operating segments have been identified as the Senior Executive Group that makes strategic decisions.

Research and Development

Research costs are expensed as incurred. When certain criteria are met, development costs are accounted for as intangible assets and capitalized and amortized. Tax credits related to research and development are credited against the related qualifying expense or against the carrying amount of the related asset.

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Government Grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all required conditions.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants relating to costs are deferred and recognized in net earnings over the period necessary to match them with the costs that they are intended to compensate and these are presented as a reduction of the related expense. Government grants relating to property, plant and equipment are recognized as a reduction in the carrying amount of the related asset.

Pension Costs

The Company has various contributory and non-contributory defined contribution pension plans which cover most employees. The Company pays these contributions to a privately administered pension insurance plan after which the Company incurs no further payment obligations. The contributions are accrued and recognized as employee benefit expense when they are due.

4 Changes in Accounting Policies

New Standards and Amendments Adopted

Certain new standards and amendments became effective during the current fiscal year. The impact from the adoption of these new standards and amendments are reflected below.

IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures

The Company has adopted the Phase 1 amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures as issued in September 2019. A hedging relationship is affected by interest rate benchmark reform if it gives rise to uncertainties about (a) the interest rate benchmark (contractually or non-contractually specified) designated as a hedged risk; and/or (b) the timing or the amount of interest rate benchmark-based cashflows of the hedged item or of the hedging instrument. The Phase 1 amendments provide relief for hedge accounting requirements to address uncertainties in the period before the interest rate benchmark reform. The amendments set out triggers for when the reliefs will end, which include the uncertainty arising from interest rate benchmark reform no longer being present.

The Company currently applies hedge accounting for hedges of interest rate risk utilizing cross currency interest rate swaps. The particular underlying interest rate benchmark reform impacting these hedges is expected to take place at the end of 2021. As these hedges mature in January 2021, there is currently no impact to the Company in the current nor subsequent year and therefore no relief provided under the amendments is necessary. The balance of the Company's hedges are outside of the scope for the relief and therefore no relief provided under the amendments is necessary.

New Standards and Interpretations Not Yet Adopted

All pronouncements will be adopted in the Company's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to the Company's financial statements is provided below. Certain other new standards, amendments and interpretations to existing standards may have been issued but are not expected to have a material impact to the Company's financial statements.

IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases

Effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2021, the IASB issued Phase 2 amendments to IFRS 9 Financial Instruments, IFRS 7 Financial Instruments: Disclosures and IFRS 16 Leases as issued in August 2020. The Phase 2 amendments address issues affecting financial reporting when changes are made to contractual cash flows of financial instruments or hedging relationships as a result of interest rate benchmark reform. In addition, the amendments to IFRS 7 require additional disclosures related to the interest rate benchmark reform. Management is currently assessing the impact that these amendments will have on the financial statements of the Company.

5 Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and judgements about the future. Estimates and judgements are continually evaluated and are based on the historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates under different

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assumptions or conditions. The following discussion sets forth management's most critical estimates and assumptions in determining the value of assets and liabilities and most critical judgements in applying accounting policies that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year.

Impact of COVID-19 on Results and Risk Management Practices

During 2020, the outbreak of the novel strain of coronavirus, specifically identified as COVID-19, spread across the globe impacting worldwide economic activity. The extent to which the financial results and condition of the Company in future periods may be affected by COVID-19 depends on future developments and cannot be reliably determined at the date of these financial statements. The Company has not changed its fundamental risk management practices. However, in order to improve its financial flexibility to manage in this uncertain environment, the Company prepaid its Senior unsecured notes of U.S. \$130 million in June 2020. The Company will continue to evaluate the situation and monitor any impacts or potential impacts to its business.

Impact of COVID-19 on Receivables

With regard to the Company's receivables, the recognition and measurement of the expected credit loss rate involves a provision matrix incorporating historical experiences adjusted for current and future conditions expected for the life of the balance. No significant changes were made to the methodology during the year, except for enhancements made to assess the economic impacts of COVID-19. The level of estimation uncertainty and judgement has increased as a result of the economic effects of the COVID-19 pandemic, particularly as the length and extent of the pandemic and its impact on the overall global economy are not known. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate expected credit losses.

Impairment of Non-Financial Assets

The Company believes that the estimate of impairment for goodwill and non-financial assets is a "critical accounting estimate" because management is required to assess at the end of each reporting period whether there is any indication that an asset may be impaired and to make significant forward looking assumptions. In assessing whether there is an indication that an asset may be impaired, there are a number of external and internal sources of information which require a high degree of judgement. The recoverable amounts of CGUs have been determined based on the higher of fair value less costs of disposal or value in use calculations, which require the use of estimates. 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 with the exception of the length and extent of the COVID-19 pandemic and its impact on the overall global economy which is not known.

Current Income Taxes

The Company is subject to income taxes in numerous jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred Income Tax Assets and Liabilities

Deferred income tax assets and liabilities result from timing differences 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 deferred income tax asset. Deferred income tax assets are only recognized to the extent that management considers it probable that a deferred income tax asset will be realized. The assessment for the recognition of a deferred tax asset requires significant judgement. 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 deferred tax assets. The Company has and continues to use tax planning strategies to realize deferred 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.

Useful Lives of Depreciable Assets

Due to the significance of property, plant and equipment and intangible assets on the Company's statement of financial position, the Company considers the amortization policy relating to property, plant and equipment and intangible assets to be a "critical accounting estimate". The Company considers the expected useful life of the assets, expected residual value, and contract length when setting the amortization rates of its assets. Judgement is involved when establishing these estimates as such factors as technological innovation,

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maintenance programs, and relevant market information must be taken into consideration. The assets' residual values, useful lives and amortization methods are reviewed at the end of each reporting period and are adjusted if expectations differ from previous estimates. If circumstances impacting these assumptions and estimates change, the change in accounting estimates may represent a material impact to the consolidated financial statements.

6 Sale of Receivables

The Company sells a portion of its receivables through various purchase agreements. Under the agreements, the receivables are mostly 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. The Company has derecognized the receivables as substantially all of the risks and rewards of ownership of the assets have been transferred. Although the receivables have been derecognized, the Company has provided limited guarantees within the purchase agreements in regards to the risk of default. At December 31, 2020, the maximum exposure to loss is \$26,427 (2019 – \$18,109).

7 Inventories

| | December 31 2020 | December 31 2019 |
|-----------------|---------------------|---------------------|
| | \$ | \$ |
| General stores | 142,011 | 144,455 |
| Raw materials | 291,705 | 314,403 |
| Work-in-process | 183,767 | 221,570 |
| Finished goods | 246,672 | 311,331 |
| | 864,155 | 991,759 |

The cost of inventories recognized as an expense during the year ended December 31, 2020 was \$4,317,877 (2019 – \$5,584,415).

A provision for obsolescence for slow moving inventory items is estimated by management based on historical and expected future sales and is included in cost of sales. In the year ended December 31, 2020 the Company recognized a charge to cost of sales for the write-down of slow moving and obsolete inventory, and adjustments to net realizable value aggregating \$41,129 (2019 – \$37,826). In the year ended December 31, 2020 the Company recognized a gain to cost of sales for reversal of inventory provisions with a value of \$1,671 (2019 – \$796). The inventory balance has been reduced by a provision of \$103,080 as at December 31, 2020 (2019 – \$99,868).

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Notes to Consolidated Financial Statements

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8 Income Taxes

(i) Income Tax Recognized in Net Earnings

| | December 31 2020 | | December 31 2019 | |
|--|---------------------|---------------|---------------------|---------------|
| | \$ | % | \$ | % |
| Earnings before taxes | 374,384 | | 564,407 | |
| Combined basic Canadian Federal and Ontario Provincial income taxes, including manufacturing and processing reduction | 93,596 | 25.00% | 141,102 | 25.00% |
| Increase (decrease) in income taxes resulting from: | | | | |
| Effect of expenses that are not deductible in determining taxable earnings | 8,306 | 2.22% | 10,116 | 1.79% |
| Effect of unused tax losses not recognized as deferred tax assets | 2,437 | 0.65% | 2,424 | 0.43% |
| Effect of previously unrecognized deferred tax assets and unrecognized unused tax losses | - | - | (1,132) | -0.20% |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (7,993) | -2.13% | (13,758) | -2.44% |
| Adjustments recognized in the current year in relation to the current tax of prior years | (5,988) | -1.60% | (7,447) | -1.32% |
| Other | 4,893 | 1.31% | 2,661 | 0.47% |
| Income tax expense and effective income tax rate | 95,251 | 25.44% | 133,966 | 23.74% |
| Current tax | 139,988 | | 131,559 | |
| Deferred tax | (44,737) | | 2,407 | |
| Income tax expense | 95,251 | | 133,966 | |

The tax rate used in the reconciliation above is the Canadian corporate tax rate of 25.0% (2019 – 25.0%). Deferred income tax expense (recovery) directly recognized in equity for the year was \$(10,566) (2019 – expense of \$18,784).

