

# Management's Discussion and Analysis and Financial Statements

**ONEX**

December 31, 2005

# ONEX CORPORATION

Onex is a diversified company with 2005 annual revenues of \$17 billion, assets of \$15 billion and 138,000 employees worldwide.

We operate through autonomous subsidiaries in a variety of industries, including electronics manufacturing services, aerostructures manufacturing, theatre exhibition, healthcare, customer management services, automotive products, personal care products and communications infrastructure.

Onex' objective is to create long-term value by building industry-leading businesses and to have that value reflected in our share price.


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This report includes Onex Corporation's Management's Discussion and Analysis and Financial Statements for the year ended December 31, 2005.

We invite you to visit our website, [www.onex.com](http://www.onex.com), for your complete and up-to-date source of information about Onex.

Get to know our people and the individual strengths they bring to our team.	Here is what we look for in businesses we want to own and what we provide.	Get our financial results in a simple, comprehensible format, with interactive annual and quarterly financial statements.	
Learn about our operating principles and values, and what we do.	See how Onex has performed against key market indices.	Find out about our companies.	Learn about our directors and corporate governance practices.



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Onex is a diversified company.

**REVENUES \$17 billion**  
**ASSETS \$15 billion**  
**EMPLOYEES 138,000**

Onex' objective is to create long-term value by building industry-leading businesses and to have that value reflected in our share price.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") of financial condition and results of operations analyzes significant changes in the consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows of Onex Corporation ("Onex" or the "Company"). It should be read in conjunction with the audited annual consolidated financial statements and notes thereto on pages 50 to 87 of this report. The MD&A and the Onex consolidated financial statements have been prepared to provide information on Onex on a consolidated basis and should not be considered as providing sufficient information to make an investment decision in regard to any particular Onex operating company.

The following MD&A is the responsibility of management and is as of February 16, 2006. The Board of Directors carries out its responsibility for review of this disclosure through its Audit and Corporate Governance Committee, comprised exclusively of independent directors. The Audit and Corporate Governance Committee reviews the disclosure and recommends its approval by the Board of Directors.

The MD&A is presented in the following sections:

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## **Forward-Looking/Safe Harbour Statement and Fair Disclosure Statement**

*This MD&A may contain, without limitation, certain statements that include words such as "believes", "expects", "anticipates" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that may cause actual performance or results to be materially different from those anticipated in these forward-looking statements, including without limitations, those discussed on pages 8 through 12 of this MD&A. Onex is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors.*

## OVERVIEW

Onex is a diversified company that operates through autonomous subsidiaries in a variety of industries, including electronics manufacturing services, aerostructures, theatre exhibition, healthcare, customer management services, automotive products, personal care products and communications infrastructure.

### ONEX BUSINESS OBJECTIVE

Onex' business objective is to create long-term value for shareholders by acquiring and building industry-leading businesses and to have that value reflected in the Company's share price.

### ONEX STRATEGIES

Onex achieves its long-term objective through various strategies, which include:

#### Industry leadership

Onex looks to acquire companies that have not only exhibited leadership or the potential for leadership within their own industry but also, in our view, offer a clear opportunity to create value for shareholders. Opportunities for significant growth may be in rapidly growing industries or in mature industries where there is the scope to build a leadership position through consolidation.

#### Diversification of capital

Onex deliberately diversifies its capital across a variety of companies and industries in order to limit its exposure to a single business or industry. This strategy enables Onex to better weather the ebbs and flows of economic and/or industry business cycles.

#### Management ownership

Each member of Onex' management team has a meaningful personal financial interest in the Company and its operating companies. Onex believes this personal commitment aligns Onex management's personal objective with the Company's overall value creation objective. Onex management's depth and breadth of experience in acquisitions, integration, strategy, negotiations and financing support the management teams of the operating companies in building the value of their businesses.

In addition, Onex believes that management of the acquired companies should share in the risk and rewards of ownership. Therefore, we look to partner with a strong and committed management team that is willing to make a sizeable personal financial commitment to its business.

During 2005, Onex' management team and board of directors invested \$55 million in the investments and acquisitions completed by Onex in 2005.

### Financially strong parent company

Onex, the parent company, maintains a strong financial position with substantial liquidity in order to be responsive to new opportunities to create long-term value and, if required, to support existing operating companies. At December 31, 2005, Onex had approximately \$1.5 billion of cash and near-cash items.

In addition, Onex has capital it can call upon through its private equity funds:

- Onex Partners LP (“Onex Partners”) is a \$2.1 billion (US\$1.7 billion) fund in which Onex has committed \$480 million (US\$400 million). Onex controls the General Partner and Manager of Onex Partners; at December 31, 2005, the uncalled committed capital available through Onex Partners from other limited partners was \$478 million.
- ONCAP Funds – ONCAP LP (“ONCAP I”) is a \$400 million private equity fund, and ONCAP II LP (“ONCAP II”) is a private equity fund targeted at \$500 million; the ONCAP funds are committed to acquiring and building value in small- to medium-capitalization companies based in North America; ONCAP I’s investment commitment period expired December 2004. Onex has committed to be approximately half of ONCAP II’s total commitments; Onex controls the General Partner and Manager of ONCAP I and ONCAP II.

The above private equity funds are also a source of value creation for Onex through:

- **Management fees** – Onex receives a management fee from third-party investors in its private equity funds, Onex Partners, as well as ONCAP I and ONCAP II; and
- **Carried interests** – Onex, as the General Partner of Onex Partners, ONCAP I and ONCAP II, also receives a carried interest on the realized gains of the third-party limited partners.

### Active ownership

Onex believes that if a business is good enough to buy, it is good enough to be vigorously developed. Onex management works closely with the management teams of its operating companies to set strategies and assist in evaluating acquisitions and in implementing financing arrangements.

## INDUSTRY SEGMENTS

At December 31, 2005, Onex had significant ownership in businesses in the following industry segments:

Industry Segments	Companies
Electronics Manufacturing Services	<b>Celestica Inc.</b> , one of the world's largest electronics manufacturing services companies for original equipment manufacturers ("OEMs").
Aerostructures	<b>Spirit AeroSystems, Inc.</b> , the world's largest Tier 1 aerostructures manufacturer.
Theatre Exhibition	<b>Cineplex Entertainment Limited Partnership</b> , Canada's largest film exhibition company, operating 130 theatres with a total of 1,275 screens under the Cineplex Odeon, Famous Players, Coliseum, Colossus, Galaxy and Silver City brands.
Healthcare	<p><b>Emergency Medical Services Corporation</b>, a leading provider of emergency medical services, operating through American Medical Response, Inc. ("AMR"), a leading U.S. provider of ambulance transport services, and EmCare Holdings Inc. ("EmCare"), a leading U.S. provider of outsourced services for hospital emergency department physician staffing and management.</p> <p><b>Center for Diagnostic Imaging, Inc.</b>, a leading provider of diagnostic and therapeutic radiology services in the United States.</p> <p><b>Skilled Healthcare Group, Inc.</b>, an organization of leading skilled nursing and assisted living facility operators in the United States, specifically in California, Texas, Kansas and Nevada, whose skilled nursing and rehabilitation subsidiaries focus on treating patients requiring a high level of skilled nursing care and comprehensive rehabilitation services.</p> <p><b>Res-Care, Inc.</b>, a leading U.S. provider of residential, training, educational and support services for people with disabilities and special needs.</p>
Customer Management Services	<b>ClientLogic Corporation</b> , a leading business process outsourcer in the contact centre and fulfillment industries; the company provides customer care services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies.
Automotive Products	<b>J.L. French Automotive Castings, Inc.</b> , an independent manufacturer of aluminum die-cast components for North American and European automotive OEMs.
Other Businesses	<p><b>ONCAP</b>, private equity funds focused on acquiring and building the value of small- and mid-cap North American companies, which currently manages investments in CMC Electronics Inc., Western Inventory Service Ltd., Canadian Securities Registration Systems Ltd. and CSI Global Education Inc. (acquired in January 2006).</p> <p><b>Cosmetic Essence, Inc.</b>, a leading provider of outsourced supply chain management services to the personal care products industry, including formulating, manufacturing, filling, packaging and distribution; the company's products include fragrances, crèmes, lotions and colour cosmetics.</p> <p><b>Radian Communication Services Corporation</b>, a North American wireless communications infrastructure and network services company.</p> <p><b>Onex Real Estate Partners LP</b>, a partnership dedicated to acquiring and improving real estate assets in North America.</p> <p><b>Onex Public Markets Group</b>, a limited partnership focused on investing in securities of publicly-traded North American companies in a variety of industries in order to generate long-term capital appreciation and dividends.</p>

## KEY PERFORMANCE INDICATORS

A key strategy in acquiring an operating company is to do so in partnership with that company's management team. Onex believes that each operating company's management team is most familiar with its industry and therefore is the best manager of its business. While Onex management provides its support in areas such as strategy, acquisitions and financing, Onex does not get involved in the day-to-day activities of its businesses.

We believe the best way to monitor the performance of each of our businesses is to assess each company's growth in revenues and operating earnings (as defined on page 20), as well as to track the progress toward achieving the annual initiatives as developed in the operating budget for each business.

Onex believes that operating earnings, while a non-GAAP measure, provides a particularly relevant and consistent basis for assessing each operating company's performance because it eliminates interest charges, which are a function of the particular financing structure, as well as any unusual charges.

Revenues and operating earnings are both discussed in further detail in this MD&A on pages 12 and 20, respectively.



## FINANCIAL REVIEW

This section discusses the significant changes in Onex' consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flow for the fiscal year ended December 31, 2005 compared to those for the year ended December 31, 2004 and in selected areas to those for the year ended December 31, 2003.

### Accounting policies and estimates

Onex prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in preparation of the financial statements are described in note 1 to the audited annual consolidated financial statements. Onex and its operating companies evaluate their estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in Onex' consolidated financial statements are estimates used in determining allowance for doubtful accounts, inventory valuation, the useful lives of property, plant and equipment and intangible assets, revenue recognition under contract accounting, pension and post-employment benefits, restructuring costs and other matters. Actual results could differ materially from those estimates and assumptions.

The assessment of goodwill, intangible assets and long-lived assets for impairment, the determination of income tax valuation allowances and contract accounting require the use of judgments, assumptions and estimates. Due to the material nature of these factors, they are discussed here in greater detail.

### Goodwill, intangible assets and long-lived assets impairment tests

The impairment tests of goodwill, intangible assets and long-lived assets involve consideration of future cash flows and fair values of individual assets, groups of assets or reporting units. The process of determining fair value and future cash flows is subjective and requires management of the particular operating companies to exercise judgment in making assumptions about future results, including

revenues, operating expenses, capital expenditures and discount rates. When an impairment test is undertaken, the underlying assumptions are re-evaluated and could give rise to future impairment charges. Included in Onex' audited annual consolidated financial statements for the year ended December 31, 2005 is a writedown of goodwill and intangible assets of \$3 million and a \$5 million writedown of long-lived assets related to Onex' operating companies. Notes 18 and 19 to the audited annual consolidated financial statements also provide information on these charges.

### Income tax valuation allowance

An income tax valuation allowance is recorded against future income tax assets when it is more likely than not that some portion or all of the future income tax assets recognized will not be realized prior to their expiration. The reversal of future income tax liabilities, projected future taxable income, the character of income tax assets, tax planning strategies and changes in tax laws are some of the factors taken into consideration when determining the valuation allowance. A change to these factors could affect the estimated valuation allowance and income tax expense. Note 20 to the audited annual consolidated financial statements provides additional disclosure on income taxes.

### Contract accounting

In the aerostructures segment, the contract method of accounting requires that revenues from each contract be recognized in accordance with the percentage-of-completion method of accounting. As a result, contract accounting uses various estimating techniques to project costs to completion and estimates of recoveries asserted against the customer for changes in specifications. These estimates involve assumptions of future events, including the quantity and timing of deliveries and labour performance and rates, as well as projections relative to material and overhead costs. Contract estimates are re-evaluated periodically and changes in estimates are reflected in the current and future periods.

During 2005, Onex' operating company Spirit AeroSystems, Inc. ("Spirit AeroSystems") recognized revenues under the contract method of accounting, using the units-of-delivery method. The company follows this method of accounting as a significant portion of its revenues are under long-term, volume-based pricing contracts that require delivery of products over several years.

#### **Investment company**

During 2005, Onex formed OPMG LP ("OPMG" or "Onex Public Markets Group") to invest in public companies. OPMG acquires non-controlling positions in these investments and thus, under the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 18, "Investment Companies", the investments of OPMG are recorded at fair value and are included in investments and other assets in Onex' audited annual consolidated balance sheet. Included in income in Onex' audited annual consolidated statement of earnings for the year ended December 31, 2005 is \$10 million of net realized gains recorded by OPMG.

#### **Development costs**

Included in the deferred charges on Onex' audited annual consolidated balance sheet are capitalized development costs of Spirit AeroSystems primarily associated with that company's product development on Boeing's 787 aircraft. These development costs will be amortized over the life of the contract for the products developed.

#### **New accounting policies**

##### **Consolidation of variable interest entities**

The CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities", which was applicable for Onex beginning in January 2005. Variable interest entities ("VIEs") are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. This guideline provides specific guidance for determining when an entity is a VIE, and who, if anyone, should consolidate the VIE. The adoption of this guideline did not have a material effect on the audited annual consolidated financial statements.

#### **Financial instruments – presentation and disclosure**

In December 2004, Onex adopted the amendment to the *Canadian Institute of Chartered Accountants Handbook* ("CICA Handbook") Section 3860, "Financial Instruments – Presentation and Disclosure". The amendment required obligations of a fixed amount that may be settled, at the issuer's option, by a variable number of the issuer's own equity to be presented as liabilities. Therefore, any securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or the equivalent value of its own equity instruments will no longer be presented as equity. This amendment is applicable on a retroactive basis with restatement of prior periods. As a result of adopting this standard, Onex reclassified \$149 million of the principal component of convertible debt issued by one of its operating companies from non-controlling interests liability to long-term debt as at December 31, 2004.

#### **SIGNIFICANT EVENTS IN 2005**

A number of significant events occurred during the year that affected Onex' consolidated results for 2005 and their comparability to results for 2004. These events are discussed below.

##### **Acquisition of Center for Diagnostic Imaging, Inc.**

In early January 2005, Onex completed the acquisition of Center for Diagnostic Imaging, Inc. ("CDI"), a leading provider of diagnostic and therapeutic radiology services in the United States. This transaction was valued at approximately \$225 million, including \$88 million of equity funded by Onex and Onex Partners LP ("Onex Partners") for an 84 percent ownership interest. Of the total equity, Onex' share was \$21 million for a 20 percent ownership interest.

CDI operates 35 diagnostic imaging centres in nine markets in the United States that provide services such as magnetic resonance imaging ("MRI"), computed tomography ("CT"), diagnostic and therapeutic injection procedures, as well as other procedures such as PET/CT, conventional x-ray, mammography and ultrasound. CDI's operations have been consolidated and reported in the healthcare segment from the date of acquisition. Note 3 to the audited annual consolidated financial statements provides additional information on this acquisition.

### Sale of InsLogic Corporation

In early January 2005, Onex sold InsLogic Corporation ("InsLogic") for net cash proceeds of \$22 million. Onex formed InsLogic in 1999 to provide technology-enabled private-label insurance brokerage services. During the period of its ownership, Onex invested a total of \$52 million in both equity and debt. Due to the losses Onex recorded from InsLogic in prior years, the business had a negative carrying value for accounting purposes at the time of the sale. As a result, Onex recorded an accounting gain of \$73 million for the year ended December 31, 2005. This gain has been reported in earnings from discontinued operations in Onex' audited annual consolidated financial statements for 2005.

### Sale of CGG investment

Onex sold all of its convertible subordinated bonds of Compagnie Générale de Géophysique ("CGG") in three separate transactions in the first and second quarters of 2005. Onex and Onex Partners received total proceeds of \$145 million, of which Onex' share was approximately \$34 million. As a result of this sale, a pre-tax gain of \$41 million was recorded in 2005, of which Onex' share was \$9 million. These gains are reported in gains on sales of operating investments in Onex' audited annual consolidated statement of earnings for the year ended December 31, 2005. The total value Onex and Onex Partners received on CGG amounted to \$146 million, including interest, compared to an investment of approximately \$102 million made in November 2004.

### Purchase of U.S. healthcare companies

In February 2005, Onex completed the acquisition of American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. ("EmCare") in a transaction valued at approximately \$1 billion. Onex, Onex Partners and certain of its limited partners invested \$266 million of equity for a 97 percent ownership interest. Onex' portion of the equity was \$100 million for an ownership interest of 36 percent.

AMR is a leading U.S. provider of ambulance transport and emergency medical response services. EmCare is a leading provider of outsourced services for hospital emergency department physician staffing and management. Onex formed Emergency Medical Services Corporation ("EMSC") as the parent company of AMR and EmCare. EMSC's operations have been consolidated and reported in the healthcare segment from the date of acquisition. Note 3 to the audited annual consolidated

financial statements provides additional information on this acquisition.

### EMSC initial public offering

In mid-December 2005, EMSC completed an initial public offering of Class A common shares (NYSE: EMS), representing a 19.5 percent interest in the company, for net proceeds of US\$102 million. After this offering, Onex, Onex Partners and certain of its limited partners continued to hold 32.1 million Class A common shares of EMSC, representing a 77 percent ownership interest in the company. Onex did not sell any of its interest in EMSC in the offering. A consolidated non-cash accounting dilution gain of \$40 million was recorded, of which Onex' share was \$15 million. This reflects Onex' share of the excess of the proceeds from the offering over Onex' carrying value for the portion of the business issued in the public offering.

### Acquisition of Skilled Healthcare

In late December 2005, Onex acquired Skilled Healthcare Group, Inc. ("Skilled Healthcare") in a transaction valued at approximately \$745 million. Onex and Onex Partners invested \$243 million for a 93 percent ownership interest. Onex' share of this investment was \$57 million for a 22 percent ownership interest. Skilled Healthcare's subsidiaries, operating a total of 68 skilled nursing and assisted living facilities in California, Texas, Kansas and Nevada, focus on treating patients who require a high level of skilled nursing care and extensive rehabilitation therapy. The company's subsidiaries also provide rehabilitation therapy services at its affiliated facilities and for third parties. Skilled Healthcare has recently established a growing subsidiary hospice care business.

Skilled Healthcare's results are reported in the healthcare segment in Onex' audited annual consolidated financial statements. The company's operating results for the four days from the date of acquisition on December 27, 2005 to December 31, 2005 were not significant to Onex' audited annual consolidated results and therefore, were not consolidated in the audited annual statement of earnings for the year ended December 31, 2005. However, included in Onex' consolidated balance sheet at December 31, 2005 are Skilled Healthcare's assets of \$925 million and liabilities of \$682 million. Note 3 to the audited annual consolidated financial statements provides additional information on this acquisition.

### **Settlement of Celestica exchangeable debentures and forward sales agreements**

In February 2005, Onex redeemed its debentures that were exchangeable for Celestica Inc. ("Celestica") subordinate voting shares, recording a non-cash, pre-tax gain of \$560 million as a result of the redemption. Onex received the cash for these exchangeable debentures when it entered into these arrangements in 2000. The redemption was undertaken to eliminate Onex' annual interest expense of \$11 million associated with the debentures. The aggregate principal amount of the debentures was \$729 million and, in accordance with the terms of the debentures, Onex satisfied this obligation through the delivery of 9.2 million Celestica subordinate voting shares. The number of shares was based upon the fixed exchange rates provided for under the terms of the debentures. Onex converted 9.2 million Celestica multiple voting shares into Celestica subordinate voting shares to facilitate the redemption. The exchange was a non-cash transaction except for an early termination premium of \$12 million that was netted against the recorded gain of these exchangeable debentures and accrued interest, both of which were paid in cash.

In early June 2005, Onex settled its forward sales agreements relating to subordinate voting shares of Celestica and recorded a pre-tax gain of \$191 million on the settlement based on the carrying value at the time of sale. Onex elected to settle the forward sales agreements by delivering 1.8 million Celestica subordinate voting shares, based upon the forward sale prices provided for under the terms of the agreements, which were entered into in 2000. Onex received \$222 million in cash on the settlement of the forward sales agreements. These forward sales agreements were closed out in order to eliminate the annual spread cost of approximately \$2 million associated with these agreements. Onex converted 214,314 Celestica multiple voting shares into Celestica subordinate voting shares to facilitate the forward sales agreement settlement.

Onex continues to hold 27.3 million multiple voting shares of Celestica, excluding shares held in connection with the Onex Management Investment Plan investment rights, which represent equity and voting interests in Celestica of approximately 12 percent and 78 percent, respectively.

### **Acquisition of Boeing's Wichita-Tulsa commercial aerostructures manufacturing operations**

In mid-June 2005, Onex completed the acquisition of The Boeing Company's ("Boeing") commercial aerostructures manufacturing operations in Kansas and Oklahoma in a transaction valued at \$1.5 billion. Onex, Onex Partners and a number of limited partners invested \$464 million of equity in Spirit AeroSystems, the newly formed company that acquired the Boeing assets. Onex' portion of that investment was \$134 million for a 29 percent ownership interest. Spirit AeroSystems is now the world's largest Tier 1 aerostructures manufacturer. The company operates from 12 million square feet of facilities and offers industry-leading manufacturing and design expertise in a broad range of products and services for aircraft original equipment manufacturers ("OEMs") and operators. Spirit AeroSystems operations have been consolidated and reported in a new reportable segment – Aerostructures – from the date of acquisition. Note 3 to the audited annual consolidated financial statements provides additional information on this acquisition.

### **Cineplex Entertainment acquires the Famous Players theatre exhibition circuit**

In July 2005, Cineplex Galaxy Limited Partnership ("CGLP") acquired the Famous Players movie exhibition business in a transaction valued at \$473 million. Famous Players operated a total of 80 theatres with 785 screens across Canada. This acquisition was financed through: (i) the public offering of \$110 million of trust units of Cineplex Galaxy Income Fund ("CGIF"), the entity through which the public invests in CGLP; (ii) the issuance of \$105 million of convertible debentures by CGIF; and (iii) third-party debt financing. The issuance of additional trust units by CGIF diluted Onex' ownership in CGLP to 27 percent from 31 percent and resulted in a \$53 million accounting dilution gain being recorded, of which Onex' share was \$30 million.

In early October 2005, CGLP changed its name to Cineplex Entertainment Limited Partnership ("Cineplex Entertainment") in recognition of the larger operations resulting from the Famous Players acquisition. Now Canada's largest film exhibition company, Cineplex Entertainment owns, operates or has an interest in 130 theatres with 1,275 screens. As part of the regulatory approvals to address competition concerns for the Famous Players acquisition, Cineplex Entertainment agreed to divest and not operate

a total of 34 theatres located in Ontario, Quebec and Western Canada. As a result, Cineplex Entertainment reported the operations of all 34 theatres as discontinued operations in Onex' audited annual consolidated financial statements. As of December 31, 2005, Cineplex Entertainment had sold 27 of these theatres for gross proceeds of \$83 million. The company continues to work toward selling the remaining seven theatres. In addition, the company announced its intention to sell its interests in the Alliance Atlantis brand theatres and therefore, also reported these theatres as discontinued in 2005. During 2005, Cineplex Entertainment sold two Alliance Atlantis brand theatres.

The comparative 2004 results of the CGLP theatres that have been or are intended to be sold, as well as the Alliance Atlantis brand theatres, have been reclassified to be presented as discontinued. Note 2 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2005 and 2004 balance sheets that have been restated to be shown as discontinued.

#### **Sale of remaining Commercial Vehicle Group shares**

In July 2005, Onex sold its remaining 4.2 million common shares of Commercial Vehicle Group, Inc. ("CVG") as part of that company's public offering. Onex received \$81 million in net proceeds and recorded a pre-tax gain of \$79 million. As a result of this sale, CVG's operations, including the gain, have been presented as discontinued operations in Onex' audited annual consolidated financial statements for the year ended December 31, 2005 and prior periods have been restated to report the comparative results of CVG on a discontinued basis. The total value Onex has received on CVG was \$166 million compared to an investment of \$69 million.

#### **Sale of Magellan Health Services**

In three separate transactions in May, June and November of 2005, Onex and Onex Partners sold all of their interests in Magellan Health Services, Inc. ("Magellan") for total proceeds of \$302 million; Onex' portion of the sale was \$81 million, including \$10 million for Onex' portion of the carried interest. As a result of this sale, Onex recorded a net after-tax gain of \$22 million. This gain, as well as the operations up to the date of when Onex ceased to have control of Magellan in early May 2005, have been reported as discontinued operations in Onex' audited annual consolidated financial statements.

The comparative 2004 results of Magellan have been reclassified to be presented as discontinued. Note 2 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2004 balance sheet that have been restated to be shown as discontinued.

#### **CMC Electronics' sale of its NovAtel shares**

During 2005, ONCAP's subsidiary, CMC Electronics Inc. ("CMC Electronics"), sold all of its remaining shares of NovAtel Inc. ("NovAtel") for net proceeds of \$153 million. As a result of this sale, Onex recorded an after-tax gain of \$45 million.

The results of NovAtel have been presented as discontinued operations in Onex' audited annual consolidated financial statements. The comparative 2004 full-year results of NovAtel have also been reclassified and presented as discontinued. Note 2 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2004 balance sheet that have been restated to be shown as discontinued.

#### **Futuremed initial public offering**

In early January 2006, ONCAP I's subsidiary, Futuremed Health Care Products L.P. ("Futuremed"), completed a \$120 million initial public offering. In the offering, ONCAP I sold all of its Futuremed shares. Including prior distributions, ONCAP I has received net proceeds of \$99 million compared to its investment in Futuremed of \$25 million made in February 2004. Onex' share of those proceeds was \$31 million.

Onex has presented Futuremed's results as discontinued operations in the audited annual consolidated financial statements for the year ended December 31, 2005, since at the time of filing Futuremed's registration statement in December 2005 management of ONCAP had determined that it would sell the majority of its holdings in Futuremed; the comparative fiscal 2004 results of Futuremed have also been reclassified to be presented as discontinued.

Note 2 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2005 and 2004 balance sheets that have been restated to be shown as discontinued.

### Share repurchases under Onex'

#### Normal Course Issuer Bids

Onex' shareholders' equity at December 31, 2005 has been reduced for the effect of Onex' repurchases of its Subordinate Voting Shares under the Company's Normal Course Issuer Bids. During 2005, Onex repurchased 939,200 Subordinate Voting Shares at a total cost \$18 million. This compares to 9,143,100 Subordinate Voting Shares repurchased at a total cost of \$150 million in 2004.

#### Lower U.S. dollar to Canadian dollar exchange rate

Most of Onex' operating companies are based in the United States or report in U.S. dollars. As Onex reports its consolidated financial results in Canadian dollars, the movement of the U.S. dollar to the Canadian dollar exchange rate directly affects Onex' audited annual consolidated statements of earnings and audited annual consolidated balance sheets. The U.S. dollar's average value was 1.2114 Canadian dollars for the year ended December 31, 2005 compared to 1.3013 Canadian dollars for the year ended December 31, 2004. The lower U.S. dollar to Canadian dollar exchange rate used to convert Onex' U.S.-based operating companies' results is a factor in the variance of the 2005 full-year consolidated results compared to 2004.

In addition, Onex, the parent company, holds a significant portion of its cash in U.S. dollars. The revaluation of the U.S.-dollar-denominated cash held based on the current exchange rate has resulted in an exchange loss of \$31 million being recorded for the year ended December 31, 2005. This compares to a loss of \$124 million recorded for 2004.

## CONSOLIDATED OPERATING RESULTS

This section should be read in conjunction with Onex' audited annual consolidated statements of earnings and the corresponding notes thereto.

### Variability of results

Onex' audited consolidated operating results may vary substantially from year to year for a number of reasons, including some of the following: acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the U.S. dollar and

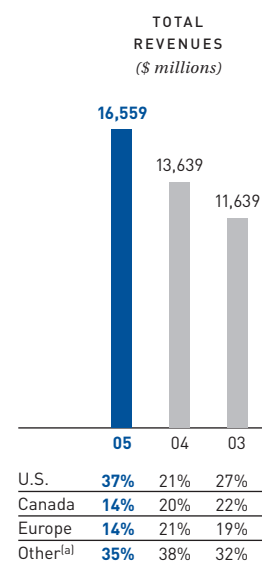
the Canadian dollar; the change in market value of stock-based compensation; and activities at Onex' operating companies. These activities may include the purchase or sale of businesses; fluctuations in customer demand and materials and employee-related costs; changes in the mix of products and services produced or delivered; and charges to restructure operations. The discussion that follows identifies some of the material factors that affected Onex' operating segments and Onex' audited annual consolidated results for the year ended December 31, 2005.

The statement of earnings for the year ended December 31, 2004 has been restated from that previously reported in accordance with required accounting policies for discontinued operations of those businesses that were intended to be or were sold in 2005. These include the operations of:

- Magellan;
- CVG;
- CMC Electronics' NovAtel subsidiary;
- Cineplex Entertainment's theatres that are intended to be sold or have been sold; and
- Futuremed.

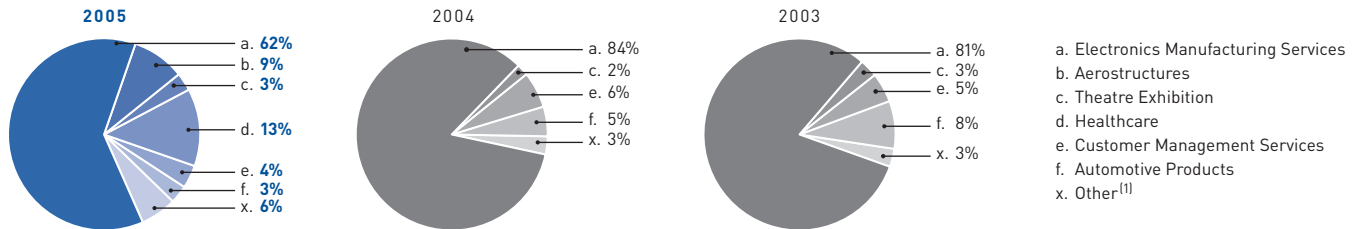
### Consolidated revenues

Consolidated revenues were \$16.6 billion in 2005, up 21 percent from \$13.6 billion in 2004 and up 42 percent from \$11.6 billion in 2003. A breakdown of the percentage of total revenues by industry segment is provided in the charts on the following page for the years ended December 31, 2005, 2004 and 2003.



(a) Other includes primarily operations in Central and South America, Asia and Australia.

Segmented Total Consolidated Revenue Breakdown



(1) 2005 other includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company. 2004 and 2003 includes Radian, ONCAP and parent company.

In addition, table 1 presents revenues by industry segment in Canadian dollars and in the functional currencies of the companies for 2005, 2004 and 2003 and the percentage change in revenues for those periods. Onex believes that reporting revenues in the operating companies'

functional currencies is useful in evaluating the performance of those businesses year-over-year since it eliminates the impact of foreign currency translation on revenues. The discussion that follows will review the factors that affected the change in revenues by industry segment.

Changes in Revenues by Industry Segment

TABLE 1	(\$ millions)	Canadian Dollars			Functional Currency		
		2005	2004	Change (%)	2005	2004	Change (%)
Electronics Manufacturing Services	\$ 10,257	\$ 11,480	(11)%	US\$ 8,471	US\$ 8,840	(4)%	
Aerostructures	1,436	-	-	US\$ 1,206	-	-	
Theatre Exhibition	491	318	55 %	C\$ 491	C\$ 318	55 %	
Healthcare	2,126	-	-	US\$ 1,758	-	-	
Customer Management Services	715	730	(2)%	US\$ 591	US\$ 562	5 %	
Automotive Products	584	691	(15)%	US\$ 482	US\$ 530	(9)%	
Other <sup>(a)</sup>	950	420	126 %	C\$ 950	C\$ 420	126 %	
<b>Total</b>	<b>\$ 16,559</b>	<b>\$ 13,639</b>	<b>21 %</b>				

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

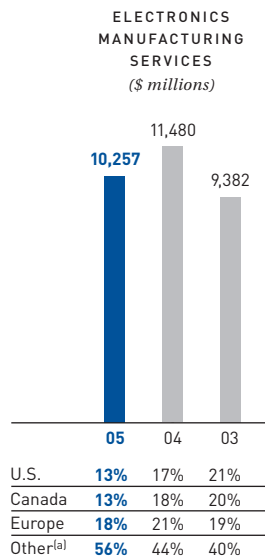
	(\$ millions)	Canadian Dollars			Functional Currency		
		2004	2003	Change (%)	2004	2003	Change (%)
Electronics Manufacturing Services	\$ 11,480	\$ 9,382	22 %	US\$ 8,840	US\$ 6,735	31 %	
Theatre Exhibition	318	296	7 %	C\$ 318	C\$ 296	7 %	
Customer Management Services	730	605	21 %	US\$ 562	US\$ 433	30 %	
Automotive Products	691	992	(30)%	US\$ 530	US\$ 706	(25)%	
Other <sup>(a)</sup>	420	364	15 %	C\$ 420	C\$ 364	15 %	
<b>Total</b>	<b>\$ 13,639</b>	<b>\$ 11,639</b>	<b>17 %</b>				

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes CEI, Radian, ONCAP and parent company.

