



Statement of Corporate Governance Practices — TSX Guidelines

The following is a statement of Tesma's corporate governance practices, with specific reference to the Toronto Stock Exchange Corporate Governance Guidelines (the "TSX Guidelines").

TSX Guideline

The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters:

Corporate Governance Practice of Tesma

Tesma's Board is responsible for the stewardship of the Corporation. The Board oversees Tesma's business and affairs and the day-to-day conduct of business by senior management, establishes or approves all corporate policies as required and involves itself jointly with management in the creation of shareholder value, the preservation and protection of the Corporation's assets and the establishment of Tesma's strategic plan.

The Board acts in accordance with the *Business Corporations Act* (Ontario), Tesma's articles of incorporation (including the Corporate Constitution contained therein) and by-laws, Tesma's Board Charter, the charters and authorizing resolutions of the Board's Committees, various company policies and other applicable laws, rules and regulations. The Board recently adopted a Code of Conduct and Ethics for the Corporation which applies to members of the Board, as well as to management and all other employees of Tesma. A copy of the Board Charter and the Code of Conduct and Ethics are available on Tesma's website (www.tesma.com/corporate/corporate_governance).

In general terms, the Board approves all significant decisions and material transactions affecting Tesma prior to implementation by management, supervises such implementation and reviews the results. In order to assist in defining the limits of management's authority, the Board Charter sets forth the following specific matters requiring Board approval, in addition to those specific matters requiring prior Board approval under applicable laws, rules and regulations:

- the Corporation's interim and annual financial statements;
- strategic plans, business plans and capital expenditure budgets;
- raising of debt or equity capital and other major financial activities;
- executive hiring, compensation and succession;
- major organizational restructurings;
- material acquisitions and divestitures; and
- major corporate policies.

As part of its overall stewardship responsibility, the Board has assumed responsibility for the following matters:

Satisfying Itself as to the Integrity of Management

The Board is responsible for taking such actions as it deems necessary to satisfy itself of:

- the integrity of the Corporation's Chief Executive Officer and other members of Corporate Management (as defined in the Corporate Constitution); and
- the creation by the Chief Executive Officer and other members of Corporate Management of a culture of integrity throughout the Corporation.

(a) adoption of a strategic planning process;

Adoption of a Strategic Planning Process

Tesma has implemented a strategic planning process which directly involves both management and the Board. At or prior to the commencement of each financial year, the Board participates in a meeting with management devoted to strategic planning issues in which:

- future trends, opportunities and risks in the automotive industry over a three- to seven-year horizon are jointly identified and discussed;
- a strategic plan is considered which addresses such trends, opportunities and risks;
- specific product strategies and three-year business plans are presented by management for review and discussion by the Board;
- capital expenditure projects for the ensuing financial year are presented and reviewed; and
- the business plan and capital expenditures budget for the ensuing financial year are presented for approval by the Board.

Additionally, updates on industry trends, product strategies, new product and technology developments, major new business awards, capital expenditures and specific problem areas/action plans are presented by Tesma's management and discussed as part of a management report at each regular quarterly Board meeting.

As part of its overall mandate, and consistent with the allocation of responsibility between the Board and management, the Board is required to review and consider any material changes to the approved business plan, as well as any transactions which would have a significant impact on the approved business plan.

(b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

Identification and Management of Principal Risks

The Board, through the Audit Committee, is responsible for assessing with management the Corporation's:

- material risk exposures; and
- actions to monitor and control such exposures.

The principal risks facing the Corporation which have been identified by the Audit Committee include the following risks (and other factors):

- the automotive industry;
- pricing concessions and cost absorptions;
- product warranty, recall and product liability costs;
- dependence on new and redesigned product introductions by customers and technology improvements;
- competition;
- reliance on major customers;
- reliance on sub-suppliers;
- production volumes;
- currency exposure;
- environmental matters;
- new facilities;
- government regulations;
- availability of financing; and
- control of Tesma and relationship with Magna.