(ii) Deferred Tax Balances

| | December 31 2020 | December 31 2019 |
|---|---------------------|---------------------|
| | \$ | \$ |
| Tax benefit of tax credits and loss carry forwards | 103,860 | 45,260 |
| Tax benefit (liability) of derivative financial instruments | (2,314) | (12,880) |
| Other assets - tax value in excess of book value | 85,596 | 87,942 |
| Cumulative tax amortization in excess of book amortization | (212,679) | (181,990) |
| Other liabilities - book value in excess of tax value | (147,838) | (172,300) |
| Deferred tax net position | (173,375) | (233,968) |

Reconciliation of deferred tax net balance:

| | 2020 | 2019 |
|---|------------------|------------------|
| | \$ | \$ |
| At January 1 | (233,968) | (215,669) |
| Tax recovery (expense) during the period recognized in earnings | 44,737 | (2,407) |
| Tax recovery (expense) during the period recognized in other comprehensive earnings | 10,566 | (18,784) |
| Impact of foreign currency translation adjustment | 4,374 | 2,897 |
| Other | 916 | (5) |
| At December 31 | (173,375) | (233,968) |

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Net deferred tax balances in the statement of financial position are comprised of the following:

| | December 31 2020 | December 31 2019 |
|---|---------------------|---------------------|
| | \$ | \$ |
| Deferred tax assets to be recovered after more than 12 months | 191,708 | 130,990 |
| Deferred tax assets to be recovered within 12 months | 6,876 | 8,328 |
| Total deferred tax assets | 198,584 | 139,318 |
| Deferred tax liabilities to be utilized after more than 12 months | (362,826) | (358,927) |
| Deferred tax liabilities to be utilized within 12 months | (9,133) | (14,359) |
| Total deferred tax liabilities | (371,959) | (373,286) |
| Deferred tax balances (net) | (173,375) | (233,968) |

Unrecognized deferred tax assets were as follows:

| | December 31 2020 | December 31 2019 |
|---|---------------------|---------------------|
| | \$ | \$ |
| Tax losses | 30,159 | 27,898 |
| Temporary differences | - | 461 |
| Total deferred tax assets not recognized | 30,159 | 28,359 |

The temporary difference, for which no deferred tax amounts have been recognized, in respect of the amount of undistributed earnings of foreign operations for December 31, 2020 was \$1,918,075 (2019 – \$1,785,184).

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Notes to Consolidated Financial Statements

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9 Property, Plant and Equipment

| | Land \$ | Land use rights \$ | Buildings \$ | Machinery \$ | Office equipment \$ | Transportation equipment \$ | Tooling \$ | Total \$ |
|--|------------|--------------------------|-----------------|-----------------|---------------------------|-----------------------------------|---------------|-------------|
| Cost | 101,094 | 8,764 | 709,003 | 3,987,851 | 31,070 | 52,681 | 14,744 | 4,905,207 |
| Accumulated amortization | - | (684) | (209,512) | (1,921,960) | (19,000) | (12,074) | (8,726) | (2,171,956) |
| Book value at January 1, 2019 | 101,094 | 8,080 | 499,491 | 2,065,891 | 12,070 | 40,607 | 6,018 | 2,733,251 |
| Effect of cumulative translation adjustment | (2,565) | (472) | (19,758) | (80,118) | (379) | (773) | (176) | (104,241) |
| Additions, net of government grants | 11,875 | - | 71,714 | 408,990 | 8,107 | 10,104 | 7,475 | 518,265 |
| Disposals | (234) | - | (3,772) | (22,341) | (194) | (1,312) | - | (27,853) |
| Amortization | - | (170) | (35,511) | (303,073) | (5,988) | (12,165) | (3,751) | (360,658) |
| Book value at December 31, 2019 | 110,170 | 7,438 | 512,164 | 2,069,349 | 13,616 | 36,461 | 9,566 | 2,758,764 |
| Cost | 110,170 | 8,246 | 748,964 | 4,065,562 | 29,765 | 58,360 | 17,963 | 5,039,030 |
| Accumulated amortization | - | (808) | (236,800) | (1,996,213) | (16,149) | (21,899) | (8,397) | (2,280,266) |
| Book value at December 31, 2019 | 110,170 | 7,438 | 512,164 | 2,069,349 | 13,616 | 36,461 | 9,566 | 2,758,764 |
| Effect of cumulative translation adjustment | 695 | 334 | 8,232 | 31,921 | 134 | 239 | (30) | 41,525 |
| Additions, net of government grants | 1,660 | (1,059) | 25,904 | 221,885 | 2,031 | 6,568 | 8,670 | 265,659 |
| Impairment provision, net of reversals | - | - | (619) | (14,136) | - | - | - | (14,755) |
| Disposals | (515) | - | (3,829) | (15,212) | (94) | (1,011) | (306) | (20,967) |
| Amortization | - | (164) | (37,745) | (343,571) | (5,044) | (11,461) | (8,237) | (406,222) |
| Book value at December 31, 2020 | 112,010 | 6,549 | 504,107 | 1,950,236 | 10,643 | 30,796 | 9,663 | 2,624,004 |
| Cost | 112,010 | 7,560 | 772,256 | 4,100,327 | 28,716 | 61,241 | 23,235 | 5,105,345 |
| Accumulated amortization | - | (1,011) | (268,149) | (2,150,091) | (18,073) | (30,445) | (13,572) | (2,481,341) |
| Book value at December 31, 2020 | 112,010 | 6,549 | 504,107 | 1,950,236 | 10,643 | 30,796 | 9,663 | 2,624,004 |

Amortization expense of \$401,749 (2019 – \$355,215) has been charged in cost of sales and \$4,473 (2019 – \$5,443) in selling, general and administration.

During 2020, a net impairment loss of \$14,136 was recorded in cost of sales for machinery in the Transportation segment primarily related to the closing of a North American facility due to operational issues.

Government grants recognized as a reduction in the carrying amount of the assets during the year was \$16,508 (2019 – \$31,827). See Note 16 for more details regarding government grants.

As of December 31, 2020, property, plant and equipment includes \$326,201 (2019 – \$419,159) of assets in the course of construction for production purposes.

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Notes to Consolidated Financial Statements

For the years ended December 31, 2020 and December 31, 2019
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The following amounts are included in property, plant and equipment where the Company is a lessee under lease contracts:

| | December 31 2020 | | December 31 2019 | |
|--------------------------|----------------------------|------------|----------------------------|------------|
| | Amortization Year Ended | Book value | Amortization Year Ended | Book value |
| | \$ | \$ | \$ | \$ |
| Buildings | 10,328 | 44,703 | 10,579 | 44,577 |
| Machinery | 2,428 | 4,934 | 3,380 | 6,349 |
| Office equipment | 571 | 2,475 | 545 | 2,972 |
| Transportation equipment | 9,077 | 17,228 | 9,287 | 20,967 |
| Tooling | 74 | 231 | 56 | 287 |
| | 22,478 | 69,571 | 23,847 | 75,152 |

| | December 31 2020 | December 31 2019 |
|--|---------------------|---------------------|
| | \$ | \$ |
| Additions to right-of-use assets | 18,827 | 18,175 |
| Lease interest expense | 2,482 | 2,404 |
| Expenses relating to short-term leases | 4,636 | 4,814 |
| Expenses relating to low-value leases | 741 | 714 |
| Total cash outflow for leases | 23,384 | 25,230 |

The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Some leases contain variable payment terms and future changes under the variable payments terms will not have a material impact on future cash flows. There are no significant extension, termination or residual value guarantees that have not already been accounted for within the value of the right-of-use asset or lease liability.