### Electronics Manufacturing Services

Celestica reported revenues of \$10.3 billion in 2005 (62 percent of Onex' total consolidated revenues in 2005), an 11 percent decline from \$11.5 billion in 2004 (84 percent of Onex' total consolidated revenues in 2004). In the company's functional currency, Celestica reported revenues of US\$8.5 billion in 2005, down 4 percent from US\$8.8 billion in 2004. Revenues declined 18 percent in the Americas and 17 percent in Europe, while revenue in Asia increased 14 percent. The decline in the Americas and Europe was due primarily to lower volumes and the transfer of programs to lower-cost geographies. Asia benefitted from its expanded manufacturing capabilities, improved demand, new customers and the transfer of programs from higher-cost geographies. Approximately one-third of the revenue increase in Asia resulted from the transfer of programs. Revenue from acquisitions was insignificant for the year.



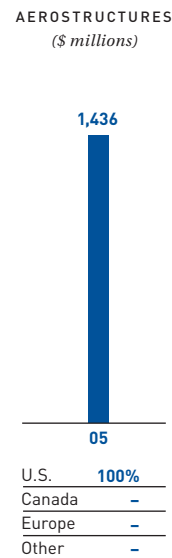
(a) Other includes primarily operations in Central and South America, Asia and Australia.

For the year ended December 31, 2004, Celestica reported revenues of \$11.5 billion, a 22 percent increase from \$9.4 billion in 2003 (81 percent of Onex' total consolidated revenues in 2003). Excluding the impact of foreign currency translation, the company reported revenues in its functional currency of US\$8.8 billion, up 31 percent from US\$6.7 billion in 2003. Revenues increased due to improved base business volumes from some of Celestica's top customers and new business wins, which collectively accounted for a 17 percent increase in revenue. Revenues from the acquisitions of Manufacturers' Services Limited ("MSL") in March 2004 and NEC Corporation's operations in the Philippines in April 2004 contributed a further 14 percent increase in revenues. All the company's regions – the Americas, Europe and Asia – increased revenues year-over-year as they benefitted from new business wins from existing and new customers and from acquisition revenue.

In addition, the Asia region, which increased revenues by 44 percent in 2004, benefitted from its expanded manufacturing capabilities and the transfer of programs from Celestica's higher-cost operations.

### Aerostructures

The aerostructures segment is a new reportable segment in 2005 following Onex' acquisition of Boeing's commercial aerostructures manufacturing operations in mid-June 2005; the business now operates as Spirit AeroSystems. Reported 2005 revenues for Spirit AeroSystems from the time of its acquisition totalled \$1.4 billion in 2005 (9 percent of Onex' total consolidated revenues in 2005). In the company's functional currency, Spirit AeroSystems reported revenues of US\$1.2 billion. The company designs and manufactures a broad range of products and services for aircraft OEMs and operators. Spirit AeroSystems currently has long-term agreements to supply Boeing with a variety of components for its 737, 747, 767, 777 and 787 aircraft platforms. These include fuselage sections, struts, nacelles, nose sections and wing components, as well as after-market spares and repair support.



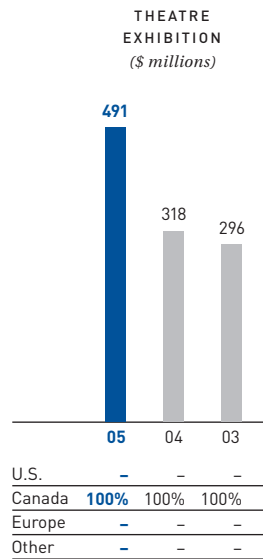
### Theatre Exhibition

The theatre exhibition segment includes the operations of Cineplex Entertainment and Cineplex Odeon Corporation, which owns a small number of theatres and real estate properties not included in Cineplex Entertainment. We refer to Cineplex Entertainment and Cineplex Odeon Corporation collectively as Cineplex. Cineplex generates revenues primarily from box-office and concession sales that are affected by attendance levels and changes in the average per patron admission and concession revenues. Attendance levels are affected by the commercial appeal of the films released and the successful marketing and promotion of those films by the film studios and distributors. Theatres opened or closed and acquisitions or dispositions of theatres in the year will also affect revenues.



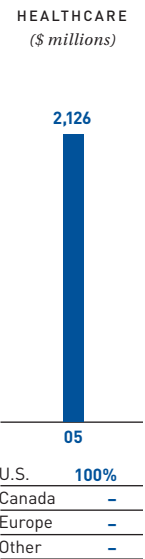
Cineplex reported revenues of \$491 million for 2005 (3 percent of Onex' total consolidated revenues in 2005), up 55 percent from revenues of \$318 million reported in 2004 (2 percent of Onex' total consolidated revenues in 2004). The acquisition of Famous Players in July 2005 accounted for \$183 million of the total revenue growth and new theatre openings in 2005 provided \$7 million in box-office and concession revenues. Excluding acquisition growth from Famous Players, box-office revenue decreased \$13 million in 2005 as a result of lower attendance and a decline in average box-office revenue per patron. The lower average box-office revenue per patron was due to a shift in attendance mix to lower-priced admission categories; this resulted primarily from the films released in 2005 catering more to children and young adults at lower average ticket prices, as well as the effect of selected price reductions implemented in late 2004.

During 2004, Cineplex reported revenues of \$318 million, up 7 percent from \$296 million in 2003 (3 percent of Onex' total consolidated revenues in 2003). The revenue growth was due primarily to additional revenues from the inclusions of new theatres (\$19 million), an improvement in average admission and concession revenues per patron, partially offset by decreased attendance levels.



## Healthcare

The healthcare segment revenues include the operations of Emergency Medical Services ("EMSC"), Center for Diagnostic Imaging ("CDI") and Skilled Healthcare. The healthcare segment reported consolidated revenues of \$2.1 billion in 2005 (13 percent of Onex' total consolidated revenues in 2005). There are no comparative revenues for 2004 and 2003 since all of the businesses in the healthcare segment were acquired in 2005. Table 2 provides revenues by operating company in the healthcare segment for 2005 in both Canadian dollars and the companies' functional currencies. ResCare is accounted for by the equity method and thus the company's revenues are not consolidated.



### Healthcare Revenues<sup>(a)</sup>

TABLE 2	(\$ millions)	Canadian Dollars	Functional Currency
		2005	2005
		<b>\$ 2,002</b>	<b>US\$ 1,656</b>
Emergency Medical Services		<b>124</b>	<b>US\$ 102</b>
Center for Diagnostic Imaging			
<b>Total</b>		<b>\$ 2,126</b>	<b>US\$ 1,758</b>

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Skilled Healthcare's financial results for the four days from the date of acquisition on December 27, 2005 to December 31, 2005 were not significant to Onex' consolidated results. Accordingly, the company's revenues for those four days were not included in Onex' consolidated audited statement of earnings for the year ended December 31, 2005.

### Emergency Medical Services

EMSC, acquired in February 2005, is a leading provider of emergency medical services in the United States. The company operates its business under the AMR and EmCare brands. AMR is a leading provider of ambulance transport services in the United States. EmCare is a leading provider of outsourced emergency department staffing and management services in the United States. During the period of our ownership, the company reported revenues of \$2.0 billion, or US\$1.7 billion in the company's functional currency.

Of the total revenues reported in 2005, AMR generated approximately US\$1.1 billion of those revenues from emergency 911 ambulance transport services, non-emergency ambulance transport services, including critical care transfer, wheelchair transports and other inter-facility transports. Revenues were also from the provision of training, dispatch centres and other services to communities and public safety agencies. EmCare contributed US\$596 million in revenues from its hospital contracts for emergency department staffing, hospitalist and radiology services and other management services. Revenues for 2005 exceeded our expectations, in part due to unplanned revenues stemming from the high level of relief efforts provided following hurricanes Katrina and Rita.

### Center for Diagnostic Imaging

CDI, acquired in early January 2005, is a leading provider of diagnostic and therapeutic radiology services in the United States. Reported revenues for CDI totalled \$124 million in 2005. Excluding the impact of foreign currency translation, CDI reported revenues of US\$102 million in 2005. The company operates 35 diagnostic imaging centres in nine markets in the United States. CDI's imaging services include MRI, CT, diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound.

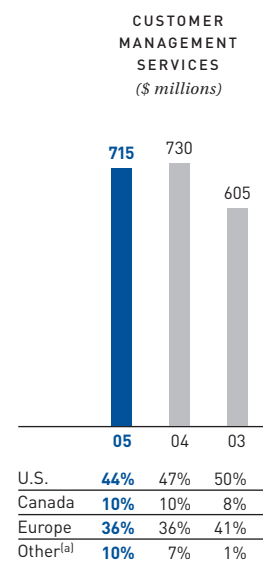
### Skilled Healthcare

Skilled Healthcare is a leading operator of skilled nursing and assisted living facilities in California, Texas, Kansas and Nevada, focused on treating patients who require a high level of skilled nursing care and extensive rehabilitation therapy. The company's financial results for the

four days from its December 27, 2005 acquisition date to December 31, 2005 were not significant to Onex' consolidated results. Accordingly, Skilled Healthcare's revenues are not included in the healthcare segment of Onex' consolidated revenues for the year ended December 31, 2005.

### Customer Management Services

ClientLogic Corporation ("ClientLogic") reported revenues of \$715 million in 2005 (4 percent of Onex' total consolidated revenues in 2005), down slightly from \$730 million in 2004 (6 percent of Onex' total consolidated revenues in 2004). Excluding the impact of foreign currency translation, ClientLogic's revenues grew 5 percent to US\$591 million in 2005 from US\$562 million in 2004. Customer contact management revenue grew US\$46 million due to the expansion of business from existing customers of US\$34 million, and US\$44 million from new customers. Partially offsetting this growth was the loss of business from two customers in the fourth quarter of 2004, which provided US\$32 million of revenues in 2004. In addition, fulfillment and marketing services revenues were lower by US\$17 million in 2005 compared to 2004.



(a) Other includes primarily operations in Central and South America, Asia and Australia.

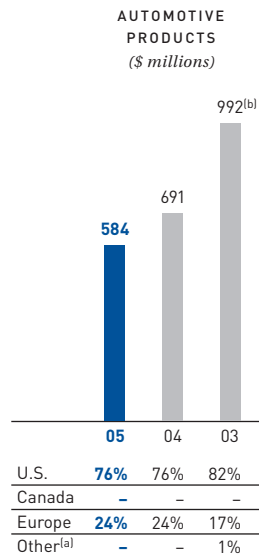
For the year ended December 31, 2004, revenues for ClientLogic grew 21 percent to \$730 million from \$605 million in 2003 (5 percent of Onex' total consolidated revenues in 2003). In the company's local currency and Canadian GAAP, ClientLogic's revenues grew 30 percent to US\$562 million in 2004 from US\$433 million in 2003. ClientLogic's acquisition of Service Zone, Inc. in late December 2003 contributed US\$75 million of the revenue growth in North America. In addition, net new business wins with clients such as DirecTV and Bell Canada provided US\$31 million, or 24 percent, of the revenue growth in 2004 over 2003.

## Automotive Products

J.L. French Automotive Castings, Inc. (“J.L. French Automotive”) reported a 15 percent decline in revenues to \$584 million in 2005 (3 percent of Onex’ total consolidated revenues in 2005) from \$691 million in 2004 (5 percent of Onex’ total consolidated revenues in 2004). In the company’s functional currency, J.L. French Automotive’s revenues decreased 9 percent to US\$482 million in 2005 from US\$530 million in 2004. The company’s revenues were affected by the overall production decline in the North American car and light truck markets by North American automotive companies – General Motors, Ford and DaimlerChrysler.

J.L. French Automotive reported revenues of \$691 million in 2004, down 6 percent from \$732 million in 2003 (6 percent of Onex’ total consolidated revenues in 2003). Excluding the impact of foreign currency translation, the company reported a 2 percent increase in revenues to US\$530 million in 2004 from US\$521 million in 2003. Approximately US\$5 million of the revenue growth was due to stronger production on specific Ford platforms and US\$10 million from new business with new and existing customers. Partially offsetting these growth factors were lower revenues of US\$6 million, caused by lower production on specific platforms. In addition, J.L. French Automotive’s European operations increased revenues by US\$16 million in 2004 due primarily to the benefit of favourable changes in foreign currency rates, partially offset by changes in product mix.

The automotive products segment results for 2004 and 2003 have been restated from those previously reported due to the reclassification of CVG’s operations to discontinued following Onex’ sale of its remaining shares of CVG in July 2005.



(a) Other includes primarily operations in Central and South America, Asia and Australia.

(b) Includes revenues of Performance Logistics Group of US\$185 million.

## Other Businesses

### Mid-Cap Opportunities

ONCAP’s companies – CMC Electronics, Western Inventory Service Ltd. (“Western”) and Canadian Securities Registration Systems Ltd. (“CSRS”) – reported combined revenues of \$501 million in 2005 (3 percent of Onex’ total consolidated revenues in 2005), up \$196 million from \$305 million reported in 2004 (2 percent of Onex’ total consolidated revenues in 2004). Much of the revenue growth for 2005 was due to the April 2005 acquisition by Western of Washington Inventory Service Ltd. (“Washington”), a provider of inventory counting services to retailers in the United States, Mexico, South America, Europe and Asia.

ONCAP’s companies reported combined revenues of \$305 million in 2004, up \$69 million from \$236 million reported in 2003 (2 percent of Onex’ total consolidated revenues in 2003). Substantially all of the revenue growth for 2004 was due to the inclusion of revenues of CSRS from its April 2004 acquisition date.

### Personal Care Products

During 2005, Cosmetic Essence, Inc. (“CEI”) reported revenues of \$304 million (2 percent of Onex’ total consolidated revenues in 2005). Excluding foreign currency translation, CEI’s revenues totalled US\$253 million in 2005. There are no comparative revenues for 2004 since the company was acquired in December 2004.

CEI is a provider of outsourced supply chain management services to the personal care products industry, including formulating, manufacturing, filling, packaging and distribution. The company recognized revenues from several new customers and achieved increased revenues from many existing customers in 2005; however, partially offsetting this growth was a reduction in orders from some other existing customers as a result of them entering 2005 with excess inventory. In addition, CEI’s acquisition of Hauer Custom Manufacturing, Inc. (“Hauer”) in April 2005 contributed US\$14 million of the total revenues in 2005. Hauer manufactures, packages and distributes household and consumer products. The acquisition brings new customers to CEI and enables the company to benefit from the application of Hauer’s high-speed equipment and excess capacity that CEI has adapted for the production of certain of its products.

### Communications Infrastructure

Radian Communication Services Corporation's ("Radian") revenues totalled \$134 million in 2005 (1 percent of Onex' total consolidated revenues in 2005), up from \$113 million in 2004 (1 percent of Onex' total consolidated revenues in 2004) and from \$108 million in 2003 (1 percent of Onex' total consolidated revenues in 2003). During 2005, telecommunications carriers began to implement a number of capital spending programs, particularly in the U.S. market, which contributed to much of the increase in revenues in the year. In addition, Radian's purchase of the operations of ROHN Industries, which commenced production in May 2004, incrementally added \$14 million to revenues in 2005 over 2004.

### Public Market Investments

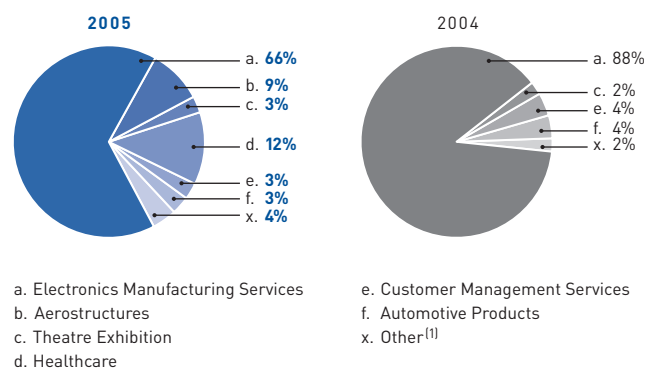
During 2005, Onex formed OPMG LP ("OPMG"), also known as Onex Public Markets Group, to invest in securities of publicly-traded North American companies in a variety of industries with the objective of generating long-term capital appreciation and dividends. Included in the "Other" segment of Onex' consolidated revenues was \$10 million of revenues generated by OPMG during 2005. These revenues represent net realized gains of \$10 million. OPMG's

investments are recorded at fair value and reported in investments and other assets at December 31, 2005.

### Consolidated cost of sales

Consolidated cost of sales was \$14.5 billion in 2005 compared to \$12.4 billion in 2004. A breakdown of the percentage of total cost of sales by industry segment is provided in the charts below for the years ended December 31, 2005 and 2004.

### Segmented Total Consolidated Cost of Sales Breakdown



(1) 2005 other includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company. 2004 other includes Radian, ONCAP and parent company.

Table 3 provides a detailed breakdown of reported cost of sales by industry segment for 2005 and 2004 and the percentage change in cost of sales from those periods in both Canadian dollars and the functional currencies of the companies. Cost of sales is provided in the companies' functional currencies to eliminate the impact of foreign exchange translation on cost of sales. Table 4 provides additional details on cost of sales as a percentage of revenues by industry segment for 2005 and 2004.

### Cost of Sales by Industry Segment

	Canadian Dollars			Functional Currency		
	2005	2004	Change (%)	2005	2004	Change (%)
Electronics Manufacturing Services	\$ 9,537	\$ 10,913	(13)%	US\$ 7,876	US\$ 8,413	(6)%
Aerostructures	1,232	-	-	US\$ 1,034	-	-
Theatre Exhibition	392	241	63 %	C\$ 392	C\$ 241	63 %
Healthcare	1,808	-	-	US\$ 1,495	-	-
Customer Management Services	444	458	(3)%	US\$ 367	US\$ 352	4 %
Automotive Products	484	551	(12)%	US\$ 400	US\$ 423	(5)%
Other <sup>(a)</sup>	627	286	119 %	C\$ 627	C\$ 286	119 %
<b>Total</b>	<b>\$ 14,524</b>	<b>\$ 12,449</b>	<b>17 %</b>			

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

### Cost of Sales as a Percentage of Revenues by Industry Segment

TABLE 4	2005	2004
Electronics Manufacturing Services	93%	95%
Aerostructures	86%	–
Theatre Exhibition	80%	76%
Healthcare	85%	–
Customer Management Services	62%	63%
Automotive Products	83%	80%
Other <sup>(a)</sup>	66%	68%
Total	88%	91%

Results are reported in Canadian dollars and in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Other includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

### Electronics Manufacturing Services

Celestica's cost of sales was \$9.5 billion in 2005 compared to \$10.9 billion in 2004. In the company's functional currency, cost of sales declined 6 percent to US\$7.9 billion in 2005 from US\$8.4 billion in 2004, while revenues were down 4 percent. Cost of sales as a percentage of revenues was 93 percent in 2005 compared to 95 percent in 2004. Celestica reported gross profit in 2005 of US\$595 million, a 39 percent increase from US\$427 million in 2004 due primarily to cost reductions associated with the company's restructuring, operating efficiencies from lean manufacturing initiatives and from exiting businesses that had been generating losses in prior years; these improvements were partially offset by the higher costs of transferring programs between different manufacturing locations.

### Aerostructures

During the period of Onex' ownership in 2005, Spirit AeroSystems reported cost of sales of \$1.2 billion, or US\$1 billion in the company's functional currency. Cost of sales as a percentage of revenues was 86 percent, which was better than anticipated despite the strike at Boeing in August and September 2005, which reduced shipments during that period and resulted in higher fixed costs per unit shipped.

### Theatre Exhibition

Cineplex reported cost of sales of \$392 million in 2005, a 63 percent increase from \$241 million reported in 2004. This compares to a 55 percent increase in revenues for the same period. The operations from the Famous Players acquisition added \$151 million to cost of sales in 2005.

Cost of sales as a percentage of revenues was 80 percent in 2005 compared to 76 percent reported in 2004. Approximately 41 percent and 7 percent of the total cost of sales were attributable to film and concession costs, respectively. During 2005, film costs increased \$51 million. As a percentage of box-office revenue, film costs were 52 percent in 2005, equal to those of 2004. Cost of concessions increased \$10 million, due primarily to the \$9 million of costs associated with the Famous Players acquisition. As a percentage of concession revenues, cost of concessions was 20 percent in 2005, equal to that of 2004.

### Healthcare

The healthcare segment reported cost of sales of \$1.8 billion in 2005. There is no comparative cost of sales for 2004 since the companies in the healthcare segment were acquired in 2005. Table 5 provides cost of sales by operating company in the healthcare segment for 2005 in both Canadian dollars and the companies' functional currencies.

### Healthcare Cost of Sales<sup>(a)</sup>

TABLE 5	(\$ millions)	Canadian Dollars	Functional Currency
		2005	2005
Emergency Medical Services		\$ 1,766	US\$ 1,461
Center for Diagnostic Imaging		42	US\$ 34
Total		\$ 1,808	US\$ 1,495

Results are reported in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Skilled Healthcare's financial results from the date of acquisition on December 27, 2005 were not significant to Onex' consolidated results. Accordingly, the company's cost of sales was not included in Onex' consolidated audited statement of earnings for the year ended December 31, 2005.

### Emergency Medical Services

EMSC reported cost of sales of \$1.8 billion for the period of our ownership from February 2005. In the company's functional currency, cost of sales for EMSC was US\$1.5 billion in 2005. Cost of sales of US\$927 million was from AMR's emergency 911 and non-emergency ambulance transport services and US\$534 million of cost of sales was from EmCare's hospital contracts for emergency department staffing, hospitalist and radiology services and other management services.

### Center for Diagnostic Imaging

Cost of sales for CDI was \$42 million in 2005 for the first year of ownership. Excluding the impact of foreign currency translation, reported cost of sales for CDI was US\$34 million in 2005. Cost of sales as a percentage of revenue was 33 percent in 2005.

### Customer Management Services

ClientLogic reported cost of sales of \$444 million in 2005, down \$14 million from the cost of sales in 2004. In ClientLogic's functional currency, the company reported cost of sales of US\$367 million in 2005 compared to US\$352 million in 2004, an increase of 4 percent. This compares to an increase of 5 percent in revenues for the same period. ClientLogic's cost of sales as a percentage of revenues decreased to 62 percent in 2005 from 63 percent in 2004.

### Automotive Products

J.L. French Automotive reported cost of sales of \$484 million in 2005, a 12 percent decrease from \$551 million in 2004; this compares to a 15 percent decline in revenues in 2005. In the company's functional currency, cost of sales decreased by US\$23 million to US\$400 million in 2005 from US\$423 million in 2004. Cost of sales as a percentage of revenues increased to 83 percent in 2005 from 80 percent in 2004 due primarily to higher aluminum and natural gas prices in 2005 that could not be fully recovered in pricing to customers.

### Other Businesses

#### Mid-Cap Opportunities

ONCAP's companies reported a combined cost of sales of \$286 million in 2005 compared to \$186 million in 2004. As was the case with revenues, essentially all of the increase in cost of sales was associated with the inclusion of Washington, which was acquired in April 2005.

#### Personal Care Products

CEI reported cost of sales of \$229 million, or US\$190 million in the company's functional currency in 2005. As a percentage of revenues, cost of sales was 75 percent in 2005. During 2005, the company's cost of sales was adversely affected by a lower-margin mix of business, costing pressures and higher overhead costs due to lower-than-planned sales volumes.

#### Communications Infrastructure

Radian's cost of sales was \$113 million in 2005 compared to \$99 million in 2004. As a percentage of revenues, the company's cost of sales was 84 percent in 2005 compared to 88 percent in 2004. Radian's gross margin increased to \$21 million in 2005 from \$14 million in 2004 due primarily to improved pricing in the U.S. market and the implementation of the initiatives identified in the turnaround plan developed in the third quarter of 2004; these initiatives focused on reducing costs, improving job execution, ramping up production in the Oakville, Ontario and Peoria, Illinois manufacturing facilities and improving the U.S. revenue backlog.

### Operating earnings

Operating earnings is defined as EBIAT, or earnings before interest expense, amortization of intangibles and deferred charges, acquisition and restructuring expenses, other non-recurring items, income taxes, non-controlling interests and discontinued operations. Table 6 provides a reconciliation of the audited annual consolidated statements of earnings to operating earnings for the years ended December 31, 2005 and 2004.

## Operating Earnings (Loss) Reconciliation

TABLE 6	(\$ millions)	2005	2004
Earnings before the undernoted items		<b>\$ 946</b>	\$ 425
Amortization of property, plant and equipment		<b>(409)</b>	(370)
Interest and other income		<b>145</b>	102
Equity-accounted investments		<b>1</b>	(8)
Foreign exchange loss		<b>(31)</b>	(116)
Stock-based compensation		<b>(50)</b>	(55)
<b>Operating earnings (loss)</b>		<b>\$ 602</b>	\$ (22)
Amortization of intangible assets and deferred charges		<b>(96)</b>	(72)
Interest expense of operating companies		<b>(332)</b>	(195)
Derivative instruments		<b>4</b>	29
Gains on sales of operating investments, net		<b>921</b>	107
Acquisition, restructuring and other expenses		<b>(266)</b>	(204)
Debt prepayment		<b>(6)</b>	(8)
Writedown of goodwill and intangible assets		<b>(3)</b>	(393)
Writedown of long-lived assets		<b>(5)</b>	(94)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations		<b>\$ 819</b>	\$ (852)

Onex uses EBIAT to evaluate each operating company's performance because it eliminates interest charges, which are a function of the operating company's particular financing structure, as well as any unusual or non-recurring charges. Onex' method of determining operating earnings may differ from other companies' methods and accordingly, EBIAT may not be comparable to measures used by other companies. EBIAT is not a performance measure under Canadian GAAP and should not be considered either in isolation or as a substitute for net earnings (loss) prepared in accordance with Canadian GAAP.

Consolidated operating earnings of \$602 million were up \$624 million in 2005 from an operating loss of \$22 million in 2004. Table 7 provides a breakdown and change in operating earnings by industry segment for the years ended December 31, 2005 and 2004.

## Operating Earnings (Loss) by Industry Segment

TABLE 7	(\$ millions)	2005	2004	Change (\$)
Electronics Manufacturing				
Services		<b>\$ 258</b>	\$ 7	<b>\$ 251</b>
Aerostructures		<b>71</b>	-	<b>71</b>
Theatre Exhibition		<b>25</b>	36	<b>(11)</b>
Healthcare		<b>136</b>	-	<b>136</b>
Customer Management Services		<b>31</b>	44	<b>(13)</b>
Automotive Products		<b>23</b>	66	<b>(43)</b>
Other <sup>(a)</sup>		<b>58</b>	(175)	<b>233</b>
<b>Total</b>		<b>\$ 602</b>	\$ (22)	<b>\$ 624</b>

Results are reported in Canadian dollars and in accordance with Canadian generally accepted accounting principles. These results may differ from those reported by the individual operating companies.

(a) Includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

During 2005, operating earnings growth was driven by several factors:

- Acquisitions – CEI (\$19 million), acquired in early December 2004; CDI (\$17 million), EMSC (\$118 million) and Spirit AeroSystems (\$71 million), which were all acquired in 2005;
- Higher operating earnings at Celestica (\$251 million) resulting from improved operating efficiencies from lean manufacturing, reduced costs from restructuring activities and exited businesses;
- An increase in interest and other income of \$43 million, primarily from income realized on non-strategic assets; and
- Lower foreign exchange losses of \$85 million.

Partially offsetting these factors was a \$43 million decline in operating earnings at J.L. French Automotive as a result of lower production volumes from North American OEMs.

### Stock-based compensation

During 2005, there was a \$50 million stock-based compensation expense due primarily to:

- a \$28 million charge recorded by Celestica, which included the cost associated with that company's settlement of approximately seven million out-of-money options for US\$1 in cash per option;
- an \$11 million charge for stock-based compensation recorded by Spirit AeroSystems;
- an \$8 million stock-based compensation charge recorded by Cineplex Entertainment;
- a \$2 million charge booked in the healthcare segment; and
- a \$6 million expense reported by CMC Electronics.

This increase was partially offset by a decrease in the value of Onex' stock options and investment rights from their value at December 31, 2004, which accounted for \$5 million. Note 27 to the audited annual consolidated financial statements provides a breakdown of stock-based compensation by industry segment.

In 2004, stock-based compensation was an expense of \$55 million. The 2004 expense for stock-based compensation was contributed primarily by the overall increase in value of Onex' stock options and investment rights of \$35 million from their value at December 31, 2003 and a \$20 million expense recorded by Celestica.

### Foreign exchange loss

The foreign exchange loss reflects the impact of changes in foreign currency exchange rates, primarily on the U.S.-dollar-denominated cash held at Onex, the parent company. While changes in foreign currency exchange rates may apply to multiple currencies, the primary impact of foreign currency translation on Onex' consolidated results is due to the conversion of the U.S. dollar to the Canadian dollar.

During 2005, the value of the U.S. dollar declined to 1.163 Canadian dollars from 1.202 Canadian dollars in 2004. A net foreign exchange loss of \$31 million was recorded in 2005 compared to a loss of \$116 million in 2004 and a loss of \$122 million reported in 2003. Onex, the parent company, recorded \$31 million of the foreign exchange loss in 2005 as it holds a significant portion of its cash in U.S. dollars. This compares to a foreign exchange loss at the parent company of \$124 million in 2004 and \$139 million in 2003. Note 27 to the audited annual consolidated financial

statements provides a breakdown of foreign exchange gains (loss) by industry segment.

### Interest expense of operating companies

Onex has a policy to structure each of its operating companies with sufficient equity in the company to enable it to self-finance a significant portion of its acquisition cost with a prudent level of debt. The level of debt assumed is commensurate with the operating company's available cash flow, including consideration of funds required to pursue growth opportunities. It is the responsibility of the acquired operating company to service its own debt obligations. The debt of each operating company is without recourse to Onex or to any other Onex operating company.

Consolidated interest expense increased \$137 million to \$332 million in 2005 from \$195 million in 2004. The acquisitions of CEI, CDI, EMSC and Spirit AeroSystems collectively added \$117 million in interest expense in 2005. In addition, Celestica accounted for a \$12 million increase in interest expense in 2005 over 2004 due primarily to the issuance in late June 2005 of US\$250 million of senior subordinated notes due in 2013. Cineplex Entertainment also added \$10 million in interest expense in 2005 over 2004 due to the additional debt resulting from the acquisition of Famous Players, which included that company's issuance of \$105 million of convertible debentures and third-party financing.

Table 8 details the change in consolidated interest expense from 2004 to 2005.

### Change in Interest Expense

TABLE 8   (\$ millions)	
Reported interest expense for 2004	<b>\$ 195</b>
Additional interest expense in 2005 due to:	
Celestica's senior subordinated debt due in 2013	<b>12</b>
Cineplex Entertainment's additional debt	<b>10</b>
Acquisitions completed in 2005	
CEI	<b>23</b>
EMSC	<b>58</b>
CDI	<b>8</b>
Spirit AeroSystems	<b>28</b>
Other	<b>10</b>
Interest expense reduction due to:	
Other	<b>(12)</b>
Reported interest expense for 2005	<b>\$ 332</b>



### Interest and other income

Interest and other income increased 42 percent to \$145 million in 2005 from \$102 million reported in 2004. Included in the 2005 other income was \$35 million of income realized on the sale of non-strategic assets by Onex, the parent company, and \$20 million of other income recorded by Spirit AeroSystems.

### Equity-accounted investments

Onex reported earnings on equity-accounted investments of \$1 million in 2005 compared to a loss of \$8 million in 2004. The 2005 earnings from equity-accounted investments represents Onex' share in the net earnings of Res-Care, Inc. ("ResCare") and Cypress Property & Casualty Insurance Company ("Cypress").

The loss on equity-accounted investments reported in 2004 reflects Onex' share in the net earnings (loss) of ResCare and Cypress. Cypress, a Florida homeowners insurance company, accounted for \$9 million of the loss on equity-accounted investments due to an unprecedented number of hurricanes in Florida during 2004. Partially offsetting this loss was Onex' share of ResCare's net earnings, which contributed \$1 million of earnings in equity-accounted investments.

### Derivative instruments

Onex, the parent company, had two derivative instruments in place at December 31, 2004 – exchangeable debentures and forward sales agreements related to shares of Celestica held by Onex. Since these instruments did not qualify for hedge accounting they were required to be marked-to-market under Emerging Issues Committee Abstract 128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments". In February and June 2005, Onex settled its Celestica exchangeable debentures and forward sales agreements, respectively, with the total delivery of approximately 11 million Celestica shares. Onex recorded a \$1 million benefit to earnings in 2005 for the short time in 2005 that it held these derivative instruments. This compares to the \$29 million benefit recorded to earnings in 2004 resulting from a decrease in the exchangeable debentures liability and an increase in value of the forward sales agreements as a result of the decrease in market value of the underlying Celestica shares since December 31, 2003.