These risks (and other factors) are reviewed and discussed in greater detail in the Corporation's Annual Information Form (and corresponding Annual Report on Form 40-F) which are periodically filed with applicable securities regulatory authorities in Canada and the United States and are available on Tesma's website (www.tesma.com/investors/financialreports).

In order to fulfil its responsibility regarding the risks facing the Corporation, the Audit Committee meets regularly with the Corporation's internal and external auditors to discuss such risks and other related matters. Furthermore, the Audit Committee monitors the actions taken to control these risks through discussions with, and reports from, management on specific issues from time to time, updates to the Board as a whole at the Board's quarterly meetings and at the annual strategic planning meeting conducted with management.

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(c) succession planning, including appointing, training and monitoring senior management;

(d) a communications policy for the corporation; and

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Succession Planning, Including Appointing, Training and Monitoring Senior Management

Tesma has continued Magna's long-established policy of profit-based compensation in order to attract, retain and motivate skilled and entrepreneurial management and employees, as reflected in the Corporation Constitution.

The Board, through its review of all officer appointments, is involved in management succession and manpower planning. In reviewing and appointing corporate officers, the Board will satisfy itself that candidates possess the necessary levels of integrity, skill and experience. The Board has delegated to the Corporate Governance and Compensation Committee the review of succession plans for the Chief Executive Officer and other key positions within the Corporation, including other members of Corporate Management and other senior officers of the Corporation (with the Committee to provide its report and recommendations to the Board). The Board has delegated to management the review of succession plans for the Corporation's subsidiaries and operating divisions (with management to provide its report and recommendations to the Corporate Governance and Compensation Committee and/or, in appropriate circumstances, to the Board).

In fulfilling its mandate with respect to succession planning, the Corporate Governance and Compensation Committee will review Corporate Management's succession plans and make recommendations to the Board, taking into consideration the management and operational needs of the Corporation and its operating philosophy.

While the responsibility for direct training has traditionally been left to senior management, the Corporate Governance and Compensation Committee satisfies itself that the necessary levels of integrity, skill and experience exist when reviewing and making recommendations to the Board. Both the Corporate Governance and Compensation Committee and the Board support Tesma's ongoing commitment to training and skills development of employees at all levels of the organization, including the participation in technical apprenticeship training and management skills training initiatives coordinated by Magna.

As part of its mandate with respect to management compensation, the Corporate Governance and Compensation Committee monitors and evaluates Corporate Management and reviews and implements Tesma's profit-based compensation policy to ensure that management performance (as measured by the Corporation's profitability) bears a direct relationship to their levels of compensation. See "Compensation of Directors and Executive Officers — Corporate Governance and Compensation Committee — Report on Executive Compensation" in the Circular.

Communications Policy — The Board bears responsibility for ensuring that the Corporation maintains programs to effectively communicate with its stakeholders, including shareholders, employees and the general public. The Board reviews and approves all material communications issued by the Corporation, such as interim and annual financial statements, press releases, other required regulatory filings and the dissemination of other material information.

In addition to the Board's review and approval of the financial statements, the Audit Committee first reviews and recommends to the Board, for approval, the Corporation's interim and annual financial statements, as well as the related management's discussion and analysis of results of operations and financial position.

In March 2004, the Board adopted a Corporate Disclosure Policy which operates to, in large part, formalize the procedures previously followed by Tesma with respect to corporate disclosure and, in accordance with current regulatory requirements, seeks to ensure timely, effective and accurate disclosure of material information to stakeholders and other applicable authorities. Accordingly, Tesma's Corporate Disclosure Policy:

- requires the Disclosure Committee (see below) to review and approve all public disclosures of material non-public information;
- designates certain specified officers of the Corporation as authorized spokespersons on behalf of the Corporation;
- sets out a procedure for the disclosure of Tesma's quarterly earnings information (including advance notice of quarterly earnings conference calls and/or web casts);
- assigns to the Chief Financial Officer the responsibility for reviewing models or reports requested to be reviewed by analysts, and, subject to applicable regulatory authority restrictions, prescribes the ability to comment thereon; and
- assigns to the Corporate Secretary the responsibility for all continuous disclosure/regulatory filings on behalf of the Corporation.