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10 Intangible Assets

| | Trade names \$ | Customer relationships \$ | Technology \$ | Product development costs \$ | Software \$ | Total \$ |
|---|----------------------|---------------------------------|------------------|---------------------------------------|----------------|----------------|
| Cost or valuation | 228,800 | 433,656 | 219,226 | 118,855 | 6,432 | 1,006,969 |
| Accumulated amortization | (787) | (54,572) | (29,160) | (21,461) | (418) | (106,398) |
| Book value at January 1, 2019 | 228,013 | 379,084 | 190,066 | 97,394 | 6,014 | 900,571 |
| Effect of cumulative translation adjustment | - | (10,343) | (5,455) | (2,842) | (21) | (18,661) |
| Additions | - | - | - | 29,762 | 3,808 | 33,570 |
| Amortization | (70) | (21,029) | (13,918) | (6,631) | (216) | (41,864) |
| Book value at December 31, 2019 | 227,943 | 347,712 | 170,693 | 117,683 | 9,585 | 873,616 |
| Cost or valuation | 228,800 | 418,301 | 211,855 | 138,200 | 10,219 | 1,007,375 |
| Accumulated amortization | (857) | (70,589) | (41,162) | (20,517) | (634) | (133,759) |
| Book value at December 31, 2019 | 227,943 | 347,712 | 170,693 | 117,683 | 9,585 | 873,616 |
| Effect of cumulative translation adjustment | - | 8,820 | 4,661 | (163) | - | 13,318 |
| Additions | - | - | - | 22,772 | 4,563 | 27,335 |
| Impairment provision | - | - | - | (1,388) | - | (1,388) |
| Amortization | (70) | (22,940) | (15,116) | (9,562) | (715) | (48,403) |
| Book value at December 31, 2020 | 227,873 | 333,592 | 160,238 | 129,342 | 13,433 | 864,478 |
| Cost or valuation | 228,800 | 430,451 | 218,445 | 157,092 | 15,204 | 1,049,992 |
| Accumulated amortization | (927) | (96,859) | (58,207) | (27,750) | (1,771) | (185,514) |
| Book value at December 31, 2020 | 227,873 | 333,592 | 160,238 | 129,342 | 13,433 | 864,478 |

Amortization of intangible assets is included in cost of sales. Product development costs and software are internally generated intangible assets except for those acquired through a business acquisition or separately acquired. During 2020, \$6,720 of product development costs were separately acquired (2019 - \$2,672).

Trade names include the MacDon trade name of \$227,400. The useful life has been deemed to be indefinite because there are no legal, regulatory, contractual, competitive, economic, or other factors that limit the useful life of this asset.

Customer relationships includes assets from the MacDon and Montupet business acquisitions with current carrying amounts of \$203,873 and \$128,919 respectively and remaining amortization periods of 22 and 10 years respectively.

Technology includes proprietary MacDon and Montupet technology assets acquired through business acquisitions with current carrying amounts of \$92,414 and \$66,499 respectively and remaining amortization periods of 12 and 10 years respectively.

11 Goodwill

| | 2020 \$ | 2019 \$ |
|--|----------------|----------------|
| Cost, being book value at January 1 | 858,541 | 891,818 |
| Effect of cumulative translation adjustment | 31,540 | (33,277) |
| Cost, being book value at December 31 | 890,081 | 858,541 |

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Goodwill has been allocated for impairment testing purposes to the following CGUs:

| | December 31 2020 | December 31 2019 |
|-----------------------------------|---------------------|---------------------|
| | \$ | \$ |
| MacDon Group of Companies | 388,806 | 388,806 |
| Montupet Group of Companies | 470,881 | 440,447 |
| Skyjack Group of Companies | 12,983 | 12,983 |
| Linamar Antriebstechnik GmbH | 12,292 | 11,511 |
| Seissenschmidt Group of Companies | 5,119 | 4,794 |
| | 890,081 | 858,541 |

Impairment of assets

Management performed the annual goodwill and indefinite intangible asset impairment analysis during the fourth quarters of 2020 and 2019 and found that there were no impairments. The recoverable amounts of the CGUs were determined on a value in use calculation. The calculation uses cash flow projections based on financial budgets approved by the Board of Directors, covering a five-year period.

Key assumptions used in the determination of the recoverable amount include:

- Operating costs and capital expenditures are based on internal management forecasts. Cost assumptions incorporate the Company's experience and expertise, current operating costs, the nature and location of each CGU and the risk associated with each CGU. All committed and anticipated capital expenditures adjusted for future cost estimates have been included in the projected cash flows.
- Forecast growth rates are principally based on the Company's expectations for future performance. For the purpose of the impairment test, the Company adjusted the terminal value to reflect a zero growth rate for the present value calculation.
- Discount rates used reflect specific risks relating to the relevant segments and the countries in which they operate. The pre-tax discount rates used range from 6.4% to 9.5% (2019 – 7.7% to 9.0%).

A sensitivity of impairment tests relating to discount rates was performed. A 1% increase in the discount rate would have no impact on the results of impairment tests in the year ended December 31, 2020.

12 Provisions

| | Claims and litigation (a) \$ | Product warranties and product defects (b) \$ | Other (c) \$ | Total \$ |
|---|---------------------------------------|--|--------------------|-------------|
| At January 1, 2019 | 11,258 | 20,498 | 778 | 32,534 |
| Charged (credited) to earnings: | | | | |
| Additional provisions | 8,913 | 23,351 | 55 | 32,319 |
| Unused amounts reversed | (2,778) | (1,938) | - | (4,716) |
| Used during year | (2,051) | (16,688) | (26) | (18,765) |
| Effect of cumulative translation adjustment | (532) | (467) | (15) | (1,014) |
| At December 31, 2019 | 14,810 | 24,756 | 792 | 40,358 |
| Charged (credited) to earnings: | | | | |
| Additional provisions | 4,715 | 15,225 | 684 | 20,624 |
| Unused amounts reversed | (2,554) | (2,411) | (5) | (4,970) |
| Used during year | (1,566) | (16,211) | - | (17,777) |
| Effect of cumulative translation adjustment | 209 | 30 | (33) | 206 |
| At December 31, 2020 | 15,614 | 21,389 | 1,438 | 38,441 |

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- (a) **Claims and litigation:** Claims and litigation provision relate to certain legal and commercial claims brought against the Company by stakeholders and potential repayment of government assistance in various jurisdictions. In management's opinion, after taking appropriate legal advice, the outcome of these claims will not give rise to any significant loss beyond the amounts provided at December 31, 2020.
- (b) **Product warranties and product defects:** Product warranties and product defects represent the legal or constructive responsibility of the Company for the proper function of products sold and the obligation arising from the use of products sold.
- (c) **Other:** Includes onerous contracts and decommissioning provision which relates to the legal or constructive obligations for removing leased equipment at the completion of the lease arrangement. The provision charge is recognized in earnings within cost of sales.

13 Long-Term Debt

The following amounts represent the Company's long-term debt obligations:

| | Note | December 31 2020 \$ | December 31 2019 \$ |
|------------------------|-------|---------------------------|---------------------------|
| Senior unsecured notes | (i) | - | 168,778 |
| Bank borrowings | (ii) | 1,158,184 | 1,570,791 |
| Lease liabilities | (iii) | 65,799 | 72,539 |
| Government borrowings | (iv) | 79,231 | 80,020 |
| | | 1,303,214 | 1,892,128 |
| Less: current portion | | 577,335 | 26,186 |
| | | 725,879 | 1,865,942 |

Principal payments required to meet the long-term obligations were as follows:

| | December 31 2020 \$ | December 31 2019 \$ |
|--|---------------------------|---------------------------|
| Not later than 1 year | 577,335 | 26,186 |
| Later than 1 year and not later than 5 years | 659,919 | 1,798,474 |
| Later than 5 years | 69,627 | 72,651 |
| Total principal payments | 1,306,881 | 1,897,311 |
| Less: debt issue costs | 3,667 | 5,183 |
| | 1,303,214 | 1,892,128 |

(i) Senior unsecured notes

The Senior unsecured notes consisted of:

U.S. \$130 million (the "2021 Notes") effective September 2011, coming due September 2021 and paying interest at 4.84%.

In June 2020, the 2021 Notes were fully repaid. The senior unsecured notes are guaranteed by material subsidiaries of the Company as defined in the bank credit agreement. The senior unsecured notes require the Company to maintain certain financial ratios and impose limitations on specific activities. The Company was in compliance with all financial covenants. The Company entered into long-dated forward exchange contracts to lock in the exchange rate on the principal repayment component upon maturity of the 2021 Notes. The unrealized foreign exchange loss determined at inception of the principal swaps is accrued over the term of the forward contracts and is treated as additional costs of the notes recorded through interest. The Company also entered into a series of forward exchange contracts to lock in the exchange rate on the semi-annual coupon payments of the 2021 Notes and to hedge the effective changes in exchange rates. The hedge has the effect of converting the United States stated coupon rate of 4.84% to a Canadian interest rate of 5.00% for the 2021 Notes. The long-dated forward exchange contracts to lock in the exchange rate on the principal repayment component and the series of forward exchange contracts to lock in the exchange rate on the semi-annual coupon payments were terminated at the same time that the 2021 Notes were fully repaid (Note 26(iii)).