### Gains on sales of operating investments

Onex recorded gains on sales of operating investments of \$921 million in 2005 compared to \$107 million of such gains in 2004. Table 9 details the nature of the gains recorded in 2005 compared to 2004.

#### Gains on Sales of Operating Investments

TABLE 9	(\$ millions)	2005	2004
Gains on:			
	Close of Celestica exchangeable debentures	\$ 560	\$ -
	Close of Celestica forward sales agreements	191	-
	Sale of CGG convertible bonds	41	-
	Issue of units by Cineplex Entertainment	53	-
	Gain on initial public offering of EMSC	40	-
	Performance Logistics Group	-	58
	Issue of shares by Celestica	-	9
	Sale of Tower Automotive	-	6
	Other, net	36	34
Total		\$ 921	\$ 107

Onex, the parent company, recorded a \$560 million pre-tax, non-cash gain on the early redemption of its Celestica exchangeable debentures in February 2005 and a \$191 million pre-tax gain on the settlement of all of its outstanding forward sales agreements in June 2005. For both of these transactions, Onex closed out its obligation with the delivery of Celestica subordinate voting shares.

In the first half of 2005, the Company recorded a \$41 million pre-tax gain on the sale of the CGG convertible bonds, of which Onex' portion was \$9 million. A \$53 million accounting dilution gain was recorded, of which Onex' portion was \$30 million, following the issuance of \$110 million of trust units by Cineplex Entertainment for the purchase of the Famous Players movie business.

In December 2005, EMSC completed a US\$113 million initial public offering of common shares. While Onex did not sell any of its shares in this offering, the Company recorded a \$40 million accounting dilution gain on the issuance of shares by EMSC; Onex' portion of that gain was \$15 million.

Included in the "Other" line of gains on sales of operating investments was \$32 million of gains realized from Onex' interest in Ripplewood, a U.S.-based acquisition fund; this compares to \$23 million of such gains recorded in 2004.

The 2004 gains on sales of operating investments include a \$58 million non-cash gain that resulted from Performance Logistics Group, Inc's ("PLG") issuance of shares for its purchase of Leaseway Auto Carrier Group; this gain comprised a \$22 million non-cash accounting dilution gain and the reversal of \$36 million of losses of PLG previously recognized by Onex that were in excess of other shareholders' equity in PLG. Also included was a \$9 million accounting dilution gain recorded by Onex following the issuance of shares by Celestica for the purchase of Manufacturers' Services Limited in March 2004.

Note 15 to the audited annual consolidated financial statements provides additional details on the gains on sales of operating investments.

### Acquisition, restructuring and other expenses

Acquisition, restructuring and other expenses are considered costs incurred to realign organizational structures or restructure manufacturing capacity to obtain operational synergies critical to building the long-term value of Onex' operating companies. During 2005, acquisition, restructuring and other expenses totalled \$266 million, a 30 percent increase from the \$204 million reported in 2004. Table 10 details acquisition, restructuring and other expenses by operating company.

#### Acquisition, Restructuring and Other Expenses

TABLE 10	(\$ millions)	2005	2004
Celestica		\$ 193	\$ 184
Spirit AeroSystems		42	-
Emergency Medical Services		2	-
ClientLogic		9	5
J.L. French Automotive		8	7
Other		12	8
Total		\$ 266	\$ 204

Celestica accounted for \$193 million of these expenses due primarily to costs associated with the company's previously announced restructuring programs. Many of the costs to implement these restructuring plans can only be recorded as they are incurred and thus the costs may be spread over several reporting periods. These plans, which include reducing workforce, consolidating facilities and repositioning the number and location of production facilities, are primarily intended to align Celestica's capacity with anticipated customer requirements for more production in lower-cost geographies, as well as to rationalize its manufacturing network to lower overall demand levels. Note 16 to the audited annual consolidated financial statements details the nature of the acquisition, restructuring and other expenses, such as employee termination costs, facility and exit costs and other charges, by the year in which the activity was initiated. During 2004, Celestica recorded \$184 million of acquisition, restructuring and other expenses associated primarily with these restructuring plans.

In addition, Spirit AeroSystems reported acquisition, restructuring and other expenses of \$42 million related to the initial set-up of the business following the purchase of the company's operations from Boeing.

Included in the "Other" line in table 10 was \$4 million in acquisition, restructuring and other expenses recorded by Radian associated with the company's planned transfer of its Oakville, Ontario manufacturing operations to its Peoria, Illinois facility, and the associated relocation and workforce reduction costs.

### Debt prepayment

Certain of Onex' operating companies repurchase debt to enhance financial flexibility or reduce future interest costs. Debt prepayment costs totalled \$6 million in 2005 compared to \$8 million in 2004. Cineplex Entertainment represented \$4 million of these costs incurred resulting from the issuance of units as part of its acquisition of Famous Players.

### Writedown of goodwill and intangible assets

The management of each operating company undertakes an annual review of the value of its recorded goodwill and intangible assets to assess the recoverability of these assets. An impairment in the value of goodwill and indefinite-lived intangibles is tested at the operating company by comparing the operating company's carrying amount of assets and intangible assets to their estimated fair value. These reviews may be required to be made down to a business unit or plant level. The fair values of the operating companies are estimated using a combination of a market approach and discounted cash flows. The process of determining fair values is necessarily subjective and requires each operating company's management to exercise judgment in making assumptions about future results, including revenue and cash flow projections at the operating company as well as appropriate discount rates.

During 2005, writedowns of goodwill and intangible assets totalled \$3 million compared to \$393 million reported in the prior year. Table 11 presents these charges recorded by operating company, and note 18 to the audited annual consolidated financial statements provides additional disclosure on these writedowns of goodwill and intangible assets.

### Writedown of Goodwill and Intangible Assets

TABLE 11	(\$ millions)	2005	2004
Celestica		\$ 1	\$ 388
ClientLogic		2	5
Total		\$ 3	\$ 393

ClientLogic wrote down intangible assets by \$2 million in 2005 as a result of the early termination of its agreement with one of its clients that purchased technology infrastructure services. This compares to \$5 million written off by ClientLogic in 2004 associated with impaired customer contracts. Values had been assigned to certain customer contracts associated with businesses that have been acquired by ClientLogic.

Included in the 2004 writedown of goodwill and intangible assets was \$388 million recorded by Celestica. During the fourth quarter of 2004, Celestica performed its annual goodwill impairment test and identified reporting units, specifically in the Americas and Europe regions, for which it determined the values to be impaired. These reporting units were recorded on the company's balance sheet at carrying values that were higher than their fair values based on current estimated industry conditions and customer demands for production in lower-cost geographies. As a result of this analysis, Celestica wrote down the goodwill and intangible assets associated with these regions in 2004.

### Writedown of long-lived assets

During 2005, there were \$5 million of writedowns of long-lived assets compared to \$94 million in 2004. Included in the 2004 writedown of long-lived assets was \$84 million recorded by Celestica relating to the company's Americas and Europe operations. In addition, J.L. French Automotive recorded \$8 million of writedowns of long-lived assets in 2004 associated with the restructuring of its United Kingdom operations. Note 19 to the audited annual consolidated financial statements provides additional disclosure on these writedowns of long-lived assets.

### Income taxes

During 2005, the provision for income taxes was \$72 million compared to a provision of \$278 million in 2004. Included in the 2005 income tax provision was a \$158 million current income tax expense recorded by Onex, the parent company, relating to the gain on the early settlement of its Celestica exchangeable debentures and the Celestica forward sales agreements. Offsetting this was a recovery of income taxes resulting from the application of previous years' loss carryforwards for which a full valuation allowance had previously been provided. Note 20 to the audited annual consolidated financial statements provides a reconciliation of the statutory income tax rates to the Company's effective tax rate and also provides an analysis of the future income tax assets and liabilities.

### Non-controlling interests in losses (earnings) of operating companies

In the audited annual consolidated statements of earnings, the non-controlling interests amounts represent the interests of shareholders other than Onex in the net earnings or losses of Onex' operating companies. During 2005, the non-controlling interests amount in Onex' operating companies' losses was \$5 million compared to an \$891 million interest in net losses in 2004. Table 12 details the losses (earnings) by industry segment attributable to non-controlling shareholders in our operating companies.

#### Non-controlling Interests in Losses (Earnings) of Operating Companies

TABLE 12	(\$ millions)	2005	2004
Electronics Manufacturing Services		\$ 53	\$ 857
Aerostructures		15	-
Theatre Exhibition		(16)	(31)
Healthcare		(44)	-
Customer Management Services		(1)	2
Automotive Products		-	47
Other <sup>(a)</sup>		(2)	16
<b>Total</b>		<b>\$ 5</b>	<b>\$ 891</b>

(a) Includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

The change in the non-controlling interests amount was due primarily to the lower losses at Celestica, which resulted in a year-over-year change of \$804 million. In addition, the inclusion of EMSC's earnings from the date of its acquisition and the portion of those earnings that were attributable to shareholders other than Onex and \$32 million related primarily to the interest of the other limited partners of Onex Partners in the gain on CGG also contributed to the change in non-controlling interests.

Partially offsetting these was the portion of Spirit AeroSystems' loss attributed to shareholders other than Onex and the pick-up for accounting purposes of losses by Onex, the parent company, of other shareholders in ClientLogic, J.L. French Automotive and Radian. Those additional losses totalled \$23 million in 2005. This was

necessary as the prior losses at these companies eliminated the value contributed by other shareholders in these companies. This compares to Onex recording income of \$38 million in 2004 relating to the recovery of prior year losses absorbed on behalf of non-controlling shareholders of J.L. French Automotive, ClientLogic and Radian.

### Earnings (loss) from continuing operations

Onex' consolidated earnings from continuing operations, including gains on sales of operating investments, was \$752 million (\$5.41 per share) in 2005 compared to a loss from continuing operations of \$239 million (\$1.69 per share) reported in 2004 and a loss of \$563 million (\$3.67 per share) reported in 2003. Table 13 details the earnings (loss) from continuing operations by industry segment before income taxes and non-controlling interests.

#### Earnings (Loss) from Continuing Operations

TABLE 13	(\$ millions)	2005	2004	2003
Earnings (loss) before income taxes and non-controlling interests:				
Electronics Manufacturing Services		\$ (39)	\$ (752)	\$ (311)
Aerostructures		(1)	-	-
Theatre Exhibition		(11)	28	141
Healthcare		47	-	-
Customer Management Services		(14)	(2)	(71)
Automotive Products		(68)	(49)	(419)
Other <sup>(a)</sup>		905 <sup>(b)</sup>	(77)	(112)
		<b>819</b>	(852)	(772)
Provision for income taxes		(72)	(278)	(57)
Non-controlling interests of operating companies		5	891	266
<b>Earnings (loss) from continuing operations</b>		<b>\$ 752</b>	<b>\$ (239)</b>	<b>\$ (563)</b>

(a) Includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

(b) Includes a \$560 million pre-tax gain on the close out of the Celestica exchangeable debentures and a \$191 million pre-tax gain on the close out of the Celestica forward sales agreements.

### Earnings from discontinued operations

Earnings from discontinued operations were \$213 million (\$1.54 per share) in 2005 compared to earnings from discontinued operations of \$274 million (\$1.94 per share) in 2004. During 2005, the operations of CMC Electronics Inc.'s ("CMC Electronics") NovAtel subsidiary, Magellan, CVG, the operations of Cineplex Entertainment's theatres that have been or are intended to be sold and Futuremed were reclassified as discontinued operations. In addition to these

operations, also included in the 2004 earnings from discontinued operations were the operations of Loews Cineplex, Dura Automotive Systems, Inc. ("Dura Automotive"), Armtec Limited ("Armtec"), CMC Electronics' subsidiary, Cincinnati Electronics, and InsLogic that were discontinued in 2004. Table 14 provides a breakdown of earnings (loss) by company, including the net after-tax gains on sales of operating investments as well as Onex' share of earnings (loss) of those businesses that were discontinued in 2005 and 2004.

### Earnings (Loss) from Discontinued Operations

	2005			2004		
	Gain, net of tax	Onex' share of earnings (loss)	Total	Gain, net of tax	Onex' share of earnings (loss)	Total
CMC Electronics' sale of NovAtel	\$ 45	\$ -	\$ 45	\$ -	\$ (1)	\$ (1)
Sale of InsLogic	73	-	73	-	(9)	(9)
Sale of Magellan	22	2	24	-	6	6
Sale of CVG	68	2	70	69	3	72
Cineplex Entertainment's theatre divestitures	2	-	2	-	2	2
Sale of Futuremed	-	(1)	(1)	-	-	-
Sale of Dura Automotive	-	-	-	1	1	2
Sale of Loews Cineplex Group	-	-	-	135	5	140
CMC Electronics' sale of Cincinnati Electronics	-	-	-	49	4	53
Sale of Armtec	-	-	-	9	-	9
<b>Total</b>	<b>\$ 210</b>	<b>\$ 3</b>	<b>\$ 213</b>	<b>\$ 263</b>	<b>\$ 11</b>	<b>\$ 274</b>

Included in the 2005 earnings from discontinued operations were: a \$45 million net after-tax gain recorded on CMC Electronics' sale of its NovAtel shares in 2005; a \$73 million gain recorded by Onex on the sale of InsLogic in January 2005, which comprised net cash proceeds of \$22 million and the reversal of losses of InsLogic previously recognized by Onex; a \$22 million net after-tax gain on the sale of Magellan; a \$68 million net after-tax gain on Onex' sale of its remaining CVG shares in July 2005; and a \$2 million gain on Cineplex Entertainment's theatre divestitures. Note 2 to the audited annual consolidated financial statements provides additional disclosure on earnings from discontinued operations.

The 2004 earnings (loss) from discontinued operations primarily include: a \$135 million net after-tax gain from the sale of Loews Cineplex in July 2004; a \$69 million net after-tax gain on Onex' partial sale of its CVG shares in August 2004; a \$9 million net after-tax gain from the sale of Armtec in August 2004 by ONCAP; and a \$1 million net after-tax gain from the sale of Dura Automotive.

### Consolidated net earnings

Consolidated net earnings in 2005 were \$965 million compared to \$35 million in 2004 and a consolidated net loss of \$332 million in 2003. Table 15 identifies the net earnings (loss) by industry segment as well as the contribution from net after-tax gains on sales of operating investments and discontinued operations.

### Consolidated Net Earnings (Loss)

	2005	2004	2003
Onex' share of net earnings (loss):			
Electronics Manufacturing			
Services	\$ (13)	\$ (202)	\$ (73)
Aerostructures	(6)	-	-
Theatre Exhibition	(3)	7	54
Healthcare	10	-	-
Customer Management Services	(17)	(6)	(72)
Automotive Products	(69)	9	(373)
Other <sup>(a)</sup>	(71)	(154)	(109)
Net after-tax gains on sales of operating investments	921	107	10
Earnings (loss) from continuing operations	752	(239)	(563)
Earnings from discontinued operations	213	274	231
Consolidated net earnings (loss)	\$ 965	\$ 35	\$ (332)

(a) Includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

### SUMMARY QUARTERLY INFORMATION

Table 17 summarizes Onex' key consolidated financial information for the last eight quarters. The summarized results presented in this table may differ from those results previously reported in 2005 and 2004 as a result of operations that have been discontinued and reclassified as discussed above.

	2005				2004			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Revenues	\$ 4,406	\$ 4,360	\$ 4,159	\$ 3,634	\$ 3,366	\$ 3,373	\$ 3,680	\$ 3,220
Earnings (loss) from continuing operations	\$ (8)	\$ (71)	\$ 222	\$ 609	\$ (263)	\$ 69	\$ (84)	\$ 39
Net earnings (loss)	\$ (8)	\$ 13	\$ 239	\$ 721	\$ (214)	\$ 281	\$ (69)	\$ 37
<b>Earnings (loss) per Subordinate Voting Share</b>								
Basic and Diluted:								
Continuing operations	\$ (0.06)	\$ (0.51)	\$ 1.60	\$ 4.38	\$ (1.89)	\$ 0.50	\$ (0.59)	\$ 0.27
Net earnings (loss)	\$ (0.06)	\$ 0.09	\$ 1.72	\$ 5.19	\$ (1.54)	\$ 2.02	\$ (0.49)	\$ 0.25

Onex' quarterly consolidated financial results do not follow any specific trends due to acquisitions or dispositions of businesses by Onex, the parent company; the volatility

of the exchange rate between the U.S. dollar and the Canadian dollar; and varying business cycles at Onex' operating companies.

### Earnings (Loss) per Subordinate Voting Share

	2005	2004	2003
Basic and Diluted:			
Continuing operations	\$ 5.41	\$ (1.69)	\$ (3.67)
Discontinued operations	\$ 1.54	\$ 1.94	\$ 1.51
Net earnings (loss)	\$ 6.95	\$ 0.25	\$ (2.16)

## Fourth quarter 2005 results

Table 18 below presents the statements of earnings for the fourth quarters ended December 31, 2005 and 2004.

### Fourth Quarter Statements of Earnings

TABLE 18	(\$ millions)	2005	2004
<b>Revenues</b>		<b>\$ 4,406</b>	\$ 3,366
Cost of sales		<b>(3,838)</b>	(3,214)
Selling, general and administrative expenses		<b>(286)</b>	(197)
<b>Earnings (loss) before the undernoted items</b>		<b>\$ 282</b>	\$ (45)
Amortization of property, plant and equipment		<b>(107)</b>	(88)
Interest and other income		<b>29</b>	88
Equity-accounted investments		<b>-</b>	(4)
Foreign exchange loss		<b>(7)</b>	(53)
Stock-based compensation		<b>1</b>	(23)
<b>Operating earnings (loss)</b>		<b>\$ 198</b>	\$ (125)
Amortization of intangible assets and deferred charges		<b>(28)</b>	(18)
Interest expense of operating companies		<b>(95)</b>	(78)
Derivative instruments		<b>1</b>	(9)
Gains on sales of operating investments, net		<b>51</b>	5
Acquisition, restructuring and other expenses		<b>(112)</b>	(59)
Debt prepayment		<b>(2)</b>	(2)
Writedown of goodwill and intangible assets		<b>(1)</b>	(388)
Writedown of long-lived assets		<b>(1)</b>	(92)
<b>Earnings (loss) before income taxes, non-controlling interests and discontinued operations</b>		<b>\$ 11</b>	\$ (766)
Provision for income taxes		<b>(22)</b>	(299)
Non-controlling interests		<b>3</b>	802
<b>Loss from continuing operations</b>		<b>\$ (8)</b>	\$ (263)
Earnings from discontinued operations		<b>-</b>	49
<b>Loss for the Period</b>		<b>\$ (8)</b>	\$ (214)

Consolidated revenues were \$4.4 billion for the fourth quarter of 2005, up 31 percent, or \$1 billion from the same quarter of 2004. Operating earnings also increased \$323 million to \$198 million in the fourth quarter of 2005 from an operating loss of \$125 million for the fourth quarter of 2004. The acquisitions of CEI, CDI, EMSC and Spirit AeroSystems collectively added \$1.3 billion to revenues and \$110 million to operating earnings in the fourth quarter of 2005.

During the fourth quarter of 2005, EMSC completed an initial public offering of Class A common shares (NYSE: EMS), representing a 19.5 percent interest in the company, for net proceeds of US\$102 million. As a result of this offering, a consolidated non-cash accounting dilution gain of \$40 million was recorded, of which Onex' share was \$15 million. Onex, Onex Partners and certain of its limited partners continued to hold 32.1 million Class A common shares of EMSC, representing an approximate 77 percent ownership interest in the company.

Partially offsetting the revenue and operating growth were acquisition, restructuring and other expenses of \$65 million (2004 – \$55 million) recorded by Celestica and \$30 million by Spirit AeroSystems.

In November 2005, Onex and Onex Partners sold their remaining investment in Magellan for proceeds of \$126 million, of which Onex' share was \$34 million (including \$4 million for Onex' portion of the carried interest). Onex recorded a pre-tax gain of \$52 million, of which Onex' share was \$10 million; this gain was recorded in the earnings from discontinued operations for the fourth quarter of 2005.

Included in the 2004 fourth-quarter earnings was a \$388 million writedown of goodwill and intangible assets recorded by Celestica. This 2004 charge is discussed in detail on page 25 of this report under the full-year discussion of writedowns of goodwill and intangible assets.

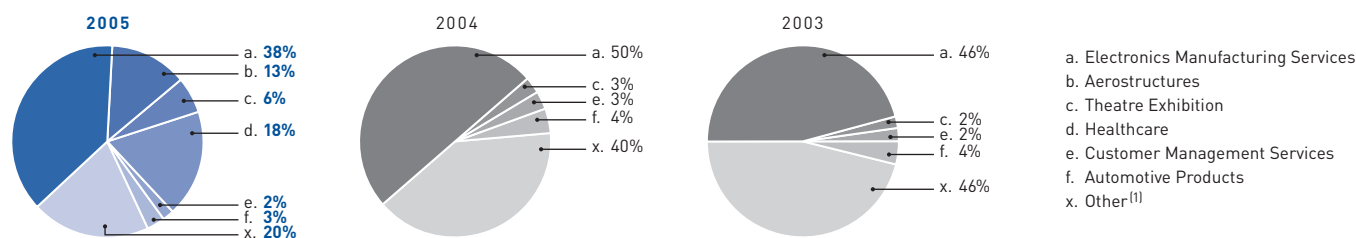
## CONSOLIDATED FINANCIAL POSITION

This section should be read in conjunction with the audited annual consolidated balance sheets and the corresponding notes thereto.

## Consolidated assets

Consolidated assets increased to \$14.8 billion at December 31, 2005 from \$11.8 billion at December 31, 2004. The charts below show the percentage breakdown of total consolidated assets by industry segment as at December 31, 2005, 2004 and 2003.

### Segmented Total Consolidated Assets Breakdown



(1) 2005 other includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group, parent company and discontinued operations.  
 2004 other includes CEI, Radian, ONCAP, parent company and discontinued operations.  
 2003 other includes Radian, ONCAP, parent company and discontinued operations.

Much of the growth in consolidated assets resulted from:

- the inclusion of \$237 million of assets from CDI, acquired in January 2005;
- \$1.5 billion of assets from EMSC, acquired in February 2005;
- the June 2005 acquisition of Spirit AeroSystems, which added \$2.0 billion of assets; and
- \$925 million of assets from the December 2005 acquisition of Skilled Healthcare.

Table 19 outlines the more significant acquisitions completed by Onex and its operating companies in 2005, 2004 and 2003. Note 3 to the audited annual consolidated financial statements provides additional disclosure on the acquisitions completed in 2005 and 2004.



## 2005 Acquisitions

TABLE 19 | *Operating company and total assets of acquisitions*

CDI – <b>\$251 million</b>	Onex' acquisition of Center for Diagnostic Imaging, Inc., a leading provider of diagnostic and therapeutic radiology services in the United States headquartered in Minnesota, United States
EMSC – <b>\$1,516 million</b>	Onex' acquisition of American Medical Response, Inc., the leading U.S. provider of ambulance transport services, and EmCare Holdings Inc., the leading provider of outsourced services for hospital emergency department physician staffing and management headquartered in Colorado, United States; these two acquired businesses formed Emergency Medical Services Corporation
Spirit AeroSystems – <b>\$1,591 million</b>	Onex' acquisition of Spirit AeroSystems, Inc., the world's largest Tier 1 aerostructures manufacturer headquartered in Kansas, United States
Skilled Healthcare – <b>\$932 million</b>	Onex' acquisition of Skilled Healthcare Group, Inc., a leading operator of skilled nursing and assisted living facilities in California, Texas, Kansas and Nevada, focused on treating patients who require a high level of skilled nursing care and extensive rehabilitation therapy headquartered in California, United States
Cineplex Entertainment – <b>\$622 million</b>	Cineplex Entertainment's purchase of the Famous Players movie business, a film exhibition company operating 80 theatres with 785 screens across Canada
CEI – <b>\$25 million</b>	CEI's acquisition of Hauer Custom Manufacturing, Inc., a leading manufacturer, packager and distributor of household and consumer products headquartered in Pennsylvania, United States
ONCAP – <b>\$198 million</b>	ONCAP's operating company, Western Inventory Service Ltd.'s acquisition of Washington Inventory Service Ltd., a leading provider of inventory counting services in the United States headquartered in California, United States  ONCAP's operating company, Canadian Securities Registration Systems Ltd.'s purchase of Corporate Research and Analysis Centre Ltd., a provider of corporate and legal searches in Canada headquartered in Quebec, Canada

## 2004 Acquisitions

TABLE 19 | *Operating company and total assets of acquisitions*

Celestica – \$832 million	<p>Two acquisitions in 2004:</p> <ul style="list-style-type: none"> <li>• Manufacturers' Services Limited – a full-service global electronics manufacturing and supply chain services company headquartered in the United States</li> <li>• NEC Corporation assets – acquired certain assets located in the Philippines</li> </ul>
Magellan – \$1,629 million <sup>(1)</sup>	<p>Onex' investment in Magellan Health Services, Inc., a leading U.S. provider of managed behavioural healthcare and insurance services headquartered in Connecticut, United States</p>
ONCAP – \$248 million	<p>Two acquisitions in 2004:</p> <ul style="list-style-type: none"> <li>• Futuremed Health Care Products L.P.<sup>(1)</sup> – the leading Canadian supplier of medical supplies and equipment to long-term care facilities headquartered in Ontario, Canada</li> <li>• Canadian Securities Registration Systems Ltd. – a leading Canadian provider of registration and search services to financial institutions and auto acceptance and leasing companies headquartered in British Columbia, Canada</li> </ul>
CEI – \$383 million	<p>Onex' acquisition of Cosmetic Essence, Inc., a leading provider of outsourced supply chain management services to the personal care products industry including formulating, manufacturing, filling, packaging and distribution services headquartered in New Jersey, United States</p>

(1) Magellan and Futuremed were recorded as discontinued operations as at December 31, 2005.

## 2003 Acquisitions

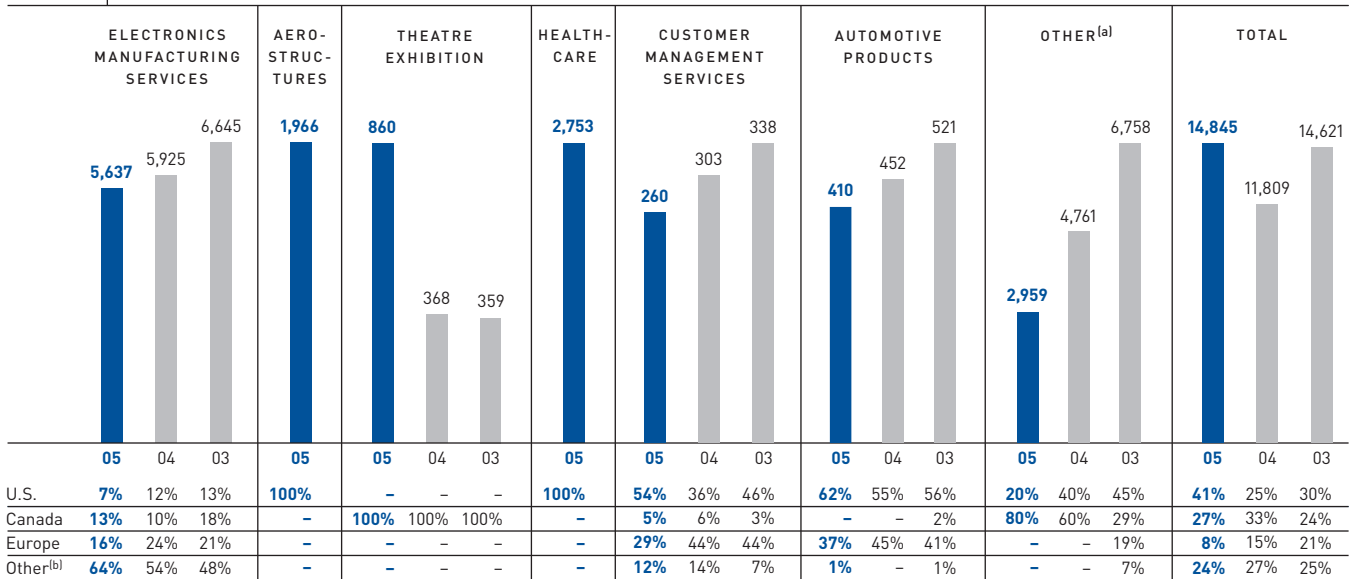
*Operating company and total assets of acquisitions*

ClientLogic – \$90 million	<p>ClientLogic's purchase of Service Zone Holdings, Inc., a provider of high-quality call centre operations headquartered in Florida, United States with facilities in the United States and the Philippines</p>
Radian – \$10 million	<p>Radian's acquisition of certain assets related to the tower and tower accessory manufacturing operations of ROHN Industries, Inc. located in Indiana and Illinois, United States</p>
ONCAP – \$92 million	<p>ONCAP's acquisition of Western Inventory Service Ltd., a leading North American provider of data collection and inventory counting services headquartered in Ontario, Canada</p>

Chart 1 shows Onex' consolidated assets by industry and geographic segments.

**Asset Diversification by Industry and Geographic Segments**

CHART 1 | (\$ millions)



(a) Includes Radian, ONCAP, CEI, Onex Public Markets Group, Onex Real Estate and parent company. Includes discontinued operations of \$1,566 million and \$5,058 million for 2004 and 2003, respectively.

(b) Other includes primarily operations in Central and South America, Asia and Australia.

Included in the December 31, 2005 consolidated assets in the "Other" segment are \$140 million of investments made by Onex Public Markets Group, an Onex company established in 2005 to invest in North American public securities, and Onex and Onex Partners' \$114 million investment in ResCare (Onex' portion was \$27 million, representing a 6 percent ownership interest). ResCare provides residential, therapeutic, job training and educational support services to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment.

The asset growth from acquisitions and investments was partially offset by:

- the elimination of the assets of Magellan, which was no longer consolidated at December 31, 2005 due to the sale of Onex and Onex Partners' interest in that business during 2005; Magellan represented \$1.4 billion of the total consolidated assets at December 31, 2004; and

- the C\$0.039 decline in the value of the U.S. dollar relative to the Canadian dollar during 2005, as most of the operations of Onex' companies report in U.S. dollars.

The December 31, 2004 assets have been restated from those originally presented to show the assets of Magellan, CMC Electronics' NovAtel subsidiary, the theatres of Cineplex Entertainment that were or are to be sold and Futuredmed as discontinued.

At December 31, 2004, total consolidated assets declined by \$2.8 billion to \$11.8 billion from \$14.6 billion at December 31, 2003 due to the sales of Dura Automotive, Loews Cineplex, Cincinnati Electronics and Armtec, which represented \$4.8 billion of the total consolidated assets at December 31, 2003. Partially offsetting these declines in consolidated total assets were the inclusion of assets of Magellan, which added \$1.5 billion of assets, Celestica's purchase of MSL in mid-March 2004 and certain assets of NEC Corporation, which added \$0.7 billion in assets, and \$0.2 billion in assets from the acquisition of CEI in early December 2004.

### Consolidated long-term debt, without recourse to Onex

Onex, the parent company, has no debt. It has been Onex' policy to preserve a financially strong parent company that has funds available for new acquisitions and to support the growth of its operating companies. This policy means that all debt financing is within our operating companies and each company is required to support its own debt.

Total long-term debt (consisting of the current portion of long-term debt and long-term debt) was \$4.7 billion at December 31, 2005, \$2.2 billion at December 31, 2004 and \$1.6 billion at December 31, 2003. Table 20 summarizes consolidated long-term debt by industry segment.

#### Consolidated Long-term Debt, Without Recourse to Onex

TABLE 20	(\$ millions)	2005	2004	2003
Electronics Manufacturing				
Services		\$ 872	\$ 750	\$ 273
Aerostructures		839	-	-
Theatre Exhibition		346	129	114
Healthcare		1,196	-	-
Customer Management Services		206	192	206
Automotive Products		783	721	876
Other <sup>(a)</sup>		446	382	130
		<b>4,688</b>	2,174	1,599
Long-term debt of J.L. French Automotive, reclassified as current		<b>(783)</b>	-	-
Long-term debt of ClientLogic and PLG, reclassified as current		-	-	(256)
Current portion of long-term debt of operating companies		<b>(42)<sup>(b)</sup></b>	(206)	(22) <sup>(c)</sup>
Total		<b>\$ 3,863</b>	\$ 1,968	\$ 1,321

(a) Includes CEI, Radian and ONCAP.

(b) 2005 current portion of long-term debt excludes J.L. French Automotive.

(c) 2003 current portion of long-term debt excludes ClientLogic and PLG.

The increase in long-term debt at December 31, 2005 from 2004 resulted primarily from acquisitions in which debt was included in the transaction: CDI (\$91 million), EMSC (\$771 million), Spirit AeroSystems (\$866 million), Cineplex Entertainment's purchase of Famous Players (\$353 million)

and Skilled Healthcare (\$539 million), as well as Celestica's issuance of subordinated notes in June 2005 as discussed below.

In March 2005, ClientLogic completed the refinancing of its outstanding credit facilities. The new financing facility, which totals US\$157 million, provides ClientLogic with improved liquidity, extends the maturity of its debt to 2012 and enhances the financial stability and flexibility needed for the continued growth of the business.