The Corporate Disclosure Policy also establishes a Disclosure Committee, consisting of the Corporation's Chief Financial Officer, Vice-President, Finance, Treasurer, Controller, General Counsel, Corporate Secretary and the senior person responsible for Tesma's investor relations, to identify, review and approve the disclosure, from time to time, by Tesma of material non-public information. The Disclosure Committee reports to the Chief Executive Officer and the President at least quarterly and to the Audit Committee and the Board as a whole as required from time to time.

The President and Chief Financial Officer, as an authorized spokesperson for the Corporation, conducts meetings and publicly accessible conference calls and web casts from time to time with representatives of industry, analysts, brokerage firms and institutional and private investors to explain information released to the public about Tesma and its financial and operating performance. Additionally, Tesma's management makes extensive presentations at annual shareholders' meetings to review the Corporation's operating results for the prior year and its business objectives and strategies for the future.

The Corporation also places great emphasis on its employee communications programs as contemplated under its Employee's Charter of Rights. These programs include:

- monthly employee communications meetings;
- the publication of employee newsletters;
- divisional employee opinion surveys; and
- through the Corporation's continued affiliation with Magna, the maintenance of an employee hotline, employee advocate programs and divisional fairness committees to directly address individual employee concerns.

In keeping with Tesma's commitment to maintain safe and healthful workplaces as prescribed in its Employee's Charter of Rights, employees at all levels are encouraged to communicate to management and, where appropriate, directly to the Environmental, Health and Safety Committee or the Board, all concerns and incidents relating to workplace environmental, health and safety issues.

The Corporation is in the process of implementing a "Whistleblower Hotline" mechanism for reporting fraudulent, illegal or other prescribed activities (whether relating to financial reporting or otherwise)

Shareholders of the Corporation are able to communicate with the Corporation in a number of different ways, including mail, phone and e-mail to the President and Chief Financial Officer, the Vice-President, Secretary and General Counsel and the Manager of Investor Relations. In addition, shareholders have ample opportunity to pose questions to management and the Corporation's external auditors at the Corporation's annual meeting of shareholders.

Tesma also maintains a website (www.tesma.com) which includes information of interest to stakeholders, including copies of recent press releases, annual and quarterly reports, and other major communications items.

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(e) the integrity of the corporation's internal control and management information systems.

The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. An unrelated director is a director who is independent of management and is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding. A related director is a director who is not an unrelated director. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder. A significant shareholder is a shareholder with the ability to exercise a majority of the votes for the election of the board of directors.

Corporate Governance Practice of Tesma

Integrity of Internal Control and Management Information Systems

The Board has assigned to the Audit Committee the responsibility for ensuring that effective systems are in place to monitor the integrity of the Corporation's internal control and management information systems.

As part of its mandate pursuant to its written charter, the Audit Committee is responsible for:

- satisfying itself that management has established and is maintaining an adequate and effective system of internal financial and accounting controls;
- satisfying itself that management is responding on a timely basis to any significant weaknesses in the system of internal financial and accounting controls which have been identified;
- meeting with and reviewing significant reports of the internal auditors and the external auditors relating to such internal controls; and
- reviewing the appointment, termination and replacement of the senior management of the internal auditors, the scope of the internal auditors' work plan and the overall performance, staffing and resources of the internal auditors.

The Audit Committee meets quarterly prior to, and reports at, each quarterly Board meeting. During its meetings, the Audit Committee meets with management, the external auditors and the internal auditors to review and discuss the Corporation's internal control and management information systems

Additionally, management formally reports to the Environmental, Health and Safety Committee (for the period from its establishment in February 2003, prior to which management reported to the full Board) on a periodic basis the status of all material environmental and occupational health and safety matters affecting the Corporation and its operating divisions (as such matters may arise from the divisional environmental and health and safety inspection and audit programs maintained by Tesma). In the event that the Corporation's environmental or health and safety monitoring and review systems would reveal material non-compliance issues (which, to date, has not been the case), management would promptly communicate the same, together with proposed budgets and remediation plans, for review and consideration by the Environmental, Health and Safety Committee and, in appropriate circumstances, the full Board.