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Subsequent to year end, effective January 2021, the Company received funding through a note purchase agreement with certain institutional investors for a private placement of Euro ("EUR") 320 million aggregate principal amount issued at an annual rate of 1.37%, coming due January 2031 and paying interest semi-annually. The senior unsecured notes are guaranteed by material subsidiaries of the Company as defined in the agreement. The senior unsecured notes require the Company to maintain certain financial ratios and impose limitations on specific activities. The EUR denominated notes have been designated as a net investment hedge for the net investments in EUR foreign operations. The Company applied the proceeds of the notes towards the repayment of a non-revolving term credit facility maturing in January 2021 under the bank credit facility (see (ii) below).

(ii) Bank borrowings

The Company's credit facility was last amended and restated in February 2018. Borrowings are subject to short-term market rates, plus applicable margin. The facilities are unsecured and are guaranteed by material subsidiaries of the Company as defined in the credit agreement. The bank borrowings require the Company to maintain certain financial ratios and impose limitations on specified activities. The Company is in compliance with all financial covenants.

The facilities include a non-revolving term credit facility in the original aggregate principal amount of up to \$572 million which expired in January 2021, a revolving credit facility to the aggregate principal amount of up to \$1.15 billion and a second non-revolving term credit facility to the original aggregate principal amount of up to \$1.2 billion, both of which expire in 2023.

The first non-revolving term credit facility that expired in January 2021 was repaid with the proceeds of the note purchase agreement described above along with available cash and proceeds drawn from the revolving credit facility. During 2020, repayments of \$400 million (2019 - \$550 million) were made on the second non-revolving term credit facility of \$1.2 billion reducing it to \$250 million (2019 - \$650 million).

As of December 31, 2020, \$774,131 was available under the revolving credit facility.

(iii) Lease liabilities

The Company has various leases which are included in property, plant and equipment. The Company's obligations under the leases are secured by the Lessors' title to the assets.

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|------------------------|---------------------|---|---------------------|
| | December 31 2020 | December 31 2019 | December 31 2020 | December 31 2019 |
| | \$ | \$ | \$ | \$ |
| Not later than 1 year | 20,762 | 23,516 | 18,602 | 21,171 |
| Later than 1 year and not later than 5 years | 37,204 | 42,425 | 32,262 | 36,960 |
| Later than 5 years | 17,538 | 16,828 | 14,935 | 14,408 |
| | 75,504 | 82,769 | 65,799 | 72,539 |
| Less: future finance charges | 9,705 | 10,230 | - | - |
| Present value of minimum lease payments | 65,799 | 72,539 | 65,799 | 72,539 |

(iv) Government borrowings

Government borrowings are comprised of three non-revolving interest free term loans:

- The Technology Partnerships Canada is a program provided by the Ministry of Industry by the Federal Canadian Government. The cumulative net amount received at the end of fiscal 2020 was \$2,691 (2019 - \$2,691). The discounted value of the debt recognized amounted to \$2,530 at the end of fiscal 2020 (2019 - \$2,474). The loan is due in ten equal annual payments from 2013 to 2023.
- The Automotive Innovation Fund is a program provided by the Ministry of Industry by the Federal Canadian Government. There are two non-revolving interest free loans under this program. The cumulative gross amount of both loans received at the end of fiscal 2020 was \$88,245 (2019 - \$90,237). The discounted value of the total debt recognized at the end of fiscal 2020 was \$76,701 (2019 - \$77,546). The loans are both due in ten annual payments, starting in 2019 for the first loan and 2025 for the second loan with final amounts due in 2028 and 2034 respectively.

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14 Capital Stock

The Company is incorporated under the Ontario Business Corporations Act in Canada and is authorized to issue an unlimited number of common and special shares.

| | Common Shares Issued/(Cancelled) # | Stated capital \$ |
|---|--|----------------------|
| At January 1, 2019 | 65,354,495 | 122,393 |
| Stock options exercised | 600,000 | 11,382 |
| Repurchase of shares under normal course issuer bid | (715,000) | (1,419) |
| At December 31, 2019 | 65,239,495 | 132,356 |
| Stock options exercised | 491,876 | 14,417 |
| Repurchase of shares under normal course issuer bid | (280,674) | (569) |
| At December 31, 2020 | 65,450,697 | 146,204 |

In January 2019, the Company announced the TSX approval to commence a normal course issuer bid. The bid permitted the Company to acquire up to 4,506,324 of its common shares between January 29, 2019 and January 28, 2020 and any common shares repurchased by the Company under the bid were cancelled. In March 2020, the Company announced TSX approval to commence a new normal course issuer bid. This bid permits the Company to acquire for cancellation up to 4,396,427 common shares between March 20, 2020 and March 19, 2021. No shares were purchased and cancelled from March 20, 2020 to March 10, 2021 due to the COVID-19 pandemic.

15 Revenue from Contracts with Customers

The disaggregated revenue from contracts with customers aligns with the revenue information as disclosed for each reportable segment in Note 24.

Revenue-related receivables, contract assets and liabilities

The Company has recognized revenue-related receivables, contract assets and liabilities in its consolidated statement of financial position. Accounts and other receivables and long-term receivables include \$800,104 and \$234,481, respectively, of receivables from contracts with customers (2019 - \$896,708 and \$362,307, respectively). Contract assets are insignificant to be disclosed separately. Accounts payable and accrued liabilities and provisions include \$255,797 of liabilities from contracts with customers (2019 - \$147,587).

(i) Significant changes in contract liabilities

The significant increase in the contract liabilities during the year resulted from customer advances received in the latter part of the current year from customers primarily in the Industrial segment.

(ii) Revenue recognized in relation to contract liabilities

Revenue recognized during the year that was included in the contract liability balance at the beginning of the period included \$51,691 (2019 - \$76,204).

(iii) Remaining performance obligations

The aggregate amount of the transaction price allocated to remaining performance obligations as of the end of the year amounted to \$122,111, of which \$89,736 was attributable to customer owned asset contracts, \$30,273 to engineering services contracts and \$2,102 to other (2019 - \$164,541, of which \$115,866 was attributable to customer owned asset contracts, \$45,902 to engineering services contracts and \$2,773 to other).

Management expects that \$44,070 of the transaction price allocated to remaining performance obligations will be recognized during the next year, \$49,777 in 2022, \$13,906 in 2023 and the remaining balance in 2024 and beyond. Remaining performance obligations do not include variable consideration which is constrained.

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16 Expenses by Nature

| | 2020 | 2019 |
|-----------------------------|------------------|------------------|
| | \$ | \$ |
| Cost of materials | 2,964,744 | 3,895,478 |
| Employee benefits (Note 17) | 1,312,366 | 1,675,264 |
| Amortization (Notes 9, 10) | 454,625 | 402,522 |
| Other | 649,043 | 791,967 |
| | <u>5,380,778</u> | <u>6,765,231</u> |

In response to COVID-19, many governments around the world have provided various subsidy programs to assist companies during the crisis. The Company received government assistance in certain regions where such assistance was available and where the Company was eligible for the subsidy programs. The Company has recognized these subsidy programs as a reduction to the related expenses. A significant benefit to Linamar was from a subsidy program in Canada. The Canada Emergency Wage Subsidy (“CEWS”) program was announced in March 2020. CEWS provides a wage subsidy on eligible remuneration, subject to limits per employee, to eligible employers based on certain criteria, including a demonstration of revenue declines. The direct benefit of CEWS and other COVID-19 related programs recorded in the consolidated statement of earnings was \$130,002. There are no repayment requirements of this assistance contingent on employment related measures, investment related measures or both.

During 2020, the balance of the benefits of government grants recorded in the statements of earnings was \$13,229 (2019 - \$26,783). In all cases, repayment of government grants is contingent on employment related measures, investment related measures or both.

17 Employee Benefits

| | 2020 | 2019 |
|---|------------------|------------------|
| | \$ | \$ |
| Wages, salaries and commissions | 977,380 | 1,297,335 |
| Social charges and other personnel expenses | 281,688 | 329,797 |
| Termination benefits | 21,958 | 16,459 |
| Share-based compensation (Note 18) | 2,882 | 2,777 |
| Pension expenses under defined contribution plans | 28,458 | 28,896 |
| | <u>1,312,366</u> | <u>1,675,264</u> |

18 Share-Based Compensation

The Company is authorized to grant options for common stock to its key employees and directors. The exercise price of each option equals the average of the high and low market price of the Company’s stock for the five trading days prior to the date of grant. An option’s maximum term is 10 years and vesting is determined by the Board of Directors. The Company issues new common shares to satisfy stock options exercised. Options are forfeited when the option holder ceases to be an employee or director of the Company.

| | 2020 | 2020 | 2019 | 2019 |
|------------------------------|----------------|----------------|------------------|----------------|
| | Number of | Weighted | Number of | Weighted |
| | options | average | options | average |
| | | exercise price | | exercise price |
| | | \$ | | \$ |
| At January 1 | 1,241,876 | 40.46 | 1,691,876 | 30.34 |
| Granted | 150,000 | 65.42 | 150,000 | 44.30 |
| Exercised | (491,876) | 19.32 | (600,000) | 12.89 |
| At December 31 | <u>900,000</u> | <u>56.18</u> | <u>1,241,876</u> | <u>40.46</u> |
| Vested at December 31 | <u>370,000</u> | <u>54.30</u> | <u>771,876</u> | <u>31.79</u> |

In 2020, the average share price, during the period the share options were exercised, was \$34.88 (2019 – \$40.41).