In June 2005, Celestica issued senior subordinated notes for US\$250 million aggregate principal amount with a fixed interest rate of 7.625% due in 2013. The company used the net proceeds from this offering to repurchase its outstanding LYONs in early August 2005.

J.L. French Automotive's long-term debt of \$783 million was classified as current debt on the audited consolidated balance sheet as the company was not in compliance with various covenants of certain debt agreements and projected that it would be out of compliance during 2006. This classification is consistent with that at September 30, 2005 as management of J.L. French Automotive at that time believed that there was a significant likelihood the company would not be able to achieve compliance with all of its debt covenant requirements over the next 12 months. This situation arose due to the difficult and unprecedented conditions affecting the automotive supply sector during 2005. The debt of J.L. French Automotive is without recourse to Onex. In February 2006, J.L. French Automotive's U.S. entities filed for protection under Chapter 11 of the U.S. Bankruptcy Code and its U.K. entity filed under Administration in the U.K. Due to the prior years' losses that have been recorded for J.L. French Automotive, the net carrying value of Onex' investment in this company in Onex' audited annual consolidated financial statements is negative \$607 million.

### Other liabilities

Other liabilities increased to \$1,115 million at December 31, 2005 from \$1,093 million at December 31, 2004. The increase in other liabilities in 2005 was due primarily to other liabilities associated with the acquisitions of EMSC, Spirit AeroSystems and Skilled Healthcare. Additionally, during 2005, Spirit AeroSystems increased its other liabilities by \$233 million as a result of a cash advance received

from Boeing relating to the 787 program development costs. Cineplex Entertainment also added to other liabilities with its issuance of \$105 million of convertible debentures used to fund the purchase of Famous Players.

Partially offsetting this increase was a reduction in other liabilities from Onex' early close out of the Celestica exchangeable debentures and settlement of the Celestica forward sales agreements in the first and second quarters of 2005, respectively. At December 31, 2004, other liabilities included \$730 million of deferred gains with respect to these Celestica exchangeable debentures and forward sales agreements.

### Non-controlling interests

The non-controlling interests liability on Onex' audited consolidated balance sheet as at December 31, 2005 primarily represents the ownership interests of shareholders other than Onex in Onex' consolidated operating companies. At December 31, 2005, the non-controlling interests balance amounted to \$3.6 billion compared to \$3.4 billion at December 31, 2004. Table 21 details the change in the non-controlling interests balance from December 31, 2004 to December 31, 2005.

### Change in Non-controlling Interests

TABLE 21 | (\$ millions)

Non-controlling interests as at December 31, 2004	<b>\$ 3,388</b>
Non-controlling interests in net earnings of operating companies in 2005	<b>5</b>
Investments by shareholders other than Onex in:	
Onex Partners	<b>707</b>
Acquisitions completed in 2005	<b>155</b>
Other, net	<b>49</b>
Distributions by operating companies	<b>(506)</b>
Repurchase of share capital by operating companies	<b>(273)</b>
Initial public offering of EMSC	<b>118</b>
Settlement of Celestica exchangeable debentures and forward sales agreements	<b>155</b>
Foreign currency translation	<b>(155)</b>
Non-controlling interests as at December 31, 2005	<b>\$ 3,643</b>

### Shareholders' equity

Shareholders' equity increased to \$1.2 billion at December 31, 2005 from \$227 million at December 31, 2004 due primarily to \$965 million of net earnings reported for the year ended December 31, 2005. Table 22 provides a reconciliation of the change in shareholders' equity from December 31, 2004 to December 31, 2005.

### Change in Shareholders' Equity

TABLE 22 | (\$ millions)

Shareholders' equity as at December 31, 2004	<b>\$ 227</b>
Regular dividends declared	<b>(15)</b>
Shares repurchased and cancelled	<b>(18)</b>
Currency translation adjustment on self-sustaining foreign operations	<b>(7)</b>
Net earnings for 2005	<b>965</b>
Shareholders' equity as at December 31, 2005	<b>\$ 1,152</b>

Onex' audited consolidated statements of shareholders' equity also show the changes to the components of shareholders' equity for the years ended December 31, 2005 and 2004.

### Shares outstanding

At January 31, 2006, Onex had 137,629,696 Subordinate Voting Shares issued and outstanding. Dividends are paid on the Subordinate Voting Shares. Table 23 shows the change in the number of Subordinate Voting Shares outstanding from December 31, 2004 to January 31, 2006.

### Change in Subordinate Voting Shares Outstanding

TABLE 23 |

Subordinate Voting Shares outstanding at December 31, 2004	<b>139,015,366</b>
Issue of shares – Dividend Reinvestment Plan	<b>4,030</b>
Shares repurchased and cancelled under Onex' Normal Course Issuer Bid	<b>(1,389,700)</b>
Subordinate Voting Shares outstanding at January 31, 2006	<b>137,629,696</b>

Onex also has 100,000 Multiple Voting Shares outstanding, which have a nominal paid-in value, and 176,078 Series 1 Senior Preferred Shares, which have no paid-in amount reflected in Onex' audited annual consolidated financial statements. Note 13 to the audited annual consolidated financial statements provides additional information on Onex' share capital. There was no change in the Multiple Voting Shares and Series 1 Preferred Shares outstanding during 2005.

### Cash dividends

During 2005, Onex declared dividends of \$0.11 per Subordinate Voting Share to its shareholders, which were paid quarterly at a rate of \$0.0275 per Subordinate Voting Share. The dividends are payable on or about January 31, April 30, July 31 and October 31 of each year. The dividend rate remained unchanged from that of 2004 and 2003. The total payments for dividends have decreased with the repurchase of Subordinate Voting Shares under the Normal Course Issuer Bids as discussed on the following page.

### Dividend Reinvestment Plan

Onex' Dividend Reinvestment Plan (the "Plan") enables Canadian shareholders to reinvest cash dividends to acquire new Subordinate Voting Shares of Onex at a market-related price at the time of reinvestment. During 2005, Onex issued 2,865 Subordinate Voting Shares under the Plan at an average cost of \$19.692 per Subordinate Voting Share, creating cash savings of less than \$1 million. During 2004, 72,166 Subordinate Voting Shares were issued under the Plan at an average cost of \$15.08 per Subordinate Voting Share, creating cash savings of approximately \$1 million. During 2003, Onex issued 317,599 Subordinate Voting Shares under the Plan at an average cost of \$14.343 per Subordinate Voting Share, creating cash savings of approximately \$5 million. In January 2006, Onex issued an additional 1,165 Subordinate Voting Shares under the Plan at an average cost of \$19.186 per Subordinate Voting Share.

### Stock Option Plan

Onex, the parent company, has a Stock Option Plan in place that provides for options and/or share appreciation rights to be granted to Onex directors, officers and employees for the acquisition of Subordinate Voting Shares of the Company for a term not exceeding 10 years.

The options vest equally over five years. The exercise price of the options is not less than the market value of the Subordinate Voting Shares on the business day preceding the day of the grant. The options are not exercisable unless the average five-day market price of Onex Subordinate Voting Shares is 25 percent greater than the exercise price. At December 31, 2005, Onex had 13,434,600 options outstanding to acquire Subordinate Voting Shares, of which 4,967,600 options were vested and 1,989,600 of those vested options were exercisable. Table 24 provides a detailed reconciliation of the options outstanding at December 31, 2005.

### Change in Stock Options Outstanding

TABLE 24	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	12,259,000	\$ 9.66
Granted	10,205,000	\$ 16.54
Exercised or surrendered	(8,345,800)	\$ 7.78
Expired	(156,500)	\$ 18.56
Outstanding at December 31, 2004	<b>13,961,700</b>	<b>\$ 15.71</b>
Granted	-	\$ -
Exercised or surrendered	<b>(110,600)</b>	<b>\$ 8.10</b>
Expired	<b>(416,500)</b>	<b>\$ 18.19</b>
Outstanding at December 31, 2005	<b>13,434,600</b>	<b>\$ 15.69</b>

During 2005, 110,600 options were exercised or surrendered at an average exercise price of \$8.10. All options were surrendered for cash consideration aggregating \$1 million and no options were exercised for Subordinate Voting Shares of Onex. This compares to 8,345,800 options exercised or surrendered in 2004 and 596,600 options in 2003. Of the total options exercised, approximately 71,000 options were exercised for Subordinate Voting Shares in 2004 and 55,000 in 2003 at a total value of \$1 million and \$1 million, respectively.

### Deferred Share Unit Plan

Onex, the parent company, established a Deferred Share Unit Plan ("DSU Plan") in 2004, which allows Onex directors to apply directors' fees to acquire Deferred Share Units ("DSUs") based on the market value of Onex shares at the time. Grants of DSUs may also be made to Onex

directors from time to time. Holders of DSUs are entitled to receive, for each DSU upon redemption, a cash payment equivalent to the market value of a Subordinate Voting Share at the redemption date. The DSUs vest immediately, are only redeemable once the holder retires from the board of directors and must be redeemed by the end of the year following the year of retirement. Additional units are issued equivalent to the value of any cash dividends that would have been paid on the Subordinate Voting Shares. The Company has recorded a liability for the future settlement of DSUs at the balance sheet date by reference to the value of underlying shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying Subordinate Voting Shares, with the corresponding amount reflected in the consolidated statements of earnings. During 2005, Onex issued 76,301 DSUs to its directors (2004 – 40,000 DSUs were issued) with a cost of \$1 million (2004 – \$1 million) being recorded as stock-based compensation expense. At December 31, 2005, Onex had 116,301 DSUs outstanding.

#### Normal Course Issuer Bids

Onex had Normal Course Issuer Bids (the "Bids") in place during 2005 that enables it to repurchase up to 10 percent of its public float of Subordinate Voting Shares. Onex believes that it is advantageous to Onex and its shareholders to continue to repurchase Onex' Subordinate Voting Shares from time to time when the Subordinate Voting Shares are trading at prices that reflect a significant discount to their intrinsic value. During 2005, Onex repurchased 939,200 Subordinate Voting Shares under the Bids at a total cost of \$18 million. Under similar Bids, Onex repurchased 9,143,100 Subordinate Voting Shares at a total cost of \$150 million during 2004 and 11,586,100 Subordinate Voting Shares at a total cost of \$166 million in 2003.

During January 2006, Onex repurchased 450,500 Subordinate Voting Shares under the Bid at a total cost of \$9 million.

#### Currency translation adjustment

The currency translation component decreased shareholders' equity by \$7 million in 2005 compared to an increase of \$68 million in 2004. Changes in the currency translation adjustment primarily represent the cumulative effect of changes in foreign currency rates on the value of Onex' ownership in U.S.-based operating companies from their respective acquisition dates.

## LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the audited annual consolidated statements of cash flows and the corresponding notes thereto.

Onex believes that maintaining a strong financial position at the parent company with substantial liquidity enables the Company to pursue new opportunities to create long-term value and support Onex' existing operating companies.

### Major Cash Flow Components

TABLE 25	(\$ millions)	2005	2004
Cash from operating activities, excluding changes in non-cash net working capital and other liabilities		\$ 361	\$ 196
Increase (decrease) in non-cash net working capital, other liabilities and discontinued operations		450	(60)
Cash from financing activities		563	608
Cash used in investing activities		(1,507)	(37)
Consolidated cash		\$ 3,115	\$ 3,310

### Cash from operating activities

Cash from operating activities, excluding changes in non-cash net working capital and other liabilities, totalled \$361 million in 2005 compared to cash from operations of \$196 million in 2004.

The increase in cash generated from operations for the year ended December 31, 2005 compared to 2004 related primarily to the inclusion of EMSC and Spirit AeroSystems. A detailed discussion of the consolidated operating results can be found under the heading "Consolidated Operating Results" beginning on page 12 of this MD&A.

The increase in other liabilities in 2005 was due primarily to a \$233 million cash advance received by Spirit AeroSystems from Boeing relating to the funding of development costs for the 787 program. The increase in non-cash net working capital was primarily related to improved working capital at Celestica in 2005 compared to 2004, as well as the inclusion of Spirit AeroSystems.

The 2004 discontinued operations of cash from operating activities was primarily the operations of Magellan.

### Cash from financing activities

Cash from financing activities was \$563 million compared to cash from financing activities of \$608 million for 2004. Included in 2005 cash from financing activities were:

- US\$250 million of gross proceeds received by Celestica on its 7.625% senior subordinated notes offering that was completed in June 2005;
- cash received by Cineplex Entertainment on its issuance of convertible debentures of \$105 million and the \$110 million unit issuance for its Famous Players acquisition in July 2005; and
- cash received of \$707 million from the limited partners of Onex Partners primarily for the acquisition of EMSC, completed in February 2005; Spirit AeroSystems, acquired in mid-June 2005; and Skilled Healthcare, acquired in late December 2005.

Partially offsetting these were:

- \$273 million spent by Celestica to repurchase the equity component of its LYONs;
- \$332 million of cash paid by Onex Partners to limited partners, other than Onex, on the sale of its CGG convertible bonds and Magellan shares in 2005; and
- \$164 million of distributions primarily by CMC Electronics relating to the sales of its Cincinnati Electronics division in 2004 and its NovAtel shares in 2005.

Included in the 2004 cash from financing activities was \$150 million of cash used to repurchase shares by Onex, the parent company; this compares to \$18 million spent in 2005.

### Cash used in investing activities

Cash used in investing activities totalled \$1,507 million in 2005, an increase of \$1,470 million from cash used of \$37 million in 2004. The increase in cash used in investing activities was due primarily to acquisitions completed in 2005, which used cash of \$1.5 billion compared to \$301 million of cash used for acquisitions in 2004. Note 3 to the audited annual consolidated financial statements discloses the amount of cash invested in each acquisition completed during 2005 and 2004. Table 19 also provides more details of acquisitions completed in 2005, 2004 and 2003. Partially offsetting the cash spent on acquisitions was \$405 million of cash received from proceeds on sales of operating

investments in 2005. These proceeds primarily related to the sale of the CGG convertible bonds for \$145 million and \$222 million of cash received on the settlement of the Celestica forward sales agreements.

During 2005, Onex' operating companies spent \$550 million on property, plant and equipment compared to \$308 million in 2004. Table 26 details property, plant and equipment expenditures by industry segment.

### Property, Plant and Equipment Expenditures

TABLE 26	(\$ millions)	2005	2004
Electronics Manufacturing Services		\$ 185	\$ 180
Aerostructures		169	-
Theatre Exhibition		33	23
Healthcare		82	-
Customer Management Services		18	43
Automotive Products		43	52
Other <sup>(a)</sup>		20	10
Total		\$ 550	\$ 308

(a) Includes CEI, Radian, ONCAP, Onex Real Estate, Onex Public Markets Group and parent company.

Celestica recorded \$185 million in property, plant and equipment expenditures related primarily to the expansion of manufacturing capabilities in lower-cost geographies such as China, Romania, Thailand and Mexico. Spirit AeroSystems recorded \$169 million in property, plant and equipment expenditures primarily for purchases on its 787 program, computer hardware and software, as well as tooling enhancements for its current programs. Cineplex Entertainment recorded \$33 million in capital expenditures primarily for new theatre construction. EMSC recorded \$60 million in property, plant and equipment expenditures relating primarily to the purchase of new ambulances and medical equipment. CDI spent \$22 million in property, plant and equipment expenditures relating primarily to MRI upgrades and operating lease buyouts. ClientLogic recorded \$18 million in capital expenditures mainly for its near-shore and offshore call centre capacity expansions in 2005, as well as technology and telephony upgrades to improve call centre and fulfillment efficiencies.



Included in discontinued operations in cash from investing activities for 2005 were:

- \$81 million of proceeds received by Onex on the sale of its remaining shares of CVG;
- \$86 million of proceeds received by Cineplex Entertainment on the sale of 29 theatres, 27 of which were sold in connection with the Famous Players acquisition as described above; and
- \$153 million in proceeds received by CMC Electronics on the sale of its remaining NovAtel shares.

This compares to \$644 million of cash from discontinued operations, which related primarily to the proceeds received on the sale of Loews Cineplex and CMC Electronics' sale of its Cincinnati Electronics division.

### Consolidated cash resources

At December 31, 2005, consolidated cash with continuing operations was \$3.1 billion compared to \$2.9 billion at December 31, 2004. Onex, the parent company, represented approximately \$1.5 billion of consolidated cash and Celestica had approximately \$1.1 billion of cash at December 31, 2005. At December 31, 2005, limited partners in Onex Partners, other than Onex, had remaining commitments to provide \$478 million of funding for future Onex-sponsored acquisitions. The Company has a conservative cash management policy that limits investments to short-term low-risk money-market products. No amounts of cash from the limited partners of Onex Partners are included in consolidated cash.

### Additional uses of cash Commitments

As at December 31, 2005, Onex and its operating companies had total commitments as follows:

#### Commitments

TABLE 27 | (\$ millions)

Corporate investments	<b>\$ 440</b>
Capital expenditures of operating companies	<b>246</b>
Operating companies letters of credit, letters of guarantee and surety and performance bonds	<b>153</b>
<b>Total commitments</b>	<b>\$ 839</b>

The corporate investment commitments of \$440 million noted in table 27 primarily include Onex' commitments to its real estate partnership, Onex Real Estate Partners LP ("Onex Real Estate"), of US\$200 million, as well as its commitment to ONCAP II, a private equity fund focused on building value with North American small and mid-sized companies. Cash for the investment commitments will be funded by Onex as the investments are made.

Capital expenditure commitments are essentially those of Onex' operating companies. Those capital expenditure commitments were principally attributable to:

- Spirit AeroSystems, which had \$155 million of capital commitments, principally for property, plant and equipment and tooling expenditures to support its contracts with Boeing and other aircraft manufacturers;
- Cineplex Entertainment, which had capital commitments of \$35 million associated with the construction of new theatre properties that will be completed and opened at various times during the periods 2006–2007; and
- Celestica, which had \$26 million of capital commitments associated primarily with machinery and equipment and facilities in our lower-cost geographies.

Contingent liabilities in the form of letters of credit, letters of guarantee, and surety and performance bonds are provided by certain operating companies to various third parties and include certain bank guarantees. As at December 31, 2005, the commitments with respect to these guarantees collectively totalled \$153 million. These guarantees are without recourse to Onex. In addition, certain operating companies have also made guarantees with respect to employee share purchase loans.

### Contractual obligations

Table 28 provides a breakdown of consolidated contractual obligations and the required future payments on those obligations at December 31, 2005 for the Onex operating companies.

### Contractual Obligations

TABLE 28   (\$ millions)	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt, without recourse to Onex	<b>\$ 4,688</b>	\$ 825	\$ 344	\$ 622	\$ 2,897
Capital and operating leases	<b>2,303</b>	284	451	347	1,221
Total contractual obligations	<b>\$ 6,991</b>	\$ 1,109	\$ 795	\$ 969	\$ 4,118

A breakdown of long-term debt by industry segment is provided in table 20. Note 9 to the audited annual consolidated financial statements also provides detailed long-term debt disclosure by operating company. In addition, note 10 to the audited annual consolidated financial statements provides further disclosure on capital and operating leases.

### Additional sources of cash

#### Private equity funds

Onex had additional sources of cash from two funds – Onex Partners and ONCAP II. Onex Partners is a \$2.1 billion (US\$1.7 billion) fund that provides capital to Onex-sponsored acquisitions not related to Onex' operating companies that existed prior to the formation of Onex Partners or ONCAP I. Onex controls the General Partner and the Manager of Onex Partners and has pledged \$480 million (US\$400 million) to Onex Partners. Onex Partners has a diverse group of investors, including public and private pension funds, banks, insurance companies and endowment funds from the United States, Canada, Europe and Asia. This substantial pool of committed funds enables Onex to be more flexible and timely in responding to investment opportunities. At December 31, 2005, Onex Partners, including Onex and other co-investors, had invested \$1.1 billion in investments or acquisitions completed in 2005. The available uncalled committed capital of Onex Partners, excluding Onex, totalled \$478 million at December 31, 2005.

ONCAP is a private equity vehicle dedicated to investing and building value in small- to mid-sized North American companies. ONCAP raised its first \$400 million fund, ONCAP I, in 1999, to which Onex committed \$120 million. This first fund's commitment period was completed in early 2005. In late 2005, ONCAP completed a first close on a second fund, ONCAP II, with \$500 million of targeted capital commitments, of which Onex has committed to be approximately half. Onex is the General Partner of ONCAP. ONCAP's investors, other than Onex, include a number of prominent Canadian institutions. During 2006, ONCAP will fund its acquisitions through ONCAP II.

#### Related party transactions

Related party transactions are primarily investments by the management of Onex and of the operating companies in the equity of the operating companies acquired. Onex has a Management Incentive Plan (the "MIP") in place that requires its management members to invest in each of the operating companies acquired by Onex. The funds required for investments under the MIP are neither loaned to the management members nor guaranteed by Onex or the operating companies.

During 2005, there were investments of \$4 million under the MIP compared to \$2 million in 2004. Management members participated in the realizations Onex achieved on Magellan, CVG and CGG, receiving under the MIP \$11 million in 2005. This compares to \$35 million in realizations under the MIP relating to the sales of Loews Cineplex and Armtec in 2004. Notes 1 and 24 to the audited annual consolidated financial statements provide additional details on the MIP.

Members of management and the Board of Directors of Onex can invest limited amounts in partnership with Onex in all acquisitions outside of Onex Partners at the same cost as Onex and other outside investors. During 2005, approximately \$21 million in investments were made by Onex management and Onex board members; this compares to \$9 million in investments made by management and the Onex board in 2004.

The Onex Partners' fund structure requires Onex management to invest a minimum of 1 percent (US\$16.5 million) in all acquisitions. Onex management and directors have committed to invest an additional 3 percent of the total capital invested by Onex Partners. This structure applies to those acquisitions completed through Onex Partners. The total amount invested in 2005 by Onex management and directors on acquisitions and investments completed through Onex Partners was \$30 million.

During the investment period of Onex Partners (up to six years), Onex will receive a management fee of 2 percent on the US\$1.25 billion of committed capital provided by third-party investors. Thereafter, a 1 percent management fee is payable to Onex on invested capital. Onex Partners' General Partner will also receive a carried interest of 20 percent on the realized gains of the third-party limited partners, subject to an 8 percent compound annual preferred return to such limited partners on all amounts contributed to Onex Partners. This carried interest will be based on the overall performance of Onex Partners and includes typical catch-up and clawback provisions. Consistent with market practice, Onex, as sponsor of Onex Partners, will be allocated 40 percent of the carried interest with 60 percent allocated to the Onex principals. During 2005, Onex received a carried interest of \$11 million on the realized gains of Magellan and CGG, which is deferred from inclusion in income for accounting purposes until there is certainty that the targeted return for the overall performance of Onex Partners has been achieved. Management of Onex received a carried interest of \$17 million on these realized gains.

Onex does not guarantee the debt on behalf of its operating companies, nor are there any cross-guarantees between operating companies. Onex will invest in the debt of its operating companies, which amounted to \$206 million at December 31, 2005 compared to \$204 million at December 31, 2004. Note 9 to the audited annual consolidated financial statements provides information on the debt of operating companies held by Onex. Note 24 to the audited annual consolidated financial statements describes related party transactions.

### **Pending transactions at December 31, 2005**

#### **Acquisition of Town and Country Trust**

In December 2005, Onex announced that a joint venture investment vehicle formed by affiliates of Onex Real Estate and Morgan Stanley Real Estate had entered into an agreement to acquire The Town and Country Trust ("TCT") (NYSE: TCT) in an all-cash transaction totalling approximately \$1.5 billion, including the assumption of debt. The agreement is subject to approval by two-thirds of TCT's common shareholders and certain other customary closing conditions. Competing offers have subsequently been made for TCT and it is not known at this time what the outcome of the process will be. TCT is a multi-family real estate investment trust that owns and operates 39 apartment communities with 13,330 apartment homes in the Mid-Atlantic States and Florida.

#### **Controls and procedures**

The Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and disclosures as at December 31, 2005 and have concluded that such controls and procedures are effective.

#### **Other matters**

Onex Corporation's financial filings, including its 2005 Annual Report and interim quarterly reports, Annual Information Form and Management Circular, are available on the Company's website at [www.onex.com](http://www.onex.com) or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## OUTLOOK

### PARENT COMPANY

Onex entered 2006 with a substantial amount of capital either available or committed for investment in attractive businesses and other asset classes. These funds include \$1.5 billion in cash and near-cash equivalents in Onex, the parent company, and \$478 million in remaining capital commitments from Onex Partners for investment in Onex-sponsored acquisitions. It is Onex' objective to invest a significant portion of these funds during 2006. Despite the very competitive nature of North American private equity markets, Onex believes it can continue to find those unique situations to invest its capital to achieve appropriate returns and limit its downside risk.

Onex has also created new vehicles for investment that leverage its private equity experience and provide new opportunities to invest its capital. In 2005, the Company launched OPMG with US\$400 million in capital for investment in publicly traded North American equities. Onex also established Onex Real Estate Partners, a US\$200 million partnership with the objective of acquiring and improving real estate assets in North America. These initiatives should provide attractive opportunities for Onex to invest capital in 2006.

### OPERATING COMPANIES

#### Electronics Manufacturing Services

##### Celestica

Celestica Inc. ("Celestica") entered 2006 with a strong book of new business wins. These wins will add additional end-market diversification to Celestica's customer base in end markets such as consumer electronics and aerospace. Continuing improvements in the company's sales organization and processes will remain a key priority in the coming year.

Celestica expects to take approximately US\$115 million in pre-tax restructuring charges in 2006 as it completes the program announced in early 2005. Management will seek to improve operating margins beyond the levels achieved in 2005 by completing its shift in manufacturing capacity to low-cost geographies and continuing to drive greater manufacturing efficiency throughout its organization.

#### Aerostructures

##### Spirit AeroSystems

Spirit AeroSystems, Inc. ("Spirit AeroSystems") expects revenues to advance in 2006 based on a solid order backlog and higher production rates on key programs. The strong order intake achieved during 2005 will lead to increased production from 2006 through 2008, especially on Boeing's 737 Next Generation and 777 platforms. Moreover, Spirit AeroSystems will continue its efforts to win new mandates from other OEMs and to augment its business in after-market spares and repair support.

The company intends to seek further reductions in costs through productivity improvements and global supply sourcing. While capital management will remain a key focus of management, capital expenditures will increase substantially in 2006 due to spending for the 787 platform, which is scheduled to go into production during 2007, and the initial implementation of the new enterprise resource planning software.

Overall, Spirit AeroSystems has a very strong foundation on which to grow. Not only is it the industry leader in independent complex aerostructures manufacturing, the management team is also creating a market-driven mindset throughout the company that will enhance its substantial competitive strengths.

In late January 2006, Spirit AeroSystems agreed to acquire BAE Systems' aerostructures business with operations in Prestwick, Scotland and Samlesbury, England in a transaction valued at \$162 million. BAE Systems' aerostructures business produces wing and other structural components, primarily for Airbus airplanes, which include the A320 family, the A380, the A330 and the A340. Once acquired, the new business will be known as Spirit AeroSystems (Europe) Ltd. This acquisition will enhance Spirit AeroSystems' manufacturing operations, add important new customers and further the company's leadership in the global industry. Spirit AeroSystems will finance the entire acquisition, which is expected to close in the first quarter of 2006.

## Theatre Exhibition

### Cineplex Entertainment

The announced slate of new films, which includes *Mission Impossible 3*, *The DaVinci Code*, *Pirates of the Caribbean II* and the new Pixar animated feature, *Cars*, is expected to lead to more robust box-office performance at Cineplex Entertainment Limited Partnership ("Cineplex Entertainment") theatres during 2006. Late in 2005, the business converted all of the acquired Famous Players theatres to the Cineplex Galaxy model of theatre-based pricing, a realignment that is expected to add incrementally to total box-office revenues during 2006.

The acquisition of Famous Players delayed the launch of a new loyalty program that had been planned for 2005. During the first half of 2006, Cineplex Entertainment expects to launch a new integrated website and link its point-of-sale systems to create Canada's leading online entertainment portal and loyalty program.

## Healthcare

### Emergency Medical Services

Emergency Medical Services Corporation ("EMSC") will continue to focus on organic growth in 2006. EMSC management plans to integrate the sales and marketing operations of AMR and EmCare to improve the effectiveness and efficiency of those areas, to broaden its product offering to serve the "episodic" patient and to expand its public/private 911 partnerships with fire departments. EMSC management also expects to explore selective acquisitions in markets adjacent to current operations.

A focus on seeking further reductions in operating costs will remain a priority. EMSC intends to share administrative services between AMR and EmCare and to consolidate billing and collection centres. These initiatives are expected to add to profitability during 2006.

Longer term, Onex believes that EMSC has an excellent opportunity for substantial value creation. The use of both ambulance transport and emergency departments is expected to increase steadily with the aging of the U.S. population, as it has over the past several years. Moreover, it is anticipated that the trend to outsource emergency medical services to private providers will continue as communities and hospitals increasingly focus on providing reliable, cost-efficient emergency medical services to

ensure the health and safety of their citizens and patients. With its strong value proposition and market leadership, EMSC is very well positioned to take advantage of these trends. EMSC management will also explore opportunities to provide additional services, such as radiologist or hospitalist staffing and management, to its existing base of hospital customers.

### Center for Diagnostic Imaging

Center for Diagnostic Imaging, Inc. ("CDI") expects an improvement in performance during 2006 as startup centres opened in St. Louis and Chicago in 2005 are expected to add to earnings. The company's successful negotiation of a hospital partnership agreement in Kansas City and the addition of an experienced radiologist in Seattle are expected to improve CDI's results in those previously underperforming markets. The company also intends to open up to six centres during the year in both new and existing markets, which are expected to fuel growth over the longer term.

CDI management believes that several industry trends will also continue to evolve in its favour. The aging of the U.S. population and the disproportionate consumption of radiology services by the elderly should continue to drive demand for diagnostic imaging services. Demand is also expected to be fuelled by the increasing use of diagnostic imaging for preventative screening and the increased acceptance of non-invasive diagnostic procedures like the virtual colonoscopy. The company expects unit pricing to decline over time as government and private payors seek to reduce imaging outlays.

### Skilled Healthcare

Management of Skilled Healthcare Group, Inc. ("Skilled Healthcare") is optimistic that recent systemic modifications to Medicare per diem rates for skilled nursing facilities will add to total revenues in the coming year. New Medicare rates took effect January 1, 2006, refining 14 rehabilitation-intensive categories of care and adding nine categories for acute care patients. Nearly 20 percent of Skilled Healthcare's patient-days, and 55 percent of its revenues, are derived from Medicare patients, a significant percentage of whom will likely be affected by new reimbursement classifications. Management also believes the

effect of a full year of recent Medicaid rate increases in several of the states in which it operates will have a positive impact in 2006. Management expects these rate increases, as well as operational improvements in several of the company's facilities, to result in increased operating income during 2006.

Skilled Healthcare intends to enhance its organic growth through tuck-in acquisitions in existing markets, as well as through larger strategic acquisitions in new markets in the western United States, if opportunities can be found at attractive valuations. The company will also continue to promote the rapid growth of its rehabilitation services with third-party facility operators. Skilled Healthcare's rehabilitation division currently manages 145 contracts, 56 of which are for affiliated facilities, and employs more than 670 full-time equivalent therapists. Management also intends to expand the company's new hospice care business into the Los Angeles area early in 2006 and possibly into other markets later in the year.

#### **ResCare**

Res-Care, Inc. ("ResCare") is one of the United States' leading special needs providers. The long-term social and demographic factors that have driven the growth of the company should continue to provide a solid foundation for growth in revenues and earnings in the years ahead. Among these factors are aging family caregivers of the developmentally disabled, growing waiting lists for services and the trend to privatization of state-run services. As a result, there is a large demand for services and high occupancy rates in existing homes. This is making the provision of periodic in-home services – a small but growing core capability of ResCare – an attractive option for state governments.

#### **Customer Management Services**

##### **ClientLogic**

ClientLogic Corporation ("ClientLogic") began 2006 with a very robust pipeline of new business. Management intends to add scale by opening three new customer contact facilities as well as expanding another call centre during 2006. This will provide additional capacity in domestic near-shore and offshore markets. Management also expects to strengthen its technology solutions for clients in order to provide a more comprehensive package of value-added solutions.

In December 2005, one of ClientLogic's clients announced its plans to terminate a portion of its contract with the company with the transition being completed during the first half of 2006. This termination will reduce annual revenues by approximately US\$75 million. In spite of the loss of revenues under this contract, ClientLogic expects improved financial performance associated with revenues from new customers in 2006 as well as higher average margins from improved customer mix and operating performance.

#### **Automotive Products**

##### **J.L. French Automotive**

In February 2006, J.L. French Automotive Castings, Inc.'s ("J.L. French Automotive") U.S. entities filed under Chapter 11 for bankruptcy protection in the United States, and its U.K. entity under Administration in the U.K. This filing was necessary as the company was in default on a number of its obligations to lenders. J.L. French Automotive has reached an agreement with certain of its lenders on a proposed financial restructuring. The proposed agreement would significantly reduce J.L. French Automotive's debt levels, as well as position the company to increase its investment in its core business. J.L. French Automotive plans to continue to operate as usual with debtor-in-possession financing while under bankruptcy protection.