As noted above, the Corporate Constitution requires that a majority of the members of the Board be individuals who are not officers or employees of the Corporation, nor persons related to such officers or employees, and that a minimum of two directors not be officers or employees of the Corporation or its affiliates (including Magna), or directors of the Corporation's affiliates (including Magna), nor persons related to such officers, employees or directors.

In its assessment of the Corporation's compliance with the TSX Guidelines and its Corporate Constitution, both the Corporate Governance and Compensation Committee and the Board considered the circumstances of the various directors and concluded that four of the Corporation's seven directors, Messrs. Marx, Peterson, Whiteside and Young, are "unrelated directors" within the meaning of the TSX Guidelines as they are "free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interests of the corporation, other than interests and relationships arising from shareholding".

Mr. Marx serves as a Vice President of TMW Enterprises Inc., a management services/holding company which controls several subsidiaries operating various automotive businesses. The Board has considered the operations of the subsidiaries of TMW Enterprises Inc., noted that no supplier or competitor relationships with Tesma exist, and concluded that such operations do not affect Mr. Marx's independence as a director of Tesma. Accordingly, the Board considers Mr. Marx to be an "unrelated director" within the meaning of the TSX Guidelines. In light of such independence and based on his tenure with the Board and his extensive prior automotive industry experience, Mr. Marx was appointed as the Lead Director of the Board on March 25, 2004.

TSX Guideline

The application of the definition of “unrelated director” to the circumstances of each individual director should be the responsibility of the board which will be required to disclose on an annual basis whether the board has a majority of unrelated directors or, in the case of a corporation with a significant shareholder, whether the board is constituted with the appropriate number of directors which are not related to either the corporation or the significant shareholder. Management directors are related directors. The board will also be required to disclose on an annual basis the analysis of the application of the principles supporting this conclusion.

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Mr. Peterson is a senior partner and serves as Chairman of Cassels Brock & Blackwell LLP, a law firm located in Toronto, Canada. Cassels Brock & Blackwell LLP does not provide any legal work or services to Tesma or any of its subsidiaries. Accordingly, the Board considers Mr. Peterson to be an “unrelated director” within the meaning of the TSX Guidelines.

Mr. Whiteside is a senior partner and serves as Chairman and Chief Executive Officer of Miller Thomson LLP, a firm which periodically provides litigation and real estate related legal services to the Corporation and to Magna (and its affiliates). During calendar 2003, the Corporation paid Miller Thomson LLP less than \$11,000 for such legal services, and Mr. Whiteside was not personally involved in the provision of such services to the Corporation. Management has advised the Board that the amount or dollar value of the legal services provided from time to time by Miller Thomson LLP to the Corporation is not considered to be significant or material (nor reasonably capable of being perceived as significant or material) in the circumstances, and the Board has agreed with this conclusion. Accordingly, the Board considers Mr. Whiteside to be an “unrelated director” within the meaning of the TSX Guidelines.

Mr. Young serves as Chairman of Summa Strategies Canada Inc., a government relations agency, which provides no services to Tesma or any of its subsidiaries. Accordingly, the Board considers Mr. Young to be an “unrelated director” within the meaning of the TSX Guidelines.

During calendar 2003, Mr. Gingl served as the Vice Chairman and Chief Executive Officer of the Corporation. Effective February 24, 2004, Mr. Gingl was appointed the Chairman of the Corporation (in addition to his existing position of Chief Executive Officer). As Chief Executive Officer, Mr. Gingl is a member of management and a “related director” within the meaning of the TSX Guidelines.