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The following table is a summary of information about the stock options outstanding at December 31, 2020:

| Year of Grant | Exercise Price | Number of options outstanding | Weighted average remaining life in years |
|---------------|----------------|-------------------------------|--|
| 2012 | \$21.59 | 50,000 | 2.0 |
| 2013 | \$41.11 | 50,000 | 3.0 |
| 2014 | \$66.63 | 100,000 | 3.9 |
| 2015 | \$73.52 | 100,000 | 4.9 |
| 2016 | \$50.14 | 100,000 | 5.9 |
| 2018 | \$73.96 | 100,000 | 7.0 |
| 2018 | \$45.40 | 100,000 | 8.0 |
| 2019 | \$44.30 | 150,000 | 8.9 |
| 2020 | \$65.42 | 150,000 | 9.9 |
| | | 900,000 | 6.7 |

For all grants, the weighted average fair value of share options granted, and weighted average assumptions used in the fair value estimation at the time of grant, using the Black-Scholes model, are as follows:

| | Granted in 2020 | Granted in 2019 |
|-------------------------------------|-----------------|-----------------|
| Share option fair value (per share) | \$26.29 | \$16.19 |
| Risk free interest rate | 0.75% | 1.53% |
| Expected life (years) | 10 | 10 |
| Expected volatility | 33.42% | 31.40% |
| Dividend yield | 0.86% | 1.05% |

The expected life used in the Black-Scholes model is the same as the contractual term of the options. The risk free interest rate used in determining the fair value of the options granted is based on a Government of Canada zero coupon yield that was current at the time of grant and has a term corresponding to the contractual term of the options. The expected volatility considers the historical volatility of the Company's shares for the 10 year period preceding the share option grant date. The dividend yield is the annualized dividend at the date of grant divided by the average exercise price.

There were no tandem share appreciation rights ("SARs") outstanding at the end of either period.

19 Other Income and (Expenses)

| | 2020 | 2019 |
|------------------------------|----------|----------|
| | \$ | \$ |
| Foreign exchange gain (loss) | (11,421) | (27,621) |
| Other income (expense) | 818 | 729 |
| | (10,603) | (26,892) |

20 Finance Income and (Expenses)

| | 2020 | 2019 |
|--|----------|----------|
| | \$ | \$ |
| Finance costs | (44,143) | (68,721) |
| Foreign exchange gain (loss) on debt and derivatives | (4,652) | (179) |
| Interest earned | 29,369 | 29,171 |
| Other | (7,483) | (9,381) |
| | (26,909) | (49,110) |

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21 Earnings per Share

Basic earnings per share are calculated by dividing the net earnings attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding throughout the year. Diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding during the year to assume conversion of all dilutive potential shares.

| | 2020 | 2019 |
|--|------------|------------|
| | \$ | \$ |
| Net earnings (loss) | 279,133 | 430,441 |
| Weighted average common shares | 65,307,617 | 65,282,783 |
| Incremental shares from assumed conversion of stock options | 23,834 | 310,453 |
| Adjusted weighted average common shares for diluted earnings per share | 65,331,451 | 65,593,236 |
| Net earnings (loss) per share: | | |
| Basic | 4.27 | 6.59 |
| Diluted | 4.27 | 6.56 |

22 Commitments

As at December 31, 2020, outstanding commitments for capital expenditures under purchase orders and contracts amounted to \$113,262 (December 31, 2019 - \$101,352). Of this amount \$109,568 (December 31, 2019 - \$98,962) relates to the purchase of manufacturing equipment and \$3,694 (December 31, 2019 - \$2,390) relates to general contracting and construction costs in respect of plant construction. The majority of these commitments are due within the next twelve months.

23 Related Party Transactions

Details of the transactions between the Company and related parties are disclosed below:

(i) Key Management Personnel

The Company's key management includes members of the Senior Executive Group and Board of Directors. The compensation paid, or payable, to key management for employee services during the year was as follows:

| | 2020 | 2019 |
|---|--------|--------|
| | \$ | \$ |
| Compensation and short-term benefits | 29,233 | 32,975 |
| Share-based compensation (Notes 17, 18) | 2,882 | 2,777 |
| Total compensation | 32,115 | 35,752 |

(i) Other Related Party Transactions

Related party transactions include long-term receivables to an investee accounted for using the equity method at December 31, 2020 of \$111,242 (December 31, 2019 - \$95,017). Included in the cost of sales are material purchases from the same related party of \$24,549 for the year ended December 31, 2020 (December 31, 2019 - \$8,707), with amounts owed at December 31, 2020 of \$5,526 (December 31, 2019 - \$6,877).

24 Segmented Information

Management has determined the operating segments based on the reports reviewed by the Senior Executive Group that are used to make strategic decisions.

Transportation: The Transportation segment derives revenues primarily from the collaborative design, development and manufacture of precision metallic components, modules and systems for global vehicle markets.

Industrial: The Industrial segment is a world leader in the design and production of innovative mobile industrial equipment, notably its class-leading aerial work platforms, telehandlers and agricultural equipment.

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The segments are differentiated by the products that each produces and reflects how the Senior Executive Group manages the business. Corporate headquarters and other small operating entities are allocated to the Transportation and Industrial operating segments accordingly.

The Company accounts for inter-segment sales and transfers as arm's length transactions at current market rates. The Company ensures that the measurement and policies are consistently followed among the Company's reportable segments for sales, operating earnings, net earnings and assets.

The Company's three largest customers are in the Transportation segment and account for 23.6%, 17.5% and 5.8% of total revenue (2019 – 23.6%, 12.8% and 6.6%).

The Company derives revenue from the transfer of goods and services at a point in time and over time in the following operating segments. These segments best depict how economic factors affect the nature, amount, timing and uncertainty of revenue and cash flows.

| Operational Segments | Transportation \$ | Industrial \$ | 2020 \$ |
|---|----------------------|------------------|------------|
| Total revenue | 4,665,405 | 1,183,579 | |
| Inter-segment sales | (22,017) | (11,394) | |
| Sales to external customers | 4,643,388 | 1,172,185 | 5,815,573 |
| Cost of sales before amortization | 3,737,370 | 839,628 | 4,576,998 |
| Amortization | 403,224 | 46,928 | 450,152 |
| Selling, general and administration | 224,458 | 129,170 | 353,628 |
| Other income (expense) | 4,645 | (15,248) | (10,603) |
| Operating earnings (loss) | 282,981 | 141,211 | 424,192 |
| Share of net earnings (loss) of investments accounted for using the equity method | | | (22,899) |
| Finance income and (expenses) | | | (26,909) |
| Income taxes | | | 95,251 |
| Net earnings (loss) | | | 279,133 |
| Payments for property, plant and equipment | 251,061 | 13,251 | 264,312 |
| Total assets | 5,146,074 | 2,410,616 | 7,556,690 |
| Operational Segments | Transportation \$ | Industrial \$ | 2019 \$ |
| Total revenue | 5,671,332 | 1,791,937 | |
| Inter-segment sales | (35,353) | (11,292) | |
| Sales to external customers | 5,635,979 | 1,780,645 | 7,416,624 |
| Cost of sales before amortization | 4,624,183 | 1,329,520 | 5,953,703 |
| Amortization | 353,506 | 43,573 | 397,079 |
| Selling, general and administration | 261,415 | 153,034 | 414,449 |
| Other income (expense) | (8,671) | (18,221) | (26,892) |
| Operating earnings (loss) | 388,204 | 236,297 | 624,501 |
| Share of net earnings (loss) of investments accounted for using the equity method | | | (10,984) |
| Finance income and (expenses) | | | (49,110) |
| Income taxes | | | 133,966 |
| Net earnings (loss) | | | 430,441 |
| Payments for property, plant and equipment | 489,648 | 35,756 | 525,404 |
| Total assets | 4,698,722 | 2,880,085 | 7,578,807 |