It is currently anticipated that Onex will have little or no ownership interest in J.L. French Automotive as a result of the bankruptcy restructuring process. Accordingly, in the first quarter of 2006 Onex will likely record for accounting purposes a disposition or abandonment of its interest in J.L. French Automotive. This would result in an accounting gain being recorded of \$607 million due to J.L. French Automotive's recorded losses exceeding Onex' investment. Onex' previously reported results would be adjusted to show J.L. French Automotive as a discontinued operation and no further operations are likely to be included for 2006.

##### **Performance Logistics Group**

In January 2006, Performance Logistics Group, Inc. ("PLG") filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code in the United States. Onex ceased to have voting control of PLG in 2004, and had been carrying its investment at a cost of nil. As a result of the bankruptcy proceedings, Onex does not expect any future value from this investment.

## Other Businesses

### Mid-Cap Opportunities

#### ONCAP

With an expanded team of nine professionals, ONCAP intends to look at a greater number of potential investments during 2006. The team's excellent results with its first fund have helped it establish a strong reputation as a good partner for management teams and a responsive, creative acquirer for sellers and their advisors. Overall, it is expected that ONCAP's pace of acquisitions will increase as it finds attractive candidates for ONCAP II LP ("ONCAP II"), which has \$500 million of targeted committed capital for new, standalone investments in small- and mid-cap companies.

ONCAP expects its current operating companies to continue to grow in 2006. Under the terms of the first fund, ONCAP I, these companies and ONCAP may pursue add-on acquisitions that will add to their ability to create value. New acquisitions by ONCAP II are also expected to add to total revenues. In early January 2006, ONCAP completed the first purchase for its second fund. ONCAP II acquired CSI Global Education Inc. ("CSI"), Canada's leader in interactive investment education for the securities and financial services industries. ONCAP II invested \$25 million in this transaction, of which Onex' share was \$14 million.

### Personal Care Products

#### Cosmetic Essence

Cosmetic Essence, Inc. ("CEI") began 2006 with a very robust research and development pipeline. Projects in active development and testing represented a 30 percent increase over a year earlier. CEI expects that new product introductions from its research and development activities will be a strong impetus to revenue growth in 2006. Growth from major customers is also expected to remain strong.

At the end of 2005, CEI management was implementing a variety of initiatives to reduce its cost structure. Head count and fixed overheads are being reduced and information systems upgraded to provide more visibility to CEI's increasingly complex business. During 2006, CEI will also implement high-return capital projects that will reduce labour content and improve the company's cost structure. CEI's management is confident that it can successfully grow the business in 2006 while improving its overall profitability.

## Communications Infrastructure

### Radian

Radian Communication Services Corporation ("Radian") entered 2006 with a more efficient operating base, positive industry dynamics and a good order book in each of its segments. In January 2006, Radian announced its intention to close the Canadian manufacturing operations and move those operations to Peoria, Illinois. This move is anticipated to be completed by the end of the first quarter of 2006 and should result in improved utilization and lower operating costs. Proceeds from the planned sale of the Canadian properties will be used to reduce bank indebtedness. Management expects improved revenues and profitability based on its awarded contracts from the installation of large towers in Jakarta during the first half of the year. Capital spending has improved in the wireless infrastructure business in the United States as larger consolidated carriers vie for market share by upgrading speed and data transmission on their networks. The West Coast is a focal point for this work, a region in which Radian has its strongest presence. With operational issues now largely resolved and a good order book in hand, Radian believes that its U.S. broadcast business will make a positive contribution in 2006 as broadcasters work to meet the FCC mandate to convert from analog to digital transmission. Overall, Radian management expects strong revenues over the next 12 months, accompanied by an improvement in operating earnings.

## RISK MANAGEMENT

As managers, it is our responsibility to identify and manage business risk. As shareholders, we require an appropriate return for the risk we accept.

### Managing risk

Onex' general approach to the management of risk is to apply common-sense business principles to the management of the Company, the ownership of its operating companies and the acquisition of new businesses. Each year detailed reviews are conducted of many opportunities to purchase either new businesses or add-on acquisitions for existing businesses. Onex' primary interest is in acquiring well-managed companies with a strong position in growing industries. In addition, diversification among Onex' operating companies enables Onex to participate in the growth of a number of high-potential industries with varying business cycles.

As a general rule, Onex attempts to arrange as many factors as practical to minimize risk without hampering its opportunity to maximize returns. When a purchase candidate meets Onex' criteria, for example, typically a fair price is paid, though not necessarily the lowest price, for a high-quality business. Onex does not commit all of its capital to a single acquisition and will have equity partners with whom it can share the risk of ownership, especially on large-scale transactions. Onex Partners LP and the proposed Onex Partners II LP funds streamline Onex' process of sourcing and finalizing commitments from such equity partners.

An acquired company is not burdened with more debt than it can likely sustain, but rather structured so that it has the financial and operating leeway to create as much long-term growth in value as possible. Finally, Onex buys in financial partnership with management. This strategy not only gives Onex the benefit of experienced managers but also ensures that an operating company is run entrepreneurially for the benefit of all shareholders.

Onex maintains an active involvement in its operating companies in the areas of strategic planning, financial structures and negotiations, and acquisitions. In the early stages of ownership, Onex may provide resources

for business and strategic planning, and financial reporting, while an operating company builds these capabilities in-house. In almost all cases, Onex ensures there is oversight of its investment through representation on the acquired company's board of directors.

Operating companies are encouraged to reduce risk and/or expand opportunity by diversifying their customer bases, broadening their geographic reach or product and service offerings, and improving productivity. In certain instances, we may also encourage an operating company to seek additional equity in the public markets in order to continue its growth without eroding its balance sheet. One element of this approach may be to use new equity investment, when financial markets are favourable, to prepay existing debt and absorb related penalties.

Specific strategies and policies to manage business risk at Onex and its operating companies are discussed below.

### Business cycles

Diversification by industry and geography is a deliberate strategy at Onex to reduce the risk inherent in business cycles. Onex' practice of owning companies in various industries with differing business cycles reduces the risk of holding a major portion of Onex' assets in just one or two industries. Similarly, the Company's focus on building industry leaders with extensive international operations reduces the financial impact of downturns in specific regions.

### Operating liquidity

It is our view that one of the most important things Onex can do to control risk is to maintain a strong parent company with an appropriate level of liquidity. Onex needs to be in a position to support its operating companies when, and if, appropriate. Maintaining liquidity is important because Onex, as a holding company, generally does not have guaranteed sources of meaningful cash flow.



In completing acquisitions, it is generally Onex' policy to finance a large portion of the purchase price with debt provided by third-party lenders. This debt is assumed by the company acquired and is without recourse to Onex, the parent company, or its other operating companies or partnerships. The foremost consideration, however, in developing a financing structure for an acquisition is identifying the appropriate amount of equity to invest. In Onex' view, this is the amount of equity which maximizes the risk/reward equation for both shareholders and the acquired company. In other words, it allows the acquired company not only to manage its debt but also to have significant financial latitude for the business to vigorously pursue its growth objectives.

While Onex seeks to maximize the risk/reward equation in all acquisitions, there is the risk that the acquired company will not generate sufficient profitability or cash flow to service its debt requirements and/or related debt covenants or provide adequate financial flexibility for growth. In such circumstances, additional investment by the equity partners, including Onex, may be required. In severe circumstances, the recovery of Onex' equity and any other investment in that operating company is at risk.

### **Timeliness of investment commitments**

Onex' ability to create value for shareholders is dependent in part on our ability to successfully complete large acquisitions. Our preferred course is to complete acquisitions on an exclusive basis. However, we also participate in large acquisitions through an auction or bidding process with multiple potential purchasers. Bidding is often very competitive for the large-scale acquisitions that are Onex' primary interest, and the ability to make knowledgeable, timely investment commitments is a key component in successful purchases. In such instances, the vendor often establishes a relatively short time frame for Onex to respond definitively.

In order to improve the efficiency of Onex' internal processes on both auction and exclusive acquisition processes, and so reduce the risk of missing out on high-quality acquisition opportunities, during 2003 we created Onex Partners LP, a \$2.1 billion pool of capital raised from

Onex and major institutional co-investors. During 2004 and 2005, we successfully deployed a substantial portion of this capital in a variety of attractive businesses.

### **Financial and commodity risks**

In the normal course of business activities, Onex and its operating companies may face a variety of risks related to financial management. Individual operating companies may also use financial instruments to offset the impact of anticipated changes in commodity prices related to the conduct of their businesses. In all cases, it is a matter of Company policy that neither Onex nor its operating companies engage in derivatives trading or other speculative activities.

**Interest rate risk** As noted above, Onex generally finances a significant portion of its acquisitions with debt taken on by the acquired operating company. An important element in controlling risk is to manage, to the extent possible, the impact of fluctuations in interest rates on the debt of the operating company.

It has generally been Onex' policy to fix the interest on some or all of the term debt or otherwise minimize the effect of interest rate increases on a substantial portion of the debt of its operating companies at the time of acquisition. This is achieved by taking on debt at fixed interest rates and entering into interest rate swap agreements or financial contracts to control the level of interest rate fluctuation.

The risk inherent in such a strategy is that, should interest rates decline, the benefit of such declines may not be obtainable or may only be achieved at the cost of penalties to terminate existing arrangements. There is also the risk that the counterparty on an interest rate swap agreement may not be able to meet its commitments. Guidelines are in place that specify the nature of the financial institutions that operating companies can deal with on interest rate contracts.

**Currency fluctuations** The majority of the activities of Onex' operating companies were conducted outside Canada during 2005. As discussed, approximately 37 percent of consolidated revenues and 41 percent of consolidated assets were in the United States. Approximately 49 percent of consolidated revenues were from outside

North America; however, a substantial portion of that business is actually based on U.S. currency. This makes the value of the Canadian dollar relative to the U.S. dollar the primary currency relationship affecting Onex' operating results. Onex' operating companies may use currency derivatives in the normal course of business to hedge against adverse fluctuations in key operating currencies but, as noted above, speculative activity is not permitted.

Onex' results are reported in Canadian dollars, and fluctuations in the value of the Canadian dollar relative to other currencies can have an impact on Onex' reported results and consolidated financial position. During 2005, the net increase in shareholders' equity reflected a \$7 million decrease in the value of Onex' net equity in those operating companies that operate in U.S. currency.

Onex holds a substantial amount of cash and marketable securities in U.S.-dollar-denominated securities. The portion of securities held in U.S. dollars is based on Onex' view of funds it will require for future investments in the United States. Onex does not speculate on the direction of exchange rates between the Canadian dollar and the U.S. dollar when determining the balance of cash and marketable securities to hold in each currency, nor does it use foreign exchange contracts to protect itself against translation loss.

**Commodity prices** Certain of Onex' operating companies are vulnerable to price fluctuations in major commodities. The most significant of these is Celestica, which purchases a substantial volume of electronic components that could be viewed as commodity in nature and subject to fluctuations in price. Celestica manages its exposure in this area by purchasing components only for specific customer contracts and by having those sale contracts include terms or pricing provisions that pass any product cost fluctuations on to the customer.

### **Integration of acquired companies**

An important aspect of Onex' strategy for value creation is to acquire what we consider to be "platform" companies. Such companies typically have distinct competitive advantages in products or services in their respective industries that provide a solid foundation for growth in scale and value. In these instances, Onex works with company management to identify and purchase attractive add-on acquisitions that would enable the platform company to achieve its goals for growth more quickly than by focusing solely on the development and/or diversification of its customer base, which is known as organic growth. Growth by acquisition, however, carries more risk than organic growth. While as many of these risks as possible are considered in the acquisition planning, in Onex' experience our operating companies also face risks such as unknown expenses related to the cost-effective amalgamation of operations, the retention of key personnel and customers, the future value of goodwill paid as part of the acquisition price and the future value of the acquired assets and intellectual property. Onex works with company management to understand and potentially mitigate such risks as much as possible.

### **Dependence on government funding**

During the past two years, Onex has acquired businesses, or interests in businesses, in various segments of the U.S. healthcare industry. The revenues of these companies are partially dependent on funding from federal, state and local government agencies, especially those responsible for federal Medicare and state Medicaid funding. Budgetary pressures, as well as economic, industry, political and other factors, could influence governments to not increase and, in some cases, to decrease appropriations for the services offered by Onex operating subsidiaries, which could reduce their revenues materially. Future revenues may be affected by changes in rate-setting structures, methodologies or interpretations that may be proposed or are under consideration.

While each of Onex' operating companies in the U.S. healthcare industry is subject to reimbursement risk directly related to its particular business segment, it is unlikely that all of these companies would be affected by the same event, or to the same extent, simultaneously. Ongoing pressure on government appropriations is a normal aspect of business for these companies, and all seek to minimize the effect of possible funding reductions through productivity improvements and other initiatives.

### **Significant customers**

Onex has acquired major operating companies and divisions of large companies. As part of these purchases, the acquired company has often continued to supply its former owner through long-term supply arrangements. It has been Onex' policy to encourage its operating companies to quickly diversify their customer bases to the extent practicable in order to manage the risk associated with serving a single major customer. Celestica primarily relied on one major customer at the time of its acquisition by Onex; the company now has a broadly diversified global base of significant customers.

Certain Onex operating companies have major customers that represent more than 10 percent of annual revenues. Spirit AeroSystems primarily relies on one major customer, Boeing, at the time of its acquisition by Onex. The table in note 23 to the audited annual consolidated financial statements provides information on the concentration of business the operating companies have with major customers.

### **Environmental considerations**

Onex has an environmental protection policy that has been adopted by its operating companies. Senior officers of each of these companies are ultimately responsible for ensuring compliance with this policy. They are required to report annually to their company's board of directors and to Onex regarding compliance with this policy.

Environmental management by the operating companies is accomplished through: the education of employees about environmental regulations and appropriate operating policies and procedures; site inspections by environmental consultants; the addition of proper equipment or modification of existing equipment to reduce or eliminate environmental hazards; remediation activities as required; and ongoing waste reduction and recycling programs. Environmental consultants are engaged to advise on current and upcoming environmental regulations that may be applicable.

Most of the operating companies are involved in the remediation of particular environmental situations such as soil contamination. In almost all cases, these situations have occurred prior to Onex' acquisition of those companies. The estimated costs of remedial work and related activities are to be provided for either under agreement by the vendor of the company or through provisions established at the time of acquisition. Manufacturing activities carry the inherent risk that changing environmental regulations may identify additional situations requiring capital expenditures or remedial work, and associated costs to meet those regulations.

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

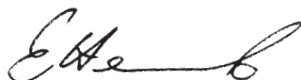
The accompanying consolidated financial statements have been prepared by management, reviewed by the Audit and Corporate Governance Committee and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies which management believes are appropriate for the Company are described in note 1 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit and Corporate Governance Committee of three non-management independent Directors is appointed by the Board.

The Audit and Corporate Governance Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit and Corporate Governance Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

PricewaterhouseCoopers LLP, the Company's external auditors, who are appointed by the holders of Subordinate Voting Shares, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.



Ewout R. Heersink  
Chief Financial Officer  
February 16, 2006



Donald W. Lewtas  
Vice-President Finance

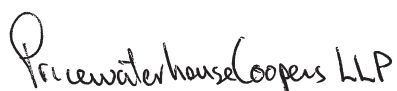
## AUDITORS' REPORT

### To the Shareholders of Onex Corporation:

We have audited the consolidated balance sheets of Onex Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada

February 16, 2006

# CONSOLIDATED BALANCE SHEETS

As at December 31 <i>(in millions of dollars)</i>	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 3,115	\$ 2,866
Accounts receivable	2,170	1,577
Inventories (note 5)	1,992	1,437
Other current assets	465	441
Current assets held by discontinued operations (note 2)	18	708
	<b>7,760</b>	7,029
Property, plant and equipment (note 6)	2,690	1,542
Investments and other assets (note 7)	1,279	659
Intangible assets (note 8)	519	271
Goodwill	2,540	1,450
Long-lived assets held by discontinued operations (note 2)	57	858
	<b>\$ 14,845</b>	\$ 11,809
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Bank indebtedness, without recourse to Onex	\$ 1	\$ 13
Accounts payable and accrued liabilities	3,305	2,603
Current portion of long-term debt and obligations under capital leases of operating companies, without recourse to Onex	850	227
Current liabilities held by discontinued operations (note 2)	8	482
	<b>4,164</b>	3,325
Long-term debt of operating companies, without recourse to Onex (note 9)	3,863	1,968
Obligations under capital leases of operating companies, without recourse to Onex (note 10)	77	23
Exchangeable debentures (note 11)	-	156
Other liabilities (note 12)	1,115	1,093
Future income taxes (note 20)	767	691
Long-term liabilities held by discontinued operations (note 2)	64	938
	<b>10,050</b>	8,194
Non-controlling interests	3,643	3,388
<b>Shareholders' equity</b>	<b>1,152</b>	227
	<b>\$ 14,845</b>	\$ 11,809

Commitments and contingencies are reported in notes 10 and 24.

Signed on behalf of the Board of Directors



Director



Director

## CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31 <i>(in millions of dollars except per share data)</i>	2005	2004
<b>Revenues</b>	<b>\$ 16,559</b>	\$ 13,639
Cost of sales	<b>(14,524)</b>	(12,449)
Selling, general and administrative expenses	<b>(1,089)</b>	(765)
<b>Earnings Before the Undernoted Items</b>	<b>946</b>	425
Amortization of property, plant and equipment	<b>(409)</b>	(370)
Amortization of intangible assets and deferred charges	<b>(96)</b>	(72)
Interest expense of operating companies (note 14)	<b>(332)</b>	(195)
Interest and other income	<b>145</b>	102
Equity-accounted investments	<b>1</b>	(8)
Foreign exchange loss	<b>(31)</b>	(116)
Stock-based compensation	<b>(50)</b>	(55)
Derivative instruments	<b>4</b>	29
Gains on sales of operating investments, net (note 15)	<b>921</b>	107
Acquisition, restructuring and other expenses (note 16)	<b>(266)</b>	(204)
Debt prepayment (note 17)	<b>(6)</b>	(8)
Writedown of goodwill and intangible assets (note 18)	<b>(3)</b>	(393)
Writedown of long-lived assets (note 19)	<b>(5)</b>	(94)
<b>Earnings (Loss) before income taxes, non-controlling interests and discontinued operations</b>	<b>819</b>	(852)
Provision for income taxes (note 20)	<b>(72)</b>	(278)
Non-controlling interests	<b>5</b>	891
<b>Earnings (Loss) from continuing operations</b>	<b>752</b>	(239)
Earnings from discontinued operations (note 2)	<b>213</b>	274
<b>Net Earnings for the Year</b>	<b>\$ 965</b>	\$ 35
<b>Net Earnings (Loss) per Subordinate Voting Share</b> (note 21)		
Basic and Diluted:		
Continuing operations	<b>\$ 5.41</b>	\$ (1.69)
Discontinued operations	<b>\$ 1.54</b>	\$ 1.94
Net earnings	<b>\$ 6.95</b>	\$ 0.25

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in millions of dollars except per share data)</i>	Share Capital (note 13)	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Total Shareholders' Equity
<b>Balance – December 31, 2003</b>	\$ 618	\$ (195)	\$ (135)	\$ 288
Dividends declared <sup>(a)</sup>	-	(15)	-	(15)
Issue of shares – dividend reinvestment plan	1	-	-	1
Purchase and cancellation of shares	(37)	(113)	-	(150)
Currency translation adjustment	-	-	68	68
Net earnings for the year	-	35	-	35
<b>Balance – December 31, 2004</b>	<b>582</b>	<b>(288)</b>	<b>(67)</b>	<b>227</b>
Dividends declared <sup>(a)</sup>	-	(15)	-	(15)
Issue of shares – dividend reinvestment plan <sup>(b)</sup>	-	-	-	-
Purchase and cancellation of shares	(4)	(14)	-	(18)
Currency translation adjustment	-	-	(7)	(7)
Net earnings for the year	-	965	-	965
<b>Balance – December 31, 2005</b>	<b>\$ 578</b>	<b>\$ 648</b>	<b>\$ (74)</b>	<b>\$ 1,152</b>

(a) Dividends declared per Subordinate Voting Share during 2005 totalled \$0.11 (2004 – \$0.11).

(b) In 2005, shares issued under the dividend reinvestment plan amounted to less than \$1.



# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 <i>(in millions of dollars)</i>	2005	2004
<b>Operating Activities</b>		
Net earnings (loss) for the year from continuing operations	\$ 752	\$ (239)
Items not affecting cash:		
Amortization of property, plant and equipment	409	370
Amortization of intangible assets and deferred charges	96	72
Writedown of goodwill and intangible assets	3	393
Writedown of long-lived assets	5	94
Non-cash component of restructuring	18	45
Non-controlling interests	(5)	(891)
Future income taxes (note 20)	(14)	244
Stock-based compensation	50	55
Derivative instruments	(4)	(29)
Gains on sales of operating investments, net (note 15)	(921)	(107)
Other	(28)	189
	361	196
Increase in other liabilities	300	49
Changes in non-cash working capital items:		
Accounts receivable	(59)	(325)
Inventories	(54)	68
Other current assets	34	(205)
Accounts payable and accrued liabilities	229	(31)
Increase (decrease) in cash due to changes in working capital items	150	(493)
Discontinued operations	-	384
	811	136
<b>Financing Activities</b>		
Issuance of long-term debt	1,360	2,369
Repayment of long-term debt	(1,041)	(1,511)
Cash dividends paid	(15)	(14)
Repurchase of share capital	(18)	(150)
Issuance of share capital by operating companies	962	464
Distributions by operating companies	(506)	-
Repurchase of share capital by operating companies	(273)	(405)
Increase (decrease) due to other financing activities	94	(42)
Discontinued operations	-	(103)
	563	608
<b>Investing Activities</b>		
Acquisition of operating companies, net of cash in acquired companies of \$263 (2004 - \$35) (note 3)	(1,490)	(301)
Purchase of property, plant and equipment	(550)	(308)
Proceeds from sales of operating investments	405	60
Decrease due to other investing activities	(73)	(132)
Discontinued operations	201	644
	(1,507)	(37)
<b>Increase (Decrease) in Cash and Short-term Investments for the Year</b>	<b>(133)</b>	<b>707</b>
Decrease in cash and short-term investments due to changes in foreign exchange rates	(62)	(197)
Cash and short-term investments - beginning of the year <sup>(a)</sup>	3,310	2,800
<b>Cash and Short-term Investments - End of the Year<sup>(a)</sup></b>	<b>\$ 3,115</b>	<b>\$ 3,310</b>

(a) Includes cash from discontinued operations of \$444 at December 31, 2004 (note 2).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions of dollars except per share data)

Onex Corporation (“Onex” or the “Company”) is a diversified company whose subsidiaries operate as autonomous businesses. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP” or “GAAP”). All amounts are in Canadian dollars unless otherwise noted.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

The consolidated financial statements represent the accounts of the Company and its subsidiaries, including its controlled operating companies. All significant intercompany balances and transactions have been eliminated.

The Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline 15, “Consolidation of Variable Interest Entities”, which was applicable for Onex beginning in January 2005. Variable interest entities (“VIEs”) are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The guideline provides specific guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE.

The adoption of this guideline did not have a material effect on these audited annual consolidated financial statements.

The principal operating companies and the Company’s ownership and voting interests in these entities are as follows:

	December 31, 2005		December 31, 2004	
	Ownership	Voting	Ownership	Voting
Celestica	13%	79%	18%	84%
Cineplex Entertainment <sup>(a)</sup>	27%	100%	31%	100%
ClientLogic	68%	89%	68%	88%
J.L. French Automotive	77%	100%	77%	100%
Radian	90%	100%	89%	100%
Cosmetic Essence	22%	100%	21%	100%
Center for Diagnostic Imaging	20%	100%	-	-
Emergency Medical Services	29%	97%	-	-
Spirit AeroSystems	29%	100%	-	-
Skilled Healthcare	22%	100%	-	-
ONCAP	30%	100%	30%	100%
Magellan	-	-	6%	50%

(a) Voting is with respect to Cineplex Entertainment Limited Partnership.

The ownership percentages are before the effect of any potential dilution relating to the Management Investment Plans (the “MIP”) as described in note 24(e).

The voting interest includes shares that Onex has the right to vote through contractual arrangements or through multiple voting rights attached to particular shares. In certain circumstances, the voting arrangements give Onex the right to elect the majority of the board of directors.

In addition to the above, investments over which Onex exercises significant influence but does not control at December 31, 2005 are accounted for by the equity method and include Res-Care, Inc. (“ResCare”) and Cypress Property & Casualty Insurance Company.

Joint ventures, which are not variable interest entities, are accounted for using the proportionate consolidation method. The consolidated financial statements include revenues of \$8 (2004 – \$6), net assets of \$1 (2004 – nil) and net earnings before income taxes of nil (2004 – nil) with respect to joint ventures.

### SIGNIFICANT ACCOUNTING POLICIES

#### Foreign currency translation

The Company’s operations conducted in foreign currencies, other than those operations that are associated with investment-holding subsidiaries, are considered to be self-sustaining operations. Assets and liabilities of self-sustaining operations conducted in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Unrealized gains or losses on translation of self-sustaining operations conducted in foreign currencies are shown as a separate component of shareholders’ equity.

The Company, including investment-holding subsidiaries, translates monetary assets and liabilities denominated in foreign currencies at exchange rates in effect at the balance sheet date and non-monetary items at historical rates. Revenues and expenses are translated at average exchange rates for the year. Gains and losses on translation are included in the income statement.

#### Cash and short-term investments

Cash and short-term investments consist of liquid investments such as term deposits, money market instruments and commercial paper carried at cost plus accrued interest, which approximates market value.

#### Inventories

Inventories are recorded at the lower of cost and replacement cost for raw materials, and at the lower of cost and net realizable value for work in progress and finished goods. For inventories in the aerostructures segment, raw materials are stated based on the average cost method. For substantially all other inventories, cost is determined on a first-in, first-out basis.

### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and provision for impairments, if any. For substantially all property, plant and equipment, amortization is provided for on a straight-line basis over the estimated useful lives of the assets: 18 to 40 years for buildings and up to 20 years for machinery and equipment. The cost of plant and equipment is reduced by applicable investment tax credits more likely than not to be realized.

Leasehold improvements are amortized over the terms of the leases.

Leases that transfer substantially all the risks and benefits of ownership are recorded as capital leases. Buildings and equipment under capital leases are amortized over the shorter of the term of the lease or the estimated useful life of the asset. Amortization of assets under capital leases is on a straight-line basis.

### Costs incurred to develop computer software for internal use

The Company capitalizes the costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage, along with post-implementation stages of internal use computer software, are expensed as incurred. For the year ended December 31, 2005, the Company capitalized computer software costs of \$31. Amortization has not begun as of December 31, 2005 as the computer software has not been placed in service.

### Impairment of long-lived assets

Property, plant and equipment and intangible assets with limited life are reviewed for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Assets must be classified as either held for use or available-for-sale. Impairment losses for assets held for use are measured based on fair value, which is measured by discounted cash flows. Available-for-sale assets are carried at the lower of carrying value and expected proceeds less direct costs to sell.

### Investments and other assets

#### *Investment company*

In 2005, the Company formed OPMG LP (“Onex Public Markets Group” or “OPMG”) to invest in public companies without the intent of obtaining influence over its investees. OPMG is considered an Investment Company under Accounting Guideline 18, “Investment Companies”. As a result, the investments of OPMG are recorded at fair value and are included in investments and other assets in the audited annual consolidated balance sheets. For the year ended December 31, 2005, included in income is \$10 of net realized gains and nil net unrealized gains.

The Company does not control or have significant influence over any of OPMG’s investments.

#### *Deferred charges*

Deferred charges, which primarily represent costs incurred by the operating companies relating to the issuance of debt, are deferred and amortized over the term of the related debt or as the debt is retired, if earlier. Also included in deferred charges are capitalized development costs.

#### *Other long-term investments*

Other long-term investments are accounted for at cost unless it is determined by management that a diminution in value that is other than temporary has occurred, at which point a provision is recorded.

### Goodwill and intangible assets

Goodwill represents the cost of investments in operating companies in excess of the fair value of the net identifiable assets acquired. Essentially all of the goodwill and intangible asset amounts that appear on the audited annual consolidated balance sheets were recorded by the operating companies. The recoverability of goodwill and intangible assets with indefinite lives is assessed annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the carrying value of the reporting unit to its fair value. When the carrying value exceeds the fair value, an impairment exists and is measured by comparing the carrying amount of goodwill to its fair value determined in a manner similar to a purchase price allocation. Impairment of indefinite-life intangible assets is determined by comparing their carrying values to their fair values.

Intangible assets, including intellectual property, are recorded at their allocated cost at the date of acquisition of the related operating company. Amortization is provided for intangible assets with limited life, including intellectual property, on a straight-line basis over their estimated useful lives, which range from five to 25 years. The weighted average period of amortization at December 31, 2005 was approximately seven years (2004 – 11 years).

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Pension and non-pension post-retirement benefits

The operating companies accrue their obligations under employee benefit plans and related costs, net of plan assets. The costs of defined benefit pensions and other retirement benefits earned by employees are accrued in the period incurred and are actuarially determined using the projected benefit method pro-rated on service, based on management's best estimates of items, including expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs. Plan assets are valued at fair value for the purposes of calculating expected returns on those assets. Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

Actuarial gains (losses) arise from the difference between the actual long-term rate of return on plan assets and the expected long-term rate of return on plan assets for a period or from changes in actuarial assumptions used to determine the benefit obligation. Actuarial gains (losses) exceeding 10% of the greater of the benefit obligation and the fair value of plan assets are amortized over the average remaining service period of active employees.

The average remaining service period of active employees covered by the significant pension plans is 11 years (2004 – 11 years) and for those active employees covered by the other significant post-retirement benefit plans is 18 years (2004 – 19 years).

### Income taxes

Income taxes are recorded using the asset and liability method of income tax allocation. Under this method, assets and liabilities are recorded for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. These future income tax assets and liabilities are recorded using substantively enacted income tax rates. The effect of a change in income tax rates on these future income tax assets or liabilities is included in income in the period in which the rate change occurs. Certain of these differences are estimated based on the current tax legislation and the Company's interpretation thereof. The Company records a valuation allowance when it is more likely than not that all of the future tax assets will not be realized prior to their expiration.

### Revenue recognition

Revenues are principally comprised of product sales and service revenues.

Revenue from product sales, primarily in the electronics manufacturing services and automotive products segments, is recognized upon shipment, when title passes to the customer. Companies in the automotive segment enter into agreements to manufacture products for their customers at the beginning of a

given vehicle's production cycle. Once such agreements are entered into by the company, fulfillment of the customers' purchasing requirements is often the obligation of the company for the entire production life of the vehicle, with terms over several years and no provisions to terminate such contracts. In certain instances, the operating company is committed under existing agreements to supply products to its customers at selling prices that are not sufficient to cover all of the costs to manufacture such products. In such situations, the operating company records a liability for the estimated future amount of the losses. Such losses are recognized at the time that the loss is probable and reasonably estimable and are recorded at the minimum amount necessary to fulfill the company's obligation to the customer.

Revenue from product sales in the aerostructures segment is primarily recognized under the contract method of accounting. Revenue and profits are recognized on each contract in accordance with the percentage-of-completion method of accounting, using the units-of-delivery method. The number of units is determined using a multi-year estimate; for the third quarter an annual period was used. The effect of this change in estimate in the fourth quarter was \$25. The contract method of accounting involves the use of various estimating techniques to project costs to completion and includes estimates of recoveries asserted against the customer for changes in specifications. These estimates involve various assumptions and projections relative to the outcome of future events, including the quantity and timing of product deliveries. Also included are assumptions relative to future labour performance and rates, and projections relative to material and overhead costs. These assumptions involve various levels of expected performance improvements.

Contract estimates are re-evaluated periodically and changes in estimates are reflected in the current and future periods. The cumulative catch-up method of accounting is used for revisions in estimates of total revenue, total costs or extent of progress on a contract. A significant portion of revenue in the aerostructures segment is under long-term volume-based pricing contracts, requiring delivery of products over several years.

Depending on the terms under which the operating companies supply product, they may also be responsible for some or all of the repair or replacement costs of defective products. The companies establish reserves for issues that are probable and estimable in amounts management believes are adequate to cover ultimate projected claim costs. The final amounts determined to be due related to these matters could differ significantly from recorded estimates.

In the electronics manufacturing services segment, Celestica has contractual arrangements with certain customers that require the customer to purchase certain inventory that Celestica has acquired to fulfill forecasted manufacturing demand provided by that customer. Celestica accounts for purchased material returns to such customers as reductions in inventory and does not record revenue on these transactions.

Revenue from services is primarily in the customer management services, theatre exhibition and healthcare segments. Service revenue is recognized primarily as services are performed and is net of contractual discounts. For the theatre exhibition segment, revenue is recognized when admission and concession sales occur at the theatres.