The remaining two directors who served during calendar 2003, Ms. Stronach and Mr. Wolf, are not, by virtue of their position as directors and officers of Magna (considered a “significant shareholder” under the TSX Guidelines due to its ability to exercise a majority of the votes for the election of Tesma’s Board), “related directors” within the meaning of the TSX Guidelines. However, for the purposes of the TSX Guidelines, the Board has determined to consider each of Ms. Stronach and Mr. Wolf as “related directors” in recognition of (i) Ms. Stronach being a trustee of, and otherwise associated with, the Stronach Trust, the entity that controls Magna (see “Voting Securities and Principal Shareholders” in the Circular) and (ii) the various interests and business relationships that exist between Magna and Tesma from time to time (see “Interests of Management and Other Insiders in Certain Transactions” in the Circular) and the potential for the perception that such interests and relationships might have a bearing on their respective abilities to act with a view to the best interests of the Corporation.

Mr. Galifi was appointed as a director on February 24, 2004 to fill the vacancy created by the resignation of Ms. Stronach as the Chairman of the Board and a director. Mr. Galifi serves as the Executive Vice President and Chief Financial Officer of Magna and, for reasons similar to those applicable to Mr. Wolf, the Board has determined Mr. Galifi to be a “related director” in recognition of the various interests and business relationships that exist between Magna and Tesma from time to time.

Additional information regarding Tesma’s directors is found above under “Business to be Transacted at the Meeting — Election of Directors” in the Circular and on Tesma’s website (www.tesma.com/corporate/corporategovernance). Tesma’s website includes biographical information about each director and provides a listing of the other boards on which they serve.

Based on the foregoing considerations, the Board believes that its current composition consisting of a majority of “unrelated directors” (Messrs. Marx, Peterson, Whiteside and Young), all of whom (with the exception of Mr. Whiteside on a limited and non-material basis) do not have interests in or relationships with either the Corporation or Magna (as the “significant shareholder” of Tesma), adequately and fairly reflects the investment in Tesma by its minority shareholders.

TSX Guideline

The board of directors of every corporation should appoint a committee of directors composed exclusively of outside, i.e., non-management, directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.

Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

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Tesma has not established a separate nominations committee as recommended by the TSX Guidelines. However, the Corporation has adopted a Board Charter which requires the Board to select one "unrelated" and independent director to act as the Lead Director of the Board to, among other things, assist in identifying potential nominees to the Board (within the requirements established by Tesma's Corporate Constitution) and assist in the development and conduct of the assessment of Board effectiveness. The Board Charter and the Corporate Governance and Compensation Committee Charter also address a number of other issues normally considered by a nominations committee, such as the size and composition of the Board (and, in the Corporate Governance and Compensation Committee Charter, the Board has specifically delegated to the Committee the responsibility for recommending timely changes in the role, size, competencies, skills and structure of the Board and all Board Committees). The Board believes that matters normally considered by a nominations committee have and will continue to be effectively dealt with by the Board acting as a whole, which is comprised of six (out of seven) "outside" or non-management directors and a majority of "unrelated directors", and/or by the Corporate Governance and Compensation Committee, as applicable, together with the Lead Director.

The Board has delegated to the Corporate Governance and Compensation Committee the responsibility for annually assessing and overseeing the evaluation of the effectiveness of the Board as a whole and of the individual Committees of the Board, as well as recommending timely changes in the role, size, composition, competencies, skills and structure of the Board and of all Board Committees. The Corporate Governance and Compensation Committee distributed a self-assessment questionnaire to each director and Committee member in respect of Board and Committee meetings and activities during calendar 2003. In this questionnaire, directors and Committee members were asked to comment on a number of items, including Board priorities, responsibilities, operations and effectiveness, as well as individual Committee responsibilities, operations and effectiveness. Based on the responses received to this questionnaire and following its own deliberations, the Corporate Governance and Compensation Committee considered the composition, size and effectiveness of the Board and its Committees, and concluded that the Board and its Committees functioned effectively throughout calendar 2003. The Corporate Governance and Compensation Committee also took note of the new definition of "independence" for Audit Committee members under the NASDAQ Corporate Governance Rules which comes into effect on July 31, 2005. See "Board of Directors and Committees of the Board — Audit Committee" in the Circular.