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The Company operates in four geographic segments – Canada, Rest of North America, Asia Pacific and Europe.

| Geographic Segments | Canada | Rest of North America | Asia Pacific | Europe | 2020 |
|-------------------------------|-----------|-----------------------|--------------|-----------|-----------|
| | \$ | \$ | \$ | \$ | \$ |
| Total sales | 3,047,420 | 936,206 | 565,252 | 1,801,863 | |
| Inter-segment sales | (235,087) | (180,417) | (7,131) | (112,533) | |
| Sales to external customers | 2,812,333 | 755,789 | 558,121 | 1,689,330 | 5,815,573 |
| Goodwill | 401,789 | - | - | 488,292 | 890,081 |
| Intangible assets | 589,777 | 52,856 | - | 221,845 | 864,478 |
| Property, plant and equipment | 933,842 | 449,216 | 278,972 | 961,974 | 2,624,004 |

| Geographic Segments | Canada | Rest of North America | Asia Pacific | Europe | 2019 |
|-------------------------------|-----------|-----------------------|--------------|-----------|-----------|
| | \$ | \$ | \$ | \$ | \$ |
| Total sales | 4,176,526 | 925,650 | 469,342 | 2,377,376 | |
| Inter-segment sales | (293,681) | (154,050) | (15,647) | (68,892) | |
| Sales to external customers | 3,882,845 | 771,600 | 453,695 | 2,308,484 | 7,416,624 |
| Goodwill | 401,789 | - | - | 456,752 | 858,541 |
| Intangible assets | 601,459 | 38,788 | - | 233,369 | 873,616 |
| Property, plant and equipment | 969,957 | 490,015 | 299,711 | 999,081 | 2,758,764 |

Net earnings (loss) before income taxes reconciles to earnings before interest, taxes and amortization (“EBITDA”) as follows:

| | 2020 | 2019 |
|---|---------|-----------|
| | \$ | \$ |
| Net earnings (loss) before income taxes | 374,384 | 564,407 |
| Amortization of property, plant and equipment | 406,222 | 360,658 |
| Amortization of other intangible assets | 48,403 | 41,864 |
| Asset impairment provision, net of reversals | 16,143 | - |
| Finance costs | 44,143 | 68,721 |
| Other interest | 3,827 | 2,377 |
| EBITDA | 893,122 | 1,038,027 |
| Transportation | 686,531 | 739,815 |
| Industrial | 206,591 | 298,212 |
| | 893,122 | 1,038,027 |

25 Supplemental Cash Flow Information

| | 2020 | 2019 |
|-------------------------|--------|---------|
| | \$ | \$ |
| Interest paid | 75,983 | 96,315 |
| Interest received | 29,243 | 29,885 |
| Finance income received | 23,736 | 24,086 |
| Taxes paid | 41,274 | 175,770 |

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Net Debt Reconciliation of Liabilities Arising from Financing Activities

| | Cash and cash equivalents | Short-term borrowings and Long-term debt | Net debt | Derivative financial instruments Asset (Liability) | Total |
|---|------------------------------|--|-------------|--|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| At January 1, 2019 | 471,975 | (2,567,203) | (2,095,228) | 55,395 | (2,039,833) |
| Cash flow activity | (103,595) | 628,434 | 524,839 | - | 524,839 |
| Additions, net of disposals - leases | - | (12,995) | (12,995) | - | (12,995) |
| Effect of cumulative translation adjustment | (30,154) | 4,177 | (25,977) | - | (25,977) |
| Effect of foreign exchange adjustments | - | 55,037 | 55,037 | (58,219) | (3,182) |
| Amount recognized in other comprehensive earnings | - | - | - | 69,247 | 69,247 |
| Other changes | - | (5,139) | (5,139) | (1,290) | (6,429) |
| At December 31, 2019 | 338,226 | (1,897,689) | (1,559,463) | 65,133 | (1,494,330) |
| Cash flow activity | 527,361 | 607,562 | 1,134,923 | (41,428) | 1,093,495 |
| Additions, net of disposals - leases | - | (15,936) | (15,936) | - | (15,936) |
| Effect of cumulative translation adjustment | (4,487) | (1,661) | (6,148) | - | (6,148) |
| Effect of foreign exchange adjustments | - | 7,423 | 7,423 | (7,459) | (36) |
| Amount recognized in other comprehensive earnings | - | - | - | (58,708) | (58,708) |
| Other changes | - | (2,913) | (2,913) | (2,142) | (5,055) |
| At December 31, 2020 | 861,100 | (1,303,214) | (442,114) | (44,604) | (486,718) |

The table above details changes in the Company's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's consolidated statement of cash flows as cash flows from financing activities. This also applies to derivative financial instruments held to hedge liabilities arising from financing activities. The Company is also presenting cash and cash equivalents to reflect net debt.

26 Financial Instruments

(i) Accounts Payable and Accrued Liabilities

| | December 31 2020 | December 31 2019 |
|---------------------|---------------------|---------------------|
| | \$ | \$ |
| Accounts payable | 865,502 | 772,314 |
| Accrued liabilities | 586,821 | 499,542 |
| | 1,452,323 | 1,271,856 |

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(ii) Composition of Financial Instruments

The comparison of fair values to carrying amounts of financial assets and financial liabilities along with the fair value hierarchy for financial assets and financial liabilities carried at fair value on a recurring basis is as follows:

| | Subsequent Measurement | December 31, 2020 | | December 31, 2019 | |
|--|---------------------------|--|-------------|--|-------------|
| | | Carrying Value Asset (Liability) | Fair Value | Carrying Value Asset (Liability) | Fair Value |
| | | \$ | \$ | \$ | \$ |
| Long-term receivables | Amortized cost (Level 2) | 376,450 | 413,177 | 521,906 | 529,685 |
| Derivative financial instruments (iii): | | | | | |
| USD interest payment forward contracts | Fair value (Level 2) | - | - | 3,230 | 3,230 |
| USD debt principal forward contracts | Fair value (Level 2) | - | - | 29,838 | 29,838 |
| USD cross currency interest rate swaps | Fair value (Level 2) | (33,772) | (33,772) | (20,153) | (20,153) |
| EUR cross currency interest rate swaps | Fair value (Level 2) | (10,832) | (10,832) | 52,218 | 52,218 |
| USD sales forwards – CAD functional entities | Fair value (Level 2) | 13,664 | 13,664 | 5,887 | 5,887 |
| USD sales forwards – MXN functional entities | Fair value (Level 2) | 15,467 | 15,467 | - | - |
| USD sales forwards – CNY functional entities | Fair value (Level 2) | 2,340 | 2,340 | - | - |
| CAD purchase forwards – GBP functional entities | Fair value (Level 2) | (995) | (995) | - | - |
| Investment designated at fair value through other comprehensive income | Fair value (Level 3) | 6,579 | 6,579 | 6,642 | 6,642 |
| Long-term debt, excluding lease liabilities (Note 13) | Amortized cost (Level 2) | (1,237,415) | (1,211,770) | (1,819,589) | (1,807,840) |

The fair value of the long-term receivables, derivative financial instruments, and long-term debt are determined by using valuation techniques based on observable market data other than quoted prices. The Company determined that the fair value of its investment, based on the most recent financing at the same price, is equal to its carrying value. The fair value of other financial instruments such as cash and cash equivalents, accounts and other receivables, short-term bank borrowings and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturities of these instruments. There were no transfers in the fair value hierarchy between Levels 1, 2 and 3 during the year.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices for similar instruments;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date; or
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

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(iii) Derivative Financial Instruments Including Hedge Accounting