#### Research and development

Costs incurred on activities that relate to research and development are expensed as incurred unless development costs meet certain criteria for capitalization. During 2005, \$60 (2004 – \$46) in research and development costs were expensed and \$56 of development costs (2004 – nil) were capitalized. Capitalized development costs related to the aerostructures segment are included in deferred charges, and will be amortized over the anticipated number of production units to which such costs relate.

#### Stock-based compensation

The Company follows guidance in the *Canadian Institute of Chartered Accountants Handbook* (“CICA Handbook”) Section 3870, “Stock-based Compensation and Other Stock-based Payments”, which requires that a fair value-based method of accounting be applied to all stock-based compensation payments.

There are four types of stock-based compensation plans. The first is the Company’s Stock Option Plan (the “Plan”) described in note 13(e), which provides that in certain situations the Company has the right, but not the obligation, to settle any exercisable option under the Plan by the payment of cash to the option holder. The Company has recorded a liability for the potential future settlement of the value of vested options at the balance sheet date by reference to the value of Onex shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares, with the corresponding amount reflected in the audited annual consolidated statements of earnings.

The second type of plan is the MIP, which is described in note 24(e). The MIP provides that exercisable investment rights may be settled by issuance of the underlying shares or, in certain situations, by a cash payment for the value of the investment rights. Under the MIP, once the targets have been achieved for the exercise of investment rights, a liability is recorded for the value of the investment rights under the MIP by reference to the value of underlying investments, with a corresponding compensation expense recorded in the audited annual consolidated statements of earnings, classified as either discontinued operations or gains on sales of operating investments for realized investments.

The third type of plan, which began in 2004, is the Deferred Share Unit Plan. A Deferred Share Unit (“DSU”) entitles the holder to receive, upon redemption, a cash payment equivalent

to the market value of a subordinate voting share at the redemption date. The DSU Plan enables Onex directors to apply directors’ fees earned to acquire DSUs based on the market value of Onex shares at the time. Grants of DSUs may also be made to Onex directors from time to time. The DSUs vest immediately, are redeemable only when the holder retires and must be redeemed within one year following the year of retirement. Additional units are issued for any cash dividends paid on the subordinate voting shares. The Company has recorded a liability for the future settlement of the DSUs at December 31, 2005 by reference to the value of underlying subordinate voting shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares, with the corresponding amount reflected in the audited annual consolidated statement of earnings.

The fourth type is employee stock option plans in place for employees at various operating companies, under which, on payment of the exercise price, stock of the particular operating company is issued. The Company records a compensation expense for such options based on the fair value over the vesting period.

#### Earnings per share

Basic earnings per share is based on the weighted average number of Subordinate Voting Shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method.

#### Hedging relationships

Effective January 1, 2004, the Company adopted Accounting Standards Board Accounting Guideline 13 (“AcG-13”), “Hedging Relationships”, which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. AcG-13 also establishes certain conditions for applying hedge accounting and deals with discontinuance of hedge accounting. The Company also adopted Emerging Issues Committee Abstract 128 (“EIC-128”), “Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments”. This EIC abstract requires that any derivative financial instrument that is not designated as a compliant hedge under AcG-13 be measured at fair value, with changes in fair value recorded in current year income.

Under this pronouncement, the Company’s hedge relationships for its exchangeable debentures and forward sales contracts no longer qualified for hedge accounting and thus, on a prospective basis, the changes in fair values of these instruments from January 1, 2004 have been reflected in the audited annual consolidated statements of earnings under “Derivative instruments”. Previously deferred gains on these instruments, which at January 1, 2004 amounted to \$549 for the exchangeable debentures and \$181 for the forward sales contracts, were deferred until the instruments were settled in June 2005 and February 2005, respectively.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Derivative financial instruments

The Company's operating companies use foreign currency contracts and interest rate swap agreements as derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. When determined to be compliant hedges under AcG-13, the carrying value of the financial instruments are not adjusted to reflect their current market value. The current market values of these instruments are disclosed in note 22.

The Company and its operating companies formally document relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and at the end of each quarter, whether the derivatives that are used in hedged transactions are highly effective in offsetting changes in the cash flows of hedged items.

Gains and losses on hedges of firm commitments are included in the cost of the hedged transaction when they occur. Gains and losses on hedges of forecasted transactions are recognized in earnings in the same period and on the same line item as the underlying hedged transaction. Foreign exchange translation gains and losses on forward contracts used to hedge foreign currency-denominated amounts are accrued on the audited annual consolidated balance sheets as current assets or current liabilities and are recognized currently in the audited annual consolidated statements of earnings, offsetting the respective translation gains or losses on the foreign currency-denominated amounts. The forward premium or discount is amortized over the term of the forward contract. Gains

and losses on hedged forecast transactions are recognized in earnings immediately when the hedge is no longer effective or the forecasted transactions are no longer expected.

### Financial instruments – presentation and disclosure

In December 2004, the Company adopted the amendment to *CICA Handbook* Section 3860, "Financial Instruments – Presentation and Disclosure". The amendment requires obligations of a fixed amount that may be settled, at the issuer's option, by a variable number of the issuer's own equity to be presented as liabilities. Any securities issued by an enterprise that give the issuer unrestricted rights to settle the principal amount in cash or the equivalent value of its own equity instruments are no longer presented as equity. This standard was applicable on a retroactive basis with restatement of prior periods. As a result of adopting this standard, as at December 31, 2004 the Company reclassified \$149 of the principal component of convertible debt held by one of its operating companies from non-controlling interests liability to long-term debt.

### Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management of Onex and its operating companies to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the audited annual consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. This includes the liability for healthcare claims incurred but not yet reported for the Company's healthcare segment. Actual results could differ from such estimates.

### Comparative amounts

Certain amounts presented in the prior year have been reclassified to conform to the presentation adopted in the current year.

## 2. EARNINGS FROM DISCONTINUED OPERATIONS

The following table shows revenue and net after-tax results from discontinued operations.

	2005	2004	2005			2004		
	Revenue		Gain, Net of Tax	Onex' Share of Earnings (Loss)	Total	Gain, Net of Tax	Onex' Share of Earnings (Loss)	Total
CMC Electronics <sup>(a)</sup>	\$ -	\$ 129	\$ 45	\$ -	\$ 45	\$ 49	\$ 3	\$ 52
InsLogic <sup>(b)</sup>	-	13	73	-	73	-	(9)	(9)
Magellan <sup>(c)</sup>	744	2,199	22	2	24	-	6	6
Commercial Vehicle Group <sup>(d)</sup>	-	241	68	2	70	69	3	72
Cineplex Entertainment <sup>(e)</sup>	47	38	2	-	2	-	2	2
Futuremed <sup>(f)</sup>	94	78	-	(1)	(1)	-	-	-
Dura Automotive	-	635	-	-	-	1	1	2
Loews Cineplex Group	-	702	-	-	-	135	5	140
Armtec	-	50	-	-	-	9	-	9
	<b>\$ 885</b>	<b>\$ 4,085</b>	<b>\$ 210</b>	<b>\$ 3</b>	<b>\$ 213</b>	<b>\$ 263</b>	<b>\$ 11</b>	<b>\$ 274</b>

a) During 2005, CMC Electronics Inc. (“CMC Electronics”) sold its interest in NovAtel Inc. (“NovAtel”) for net proceeds of \$153. Onex’ accounting gain on the disposition was \$45, before a tax provision of nil. Also included in CMC Electronics’ results from discontinued operations is the December 2004 sale of Cincinnati Electronics.

Under the terms of the MIP, as described in note 24(e), management members, including ONCAP LP (“ONCAP I”) management, participated in the realizations the Company achieved on its sale of CMC Electronics’ Cincinnati Electronics business unit in 2004 and NovAtel in 2005. Amounts accrued to be paid on account of these transactions related to the MIP totalled \$6 and have been deducted from earnings from discontinued operations.

b) In January 2005, the Company sold its interest in InsLogic Corporation (“InsLogic”) for net proceeds of \$22 against a cost of \$52. The accounting gain on the disposition of \$73, before a tax provision of nil, was comprised of the proceeds as well as the reversal of losses of InsLogic previously recognized by the Company. There was no MIP distribution regarding InsLogic as the required performance targets were not achieved.

c) In May and June 2005, Onex and Onex Partners LP (“Onex Partners”) sold 56% of their investment in shares of Magellan Health Services, Inc. (“Magellan”) through a secondary offering of common stock. Proceeds received were \$176, of which Onex’ share was \$47, including \$6 for Onex’ portion of the carried interest. The pre-tax gain was \$83, of which Onex’ share was \$20, before a tax provision of \$5. As a result of these transactions, Onex’ and Onex Partners’ equity ownership in Magellan was reduced to 11% and the Company began recording its remaining investment at cost.

In November 2005, Onex and Onex Partners sold their remaining investment in Magellan for proceeds of \$126, of which Onex’ share was \$34, including \$4 for Onex’ portion of the carried interest. The pre-tax gain was \$52, of which Onex’ share was \$10, before a tax provision of \$3.

Amounts paid on account of these transactions related to the MIP totalled \$3 and have been deducted from earnings from discontinued operations. Amounts received on account of these transactions related to the carried interest as described in note 24(d) totalled \$24, of which Onex’ portion was \$10 and management’s portion was \$14.

d) In July 2005, Onex sold its remaining investment in Commercial Vehicle Group, Inc. (“CVG”) as part of a public offering by CVG for net proceeds of \$81. The pre-tax gain was \$79 before a tax provision of \$11. Due to the sale occurring within one year of Onex’ August 2004 initial disposition of CVG shares, CVG’s results of operations have been reclassified as discontinued operations. Amounts paid on account of these transactions related to the MIP, as described in note 24(e), totalled \$7 and have been deducted from earnings from discontinued operations.

e) In July 2005, Cineplex Entertainment Limited Partnership (“Cineplex Entertainment”), formerly known as Cineplex Galaxy Limited Partnership, completed the acquisition of the Famous Players movie exhibition business, as described in note 3. In connection with the acquisition, Cineplex Entertainment entered into a consent agreement with the Commissioner of Competition that required the divestiture of 34 theatres. In addition, Cineplex Entertainment intends to sell the remainder of its Alliance Atlantis brand theatres. The results of operations for those theatres have been reclassified as discontinued operations. During 2005, Cineplex Entertainment sold 29 theatres (including 27 theatres sold pursuant to the consent agreement referred to above) for proceeds of \$86. The pre- and post-tax accounting gain on the disposition was \$15, of which Onex’ share was \$2.

f) In December 2005, Futuremed Healthcare Products L.P. (“Futuremed”), an ONCAP operating company, filed a registration statement with the Ontario Securities Commission for an initial public offering of income trust units. The offering was completed in January 2006 with 92% of ONCAP I’s ownership being sold and the remaining portion sold in February 2006. Through the offering, ONCAP I received net proceeds of \$71, of which Onex’ share was \$23.

The results of operations for the businesses described above have been reclassified in the audited annual consolidated statements of earnings and audited annual consolidated statements of cash flows for the years ended December 31, 2005 and 2004 as discontinued operations. The amounts for operations now discontinued that were included in the December 31, 2005 and December 31, 2004 audited annual consolidated balance sheets are as follows:

As at December 31, 2005	Cineplex Entertainment	Futuremed	Total
Current assets held by discontinued operations	\$ 1	\$ 17	\$ 18
Long-lived assets held by discontinued operations	3	54	57
Current liabilities held by discontinued operations	-	(8)	(8)
Long-term liabilities held by discontinued operations	(3)	(61)	(64)
Net assets of discontinued operations	\$ 1	\$ 2	\$ 3

**2. EARNINGS FROM DISCONTINUED OPERATIONS (cont'd)**

As at December 31, 2004

	InsLogic	CMC Electronics	Magellan	Cineplex Enter- tainment <sup>(a)</sup>	Futuremed	Total
Cash	\$ -	\$ 23	\$ 421	\$ -	\$ -	\$ 444
Accounts receivable	1	11	66	-	12	90
Other current assets	1	5	162	-	6	174
Current assets held by discontinued operations	2	39	649	-	18	708
Property, plant and equipment	2	4	147	15	1	169
Goodwill	-	4	472	-	12	488
Intangibles and other assets	-	-	155	-	46	201
Long-lived assets held by discontinued operations	2	8	774	15	59	858
Accounts payable and accrued liabilities	(5)	(11)	(363)	-	(9)	(388)
Current portion of long-term debt and obligations under capital leases, without recourse to Onex	-	-	(90)	-	(4)	(94)
Current liabilities held by discontinued operations	(5)	(11)	(453)	-	(13)	(482)
Long-term debt and obligations under capital leases	(52)	-	(366)	-	(31)	(449)
Other liabilities	-	-	(3)	-	-	(3)
Non-controlling interests and cumulative translation adjustment	-	(16)	(462)	-	(8)	(486)
Long-term liabilities held by discontinued operations	(52)	(16)	(831)	-	(39)	(938)
Net assets (liabilities) of discontinued operations	\$ (53)	\$ 20	\$ 139	\$ 15	\$ 25	\$ 146

(a) Includes only those theatres that have been or are intended to be divested.

**3. CORPORATE INVESTMENTS**

During 2005 and 2004 several acquisitions were completed either directly by Onex or through subsidiaries of Onex. Any third-party borrowings in respect of acquisitions are without recourse to Onex.

**2005 ACQUISITIONS**

**a)** In January 2005, the Company completed the acquisition of Center for Diagnostic Imaging, Inc. ("CDI"). CDI owns and operates diagnostic imaging centres in nine markets in the United States. The total equity investment of \$88 for an 84% equity ownership interest was made by Onex and Onex Partners. Onex' net investment in this acquisition was \$21 for a 20% equity ownership at the time of acquisition. Onex has effective voting control of CDI through Onex Partners.

**b)** In February 2005, the Company completed the acquisition of American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. ("EmCare"). AMR is a leading provider of ambulance transport services in the United States. EmCare is a leading provider of outsourced hospital emergency department physician staffing and management services in the United States. The combined entity now operates under Emergency Medical Services Corporation ("EMSC"). The total equity investment of \$266 for a 97%

equity ownership interest was made by Onex and Onex Partners. Onex' net investment in this acquisition was \$100 for a 36% equity ownership at the time of acquisition. Onex has effective voting control of EMSC through Onex Partners.

**c)** In April 2005, Cosmetic Essence, Inc. ("CEI") completed the acquisition of Hauer Custom Manufacturing, Inc. ("Hauer"). Hauer is a full-service manufacturer of household products. The total purchase price of the acquisition was \$23, which was financed with \$23 of borrowings, which are without recourse to Onex.

**d)** In June 2005, the Company completed the acquisition of the Wichita-Tulsa Division of The Boeing Company ("Boeing"). The purchase included Boeing's commercial aerostructures manufacturing facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma. The business, now operating as Spirit AeroSystems, Inc. ("Spirit AeroSystems"), has entered into long-term agreements with Boeing to supply components for all of Boeing's existing 737, 747, 767 and 777 platforms, as well as the new 787 platform. Spirit AeroSystems will also seek business from customers other than Boeing. The total equity investment of \$464 for a 100% equity ownership interest was made by Onex and Onex Partners. Onex' net investment in this acquisition was \$134 for a 29% equity ownership at the time of acquisition. Onex has effective voting control of Spirit AeroSystems through Onex Partners.



e) In July 2005, Cineplex Entertainment completed the acquisition of the Famous Players movie exhibition business in a transaction valued at \$473. To provide financing for the acquisition, various debt and equity transactions were entered into, as described in note 9(b). In connection with the acquisition, Onex received 248,447 units as a transaction fee but did not sell or purchase any additional units in the equity offering. As a result, Onex' ownership interest in Cineplex Entertainment was diluted to 27% from 31% and Onex recorded a dilution gain, as described in note 15. Onex will continue to control and consolidate Cineplex Entertainment subsequent to the transaction.

In connection with the acquisition, Cineplex Entertainment entered into a consent agreement with the Commissioner of Competition to divest itself of 34 theatres. Accordingly, the financial results for those theatres have been included in discontinued operations, as described in note 2.

During the fourth quarter of 2005, Cineplex Entertainment entered into a Media Sales Governing Agreement, which allowed for the termination and windup of Famous Players Media Inc. and the acquisition of three Famous Players branded entertainment magazines in a transaction valued at \$1.

f) In December 2005, the Company completed the acquisition of Skilled Healthcare Group, Inc. ("Skilled Healthcare"). Skilled Healthcare operates skilled nursing and assisted living facilities in California, Texas, Kansas and Nevada. The total equity investment of \$243 for a 93% equity ownership was made by Onex and Onex Partners. Onex' share of the investment in this acquisition was \$57 for a 22% equity ownership at the time of acquisition. Onex has effective voting control of Skilled Healthcare through Onex Partners.

g) During 2005, two of ONCAP's operating companies, Western Inventory Service Ltd. ("WIS") and Canadian Securities Registration Systems Ltd. ("CSRS") completed acquisitions. In April 2005, WIS acquired Washington Inventory Service ("Washington"), a leading provider of inventory counting services in the United States. After the acquisition, WIS and Washington merged to form the second largest inventory counting service provider in the world. In May 2005, CSRS acquired Corporate Research and Analysis Centre Ltd., a provider of corporate and legal searches in Canada. The total purchase price of these acquisitions was \$144 and was financed with \$143 of borrowings, which are without recourse to Onex or ONCAP, and \$1 of equity. Onex' net investment in these acquisitions was less than \$1.

h) Other includes acquisitions completed by CDI and Celestica Inc. ("Celestica").

The purchase prices of the acquisitions described above were allocated to the net assets acquired based on their relative fair values at the date of acquisition. In certain circumstances where estimates have been made, the companies are obtaining third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices. The results of operations for all acquired businesses are included in the audited annual consolidated statement of earnings of the Company from their respective dates of acquisition.

Details of the 2005 acquisitions are as follows:

#### 2005 Acquisitions

	CDI <sup>(a)</sup>	EMSC <sup>(b)</sup>	CEI <sup>(c)</sup>	Spirit AeroSystems <sup>(d)</sup>	Cineplex Entertainment <sup>(e)</sup>	Skilled Healthcare <sup>(f)</sup>	ONCAP <sup>(g)</sup>	Other <sup>(h)</sup>
Cash	\$ 14	\$ 18	\$ -	\$ 168	\$ 20	\$ 43	\$ -	\$ -
Current assets	21	609	4	642	14	73	32	3
Intangible assets with limited life	39	111	1	38	40	3	44	8
Intangible assets with indefinite life	3	1	-	-	33	17	-	-
Goodwill	111	311	-	-	198	451	113	2
Property, plant and equipment and other long-term assets	63	466	20	743	317	345	9	1
	251	1,516	25	1,591	622	932	198	14
Current liabilities	(28)	(304)	(2)	(140)	(87)	(69)	(26)	(4)
Acquisition financing	-	-	(23)	-	(353)	-	(143)	-
Long-term liabilities <sup>(1)</sup>	(117)	(940)	-	(987)	(61)	(602)	(28)	(1)
	106	272	-	464	121	261	1	9
Non-controlling interests in net assets	(18)	(6)	-	-	(113)	(18)	-	-
Interest in net assets acquired	\$ 88	\$ 266	\$ -	\$ 464	\$ 8	\$ 243	\$ 1	\$ 9

(1) Included in liabilities is \$2,268 raised in connection with the original acquisitions.

### 3. CORPORATE INVESTMENTS (cont'd)

#### 2004 ACQUISITIONS

a) In January 2004, the Company completed an investment in Magellan. Headquartered in Connecticut, United States, Magellan is a behavioural managed healthcare organization in the United States. The total equity investment was \$131 for a 24% ownership interest. This was provided through Onex and Onex Partners. Onex' net investment was \$30 for a 6% equity ownership. Onex had effective voting control of Magellan through Onex Partners.

b) In March 2004, Celestica acquired Manufacturers' Services Limited ("MSL"), a full-service global electronics manufacturing and supply chain services company headquartered in the United States. The purchase was financed with the issuance of 14.1 million subordinate voting shares of Celestica, the issuance of options to purchase 2.1 million subordinate voting shares of Celestica, the issuance of warrants to purchase 1.1 million subordinate voting shares of Celestica and \$69 of cash provided by Celestica. The value of the shares was determined based on the average market price of the shares for a reasonable period before and after the date on which the terms of the acquisition were agreed to and announced. In April 2004, Celestica paid approximately \$10 in cash to acquire certain assets located in the Philippines from NEC Corporation.

c) During 2004, ONCAP completed the acquisitions of Futuremed and CSRS. Futuremed, headquartered in Ontario, Canada, is a supplier of medical supplies and equipment to long-term care

facilities. CSRS, headquartered in British Columbia, Canada, is a national provider of *Personal Property Security Act* registration and search services in Canada. The total purchase price of the acquisitions of \$208 was financed with \$133 of borrowings, which are without recourse to Onex or ONCAP, and \$75 of equity. Onex' net investment in these acquisitions was \$17. Onex had indirect voting control of Futuremed and continues to have indirect voting control of CSRS.

d) In December 2004, the Company completed the acquisition of CEI. CEI, headquartered in New Jersey, United States, is a provider of outsourced supply chain management services to the personal care industry. The investment of \$66 in debt and \$72 in equity for a 92% equity ownership at the time of acquisition was provided through Onex and Onex Partners. Onex' net investment in this acquisition was \$16 in debt and \$17 in equity for a 21% equity ownership. Onex has effective voting control of CEI through Onex Partners.

The purchase prices of the acquisitions were allocated to the net assets acquired based on their relative fair values at the dates of acquisition. In certain circumstances where estimates had been made, there were no material adjustments as a result of further refinement of the fair-value allocation of certain purchase prices. The results of operations for all acquired operations are included in the audited annual consolidated statements of earnings of the Company from their respective dates of acquisition.

Details of the 2004 acquisitions, which are all accounted for as purchases, are as follows:

#### 2004 Acquisitions

	Magellan <sup>(a)(1)</sup>	Celestica <sup>(b)</sup>	ONCAP <sup>(c)(1)</sup>	CEI <sup>(d)</sup>
Cash	\$ 282	\$ 27	\$ 4	\$ 6
Current assets	510	373	29	89
Intangible assets with limited life	74	46	32	26
Goodwill	576	298	123	205
Property, plant and equipment and other long-term assets	187	88	60	57
	1,629	832	248	383
Current liabilities	(508)	(296)	(40)	(61)
Acquisition financing	(617)	-	(133)	(66)
Long-term liabilities	(7)	(99)	-	(171)
	497	437	75	85
Non-controlling interests in net assets	(366)	(358)	(21)	(13)
Interest in net assets acquired	\$ 131	\$ 79	\$ 54	\$ 72

(1) Magellan and Futuremed, a subsidiary of ONCAP, were recorded as discontinued operations as at December 31, 2005, as described in note 2.

The cost of acquisitions made during the year includes restructuring and integration costs of \$15 (2004 – \$25). As at December 31, 2005, accounts payable and accrued liabilities and other long-term

liabilities include \$138 and \$3, respectively (2004 – \$96 and \$2), for these and earlier acquisitions.

#### 4. J.L. FRENCH AUTOMOTIVE

The difficult conditions affecting the North American automotive supply sector have rendered J.L. French Automotive Castings, Inc. ("J.L. French Automotive") unable to meet the financial requirements under certain of its lending agreements. Management of J.L. French Automotive has been working with the senior debt holders and other creditor groups to arrange a restructuring of J.L. French Automotive's debts. In February 2006, J.L. French Automotive filed for protection under Chapter 11 of the Bankruptcy Code in the United States. It is contemplated that Onex will have a minimal to no ownership interest in and will cease to control J.L. French Automotive following the restructuring. The debt of J.L. French Automotive has been recorded as current and Onex does not guarantee any of the debt or liabilities of J.L. French Automotive. No adjustments, other than those described above, have been made to the carrying amount of the assets or liabilities of J.L. French Automotive in the audited annual consolidated balance sheets.

The net book value of the investment in J.L. French Automotive recorded in the audited annual consolidated financial statements as at December 31, 2005 is negative \$607. If Onex' equity ownership in J.L. French Automotive were disposed of or abandoned in its entirety for no value, Onex would recognize an accounting gain of \$607.

The following amounts for J.L. French Automotive are included in the December 31, 2005 and December 31, 2004 consolidated balance sheets:

As at December 31	2005	2004
Cash and short-term investments	\$ 15	\$ 5
Accounts receivable	38	52
Inventories	48	52
Other current assets	21	15
Property, plant and equipment	263	302
Investments and other assets	5	5
Intangible assets	18	20
Accounts payable and accrued liabilities	(71)	(105)
Current debt, without recourse to Onex	(783)	(22)
Obligations under capital leases	(19)	(28)
Long-term debt, without recourse to Onex	-	(698)
Other liabilities	(13)	(10)
Cumulative translation adjustment	(129)	(123)
Net liabilities	\$ (607)	\$ (535)

For statements of earnings information regarding J.L. French Automotive, see note 27, "Information by Industry and Geographic Segment" under the segment "Automotive Products".

#### 5. INVENTORIES

Inventories comprised the following:

As at December 31	2005	2004
Raw materials	\$ 1,033	\$ 939
Work in progress	689	236
Finished goods	270	262
	\$ 1,992	\$ 1,437

#### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following:

As at December 31	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 137	\$ -	\$ 137	\$ 104	\$ -	\$ 104
Buildings	1,278	236	1,042	825	236	589
Machinery and equipment	2,888	1,633	1,255	2,143	1,323	820
Construction in progress	256	-	256	29	-	29
	\$ 4,559	\$ 1,869	\$ 2,690	\$ 3,101	\$ 1,559	\$ 1,542

The above amounts include property, plant and equipment under capital leases of \$346 (2004 - \$137) and related accumulated amortization of \$103 (2004 - \$80).

As at December 31, 2005, property, plant and equipment included \$17 (2004 - \$43) of assets held for sale.

## 7. INVESTMENTS AND OTHER ASSETS

Investments and other assets comprised the following:

As at December 31	2005	2004
Investments:		
Private entities – at cost <sup>(a)</sup>	\$ 41	\$ 35
Marketable securities – at cost <sup>(b)</sup>	123	111
Public entities held by OPMG – at market <sup>(c)</sup>	140	–
Equity-accounted investments <sup>(d)</sup>	136	135
Deferred charges	221	99
Derivative instruments (note 22(b))	–	186
Future income taxes (note 20)	235	51
Boeing receivable <sup>(e)</sup>	247	–
Other	136	42
	<b>\$ 1,279</b>	<b>\$ 659</b>

a) The market value of the private entities is not readily determinable with a sufficient degree of precision.

b) The market value of the investments held by the Company as at December 31, 2005 was \$118 and \$149 at December 31, 2004. The December 31, 2004 market value included \$128 for an investment in Compagnie Générale de Géophysique (“CGG”) that was purchased at a cost of \$102 in November 2004. The investment in CGG was sold in 2005.

c) As at December 31, 2005, marketable securities held by OPMG include \$13 of unrealized gains and \$13 of unrealized losses.

d) Included in equity-accounted investments is the investment in ResCare. In June 2004, the Company and Onex Partners completed a \$114 equity investment in ResCare for a 28% effective ownership interest. Onex’ portion of the investment was approximately \$27, representing an initial 7% ownership interest in ResCare. ResCare provides residential, therapeutic, job training and educational support to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment.

e) In connection with the acquisition of Spirit AeroSystems from Boeing, Boeing will make quarterly payments to Spirit AeroSystems beginning in March 2007 through December 2009. The fair value of the receivable was recorded as a long-term asset on the opening balance sheet. The fair value is being accreted to the principal amount over the term of the agreement. The carrying value of the receivable as at December 31, 2005 was \$247.

## 8. INTANGIBLE ASSETS

Intangible assets comprised the following:

As at December 31	2005	2004
Intellectual property with limited life, net of accumulated amortization of \$165 (2004 – \$156)	\$ 47	\$ 53
Intangible assets with limited life, net of accumulated amortization of \$230 (2004 – \$193)	417	194
Intangible assets with indefinite life	55	24
	<b>\$ 519</b>	<b>\$ 271</b>

Intellectual property primarily represents the costs of certain intellectual property and process know-how obtained in acquisitions.

Intangible assets include trademarks, non-competition agreements and contract rights obtained in the acquisition of certain facilities.

## 9. LONG-TERM DEBT OF OPERATING COMPANIES, WITHOUT RECOURSE TO ONEX

Long-term debt of operating companies, without recourse to Onex, is as follows:

As at December 31		2005	2004
<b>Celestica<sup>(a)</sup></b>	7.875% subordinated notes due 2011	\$ 581	\$ 601
	7.625% subordinated notes due 2013	291	-
	Liquid Yield Option™ notes, due 2020	-	149
		872	750
<b>Cineplex Entertainment<sup>(b)</sup></b>	Revolving credit facility and term loans due 2009	244	-
	Revolving credit facility and term loans due 2006	-	126
	Galaxy Entertainment notes due 2028	100	-
	Other	2	3
	346	129	
<b>ClientLogic<sup>(c)</sup></b>	Revolving credit facility due 2005	-	142
	Revolving credit facility and term loans due 2010 and 2012	159	-
	Other, including debt denominated in foreign currencies	99	96
	258	238	
<b>J.L. French Automotive<sup>(d)</sup></b>	Revolving credit facility and term loans due 2011 and 2012	535	490
	Mandatorily redeemable preferred shares	239	209
	11.5% subordinated notes due 2009	33	35
	Other	20	33
	827	767	
<b>Radian<sup>(e)</sup></b>	Revolving credit facility and term loan due 2007	32	31
	Subordinated secured debentures due 2007	16	16
	Other	-	10
	48	57	
<b>Cosmetic Essence<sup>(f)</sup></b>	Revolving credit facility and term loans due 2010 and 2011	155	152
	Subordinated secured notes due 2014	77	72
	232	224	
<b>Center for Diagnostic Imaging<sup>(g)</sup></b>	Revolving credit facility and term loan due 2010	81	-
<b>Emergency Medical Services<sup>(h)</sup></b>	Revolving credit facility and term loan due 2011 and 2012	289	-
	Subordinated secured notes due 2015	291	-
	580	-	
<b>Spirit AeroSystems<sup>(i)</sup></b>	Revolving credit facility and term loan due 2010 and 2011	810	-
	Other	29	-
	839	-	
<b>Skilled Healthcare<sup>(j)</sup></b>	Revolving credit facility and term loan due 2010	301	-
	11.0% subordinated notes due 2014	231	-
	Other	3	-
	535	-	
<b>ONCAP companies<sup>(k)</sup></b>	Term loans due 2006 to 2011	224	166
	Subordinated notes due 2009 and 2010	51	46
	Other	1	1
	276	213	
Less: long-term debt held by the Company	(206)	(204)	
	4,688	2,174	
Current portion of long-term debt of operating companies	(825)	(206)	
Consolidated long-term debt of operating companies, without recourse to Onex	\$ 3,863	\$ 1,968	

## 9. LONG-TERM DEBT OF OPERATING COMPANIES, WITHOUT RECOURSE TO ONEX (cont'd)

Onex does not guarantee the debt of its operating companies, nor are there any cross-guarantees between operating companies.

The financing arrangements for each operating company typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of investments and acquisitions and sale of assets. In addition, certain financial covenants must be met by the operating companies which have outstanding debt.

Future changes in business conditions of an operating company may result in non-compliance with certain covenants by the company. No adjustments to the carrying amount or classification of assets or liabilities of any operating company has been made in the audited annual consolidated financial statements with respect to any possible non-compliance.

### a) Celestica

In June 2004, Celestica amended its credit facility to US\$600 and extended the maturity from October 2004 to June 2007. There were no borrowings outstanding under this facility at December 31, 2005. The facility has restrictive covenants relating to debt incurrence and sale of assets and also contains financial covenants that require Celestica to maintain certain financial ratios. Based on the required minimum financial ratios, at December 31, 2005, Celestica was limited to approximately US\$250 of available debt incurrence.

In June 2004, Celestica issued senior subordinated notes due 2011 with an aggregate principal amount of US\$500, and a fixed interest rate of 7.875%. In connection with the 2011 notes offering, Celestica entered into interest rate swap agreements that swap the fixed interest rate on the notes with a variable interest rate based on LIBOR plus a margin. The average interest rate on the notes was 6.4% for 2005 (2004 – 4.9%). The 2011 notes may be redeemed on July 1, 2008 or later at various premiums above face value. A portion of the proceeds was used in the second quarter of 2004 to repurchase Liquid Yield Option™ notes (“LYONs”).

In June 2005, Celestica issued senior subordinated notes due 2013 with an aggregate principal amount of US\$250 and a fixed interest rate of 7.625%. The 2013 notes may be redeemed on July 1, 2009 or later at various premiums above face value. A portion of the proceeds was used in the third quarter of 2005 to repurchase the remaining LYONs.

### b) Cineplex Entertainment

To fund the July 2005 acquisition of Famous Players, Cineplex Entertainment issued indirectly to Cineplex Galaxy Income Fund (“CGIF”) 6,835,000 Class A LP Units for gross proceeds of approximately \$110 and 5,600,000 Class C LP Units for gross proceeds of \$105. CGIF financed the acquisition of the Class A LP Units and

Class C LP Units through the issuance of 6,835,000 units and the issuance of \$105 convertible extendible unsecured subordinated debentures. The above resulted in Onex no longer consolidating CGIF but continuing to consolidate Cineplex Entertainment.