With the appointment of Mr. Marx as the Lead Director of the Board on March 25, 2004, in accordance with the Board Charter, Mr. Marx will, in the future, assist the Corporate Governance and Compensation Committee in the continuing development and conduct of the process to annually assess the effectiveness of the Board as a whole, the Committees of the Board and, where appropriate, individual directors.

The Corporate Governance and Compensation Committee is mandated, pursuant to its written charter, to recommend to the Board from time to time rules and guidelines governing and regulating the affairs of the Board, such as the orientation and education of new and existing members of the Board regarding the structure and operations of the Corporation, as well as the continuing education, tenure, retirement, compensation and indemnification of directors.

To assist its new Board members in contributing effectively from the outset of their election or appointment, Tesma currently uses an orientation process to provide new directors with a basic understanding of its business. This process includes:

- the supply of a comprehensive orientation manual about the Corporation and its operations;
- meetings with senior management and operational personnel; and
- scheduled visits and tours of the Corporation's manufacturing and other facilities.

Such facility visits and meetings with corporate and operational management are encouraged throughout the term of each director's tenure.

Tesma also encourages its "outside" or non-management directors and its "unrelated directors" to attend professional development programs at the Corporation's expense.

TSX Guideline

Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors, although some board committees, such as the executive committee, may include one or more inside directors.

Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines.

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The Board currently consists of seven directors which is believed to be adequate, appropriate and conducive to effective and efficient communications and decision-making. Pursuant to its charter, the Corporate Governance and Compensation Committee annually assesses and oversees the evaluation of the effectiveness of the Board as a whole, as well as the individual Committees of the Board. As part of this mandate, the Corporate Governance and Compensation Committee recommends, to the extent necessary, changes in the role, size, composition, competencies, skills and structure of the Board and all Board Committees in order to ensure effectiveness and efficient communications and decision-making.

While there are no specific criteria for Board members, Tesma attempts to maintain a diversity of personal experience, particularly among its "unrelated directors".

The Board has delegated to the Corporate Governance and Compensation Committee the responsibility for recommending to the Board rules and guidelines relating to, among other things, director compensation. Directors who are not employees of Tesma nor directors or officers of Magna were, during calendar 2003, paid (or entitled to be paid) those annual, per meeting and other fees referred to under "Compensation of Directors and Executive Officers — Directors' Compensation" in the Circular (including the requirement to accumulate and maintain minimum levels of Tesma Class A Subordinate Voting Shares, annually and in aggregate, or deferred share units in lieu thereof). The form and adequacy of the compensation paid (or payable) to "unrelated directors" was reviewed, revised and approved by the Board in February 2003. The Corporate Governance and Compensation Committee will continue to regularly assess and review director compensation relative to comparator companies of similar size and global presence, both within and outside the automotive industry, in order to ascertain that the level of compensation paid by Tesma to its directors realistically reflects the responsibilities and risks involved in serving as a Board member.

The Board has established three standing Committees:

- the Audit Committee;
- the Corporate Governance and Compensation Committee; and
- the Environmental, Health and Safety Committee,

in order to permit directors to delegate and share responsibilities and to devote the necessary expertise and resources to particular areas. Each of these Committees has a specifically defined mandate and responsibilities which, in each case, is set forth in a written charter or resolution adopted by the Board.

All of the members of each of the Audit Committee, the Corporate Governance and Compensation Committee and the Environmental, Health and Safety Committee are "outside" or non-management directors. Moreover, a majority of the members of the Corporate Governance and Compensation Committee and all of the members of the Audit Committee and the Environmental, Health and Safety Committee are currently "unrelated directors" within the meaning of the TSX Guidelines. The Corporation does not have a separate executive committee or nominating committee of the Board. For a review of the composition, roles and responsibilities of each of the Audit Committee, the Corporate Governance and Compensation Committee and the Environmental, Health and Safety Committee, see "Board of Directors and Committees of the Board" in the Circular.