The summary of the Company's derivative financial instruments and hedge accounting is as follows:

| | Hedging reserves | | | Notional Hedge Value | Other comprehensive earnings Gain/(loss) | | |
|--|-------------------------|-------------------------------------|-------------|-------------------------|---|---|---------------------------------------|
| | Carrying value \$ | Cost of hedging reserve \$ | Total \$ | | Unrealized gain/(loss) recognized \$ | reclassified to finance expense \$ | Change in cost of hedging \$ |
| a) USD interest payment forward contracts | - | - | - | - | 3 | (2,750) | - |
| b) USD debt principal forward contracts | - | - | - | - | 11,216 | (9,127) | (17) |
| c) USD cross currency interest rate swap contract | (811) | (3) | (814) | 716,044 USD | (13,959) | 17,794 | 1,080 |
| d) EUR cross currency interest rate swap contract | (17) | 642 | 625 | 615,000 EUR | (59,811) | - | (3,136) |
| e) USD sales forward contracts | 14,488 | 3,000 | 17,488 | 431,375 USD | (8,665) | 21,821 | 4,274 |
| f) CAD purchase forward contracts | (722) | (18) | (740) | 76,225 CAD | (963) | - | (24) |
| December 31, 2020, gross | 12,938 | 3,621 | 16,559 | | (72,179) | 27,738 | 2,177 |
| Deferred tax | | | | | 18,430 | (7,320) | (544) |
| December 31, 2020, net | | | | | (53,749) | 20,418 | 1,633 |

| | Hedging reserve | | | Notional Hedge Value | Other comprehensive earnings Gain/(loss) | | |
|--|-------------------------|-------------------------------------|-------------|-------------------------|---|---|---------------------------------------|
| | Carrying value \$ | Cost of hedging reserve \$ | Total \$ | | Unrealized gain/(loss) recognized \$ | reclassified to finance expense \$ | Change in cost of hedging \$ |
| a) USD interest payment forward contracts | 2,060 | - | 2,060 | 12,584 USD | (2,321) | - | - |
| b) USD debt principal forward contracts | (882) | (671) | (1,553) | 130,000 USD | (7,363) | 8,450 | 3,203 |
| c) USD cross currency interest rate swap contract | (3,687) | (813) | (4,500) | 716,044 USD | (49,388) | 46,659 | 1,990 |
| d) EUR cross currency interest rate swap contract | (729) | 2,993 | 2,264 | 615,000 EUR | 63,443 | - | 4,574 |
| e) USD sales forward contracts | 4,620 | (205) | 4,415 | 206,675 USD | 6,160 | - | (273) |
| December 31, 2019, gross | 1,382 | 1,304 | 2,686 | | 10,531 | 55,109 | 9,494 |
| Deferred tax | | | | | (2,633) | (13,777) | (2,374) |
| December 31, 2019, net | | | | | 7,898 | 41,332 | 7,120 |

Early in the COVID-19 pandemic forecasted consolidated USD sales did not occur. Therefore, the forward exchange contracts in place to hedge a portion of the ultimate cash flows arising from the expected highly probable forecasted USD sales were ineffective. Of the total \$21,821 gain reclassified from other comprehensive earnings to finance expenses for the USD sales forward contracts in the current year, included was a gain of \$4,582 of recognized ineffectiveness. There was no ineffectiveness in any of the hedge relationships in 2019.

a) USD Interest Payment Forward Contracts

In 2012, the Company entered into a series of forward exchange contracts to lock in the exchange rate on the semi-annual coupon payments on the USD \$130 million of senior unsecured Notes due 2021. The forward exchange contracts have been designated as cash flow hedges for accounting purposes. The derivatives are denominated in the same currency and notional amount as the coupon components of the Notes, therefore, the hedge ratio is on a one to one basis. As all critical terms matched during the period, the economic relationship was 100% effective. In June 2020, the USD \$130,000 senior unsecured notes, due in September 2021, were fully repaid (Note 13). As the hedged item ceased to exist, the USD interest payment forward contracts were terminated at the same time. Of the total \$2,750 loss reclassified from other comprehensive earnings to finance expenses in the current year, included a deferred loss of \$2,527 related to the end of the hedge relationship.

Further terms of the forward exchange contracts are disclosed in Note 13(i).

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b) USD Debt Principal Forward Contracts

In 2011, the Company completed the placement of USD \$130 million of senior unsecured Notes due 2021. In 2012, the Company entered into a long-dated forward exchange contract to lock in the exchange rate on the principal repayment component upon maturity of the Notes and to hedge the effective changes in exchange rates. The long-dated forward exchange contracts have been designated as cash flow hedges for accounting purposes. As the contract has been designated as a cash flow hedge for accounting purposes for the spot component only, the change in the forward element (the excluded component) of the contract is recognized within other comprehensive earnings in the cost of hedging reserve within equity and is amortized to net earnings in finance costs as an additional cost on a systematic basis.

The derivatives are denominated in the same currency and notional amount as the principal repayment of the Notes, therefore, the hedge ratio is on a one to one basis. As all critical terms matched during the period, the economic relationship was 100% effective. In June 2020, the USD \$130,000 senior unsecured notes, due in September 2021, were fully repaid (Note 13). As the hedged item ceased to exist, the USD debt principal forward contracts were terminated at the same time. Of the total \$9,127 loss reclassified from other comprehensive earnings to finance expenses in the current year, included a deferred gain of \$3,465 related to the end of the hedge relationship.

Further terms of the long-dated foreign exchange forward contracts are disclosed in Note 13(i).

c) USD Cross Currency Interest Rate Swap Contracts

In 2018, the Company converted EUR 615 million of borrowings to USD \$716 million borrowings under the credit facility. The USD borrowings are under a non-revolving facility due in 2021 and a revolving facility due in 2023 (Note 13(ii)). Simultaneously, the Company entered into cross currency interest rate swap contracts to buy Canadian dollar ("CAD") interest and principal amounts in exchange for USD interest and principal amounts. The contracts effectively lock in the exchange rate on the interest and principal repayments of the USD borrowings and hedge the effective changes in exchange rates. The contracts also lock in the interest payments on the USD borrowings from monthly LIBOR floating interest rates to a CAD fixed interest rate. The maturity of the swap contracts corresponds to the due date of the non-revolving portion of the USD borrowings; however both the revolving and non-revolving portions of the USD \$716 million borrowings are part of the hedging strategy. The swap contracts have been designated as cash flow hedges for accounting purposes. The derivatives are denominated in the same currency as the principal repayment of the USD \$716 million borrowings; therefore, the hedge ratio is on a one to one basis. As all critical terms matched during the period, the economic relationship was 100% effective. The USD \$716 million borrowings under the non-revolving term facility and the revolving facility was repaid in January 2021 (Note 13). The USD cross currency interest rate swaps contracts matured and were settled at the same time.

d) EUR Cross Currency Interest Rate Swap Contracts

In 2018, the Company entered into cross currency interest rate swap contracts to buy EUR interest and principal amounts in exchange for CAD interest and principal amounts. The contracts will hedge the effective change in exchange rates on net investments in EUR foreign operations. The changes in the forward element (the excluded component) of the swap contracts are recognized within other comprehensive earnings in the cost of hedging reserve within equity and are amortized to net earnings in finance costs as an additional cost on a systematic basis. The swap contracts have been designated as a net investment hedge for accounting purposes for the spot component only. The Company entered into these swap contracts having similar critical terms as the EUR net investment hedged item, such as currency and notional amount, therefore, the hedge ratio is on a one to one basis. As all critical terms matched during the period, the economic relationship was 100% effective. The EUR cross currency interest rate swaps contracts matured and were settled in January 2021, ending that net investment hedge.

e) USD Sales Forward Contracts

Beginning in the fourth quarter of 2019, the Company entered into a series of forward exchange contracts to hedge a portion of the ultimate cash flows arising from highly probable forecasted consolidated USD sales. The Company's program hedges a portion of USD sales contracts entered into by entities with various functional currencies. Every quarter, additional contracts will be initiated in order to maintain a proportional coverage for up to 18 months of forecasted USD sales.

All the contracts are designated as cash flow hedges for accounting purposes for the spot component only, up until the month of the sales activity. The change in the forward element (the excluded component) of the contracts are recognized within other comprehensive earnings in the cost of hedging reserve within equity and is reclassified to net earnings in sales when the hedging relationship ends. The derivatives are in the same currency and notional amounts as a portion of the anticipated USD sales, therefore the hedge ratio is on a one to one basis. It is anticipated that all critical terms will match during the period they are outstanding,

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therefore the economic relationship will remain 100% effective. After the month the sales activity occurs, the net fair value on the derivatives outstanding until maturity is recognized in other income and (expenses). For the current year, this was a gain of \$2,580 (2019 – nil).

The summary of contracts in place with USD notional hedge values and average forward rates back to the respective functional currencies is as follows:

| | December 31, 2020 | | December 31, 2019 | |
|--|--------------------------------------|-------------------------|--------------------------------------|-------------------------|
| | Notional Hedge Value USD \$ | Average Forward Rate | Notional Hedge Value USD \$ | Average Forward Rate |
| USD sales forwards – CAD functional entities | 264,950 | 1.3307 | 206,675 | 1.3271 |
| USD sales forwards – MXN functional entities | 138,100 | 22.1420 | - | - |
| USD sales forwards – CNY functional entities | 28,325 | 7.0025 | - | - |
| | 431,375 | | 206,675 | |

f) CAD Purchase Forward Contracts

Beginning in the fourth quarter of 2020, the Company entered into a series of forward exchange contracts to hedge a portion of the ultimate cash flows arising from highly probable forecasted consolidated CAD purchases. The Company's program hedges a portion of CAD purchase contracts entered into by entities with various functional currencies. Every quarter, additional contracts will be initiated in order to maintain a proportional coverage for up to 18 months of forecasted CAD purchases.