Galaxy Entertainment Inc., a subsidiary of Cineplex Entertainment, has notes outstanding in the amount of \$100, which are due indirectly to CGIF. The notes bear interest at a rate of 14%, are payable monthly with principal due November 2028 and are subordinate to the amended credit facilities described below. As a result of Onex no longer consolidating CGIF, these notes, which were previously eliminated on consolidation, are now reflected as long-term debt.

The new Class C LP Units issued by Cineplex Entertainment are redeemable by CGIF under certain conditions and as such they have characteristics of both debt and equity. As a result, an amount of \$98 is classified as a liability and is included in other liabilities. An amount of \$9 is recorded in non-controlling interest.

In connection with the acquisition, Cineplex Entertainment entered into an amended and restated credit agreement with a syndicate of lenders pursuant to which it has available: (i) a 364-day \$50 extendible senior secured revolving credit facility; (ii) a four-year \$315 senior secured non-revolving term credit facility; and (iii) a four-year \$60 senior secured revolving credit facility. The amended credit facilities bear interest at a floating rate based on the prime business rate, or bankers' acceptance rate, plus an applicable margin. As at December 31, 2005, nil and \$9 were outstanding on the 364-day and four-year revolving facilities and \$235 was outstanding on the term facility.

Effective July 22, 2005, Cineplex Entertainment entered into interest rate swap agreements to pay interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receive a floating rate. The swaps have terms of four years and an aggregate principal amount outstanding of \$200.

### c) ClientLogic

At December 31, 2004, ClientLogic Corporation (“ClientLogic”) had US\$118 outstanding under the terms of a revolving credit facility due in March 2005. In March 2005, ClientLogic entered into a new credit agreement that provides up to US\$157, consisting of a first lien revolving facility of up to US\$30, due 2010, a first lien term facility of up to US\$77 and a second lien term facility of up to US\$50, both due in 2012. At December 31, 2005, amounts outstanding under these facilities were US\$11, US\$77 and US\$50, respectively. The proceeds from this facility were used to repay all amounts owing under the former credit facility. The facilities bear interest at a rate of either LIBOR or the federal funds rate, plus an applicable margin. As a term of this facility, the demand note of US\$38 held by Onex, as described below, was converted to mandatorily redeemable preferred shares. The first lien facility is due March 2012, with quarterly payments required beginning in 2005. The second lien facility is due September 2012, with no principal

payments due until maturity. ClientLogic is also required to pre-pay certain amounts under the first and second lien facilities should ClientLogic initiate specified transactions, including the issuance of equity, sale of certain assets, additional debt issuance or the maturity of certain notes held by a separate party, if not otherwise extended. Borrowings under the credit facility are collateralized by substantially all of ClientLogic's assets.

At December 31, 2005 ClientLogic had US\$59 (2004 – US\$52) in other debt instruments with varying terms. Included in this amount are mandatorily redeemable preferred shares held by Onex of US\$51, which were converted from a demand note of US\$38 in 2005.

ClientLogic has US\$25 (2004 – US\$27) of loan notes outstanding denominated in pounds sterling which bear interest at 6.5% and are repayable in June 2008. Interest compounds and is added to the notes. The amount of accrued interest at December 31, 2005 was US\$5 (2004 – US\$5).

ClientLogic has entered into an interest rate swap agreement that effectively fixes the interest rate on US\$70 of borrowings under the credit facility. The interest rate swap agreement expires in 2006.

#### **d) J.L. French Automotive**

As described in note 4, J.L. French Automotive filed for bankruptcy protection in February 2006. As a result, as at December 31, 2005, the debt of J.L. French Automotive is classified as current as the company has not met its requirements under its lending agreements. The debt of J.L. French Automotive is without recourse to Onex.

In August 2004, J.L. French Automotive completed a series of refinancing transactions. As part of the refinancing, the company's former Class P shareholders surrendered their outstanding shares in exchange for Class A non-voting shares. The Class P shares were previously shown as liability in these audited annual consolidated financial statements. This contribution to the equity of the company by the non-controlling interests has been reflected in 2004 as an income item representing the funding of the non-controlling interest of past losses. The recovery of losses of other shareholders of J.L. French Automotive recorded in 2004 totalled \$43 and is included in non-controlling interests in the audited annual consolidated financial statements. Also issued was US\$164 of mandatorily redeemable preferred stock, US\$38 of which was purchased by the Company.

In connection with the 2004 refinancing, J.L. French Automotive entered into new senior secured credit facilities, which provide for total borrowings of US\$465. Under their original terms, the facilities were due in 2011 and 2012. At December 31, 2005, US\$67 (2004 – US\$13) was drawn on the revolving facility, US\$223 (2004 – US\$225) was outstanding on the first lien term loan and US\$170 (2004 – US\$170) was outstanding on the second lien term loan.

Interest on the senior secured credit facilities, depending on the type and amount of the borrowings under these facilities, can range from prime rate plus 3.5% to 6.0% per annum, the LIBOR rate plus 4.5% or the Eurocurrency rate plus 7.0% per annum. Interest payments are due quarterly.

Borrowings under the credit facilities are secured and guaranteed by a first priority lien on substantially all of J.L. French Automotive's assets, including a pledge of all of the capital stock of each of the company's directly owned domestic subsidiaries and 65% of the capital stock of directly owned foreign subsidiaries. An element of the credit facilities is secured and guaranteed by a second priority lien on substantially all of J.L. French Automotive's assets.

Also outstanding at December 31, 2005 was US\$29 (2004 – US\$29) of subordinate notes originally due 2009.

#### **e) Radian**

Radian's credit agreement has a revolving credit facility of \$20 and a term loan of \$15. Borrowings under the credit agreement are due in June 2007. Both the revolving credit facility and term loan bear interest at short-term borrowing rates plus a margin. The outstanding borrowings at December 31, 2005 on the revolving credit facility and term loan were \$17 and \$15 (2004 – \$16 and \$15), respectively. The weighted average interest rate for borrowings under the credit agreement was 7.0% in 2005 (2004 – 6.9%). Borrowings under the credit agreement are collateralized by substantially all of the assets of Radian.

In October 2003, Radian issued \$15 in subordinated secured convertible debentures to Onex. The debentures are convertible at any time at the option of the holder or at Radian's option, under certain circumstances, into Class A multiple voting shares of Radian. The debentures bear interest at a rate of 7% per annum and mature in 2007.

#### **f) Cosmetic Essence**

In December 2004, CEI entered into credit agreements with certain financial institutions which provide for a revolving line of credit with maximum borrowings of US\$25, maturing in 2010; a first lien term loan with borrowings of US\$99; and a second lien term loan with borrowings of US\$34. The first lien term loan is repayable through quarterly instalments of principal and interest to be made through December 2010. The second lien term loan pays interest only until its maturity in December 2011. At December 31, 2005, CEI had US\$133 (2004 – US\$129) outstanding under the agreements.

Interest on the borrowings is based, at the option of CEI, upon either a LIBOR rate or a base rate plus an interest rate margin. Substantially all of CEI's assets are pledged as collateral for the borrowings.

## 9. LONG-TERM DEBT OF OPERATING COMPANIES, WITHOUT RECOURSE TO ONEX (cont'd)

CEI also has a promissory note outstanding in the amount of US\$66 (2004 – US\$60), of which US\$61 (2004 – US\$55) is held by the Company. The note is due in 2014, with interest of 9.55% per year, payable in additional notes due in 2014.

### g) Center for Diagnostic Imaging

In January 2005, a US\$95 credit agreement was executed by CDI. This agreement consists of a US\$75 term loan with principal payments due through 2010 and interest at LIBOR plus 3.5%, secured by the assets of CDI. At December 31, 2005, US\$69 was outstanding under the term loan. In addition, the credit agreement provides for up to US\$20 of revolving credit loans. At December 31, 2005, there were no funds outstanding under the revolving line. Future borrowings against this revolving line bear interest at LIBOR plus 2.5% to 3.5%, depending on CDI's leverage ratio.

### h) Emergency Medical Services

In February 2005, EMSC issued US\$250 of senior subordinated notes and executed a US\$450 credit agreement. The senior subordinated notes have a fixed interest rate of 10%, payable semi-annually, and mature in February 2015.

The credit agreement consists of a US\$350 senior secured term loan and a US\$100 senior secured revolving credit facility. The senior secured term loan matures in February 2012 and requires quarterly principal repayments. The revolving facility requires the principal to be repaid at maturity in February 2011. Interest is determined by reference to a leverage ratio and can range from prime plus 1.0% to 2.0% and LIBOR plus 2.0% to 3.0%. As at December 31, 2005, US\$248 and nil were outstanding under the senior secured term loan and the senior secured revolving credit facility, respectively.

Substantially all of EMSC's assets are pledged as collateral under the credit agreement.

### i) Spirit AeroSystems

In June 2005, Spirit AeroSystems executed a US\$875 credit agreement that consists of a US\$700 senior secured term loan and a US\$175 senior secured revolving credit facility. The senior secured term loan requires quarterly principal instalments of US\$2, with the balance due in four equal quarterly instalments of US\$165 in 2011. The revolving facility requires the principal to be repaid at maturity in June 2010. As at December 31, 2005, US\$697 and nil were outstanding under the term loan and revolving facility, respectively.

The borrowings under the agreement bear interest based on LIBOR or a base rate plus an interest rate margin of up to 2.75%, payable quarterly. In connection with the term loan, Spirit AeroSystems entered into interest rate swap agreements on

US\$500 of the term loan. The agreements, which range from three to five years, swap the floating interest rate with a fixed interest rate that ranges between 4.2% and 4.4%.

Substantially all of Spirit AeroSystems' assets are pledged as collateral under the credit agreement.

In connection with the acquisition, the seller, Boeing, has provided Spirit AeroSystems with a line of credit of up to US\$150. The line of credit bears interest at a rate of LIBOR plus 6.0% and is subordinate to the borrowings under the credit agreement. The line may be drawn upon any time up to December 31, 2008 and any such borrowings would mature in June 2013. As at December 31, 2005, no amounts were outstanding under this line of credit.

### j) Skilled Healthcare

In December 2005, Skilled Healthcare issued unsecured senior subordinated notes in the amount of US\$200 due in 2014. The notes bear interest at a rate of 11.0% per annum and are redeemable at the option of the company at various premiums above face value beginning in 2009. At December 31, 2005, US\$199 was outstanding under the notes.

Skilled Healthcare's first lien credit agreement consists of a US\$260 term loan and a US\$75 revolving loan. The term loan is due in 2010, with annual principal instalments of 1% of the balance. Both the term loan and the revolving loan bear interest at the prime rate or LIBOR, plus a margin. At December 31, 2005, US\$259 and nil were outstanding under the term loan and revolving loan, respectively. The first lien credit agreement is secured by the real property of Skilled Healthcare.

### k) ONCAP companies

ONCAP's investee companies include CMC Electronics, WIS, and CSRS. Each has debt that is included in Onex' audited annual consolidated financial statements. There are separate arrangements for each of the investee companies with no cross-guarantees between the companies or by Onex.

Under the terms of credit agreements, combined revolving credit facilities of \$24 and term borrowings of \$250 are available. The available facilities bear interest at various rates based on prime, U.S. base or LIBOR plus a margin. During 2005, interest rates ranged from 4.6% to 10.7% (2004 – 3.9% to 8.2%) on borrowings under the revolving credit and term facilities. Quarterly repayments of a portion of the term loans commenced in June 2002, while the remainder of the credit facilities are repayable between 2009 and 2011. Borrowings under these credit facilities at December 31, 2005 were \$224 (2004 – \$166). The companies also have subordinated notes of \$51 (2004 – \$46), due in 2009 and 2010, that bear interest ranging from 16% to 18% (2004 – 16% to 18%), of which the Company owns approximately \$25 (2004 – \$22).



One of the companies has entered into an interest rate swap agreement that effectively fixes the floating rate on \$60 (2004 – \$23) of variable rate loans over periods ranging from three to five years.

The annual minimum repayment requirements for the next five years on consolidated long-term debt are as follows:

2006	\$ 825
2007	90
2008	254
2009	289
2010	333
Thereafter	2,897
	\$ 4,688

#### 10. LEASE COMMITMENTS

The future minimum lease payments are as follows:

	Capital Leases	Operating Leases
For the year:		
2006	\$ 29	\$ 255
2007	22	219
2008	16	194
2009	14	170
2010	6	157
Thereafter	44	1,177
Total future minimum lease payments	\$ 131	\$ 2,172
Less: imputed interest	(29)	
Balance of obligations under capital leases, without recourse to Onex	102	
Less: current portion	(25)	
Long-term obligations under capital leases, without recourse to Onex	\$ 77	

Essentially all of the lease commitments relate to the operating companies.

#### 11. EXCHANGEABLE DEBENTURES

In 2000 Onex issued 25-year debentures exchangeable for subordinate voting shares of Celestica. The debentures had an aggregate principal amount of \$729, average interest rate of 1.6% and an average exchange rate on the principal amount of 12.64 shares per thousand dollars. In February 2005, Onex redeemed all of the outstanding exchangeable debentures through the delivery of 9,214,320 Celestica subordinate voting shares. As a result of the redemption, Onex recorded a gain, as described in note 15.

The debentures were exchangeable, at the request of the holder, into a fixed number of subordinate voting shares of Celestica or, at the option of the Company, it could deliver the cash equivalent based on the market price of the shares at the time of exchange, or a combination of shares and cash. The debentures were redeemable at any time by the Company. Upon redemption Onex could, at its option, repay the principal amount by delivering Celestica subordinate voting shares based on the fixed exchange rate or pay the cash equivalent, or a combination of shares and cash.

The market value and deferred amount of the exchangeable debentures were as follows:

As at December 31	2004
Carrying amount (cost)	\$ 729
Deferred amount, included in other liabilities (note 12)	(549)
Change in fair value	(24)
Market value	\$ 156

The market value of the exchangeable debentures at December 31, 2004 was based on the market price, as at the balance sheet date, of the underlying subordinate voting shares of Celestica. The deferred amount represents previously deferred gains, prior to adoption of AcG-13.

Interest expense related to the exchangeable debentures amounted to \$1 (2004 – \$11) and was netted against interest and other income.

## 12. OTHER LIABILITIES

Other liabilities comprised the following:

As at December 31	2005	2004
Reserves <sup>(a)</sup>	\$ 210	\$ 1
Deferred revenue and other deferred items	159	36
Boeing advance <sup>(b)</sup>	233	-
Convertible debentures (note 9(b))	98	-
Pension and non-pension post-retirement benefits (note 25)	220	117
Stock-based compensation	53	58
Exchangeable debentures (note 11)	-	549
Derivative instruments (note 22(b))	-	181
Other <sup>(c)</sup>	142	151
	<b>\$ 1,115</b>	<b>\$ 1,093</b>

**a)** Reserves consist primarily of US\$144 established by EMSC for automobile, workers compensation, general liability and professional liability. This includes the use of an offshore captive insurance program.

**b)** Pursuant to the 787 long-term supply agreement, Boeing will make advance payments to Spirit AeroSystems. As at December 31, 2005, US\$200 in such advance payments had been made and will be settled against future sales of Spirit AeroSystems' 787 units to Boeing.

**c)** Other includes acquisition and restructuring accruals as well as amounts for anticipated liabilities arising from indemnifications.

## 13. SHARE CAPITAL

**a)** The authorized share capital of the Company consists of:

*i)* 100,000 Multiple Voting Shares, which entitle their holders to elect 60% of the Company's Directors and carry such number of votes in the aggregate as represents 60% of the aggregate votes attached to all shares of the Company carrying voting rights. The Multiple Voting Shares have no entitlement to a distribution on winding-up or dissolution other than the payment of their nominal paid-up value.

*ii)* An unlimited number of Subordinate Voting Shares, which carry one vote per share and as a class are entitled to 40% of the aggregate votes attached to all shares of the Company carrying voting rights; to elect 40% of the Directors; and to appoint the auditors. These shares are entitled, subject to the prior rights of other classes, to distributions of the residual assets on winding-up and to any declared but unpaid cash dividends. The shares are entitled to receive cash dividends, dividends in kind and stock dividends as and when declared by the Board of Directors.

The Multiple Voting Shares and Subordinate Voting Shares are subject to provisions whereby, if an event of change occurs (such as Mr. Schwartz, Chairman and CEO, ceasing to hold, directly or indirectly, more than 5,000,000 Subordinate Voting Shares or related events), the Multiple Voting Shares will thereupon be entitled to elect only 20% of the Directors and otherwise will cease to have any general voting rights. The Subordinate Voting Shares would then carry 100% of the general voting rights and be entitled to elect 80% of the Directors.

*iii)* An unlimited number of Senior and Junior Preferred Shares issuable in series. The Directors are empowered to fix the rights to be attached to each series. There is no consolidated paid-in value for these shares.

**b)** During 2005, under the Dividend Reinvestment Plan, the Company issued 2,865 (2004 – 72,166) Subordinate Voting Shares at a total value of less than \$1 (2004 – \$1). In 2005, no Subordinate Voting Shares were issued upon the exercise of stock options. In 2004, 71,000 Subordinate Voting Shares were issued upon the exercise of stock options of the Company at a value of less than \$1.

The Company repurchased and cancelled under Normal Course Issuer Bids 939,200 (2004 – 9,143,100) of its Subordinate Voting Shares at a cash cost of \$18 during 2005 (2004 – \$150). The excess of the purchase cost of these shares over the average paid-in amount was \$14 (2004 – \$113), which was charged to retained earnings.

Onex renewed its Normal Course Issuer Bid in April 2005 for one year, permitting the Company to purchase on the Toronto Stock Exchange up to 10% of the public float of its Subordinate Voting Shares. The 10% limit represents approximately 11 million shares.

**c)** At December 31, 2005 the issued and outstanding share capital consisted of 100,000 (2004 – 100,000) Multiple Voting Shares, 138,079,031 (2004 – 139,015,366) Subordinate Voting Shares and 176,078 (2004 – 176,078) Series 1 Senior Preferred Shares. The Series 1 Senior Preferred Shares have no paid-in amount reflected in these consolidated financial statements and the Multiple Voting Shares have nominal paid-in value.

**d)** The Company has a Deferred Share Unit Plan as described in note 1. At December 31, 2005, there were 116,301 (2004 – 40,000) units outstanding, for which \$1 (2004 – \$1) has been recorded as compensation expense.

**e)** The Company has a Stock Option Plan (the "Plan") under which options and/or share appreciation rights for a term not exceeding 10 years may be granted to Directors, officers and employees for the acquisition of Subordinate Voting Shares of the Company at a price not less than the market value of the shares on the business

day preceding the day of the grant. Under the Plan, no options or share appreciation rights may be exercised unless the average market price of the Subordinate Voting Shares for the five prior business days exceeds the exercise price of the options or the share appreciation rights by at least 25% (the “exercisable price”). At December 31, 2005, 15,632,000 (2004 – 15,632,000) Subordinate Voting Shares were reserved for issuance under the Plan, against which options representing 13,434,600 (2004 – 13,961,700) shares were outstanding. The Plan provides that the number of options issued to certain individuals in aggregate may not exceed 10% of the shares outstanding at the time the options are issued.

All options vest at a rate of 20% per year from the date of grant. When an option is exercised, the employee has the right to request that the Company repurchase the option for an amount equal to the difference between the fair value of the stock under the option and its exercise price. Upon receipt of such request, the Company has the right to settle its obligation to the employee by the payment of cash, the issuance of shares or a combination of cash and shares.

Details of options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2003	12,259,000	\$ 9.66
Granted	10,205,000	\$ 16.54
Exercised or surrendered	(8,345,800)	\$ 7.78
Expired	(156,500)	\$ 18.56
Outstanding at December 31, 2004	<b>13,961,700</b>	<b>\$ 15.71</b>
Granted	-	-
Exercised or surrendered	<b>(110,600)</b>	<b>\$ 8.10</b>
Expired	<b>(416,500)</b>	<b>\$ 18.19</b>
Outstanding at December 31, 2005	<b>13,434,600</b>	<b>\$ 15.69</b>

During 2005, the total cash consideration paid on options surrendered was \$1 (2004 – \$71). This amount represents the difference between the market value of the Subordinate Voting Shares at the time of surrender and the exercise price, both as determined under the Plan.

In January 2006, the Company issued 140,000 options at an exercise price of \$19.25 per share.

Options outstanding at December 31, 2005 consisted of the following:

Number of Options Outstanding	Exercise Price	Number of Options Exercisable	Exercisable Price	Remaining Life (years)
568,000	\$ 7.30	568,000	\$ 9.13	2.1
1,171,600	\$ 8.62	1,171,600	\$ 10.78	2.3
624,000	\$ 20.23	-	\$ 25.29	4.0
655,000	\$ 20.50	-	\$ 25.63	6.5
625,000	\$ 14.90	250,000	\$ 18.63	7.1
7,260,000	\$ 15.87	-	\$ 19.84	8.2
2,531,000	\$ 18.18	-	\$ 22.73	8.9
13,434,600		1,989,600		

#### 14. INTEREST EXPENSE OF OPERATING COMPANIES

Year ended December 31	2005	2004
Interest on long-term debt of operating companies	\$ 311	\$ 168
Interest on obligations under capital leases of operating companies	6	2
Other interest of operating companies	15	25
Interest expense of operating companies	\$ 332	\$ 195

Cash interest paid during the year amounted to \$221 (2004 – \$180).

#### 15. GAINS ON SALES OF OPERATING COMPANIES, NET

During 2005 and 2004, Onex completed a number of unrelated transactions by selling all or a portion of its ownership interests in certain companies. The major transactions and the resulting pre-tax gains are summarized and described as follows:

Year ended December 31	2005	2004
Gains on:		
Close of exchangeable debentures on Celestica shares <sup>(a)</sup>	\$ 560	\$ -
Close of forward sales agreements on Celestica shares <sup>(b)</sup>	191	-
Sale of CGG convertible bonds <sup>(c)</sup>	41	-
Issue of units by Cineplex Entertainment <sup>(d)</sup>	53	-
Issue of shares by EMSC <sup>(e)</sup>	40	-
Performance Logistics Group <sup>(f)</sup>	-	58
Issue of shares by Celestica <sup>(g)</sup>	-	9
Sale of Tower Automotive <sup>(h)</sup>	-	6
Other, net <sup>(i)</sup>	36	34
	\$ 921	\$ 107

a) In February 2005, the Company redeemed all of its outstanding exchangeable debentures and satisfied the debenture obligation through the delivery of 9,214,320 Celestica subordinate voting shares. In connection with the delivery, the Company converted approximately 9,214,320 of the Celestica multiple voting shares it held into Celestica subordinate voting shares. As a result of the redemption, the Company's equity ownership in Celestica was reduced to 14% from 18%; however, the Company continued to have voting control over Celestica. The Company recognized a gain of \$560 on the redemption, which consists of a previously deferred gain of \$549 and the difference between book value and market value at the time of redemption. The cash for these exchangeable debentures was received by the Company when it originally entered into these arrangements in 2000.

b) In June 2005, the Company settled all of its outstanding forward sales agreements through the delivery of approximately 1.8 million Celestica subordinate voting shares, for which it received proceeds of \$222. In connection with the delivery, the Company converted approximately 0.2 million of the Celestica multiple voting shares it held into Celestica subordinate voting shares. As a result of the settlement, the Company's equity ownership in Celestica was reduced to 13% from 14%; however, the Company continues to have voting control of Celestica. The Company recognized a gain of \$191 on the redemption, which consists of a previously deferred gain of \$181 and the difference between book value and market value at the time of settlement. The forward sales agreements were originally entered into in 2000.

c) During 2005, through three separate transactions, Onex and Onex Partners sold their investment in bonds of CGG for proceeds of \$145, of which Onex' share was \$34. Onex' share of the pre-tax gain was \$9.

Amounts paid on account of these transactions related to the MIP, as described in note 24(e), totalled \$1, and have been deducted from the gain.

Amounts related to the carried interest, as described in note 24(d), totalled \$4, of which Onex' portion was deferred.

d) In July 2005, in connection with Cineplex Entertainment's acquisition of Famous Players, Cineplex Entertainment issued additional units to provide a portion of the financing. Onex' ownership interest was diluted from 31% to 27% as a result of the issuance of additional units by Cineplex Entertainment to unitholders other than Onex. As a result of the dilution of the Company's investment in Cineplex Entertainment, a non-cash dilution gain of \$53 was recorded, of which Onex' share was \$30. This reflects Onex' share of the increase in the book value of the net assets of Cineplex Entertainment due to the issue of additional units. Onex did not sell or purchase any additional units in the unit offering.

e) In December 2005, EMSC completed a US\$113 initial public offering of common stock (NYSE: EMS). The offering resulted in EMSC receiving net proceeds of approximately US\$102, which were used to reduce outstanding indebtedness and for general corporate purposes. Onex did not receive any proceeds from the transaction. As a result of the offering, Onex' economic ownership in EMSC decreased from 36% to 29%. As part of the transaction, Onex converted its shares held into Multiple Voting shares and its voting interest decreased from 100% to 97%.

As a result of the dilution of the Company's economic interest, a non-cash dilution gain of \$40 was recorded, of which Onex' share was \$15. This reflects Onex' share of the excess of the proceeds from the offering over minority interests' share of the net assets.

f) In March 2004, Performance Logistics Group, Inc. ("PLG") acquired Leaseway Auto Carrier Group, a subsidiary of Penske Truck Leasing Co., L.P. Onex did not sell or purchase any shares of PLG in this offering and Onex' ownership in PLG was diluted from a controlling 50% interest to a non-controlling 26% interest as a result of the additional shares issued. Since Onex ceased to control PLG after the issuance of the additional PLG shares, the investment was no longer consolidated but was accounted for using the equity method. As a result of the dilution of Onex' investment in PLG, in 2004 Onex recorded a non-cash gain of \$58, reflecting the net liabilities of PLG, which are now accounted for under the equity method. This gain is comprised of a non-cash dilution gain of \$22 and the reversal of \$36 of losses of PLG previously recognized by Onex that were in excess of the other shareholders' equity in PLG.

g) In March 2004, Celestica acquired MSL and issued approximately 14.1 million Celestica subordinate voting shares as part of the consideration paid. Onex recorded a dilution gain of \$9 as a result of the reduction in Onex' ownership through the share issuance. Onex' ownership after the dilution was 18% and it retained voting control of Celestica.

h) In February 2004, Onex completed the sale of its remaining interest in Tower Automotive, Inc. for net cash proceeds of \$8.

i) Included in 2005 was a gain of \$32 (2004 – \$23) from the interest in Ripplewood, a U.S.-based acquisition fund.

**16. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES**

Year ended December 31	2005	2004
Celestica	\$ 193	\$ 184
Spirit AeroSystems	42	-
ClientLogic	9	5
J.L. French Automotive	8	7
Other	14	8
	\$ 266	\$ 204

Costs incurred relate to the restructuring activities, implementation of business processes, infrastructure and information systems for operations acquired.

The operating companies record restructuring charges relating to employee terminations, contractual lease obligations and other exit costs when the liability is incurred. The recognition of these charges requires management to make certain judgments regarding the nature, timing and amounts associated with the planned restructuring activities, including estimating sublease income and the net recovery from equipment to be disposed of. At the end of each reporting period, the operating companies evaluate the appropriateness of the remaining accrued balances.

In January 2005, Celestica announced plans to further improve capacity utilization and accelerate margin improvements. These restructuring actions will include facility closures and a reduction in workforce, primarily targeting our higher-cost geographies where end-market demand has not recovered to the levels management requires to achieve sustainable profitability.

The tables below provide a summary of restructuring activities undertaken by the operating companies detailing the components of the charges and movement in accrued liabilities. This summary is presented by the year in which the restructuring activities were initiated.

Years prior to 2004	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 338	\$ 160	\$ 37	\$ 339	\$ 874 <sup>(a)</sup>
Cumulative costs expensed to date	338	160	37	339	874 <sup>(a)</sup>
Expense (recovery) for the year ended December 31, 2005	(6)	6	1	-	1
Reconciliation of accrued liability					
Closing balance – December 31, 2004	20	48	3		71
Cash payments	(3)	(14)	(2)		(19)
Charges	(6)	6	1		1
Other adjustments	-	(2)	-		(2)
Closing balance – December 31, 2005	\$ 11	\$ 38	\$ 2		\$ 51

(a) Includes Celestica \$847, J.L. French Automotive \$18, ClientLogic \$5 and Radian \$4.

16. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES (cont'd)

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Initiated in 2004</b>					
Total estimated expected costs	\$ 139	\$ 13	\$ 13	\$ 49	\$ 214 <sup>(a)</sup>
Cumulative costs expensed to date	138	13	13	49	213 <sup>(b)</sup>
Expense for the year ended					
December 31, 2005	18	2	3	9	32
Reconciliation of accrued liability					
Closing balance – December 31, 2004	25	6	8		39
Cash payments	(37)	(2)	(6)		(45)
Charges	18	2	3		23
Other adjustments	(2)	(1)	(1)		(4)
Closing balance – December 31, 2005	\$ 4	\$ 5	\$ 4		\$ 13

(a) Includes Celestica \$197, J.L. French Automotive \$7, ClientLogic \$3, Radian \$4 and CMC \$3.

(b) Includes Celestica \$197, J.L. French Automotive \$7, ClientLogic \$3, Radian \$4 and CMC \$2.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Initiated in 2005</b>					
Total estimated expected costs	\$ 255	\$ 26	\$ 62	\$ 13	\$ 356 <sup>(a)</sup>
Cumulative costs expensed to date	150	19	55	9	233 <sup>(b)</sup>
Expense for the year ended					
December 31, 2005	150	19	55	9	233
Reconciliation of accrued liability					
Cash payments	(95)	(1)	(39)		(135)
Charges	150	19	55		224
Closing balance – December 31, 2005	\$ 55	\$ 18	\$ 16		\$ 89

(a) Includes Celestica \$287, Spirit AeroSystems \$43, ClientLogic \$8, Radian \$7, WIS \$5, EMSC \$2, CMC \$1 and Other \$3.

(b) Includes Celestica \$167, Spirit AeroSystems \$43, ClientLogic \$8, Radian \$4, WIS \$5, EMSC \$2, CMC \$1 and Other \$3.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Total</b>					
Total estimated expected costs	\$ 732	\$ 199	\$ 112	\$ 401	\$ 1,444
Cumulative costs expensed to date	626	192	105	397	1,320
Expense for the year ended					
December 31, 2005	162	27	59	18	266
Reconciliation of accrued liability					
Closing balance – December 31, 2004	45	54	11		110
Cash payments	(135)	(17)	(47)		(199)
Charges	162	27	59		248
Other adjustments	(2)	(3)	(1)		(6)
Closing balance – December 31, 2005	\$ 70	\$ 61	\$ 22		\$ 153

**17. DEBT PREPAYMENT**

Year ended December 31	2005	2004
Cineplex Entertainment	\$ 4	\$ -
J.L. French Automotive	-	5
Celestica	-	2
Other	2	1
	\$ 6	\$ 8

**18. WRITEDOWN OF GOODWILL AND INTANGIBLE ASSETS**

Year ended December 31	2005	2004
Celestica <sup>(a)</sup>	\$ 1	\$ 388
ClientLogic <sup>(b)</sup>	2	5
	\$ 3	\$ 393

a) During the fourth quarter, Celestica performed its annual impairment tests of goodwill and intangible assets and determined that writedowns of nil (2004 – \$351) in goodwill and \$1 (2004 – \$37) in other intangibles was required. The majority of the writedowns in 2004 were due to restructuring plans and the continued transfer of major customer programs from higher-cost

**20. INCOME TAXES**

The reconciliation of statutory income tax rates to the Company's effective tax rate is as follows:

Year ended December 31	2005	2004
Income tax recovery (provision) at statutory rates	\$ (295)	\$ 308
Increase (decrease) related to:		
Decrease (increase) in valuation allowance <sup>(1)</sup>	70	(435)
Amortization of non-deductible items	(1)	(126)
Income tax rate differential of operating investments	75	(48)
Non-taxable accounting gains	185	32
Other, including permanent differences	(106)	(9)
Provision for income taxes	\$ (72)	\$ (278)
Classified as:		
Current	\$ (86)	\$ (34)
Future	14	(244)
Provision for income taxes	\$ (72)	\$ (278)

(1) During the fourth quarter of 2004, the valuation allowance increased, in large part due to Celestica establishing a valuation allowance of \$302 related to future income tax assets previously recorded in respect of net operating loss carryforwards and certain other deductible temporary differences from its U.S. and European operations.

to lower-cost geographies whereby these actions reduced the forecasted revenue and net cash flows for many facilities.

b) In 2005, ClientLogic performed its annual impairment tests of goodwill and intangible assets and determined that a writedown of \$2 was required as a result of its early termination of the technology infrastructure services agreement with British Telecom. In 2004, the impairment tests resulted in a writedown of \$5 in intangible assets due to the loss of certain client contracts.