A copy of the current Audit Committee Charter is attached to the Circular as Schedule "A" and is also posted, together with a copy of the current charter of the Corporate Governance and Compensation Committee, on Tesma's website (www.tesma.com/corporate/corporategovernance).

The Board has assigned to the Corporate Governance and Compensation Committee responsibility for:

- developing the Corporation's system of, and overall approach to, corporate governance practices as a whole, consistent with applicable law, rules and regulations of applicable regulatory authorities and the Corporation's needs;
- making recommendations to the Board for implementation of such system;
- assessing the effectiveness of the Corporation's system of corporate governance; and
- monitoring the implementation and compliance with any rules, regulations or guidelines promulgated by regulatory authorities relating to corporate governance.

The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, involving the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the CEO is responsible for meeting.

Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management. An appropriate structure would be to (i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "lead director". Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board's relationship to management to a committee of the board.

In addition to monitoring corporate governance requirements mandated by applicable regulatory authorities, the Corporate Governance and Compensation Committee will review and consider corporate governance "best practices" of comparable Canadian and U.S. public companies in order to ensure that the Corporation maintains high standards of corporate governance.

The Corporate Governance and Compensation Committee is responsible for, and has approved, this Report on Corporate Governance on March 25, 2004.

The Board has delegated to the Corporate Governance and Compensation Committee responsibility for annually overseeing the evaluation of management and monitoring and assessing the relationship between the Board and management, defining the limits to management's responsibilities and ensuring that the Board is able to function independently of management.

While a specific position description for the Chief Executive Officer does not currently exist, the Board Charter sets out the role of the Board and its responsibilities, including a listing of the decisions or matters (in addition to those required under applicable laws, rules and regulations) requiring Board approval prior to implementation by management. These matters are discussed above in response to the first TSX guideline and are set forth in the Board Charter which is posted on Tesma's website (www.tesma.com/corporate/corporategovernance).

The Corporate Governance and Compensation Committee is also responsible for annually reviewing and approving the corporate objectives of the Chief Executive Officer and Tesma's senior management team (as a whole) and reporting thereon to the Board. At its annual review meeting with the Chief Executive Officer and the President and Chief Financial Officer of the Corporation, the performance of senior management is reviewed and evaluated against the prior financial year's objectives and the objectives for the upcoming financial year (developed in relation to the Corporation's overall strategic objectives) are considered and approved.

Each Board Committee has a formal written charter or mandate outlining such Committee's responsibilities and its obligation to report its recommendations to the Board. Subject to those powers which it has specifically delegated, the Board retains all residual authority to manage or supervise the management of the business and affairs of Tesma.

The Corporation believes it has appropriate structures and procedures in place to ensure that its Board can function independently of management, including:

- the requirements in the Corporate Constitution that a majority of the directors be individuals who are not (or not related to) officers or employees of the Corporation and that, at a minimum, two directors not be (or not be related to) officers or employees of the Corporation or its affiliates (including Magna) or directors of the Corporation's affiliates (including Magna);
- the actual composition of the Board whereby six of the current seven directors are "outside" or non-management directors and a majority are "unrelated directors";
- the requirement in the Board Charter for the Board to appoint a Lead Director from among the Board's "unrelated" and independent directors; and
- the responsibility delegated to the Corporate Governance and Compensation Committee to ensure that the Board is able to function independently of management.

During calendar 2003, Ms. Stronach was the Chairman of the Board, a non-executive position since she was not involved in the day-to-day management of the business and affairs of the Corporation. Effective February 24, 2004, Mr. Gingl was appointed as the Chairman to fill the vacancy created by Ms. Stronach's resignation. In order to ensure greater independence of the Board from management in light of Mr. Gingl's appointment as the Chairman (in addition to his existing position as the Chief Executive Officer), the Board appointed Mr. Marx, an "unrelated" and independent director, as Lead Director of the Board on March 25, 2004.