All the contracts are designated as cash flow hedges for accounting purposes for the spot component only, up until the month of the purchase activity when the change in the spot component of the contracts in the hedges reserve within equity is reclassified to inventory recognized with the hedging transaction. The change in the forward element (the excluded component) of the contracts are recognized within other comprehensive earnings in the cost of hedging reserve within equity and is reclassified to inventory recognized with the hedging transaction, when the hedging relationship ends. The deferred amounts carried in inventory are recognized in net earnings as the inventory impacts net earnings approximately 90 days later. The derivatives are in the same currency and notional amounts as a portion of the anticipated CAD purchases, therefore the hedge ratio is on a one to one basis. It is anticipated that all critical terms will match during the period they are outstanding, therefore the economic relationship will remain 100% effective.

The contracts in place have notional hedge values of CAD \$76,225 at an average forward rate of 1.7236 back to the GBP functional currency.

(iv) Financial Risk Management

The Company is primarily exposed to market risk, liquidity risk, credit risk and capital risk as a result of holding financial instruments.

Market Risk – Foreign Exchange Risk

The Company operates in several different geographical regions in the world and has many business arrangements with customers and suppliers also based in different geographical regions. The Company therefore is impacted by changes in foreign exchange rates. These foreign exchange rate changes affect net sales and expenses based in foreign currencies and the translation of monetary balances in relation to functional currencies. In order to minimize the adverse effects on the financial performance of the Company, foreign exchange forward contracts and certain portions of its foreign denominated long-term debt may be used to hedge certain foreign currency risk exposures to reduce the uncertainty from foreign currency transactions and functional currency translations.

Approximate Foreign Exchange Exposure as related to the following currencies:

| | December 31 2020 % | December 31 2019 % |
|------------------------|--------------------------|--------------------------|
| USD activity | 77.8 | 84.5 |
| EUR activity | 18.0 | 8.5 |
| British pound activity | 2.6 | 3.6 |
| Mexican peso activity | 0.8 | 0.9 |

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The Company has foreign operations with the following functional currencies that differ from the parent: Hungarian forint, Mexican peso, USD, Euro, British pound, Korean won, Chinese renminbi, Japanese yen, Australian dollar, Swedish krona, Brazilian real, Indian rupee and Bulgarian lev.

Assuming all other variables are constant a 5% strengthening of the following currencies against the functional currency of the Company and its foreign subsidiaries would result in gains/(losses) by the amounts shown below:

| | Impact on net earnings gain/(loss) | | Impact on hedging reserve gain/(loss) | |
|---------------|---------------------------------------|---------------------|--|---------------------|
| | December 31 2020 | December 31 2019 | December 31 2020 | December 31 2019 |
| | \$ | \$ | \$ | \$ |
| USD | 9,037 | 10,186 | (11,366) | (9,452) |
| EUR | 2,387 | 1,023 | (45) | (452) |
| British pound | 301 | (433) | 2,722 | - |
| Mexican peso | (272) | 110 | (5,445) | - |

A weakening of the same above currencies at December 31 would have had the equal but opposite effect, on the basis that all other variables remain constant.

Market Risk – Interest Rate Risk

Due to the Company's capital structure, there is some degree of exposure to changes in the Canadian, US, European and Asian money market rates of interest. The Company does invest excess funds at times to maximize interest income earned. The investment quality must meet internal standards for ratings and liquidity to safeguard the Company's cash and cash equivalents. Interest rate or cross currency interest rate swap agreements are used by the Company from time to time to manage the fixed and floating interest rate mix of the Company's total debt portfolio and related overall cost of borrowing.

The interest rate swap agreements involve the periodic exchange of interest payments with or without the exchange of the notional principal amount upon which the payments are based. Interest expense on the debt is then adjusted to include the payments made or received under the interest rate swaps.

As at December 31, 2020, an interest rate change of 50 basis points (all other variables held constant) would have an impact on net earnings for the year of \$1,480 (2019 - \$2,975).

Liquidity Risk

Liquidity risk is the Company's ability to meet its financial obligations when they come due. The Company manages the liquidity risk of forecasted cash flows from operations, by ensuring that there are cash resources available to meet these needs. As at December 31, 2020, the Company's revolving bank facility had available credit of \$774,131. The revolving facility matures in 2023.

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. If the Company deviates from 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 undiscounted contractual maturities of the Company's financial liabilities are as follows:

| December 31, 2020 | Current year \$ | Maturing in 1 to 2 years \$ | Maturing after 2 years \$ | Total \$ |
|---|--------------------|-----------------------------------|---------------------------------|-------------|
| Accounts payable and accrued liabilities | 1,452,323 | - | - | 1,452,323 |
| Long-term debt and contractual interest payments, derivative financial instruments, and financial guarantees | 1,059,532 | 19,463 | 371,751 | 1,450,746 |
| | 2,511,855 | 19,463 | 371,751 | 2,903,069 |

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| December 31, 2019 | Current year \$ | Maturing in 1 to 2 years \$ | Maturing after 2 years \$ | Total \$ |
|--|--------------------|-----------------------------------|---------------------------------|-------------|
| Accounts payable and accrued liabilities | 1,271,856 | - | - | 1,271,856 |
| Long-term debt and contractual interest payments, derivative financial instruments, and financial guarantees | 74,190 | 1,063,372 | 776,471 | 1,914,033 |
| | 1,346,046 | 1,063,372 | 776,471 | 3,185,889 |

Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The maximum exposure to credit risk at the reporting date is represented by the net carrying amount of the Company's cash and cash equivalents, accounts and other receivables, long-term receivables, derivative financial instruments and financial guarantees. The Company is exposed to credit risk from potential default by counterparties that carry the Company's cash and cash equivalents and derivative financial instruments. The Company attempts to mitigate this risk by dealing only with large financial institutions with investment grade credit ratings. All of the financial institutions within the bank syndicate providing the Company's credit facility meet these qualifications.

A substantial portion of the Company's receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. At December 31, 2020, the receivables from the Company's three largest customers amounted to 11.9%, 11.8% and 9.4% (December 31, 2019 – 10.8%, 10.2%, and 9.8%) of customer receivables.

The following represents the weighted-average expected credit loss rate of the Company's accounts and other receivables and long-term receivables. For credit risk management, the Company assesses the age of past due receivables to determine if credit risk has increased significantly. Due to COVID-19 and underlying business operation issues at certain customers, there is uncertainty in the future repayment of certain of the Company's long-term accounts receivable, as indicated by credit rating downgrades of certain customers, and a reduction in the value of related collateral securing certain long-term receivables. A similar review and adjustment for an increase in economic credit risk due to COVID-19 was also completed on the Company's accounts and other receivables. The aging of receivables is as follows:

| | Accounts and other receivables \$ | December 31 2020 Long-term receivables \$ | Accounts and other receivables \$ | December 31 2019 Long-term receivables \$ |
|--------------------------|---|---|---|---|
| Current | 703,175 | 386,374 | 696,336 | 523,956 |
| Past due 1-30 days | 124,495 | 670 | 175,713 | 589 |
| Past due 31-60 days | 10,049 | 221 | 33,972 | 87 |
| Past due 61-90 days | 10,987 | 192 | 26,216 | 74 |
| Past due >91 days | 48,144 | 2,132 | 62,316 | 157 |
| Gross carrying amount | 896,850 | 389,589 | 994,553 | 524,863 |
| Loss allowance provision | 8,644 | 13,139 | 6,308 | 2,957 |
| | 888,206 | 376,450 | 988,245 | 521,906 |
| Expected loss rate | 1.0% | 3.4% | 0.6% | 0.6% |

The above gross carrying amounts represent the maximum exposure to credit risk without taking into consideration any collateral held or other credit enhancements. This is mitigated as the Company may hold a security interest in the underlying asset until the balance is fully settled by the customer resulting in a reduced actual exposure. Due to current conditions in industrial markets, the value of certain collateral held has deteriorated as evidenced by changes in selling prices of used equipment.

Capital Risk Management

The Company's capital management objectives are to ensure the stability of its capital so as to support continued operations, provide an adequate return to shareholders and generate benefits for other stakeholders. The Company's capital is composed of shareholders' equity, and is not subject to any capital requirements imposed by a regulator.

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The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue or re-acquire shares, acquire or dispose of assets, and adjust the amount of cash and cash equivalents. There were no changes in the Company's capital risk management strategy during the year.