**19. WRITEDOWN OF LONG-LIVED ASSETS**

Year ended December 31	2005	2004
Celestica <sup>(a)</sup>	\$ 1	\$ 84
J.L. French Automotive <sup>(b)</sup>	-	8
Other	4	2
	\$ 5	\$ 94

a) In 2005, Celestica recorded an impairment of \$1 (2004 – \$84) against property, plant and equipment.

b) In 2004, J.L. French Automotive implemented restructuring plans for its U.K. operations which resulted in an impairment of \$8 against property, plant and equipment.

**20. INCOME TAXES (cont'd)**

The Company's future income tax assets and liabilities comprised the following:

As at December 31	2005	2004
Future income tax assets:		
Net operating losses carried forward	\$ 986	\$ 1,031
Net capital losses carried forward	-	45
Accounting provisions not currently deductible	250	172
Scientific research deductions and credits	-	9
Property, plant and equipment, intangible and other assets	97	117
Share issue costs of operating investments	4	16
Acquisition and integration costs	89	91
Pension and non-pension post-retirement benefits	5	11
Other	28	4
Less: valuation allowance	(1,172)	(1,428)
	<b>287</b>	<b>68</b>
Future income tax liabilities:		
Property, plant and equipment, intangible and other assets	(106)	(52)
Pension and non-pension post-retirement benefits	(22)	(20)
Gains on sales of operating investments	(639)	(617)
Other	-	(2)
	<b>(767)</b>	<b>(691)</b>
Future income tax liabilities, net	<b>\$ (480)</b>	<b>\$ (623)</b>
Classified as:		
Current asset	\$ 52	\$ 17
Long-term asset	235	51
Long-term liability	(767)	(691)
Future income tax liabilities, net	<b>\$ (480)</b>	<b>\$ (623)</b>

The Company and its investment-holding companies have tax-loss carryforwards of \$267 available to reduce future income taxes to the year 2014.

At December 31, 2005, certain operating companies in Canada and the United States had tax-loss carryforwards available to reduce future income taxes of those companies in the amount of \$3,010, of which \$592 had no expiry, \$846 were available to reduce future taxes between 2006 and 2010, inclusive, and \$1,572 were available with expiration dates of 2011 through 2025.

Cash taxes paid during the year amounted to \$114 (2004 – \$30).



## 21. NET EARNINGS PER SUBORDINATE VOTING SHARE

The weighted average number of Subordinate Voting Shares for the purpose of the earnings per share calculations is as follows:

Year ended December 31	2005	2004
Weighted average number of shares <i>(in millions)</i> :		
Basic	139	142
Diluted	139	142

## 22. FINANCIAL INSTRUMENTS

### a) Fair values of financial instruments

The estimated fair values of financial instruments as at December 31, 2005 and 2004 are based on relevant market prices and information available at those dates. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values that have not been disclosed elsewhere in these consolidated financial statements include the following:

As at December 31	2005		2004	
	Carrying Amount	Fair Value/ (Unwind Costs)	Carrying Amount	Fair Value/ (Unwind Costs)
Financial liabilities:				
Long-term debt <sup>(i)</sup>	\$ 3,863	\$ 3,873	\$ 1,968	\$ 1,968
Foreign currency contracts	\$ -	\$ (7)	\$ -	\$ (44)
Interest rate swap agreements	\$ -	\$ 14	\$ -	\$ (25)

(i) The fair value of long-term debt is based on quoted market prices for the financial instruments and for others of similar rating and risk. Certain components of long-term debt primarily comprise term loans and other credit facilities with interest and repayment terms that are not significantly different from current market rates. Accordingly, the carrying values approximate estimated fair values.

### b) Forward sales agreements

In 2000, the Company entered into the following forward sales agreements relating to subordinate voting shares of Celestica. In June 2005, the Company settled the forward sales agreements and recorded a gain, as described in note 15. As at December 31, 2004, the fair value of the forward sales agreements was included in investments and other assets (note 7). Changes in market value of the forward contracts up to the date of settlement have been recorded in the audited annual consolidated statement of earnings under "Derivative instruments".

Inception Date	Maturity Date	Number of Celestica Shares	Reference Price per Share	December 31, 2004 Fair Value
August 2000	August 2025	472,840	\$ 111.24	\$ 44
November 2000	November 2025	1,284,627	\$ 128.47	\$ 142

The reference price approximated the market value of a Celestica subordinate voting share at the time the forward sales agreements were entered into. The reference prices under the contracts have increased over time.

The fair value represents the difference between the reference price under the contract and the market price of a Celestica share as at December 31, 2004 for the number of shares under the contract.

### 23. SIGNIFICANT CUSTOMERS OF OPERATING COMPANIES AND CONCENTRATION OF CREDIT RISK

A number of operating companies, by the nature of their businesses, individually serve major customers that account for a large portion of their revenues. For each of these operating companies, the table below shows the number of significant customers and the percentage of revenues they represent.

Year ended December 31	2005		2004	
	Number of Significant Customers	Percentage of Revenues	Number of Significant Customers	Percentage of Revenues
Celestica	2	26%	2	26%
ClientLogic	1	22%	1	22%
J.L. French Automotive	2	82%	2	83%
Radian	1	10%	1	13%
CEI	3	49%	3	59%
CDI	1	12%	-	-
EMSC	2	73%	-	-
Spirit AeroSystems	1	99%	-	-

Accounts receivable from the above significant customers at December 31, 2005 and 2004 totalled \$860 and \$236, respectively.

### 24. COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

a) Contingent liabilities in the form of letters of credit, letters of guarantee and surety and performance bonds are provided by certain operating companies to various third parties and include certain bank guarantees. At December 31, 2005, the amounts payable in respect of these guarantees totalled \$153. Certain operating companies have guarantees with respect to employee share purchase loans that amounted to \$2 at December 31, 2005. These guarantees are without recourse to Onex.

The Company has commitments in the total amount of approximately \$440 in respect of corporate investments, including the commitments to Onex Real Estate Partners LP and ONCAP II as indicated in note 26.

The Company and its operating companies have also provided certain indemnifications, including those related to businesses that have been sold. The maximum amounts from many of these indemnifications cannot be reasonably estimated at this time. However, in certain circumstances, the Company and its operating companies have recourse against other parties to mitigate the risk of loss from these indemnifications.

The Company and its operating companies have commitments in respect of real estate operating leases, which are disclosed in note 10. The aggregate capital commitments as at December 31, 2005 amounted to \$246.

b) The Company and its operating companies may become parties to legal claims, product liability and warranty claims arising in the ordinary course of business. Certain operating companies, as conditions of acquisition agreements, have agreed to accept certain pre-acquisition liability claims against the acquired companies. The operating companies have recorded liability provisions for the estimated amounts that may become payable for such claims to the extent that they are not covered by insurance or recoverable from other parties. It is management's opinion that the resolution of known claims should not have a material adverse impact on the consolidated financial position of Onex. However, there can be no assurance that unforeseen circumstances will not result in significant costs.

c) The operating companies are subject to laws and regulations concerning the environment and to the risk of environmental liability inherent in activities relating to their past and present operations. As conditions of acquisition agreements, certain operating companies have agreed to accept certain pre-acquisition liability claims on the acquired companies after obtaining indemnification from prior owners.

The Company and its operating companies also have insurance to cover costs incurred for certain environmental matters. Although the effect on operating results and liquidity, if any, cannot be reasonably estimated, management of Onex and the operating companies believe, based on current information, that these environmental matters should not have a material adverse effect on the Company's consolidated financial condition.

**d)** In February 2004, Onex completed the closing of Onex Partners with funding commitments totalling approximately \$2,100. Onex Partners is to provide committed capital for future Onex-sponsored acquisitions not related to Onex' operating companies at December 31, 2003 or to ONCAP. As at December 31, 2005, approximately \$1,400 has been invested of the total approximately \$2,100 of capital committed. Onex has funded \$316 of its \$480 commitment. Onex controls the General Partner and Manager of Onex Partners. Onex management has committed, as a group, to invest a minimum of 1% of Onex Partners, which may be adjusted annually up to a maximum of 4%. As at December 31, 2005, management and directors had committed 4%. The total amount invested in Onex Partners investments by Onex management and directors for the year ended December 31, 2005 was \$30.

Onex receives annual management fees based upon 2% of the capital committed to Onex Partners by investors other than Onex and Onex management. The annual management fee is reduced to 1% of the net funded capital at the earlier of the end of the commitment period, when the funds are fully invested, or if Onex establishes a successor fund. Onex is entitled to receive a carried interest on the overall gains achieved by Onex Partners investors other than Onex to the extent of 20% of the gains, provided that Onex Partners investors have achieved a minimum 8% return on their investment in Onex Partners over the life of Onex Partners. The investment by Onex Partners investors for this purpose takes into consideration management fees and other amounts paid in by Onex Partners investors.

The returns to Onex Partners investors other than Onex and Onex management are based upon all investments made through Onex Partners, with the result that initial carried interests achieved by Onex on gains could be recovered from Onex if subsequent Onex Partners investments do not exceed the overall target return level of 8%. Consistent with market practice, Onex, as sponsor of Onex Partners, will be allocated 40% of the carried interest with 60% allocated to the management. Onex defers all gains associated with the carried interest until such time as Onex Partners is closed. For the year ended December 31, 2005, \$11 has been received by Onex as carried interest and deferred while management received \$17 with respect to the carried interest.

**e)** Under the terms of the MIP approved in June 1996, management members of the Company invest in all of the operating entities acquired by the Company.

The aggregate investment by management members under the MIP is limited to 9% of Onex' interest in each acquisition. The form of the investment is a cash purchase for 1/6th (1.5%) of the MIP's share of the aggregate investment and investment rights for the remaining 5/6th (7.5%) of the MIP's share at the same price. The investment rights to acquire the remaining 5/6th vest equally over four years. If the Company disposes of 90% or more of an investment before the fifth year, the investment rights vest in full. The investment rights related to a particular acquisition are exercisable only if the Company earns a minimum 15% per annum compound rate of return for that acquisition after giving effect to the investment rights.

Under the terms of the MIP, the total amount paid by management members for the interest in the investments in 2005 was \$4 (2004 – \$2). Investment rights exercisable at the same price for 7.5% (2004 – 7.5%) of the Company's interest in acquisitions were issued at the same time. Realizations under the MIP including the value of units distributed were \$11 in 2005 and \$35 in 2004.

**f)** Members of management and the Board of Directors of the Company invested \$21 in 2005 (2004 – \$9) in Onex' acquisitions at the same cost as Onex and other outside investors. Those investments by management and the Board are subject to voting control by Onex.

**g)** Certain operating companies have made loans to certain directors or officers of the individual operating companies primarily for the purpose of acquiring shares in those operating companies. The total value of the loans outstanding as at December 31, 2005 was \$12.

**h)** Onex and its operating companies are subject to tax audits by local taxing authorities. In connection with ongoing tax audits relating to Celestica, taxing authorities have asserted that Celestica's United States subsidiaries owe a significant amount of tax, interest and penalties arising from inter-company transactions all within Celestica's various operations. Celestica's management has evaluated the assessment and believes they have substantial defences to the asserted deficiencies and have adequately accrued for any likely potential losses. However, there can be no assurance as to the final resolution of these asserted deficiencies and any resulting proceedings, and if these audits and proceedings were determined adversely to Celestica the amounts Celestica may be required to pay could be material.

**25. PENSION AND NON-PENSION POST-RETIREMENT BENEFITS**

The operating companies have a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to certain of their employees. The non-pension post-retirement benefits include retirement and termination benefits, health, dental and group life.

The total costs during 2005 for defined contribution pension plans were \$61 (2004 – \$30).

The Company measures its accrued benefit obligations and the fair value of the plan assets for accounting purposes at or around December 31 of each year for the largest plans. The most recent actuarial valuation of these pension plans for funding purposes was as of June 2005 and December 2005, and the next required valuation will be as of January 2006.

In 2005, total cash payments for employee future benefits, consisting of cash contributed by the operating companies to their funded pension plans, cash payments directly to beneficiaries for their unfunded other benefit plans and cash contributed to their defined contribution plans, were \$79 (2004 – \$63).

For the defined benefit pension plans and non-pension post-retirement plans, the estimated present value of accrued benefit obligations and the estimated market value of the net assets available to provide these benefits were as follows:

As at December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004	2005	2004
Accrued benefit obligations:						
Opening benefit obligations	\$ 131	\$ 144	\$ 476	\$ 637	\$ 105	\$ 164
Current service cost	2	1	9	13	10	15
Interest cost	8	8	46	25	6	5
Contributions by plan participants	-	-	1	2	1	-
Benefits paid	(11)	(9)	(26)	(18)	(11)	(18)
Actuarial (gain) loss in year	21	10	(12)	24	17	5
Foreign currency exchange rate changes	1	(2)	(48)	(3)	(4)	(2)
Acquisitions during the year	1	-	734	1	38	-
Discontinued operations	-	(3)	-	(215)	-	(48)
Plan amendments	-	-	3	-	(13)	-
Settlements/curtailments	-	2	(3)	(12)	-	(17)
Settlement benefits	-	-	2	-	-	-
Reclassification of plans	7	(20)	(7)	20	-	-
Other	-	-	-	2	-	1
Closing benefit obligations	\$ 160	\$ 131	\$ 1,175	\$ 476	\$ 149	\$ 105
Plan assets:						
Opening plan assets	\$ 147	\$ 152	\$ 350	\$ 459	\$ -	\$ -
Actual return on plan assets	17	14	87	28	-	-
Contributions by employer	5	4	29	31	10	18
Contributions by plan participants	-	-	1	2	1	-
Benefits paid	(11)	(9)	(26)	(18)	(11)	(18)
Foreign currency exchange rate changes	2	(3)	(40)	-	-	-
Acquisitions during the year	1	-	653	1	-	-
Discontinued operations	-	(8)	-	(144)	-	-
Settlement/termination payments	-	-	-	(12)	-	-
Reclassification of plans	8	(3)	(8)	3	-	-
Closing plan assets	\$ 169	\$ 147	\$ 1,046	\$ 350	\$ -	\$ -

Asset category	Percentage of Plan Assets	
	2005	2004
Equity securities	58%	50%
Debt securities	39%	45%
Real estate	-	2%
Other	3%	3%
	100%	100%

Equity securities do not include direct investments in the shares of the Company or its subsidiaries but may be invested indirectly as a result of the inclusion of the Company's and its subsidiaries' shares in certain market investment funds.

The funded status of the plans of the operating subsidiary companies was as follows:

As at December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004	2005	2004
Deferred benefit amount:						
Plan assets, at fair value	\$ 169	\$ 147	\$ 1,046	\$ 350	\$ -	\$ -
Accrued benefit obligation	(160)	(131)	(1,175)	(476)	(149)	(105)
Plan surplus (deficit):	\$ 9	\$ 16	\$ (129)	\$ (126)	\$ (149)	\$ (105)
Unamortized past service costs	-	-	(1)	(5)	(12)	-
Unamortized net gain or loss	45	31	55	125	32	16
Other unrecognized amounts	-	-	(5)	-	-	-
Reclassification of plans	11	22	(11)	(22)	-	-
Deferred benefit amount – asset (liability)	\$ 65	\$ 69	\$ (91)	\$ (28)	\$ (129)	\$ (89)

The deferred benefit asset is included in the Company's balance sheet under "Investments and other assets". The deferred benefit liabilities are included in the Company's audited annual consolidated balance sheets under "Other liabilities".

The net expense for the plans, excluding discontinued operations, is outlined below:

Year ended December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004	2005	2004
Net periodic costs:						
Current service cost	\$ 2	\$ 1	\$ 9	\$ 13	\$ 10	\$ 15
Interest cost	8	8	46	25	6	5
Actual return on plan assets	(17)	(14)	(87)	(28)	-	-
Difference between expected return and actual return on plan assets for period	7	4	28	5	-	-
Actuarial (gain) loss	21	10	(12)	24	17	5
Difference between actuarial loss (gain) recognized for period and actual actuarial loss (gain) on the accrued benefit obligation for period	(19)	(9)	25	(18)	(20)	(5)
Plan amendments (curtailment/settlement (gain) loss)	-	2	2	(12)	-	(17)
Difference between amortization of past service costs for period and actual plan amendments for period	-	-	(2)	8	-	8
Settlement benefits	-	-	2	6	-	-
Net periodic costs	\$ 2	\$ 2	\$ 11	\$ 23	\$ 13	\$ 11

**25. PENSION AND NON-PENSION POST-RETIREMENT BENEFITS (cont'd)**

The following assumptions were used to account for the plans:

Year ended December 31	Pension Benefits		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004
Accrued benefit obligation				
Weighted average discount rate	<b>4.23%–6.00%</b>	5.20%–6.50%	<b>5.25%–5.75%</b>	5.75%–6.10%
Weighted average rate of compensation increase	<b>0.00%–4.80%</b>	0.00%–3.75%	<b>0.00%–3.50%</b>	4.00%
Benefit cost				
Weighted average discount rate	<b>4.23%–6.25%</b>	5.20%–6.50%	<b>5.25%–6.10%</b>	6.40%
Weighted average expected long-term rate of return on plan assets	<b>5.00%–9.25%</b>	6.40%–8.00%	n/a	n/a
Weighted average rate of compensation increase	<b>0.00%–4.80%</b>	0.00%–4.80%	<b>0.00%–4.00%</b>	4.00%
Assumed healthcare cost trend rates			<b>2005</b>	2004
Initial healthcare cost rate			<b>8.00%–10.00%</b>	6.60%–10.00%
Cost trend rate declines to			<b>3.25%–5.00%</b>	3.25%–5.00%
Year that the rate reaches the rate it is assumed to remain at			<b>Between 2008 and 2011</b>	Between 2008 and 2011

Assumed healthcare cost trend rates have a significant effect on the amounts reported for post-retirement medical benefit plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

Year ended December 31	1% Increase		1% Decrease	
	2005	2004	2005	2004
Effect on total of service and interest cost components	<b>\$ 2</b>	\$ 3	<b>\$ (1)</b>	\$ (2)
Effect on the post-retirement benefit obligation	<b>\$ 18</b>	\$ 14	<b>\$ (15)</b>	\$ (11)

In 2004 curtailments and plan settlement gains and losses were incurred by Celestica due to facilities rationalization. These gains and losses are included in restructuring charges in note 16.

## 26. SUBSEQUENT EVENTS

Onex and certain operating companies have entered into agreements to acquire or make investments in other businesses. These transactions are subject to a number of conditions, many of which are beyond the control of Onex or the operating companies. The effect of these planned transactions, in addition to those described below, if completed, may be significant to the consolidated financial position of Onex.

In late 2005, ONCAP completed its first closing of capital commitments for its second fund, ONCAP II LP ("ONCAP II"). It is planned that ONCAP II will have total committed capital of approximately \$500, of which Onex' portion would be approximately half. The investment parameters and objectives remain essentially unchanged from those of the first fund. In January 2006, ONCAP II acquired CSI Global Education Inc., Canada's leader in financial services education, for an equity investment of \$25, of which Onex' initial share was \$14.

In late January 2006, Spirit AeroSystems agreed to acquire BAE Systems' aerostructures business with operations in Scotland and England in a transaction valued at \$162. BAE Systems' aerostructures business produces wing and other structural components, primarily for Airbus airplanes. Spirit AeroSystems will finance the entire acquisition, which is expected to close in the first quarter of 2006.

## 27. INFORMATION BY INDUSTRY AND GEOGRAPHIC SEGMENT

Onex' reportable segments operate through autonomous companies and strategic partnerships. Each reportable segment offers different products and services and is managed separately.

The Company had seven reportable segments in 2005 and five in 2004: electronics manufacturing services; aerostructures; healthcare; theatre exhibition; customer management services; automotive products; and other. The electronics manufacturing services segment consists of Celestica, which provides manufacturing services for electronics original equipment manufacturers ("OEMs"). The aerostructures segment consists of Spirit AeroSystems, which manufactures aerostructures. The healthcare segment consists of EMSC, a leading provider of ambulance transport services and outsourced hospital emergency department physician staffing and management services in the United States; CDI, which owns and operates diagnostic imaging centres in the United States; and Skilled Healthcare, which operates skilled nursing and assisted living facilities in United States. The theatre exhibition segment consists of Cineplex Odeon, and Cineplex Entertainment. The customer management services segment consists of ClientLogic, which provides services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies. The automotive products segment consists of J.L. French Automotive, a leading manufacturer of high-pressure aluminum die-cast parts. Other includes Radian, CEI, Onex Real Estate, OPMG, ONCAP, ONCAP II and the parent company.

27. INFORMATION BY INDUSTRY AND GEOGRAPHIC SEGMENT (cont'd)

2005 Industry segments

	Electronics Manufacturing Services	Aero- structures	Healthcare	Theatre Exhibition	Customer Management Services	Automotive Products	Other	Consolidated Total
Revenues	\$ 10,257	\$ 1,436	\$ 2,126	\$ 491	\$ 715	\$ 584	\$ 950	\$ 16,559
Cost of sales	(9,537)	(1,232)	(1,808)	(392)	(444)	(484)	(627)	(14,524)
Selling, general and administrative expenses	(313)	(123)	(111)	(28)	(205)	(22)	(287)	(1,089)
Earnings before the undernoted items	407	81	207	71	66	78	36	946
Amortization of property, plant and equipment	(146)	(19)	(72)	(41)	(37)	(55)	(39)	(409)
Amortization of intangible assets and deferred charges	(34)	(2)	(19)	(3)	(12)	-	(26)	(96)
Interest expense of operating companies	(68)	(28)	(66)	(25)	(22)	(83)	(40)	(332)
Interest and other income	24	20	2	3	4	-	92	145
Equity-accounted investments	-	-	1	-	-	-	-	1
Foreign exchange gains (loss)	1	-	-	-	(2)	-	(30)	(31)
Stock-based compensation	(28)	(11)	(2)	(8)	-	-	(1)	(50)
Derivative instruments	-	-	-	-	-	-	4	4
Gains on sales of operating investments, net	-	-	-	-	-	-	921	921
Acquisition, restructuring and other expenses	(193)	(42)	(2)	-	(9)	(8)	(12)	(266)
Debt prepayment	-	-	(2)	(4)	-	-	-	(6)
Writedown of goodwill and intangible assets	(1)	-	-	-	(2)	-	-	(3)
Writedown of long-lived assets	(1)	-	-	(4)	-	-	-	(5)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (39)	\$ (1)	\$ 47	\$ (11)	\$ (14)	\$ (68)	\$ 905	\$ 819
Provision for income taxes								(72)
Non-controlling interests in operating companies								5
Earnings from continuing operations								\$ 752
Earnings from discontinued operations								213
Net earnings								\$ 965
Total assets <sup>(a)</sup>	\$ 5,637	\$ 1,966	\$ 2,753	\$ 860	\$ 260	\$ 410	\$ 2,959	\$ 14,845
Long-term debt <sup>(b)</sup>	\$ 872	\$ 839	\$ 1,196	\$ 346	\$ 206	\$ 783	\$ 446	\$ 4,688
Property, plant and equipment additions	\$ 185	\$ 169	\$ 82	\$ 33	\$ 18	\$ 43	\$ 20	\$ 550
Goodwill additions	\$ 2	\$ -	\$ 873	\$ 198	\$ -	\$ -	\$ 113	\$ 1,186

(a) Theatre exhibition and other include discontinued operations as described in note 2.

(b) Long-term debt includes current portion and excludes capital leases.



## 2004 Industry segments

	Electronics Manufacturing Services	Theatre Exhibition	Customer Management Services	Automotive Products	Other	Consolidated Total
Revenues	\$ 11,480	\$ 318	\$ 730	\$ 691	\$ 420	\$ 13,639
Cost of sales	(10,913)	(241)	(458)	(551)	(286)	(12,449)
Selling, general and administrative expenses	(358)	(18)	(196)	(18)	(175)	(765)
Earnings (loss) before the undernoted items	209	59	76	122	(41)	425
Amortization of property, plant and equipment	(223)	(24)	(41)	(59)	(23)	(370)
Amortization of intangible assets and deferred charges	(45)	-	(15)	-	(12)	(72)
Interest expense of operating companies	(56)	(8)	(19)	(95)	(17)	(195)
Interest and other income	49	1	7	-	45	102
Equity-accounted investments	-	-	-	-	(8)	(8)
Foreign exchange gains (loss)	(8)	-	3	3	(114)	(116)
Stock-based compensation	(20)	-	(1)	-	(34)	(55)
Derivative instruments	-	-	-	-	29	29
Gains on sales of operating investments, net	-	-	-	-	107	107
Acquisition, restructuring and other expenses	(184)	-	(5)	(7)	(8)	(204)
Debt prepayment	(2)	-	-	(5)	(1)	(8)
Writedown of goodwill and intangible assets	(388)	-	(5)	-	-	(393)
Writedown of long-lived assets	(84)	-	(2)	(8)	-	(94)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (752)	\$ 28	\$ (2)	\$ (49)	\$ (77)	\$ (852)
Provision for income taxes						(278)
Non-controlling interests of operating companies						891
Loss from continuing operations						\$ (239)
Earnings from discontinued operations						274
Net earnings						\$ 35
Total assets <sup>(a)</sup>	\$ 5,925	\$ 368	\$ 303	\$ 452	\$ 4,761	\$ 11,809
Long-term debt <sup>(b)</sup>	\$ 750	\$ 129	\$ 192	\$ 721	\$ 382	\$ 2,174
Property, plant and equipment additions	\$ 180	\$ 23	\$ 43	\$ 52	\$ 10	\$ 308
Goodwill additions	\$ 298	\$ -	\$ -	\$ -	\$ 267	\$ 565

(a) Theatre exhibition and other include discontinued operations described in note 2.

(b) Long-term debt includes current portion and excludes capital leases.

## Geographic segments

	2005					2004				
	Canada	U.S.	Europe	Other	Total	Canada	U.S.	Europe	Other	Total
Revenue	\$ 2,370	\$ 6,163	\$ 2,219	\$ 5,807	\$ 16,559	\$ 2,793	\$ 2,855	\$ 2,838	\$ 5,153	\$ 13,639
Property, plant and equipment	\$ 639	\$ 1,441	\$ 277	\$ 333	\$ 2,690	\$ 496	\$ 349	\$ 343	\$ 354	\$ 1,542
Intangible assets	\$ 186	\$ 305	\$ 5	\$ 23	\$ 519	\$ 67	\$ 143	\$ 24	\$ 37	\$ 271
Goodwill	\$ 399	\$ 1,187	\$ -	\$ 954	\$ 2,540	\$ 178	\$ 223	\$ -	\$ 1,049	\$ 1,450

Revenues are attributed to geographic areas based on the locations of manufacturing facilities for the electronics manufacturing services, aerostructures and automotive products segments; and of operating facilities for the healthcare, customer management services and theatre exhibition segments.

Other includes primarily operations in Mexico, Central and South America, as well as Asia and Australia. Significant customers of operating companies are discussed in note 23.

## SUMMARY HISTORICAL FINANCIAL INFORMATION

The following is a summary of key consolidated financial information of the Company for the past five fiscal years:

Year ended December 31 <i>(in millions of dollars except per share data)</i>	2005	2004	2003	2002	2001
Revenues	\$ 16,559	\$ 13,639	\$ 11,639	\$ 15,356	\$ 17,895
Cost of sales	(14,524)	(12,449)	(10,488)	(13,562)	(15,833)
Selling, general and administrative expenses	(1,089)	(765)	(716)	(838)	(986)
Earnings before the undernoted items	\$ 946	\$ 425	\$ 435	\$ 956	\$ 1,076
Amortization of property, plant and equipment	(409)	(370)	(393)	(495)	(440)
Amortization of goodwill, intangible assets and deferred charges	(96)	(72)	(91)	(171)	(286)
Interest expense of operating companies	(332)	(195)	(173)	(132)	(173)
Interest and other income	145	102	81	69	121
Equity-accounted investments	1	(8)	-	-	-
Foreign exchange gains (loss)	(31)	(116)	(122)	18	16
Stock-based compensation	(50)	(55)	14	142	-
Derivative instruments	4	29	-	-	-
Gains on sales of operating investments, net	921	107	129	21	164
Acquisition, restructuring and other expenses	(266)	(204)	(151)	(673)	(433)
Debt prepayment	(6)	(8)	(11)	(25)	-
Writedown of goodwill and intangible assets	(3)	(393)	(402)	(425)	(427)
Writedown of long-lived assets	(5)	(94)	(88)	-	-
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	819	(852)	(772)	(715)	(382)
Recovery of (provision for) income taxes	(72)	(278)	(57)	73	17
Non-controlling interests of operating companies	5	891	266	568	234
Earnings (loss) from continuing operations	752	(239)	(563)	(74)	(131)
Earnings (loss) from discontinued operations <sup>(a)</sup>	213	274	231	(71)	929
Net earnings (loss) for the year	\$ 965	\$ 35	\$ (332)	\$ (145)	\$ 798
Total assets	\$ 14,845	\$ 11,809	\$ 14,621	\$ 19,890	\$ 20,870
Shareholders' equity	\$ 1,152	\$ 227	\$ 293	\$ 1,044	\$ 2,219
Dividends declared per Subordinate Voting Share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11
Earnings (loss) per Subordinate Voting Share:					
Continuing operations	\$ 5.41	\$ (1.69)	\$ (3.67)	\$ (0.46)	\$ (0.81)
Net earnings (loss)	\$ 6.95	\$ 0.25	\$ (2.16)	\$ (0.90)	\$ 4.95
Fully diluted	\$ 6.95	\$ 0.25	\$ (2.16)	\$ (0.90)	\$ 4.95

(a) The earnings from discontinued operations for 2001 include the sale of Sky Chefs. The earnings from discontinued operations from 2001 to 2003 include the sale of Lantic Sugar/Rogers Sugar and MAGNATRAX. The earnings from discontinued operations from 2001 to 2004 include the sale of Dura Automotive, Loews Cineplex Group, Armtec and InsLogic. The earnings from discontinued operations from 2001 to 2005 include the sale of CVG and the discontinued operations of CMC. The earnings from discontinued operations from 2002 to 2005 include the discontinued operations of Cineplex. The earnings from discontinued operations from 2004 to 2005 include the sale of Magellan. Previously reported consolidated revenues and earnings figures for 2001 to 2004 have been restated to classify the results of the above entities as discontinued operations.

### Year-end closing share price

As at December 31	2005	2004	2003	2002	2001
The Toronto Stock Exchange	\$ 18.92	\$ 19.75	\$ 14.69	\$ 16.00	\$ 22.45

# SHAREHOLDER INFORMATION

## Shares

The Subordinate Voting Shares of the Company are listed and traded on The Toronto Stock Exchange.

## Share symbol

OCX.SV

## Dividends

Dividends on the Subordinate Voting Shares are payable quarterly on or about January 31, April 30, July 31 and October 31 of each year. At December 31, 2005 the indicated dividend rate for each Subordinate Voting Share was \$0.11 per annum.

## Shareholder Dividend Reinvestment Plan

The Dividend Reinvestment Plan provides shareholders of record who are resident in Canada a means to reinvest cash dividends in new Subordinate Voting Shares of Onex Corporation at a market-related price and without payment of brokerage commissions. To participate, registered shareholders should contact Onex' share registrar, CIBC Mellon Trust Company. Non-registered shareholders who wish to participate should contact their investment dealer or broker.

## Corporate governance policies

A presentation of Onex' corporate governance policies is included in the Management Information Circular that is mailed to all shareholders and is available on Onex' website.

## Registrar and Transfer Agent

CIBC Mellon Trust Company  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario M5C 2W9  
(416) 643-5500  
or call toll-free throughout  
Canada and the United States  
1-800-387-0825  
www.cibcmellon.ca  
or inquiries@cibcmellon.ca (e-mail)

All questions about accounts, stock certificates or dividend cheques should be directed to the Registrar and Transfer Agent.

## Investor information

Requests for copies of this report, quarterly reports and other corporate communications should be directed to:  
Investor Relations  
Onex Corporation  
161 Bay Street  
P.O. Box 700  
Toronto, Ontario M5J 2S1

**E-mail:**  
info@onex.com

**Website:**  
www.onex.com

## Auditors

PricewaterhouseCoopers LLP  
Chartered Accountants

## Duplicate communication

Registered holders of Onex Corporation shares may receive more than one copy of shareholder mailings. Every effort is made to avoid duplication, but when shares are registered under different names and/or addresses, multiple mailings result. Shareholders who receive but do not require more than one mailing for the same ownership are requested to write to the Registrar and Transfer Agent and arrangements will be made to combine the accounts for mailing purposes.

## Shares held in nominee name

To ensure that shareholders whose shares are not held in their name receive all Company reports and releases on a timely basis, a direct mailing list is maintained by the Company. If you would like your name added to this list, please forward your request to Investor Relations at Onex.

## Annual meeting of shareholders

Onex Corporation's Annual Meeting of Shareholders will be held on Thursday, May 11, 2006 at 10:00 a.m. (Eastern Daylight Time) at Cineplex Odeon Queensway Cinemas, 1025 The Queensway, Etobicoke, Ontario.

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