Pursuant to the Board Charter, the Lead Director's duties include:

- representing the Corporation's "unrelated" and independent directors in discussions with Corporate Management on corporate governance issues and other matters;
- assisting in ensuring that the Board functions independently of management;
- assisting in identifying potential nominees to the Board; and
- assisting in the development and conduct of the assessment of Board effectiveness.

Historically, the "outside" or non-management directors and the "unrelated directors" have assumed the responsibility for ensuring that the Board discharges its duties independently of management, and it is expected that the "unrelated directors", under the leadership of the Lead Director, will continue to do so in appropriate circumstances. For example, the "unrelated directors" participate in periodic meetings or discussions amongst themselves, without the presence of management representatives. Additionally, through the use of the Special Committee process, the "unrelated directors" have reviewed and made recommendations to the Board independently of management on specific matters pertaining to corporate governance and other related matters (including, for example, the consideration of related party transactions).

The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.

For a review of the composition, roles and responsibilities of the Audit Committee, including the Audit Committee Charter and, as specifically contemplated therein, the Audit Committee's oversight responsibility for management reporting on internal controls, see "Board of Directors and Committees of the Board — Audit Committee" in the Circular. For the full text of the Audit Committee Charter, see Schedule "A" to the Circular.

The Audit Committee meets regularly following the conclusion of each financial quarter (and financial year end) at which time members of the Audit Committee engage in direct communications with the internal and external auditors and Tesma's senior financial management (including separate *in camera* sessions with each of them). Commencing in respect of the first quarter of calendar 2003, the Audit Committee formally engaged the external auditors to perform review procedures on Tesma's unaudited quarterly financial statements. The Audit Committee's quarterly meetings also involve a regular assessment of the adequacy of both the internal and external financial reporting of the Corporation, and a review and discussion of specific issues as circumstances warrant. During each financial year end meeting, the Audit Committee engages in separate *in camera* discussions with the external auditors and Tesma's senior financial management with respect to the financial year end audit process, including a review of the cooperation received from the Corporation's management and an evaluation of the performance of the external auditors. Accordingly, and as a result of direct communications between the external auditors and the Chairman of the Audit Committee when required, effective communication channels exist between the Audit Committee and the external auditors to discuss and review specific issues as appropriate.

At its regular quarterly meetings, the Audit Committee meets with the internal auditors to review the activities of the internal auditors over the preceding financial quarter and to confirm the internal audit plan for the remainder of the financial year. As the individuals performing the internal audit services report directly to the Chairman of the Audit Committee, effective communication channels exist between the Audit Committee and the internal auditors to discuss and review specific issues, as appropriate.

TSX Guideline

The board of directors should implement a system which enables an individual director to engage an outside advisor at the expense of the corporation in appropriate circumstances. The engagement of the outside advisor should be subject to the approval of an appropriate committee of the board.

Corporate Governance Practice of Tesma

Pursuant to the Board Charter, the Board may retain outside legal and other experts at the expense of the Corporation where reasonably required to assist and advise the Board in carrying out its duties and responsibilities. In addition, pursuant to their respective charters or mandates, each standing Committee of the Board is empowered to engage such advisors at the expense of the Corporation where required in the course of its duties. During calendar 2003, and except for the engagement of Ernst & Young LLP by the Audit Committee to perform the audit of the Corporation's consolidated annual financial statements, no outside experts or advisors were retained by the Board or any of its standing Committees. However, real estate appraisers were retained by a Special Committee of independent directors established by the Board to review the sale and leaseback transaction completed in January 2003 with MI Developments Inc., then a wholly-owned subsidiary of Magna, for all the land and buildings on the Tesma corporate campus (see "Interests of Management and Other Insiders in Certain Transactions – Sale/Leaseback Transaction with Magna" in the Circular), and separate legal and financial advisors were retained by another Special Committee of independent directors established by the Board to review a potential acquisition transaction.

The Board will also consider requests to retain outside legal and other advisors at the expense of the Corporation by individual directors or Committee members on their respective merits at the time that any such request may be made.