



Management's Discussion and Analysis and Financial Statements

December 31, 2006

ONEX CORPORATION

Onex makes private equity investments through the Onex Partners and ONCAP family of Funds. Through these Funds, which have third-party capital as well as Onex' capital, Onex generates annual management fee income from third-party capital and is currently entitled to a carried interest on more than \$4.0 billion of that capital. It also has a real estate fund and a public markets fund.

Onex' operating companies had 2006 annual revenues of \$19 billion, assets of \$23 billion and 167,000 employees worldwide. These companies are in a variety of industries, including electronics manufacturing services, aerostructures manufacturing, healthcare, financial services, theatre exhibition, customer support services, personal care products and communications infrastructure. Onex works in partnership with the management teams of our subsidiaries to build the value of these businesses.

Onex is listed on the Toronto Stock Exchange under the symbol OCX.

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2006 HIGHLIGHTS

Onex' **share price was up 50 percent** to \$28.35 per share.

Onex raised **Onex Partners II LP, a \$4.0 billion** private equity Fund.

- This new Fund enables Onex to continue to pursue larger acquisitions.
- Onex has a **41 percent participation** in Onex Partners II, which will enable Onex to put more of its cash to work.
- The new Fund will **significantly increase the management fee income** to Onex and the **potential for Onex to earn a carried interest** on the gains of the third-party investors.

There were **17 acquisitions** completed in the year by Onex and its operating companies, of which the following were the most significant:

- **The Warranty Group**, one of the world's largest providers of extended warranty contracts, acquired by Onex for \$800 million in November;
- Spirit AeroSystems purchased BAE Systems' aerostructures business (now operating as **Spirit Europe**), a supplier of structural components primarily for the Airbus aircraft, in April;
- **Town and Country Trust**, a real estate investment trust that owns and operates apartment communities in the Mid-Atlantic States and Florida, was a \$1.7 billion acquisition completed by Onex Real Estate Partners, in a joint venture with Morgan Stanley Real Estate and Sawyer Realty Holdings, in March.
- ONCAP completed two investments – **CSI Global Education** and **Environmental Management Solutions**.

Onex completed a public offering for Spirit AeroSystems at US\$26.00 per share (NYSE: SPR) in November, a value **eight times** Onex' initial investment. Onex realized **\$390 million of proceeds** on the sale of a portion of its ownership in the business, received \$49 million for its share of the carried interest and continues to own 17.1 million shares, which have a value of \$668 million at the end of 2006.

Onex reported **excellent financial results** due in large part to the acquisitions completed in 2005:

- Revenues grew 21 percent to \$18.6 billion;
- Operating earnings increased 86 percent to \$1.2 billion;
- Net earnings rose 4 percent to \$1.0 billion;
- Cash flow from operations was up 10 percent to \$896 million;
- Assets climbed 52 percent to \$22.6 billion.

Onex **repurchased 9.2 million Subordinate Voting Shares** under its Normal Course Issuer Bids for a total cost of \$203 million, or an average cost per share of \$22.17. Over the past five years, Onex has repurchased 32.4 million Subordinate Voting Shares at a total cost of \$563 million. Onex believes that repurchasing its Subordinate Voting Shares when they are trading below their intrinsic value is a good opportunity to build value for shareholders.

Onex ended 2006 with four committed significant acquisitions that are expected to close during the first half of 2007. We believe that these acquisitions, which will put a further \$724 million of Onex' cash to work, show excellent promise for value creation.

This report includes Onex Corporation's Management's Discussion and Analysis and Financial Statements for the year ended December 31, 2006.

We invite you to visit our website, 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.

Onex' operating companies had 2006:	
REVENUES	\$19 billion
ASSETS	\$23 billion
EMPLOYEES	167,000

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") of the 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"). It should be read in conjunction with the audited annual consolidated financial statements and notes found on pages 56 to 98 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 13, 2007. 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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Onex Corporation's financial filings, including its 2006 MD&A, Financial Statements and interim quarterly reports, Annual Information Form and Management Circular, are available on the Company's website at www.onex.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Forward-Looking/Safe Harbour Statements

This MD&A may contain, without limitation, statements concerning possible or assumed future results preceded by, followed by or that include words such as "believes", "expects", "anticipates", "estimates", "intends", "plans" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees of future performance. They 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 limitation, those discussed on pages 11 through 15 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. All forward-looking statements attributable to Onex are expressly qualified by these cautionary statements.

ONEX BUSINESS OBJECTIVE AND STRATEGIES

Onex makes private equity investments through the Onex Partners and ONCAP family of Funds. Through these Funds, which have third-party capital as well as Onex' capital, Onex generates annual management fee income from third-party capital and is entitled to a carried interest on more than \$4.0 billion of that third-party capital. It also has a real estate fund and a public markets fund.

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 Onex' share price.

The Onex team has consistently applied a set of core skills in its pursuit of value creation for shareholders and partners. We seek to acquire attractive businesses at a reasonable cost and finance the acquisitions in a manner that will allow those companies to continue or accelerate their growth. We work with their management teams on strategies designed to build those businesses into industry leaders.

We have structured Onex' operations to pursue new opportunities in a manner designed to create value for Onex shareholders. The private equity fund structure that Onex first established in 2003 to raise third-party capital generates significant management fees to offset operating costs and provides the opportunity to earn a carried interest on the gains of limited partners.

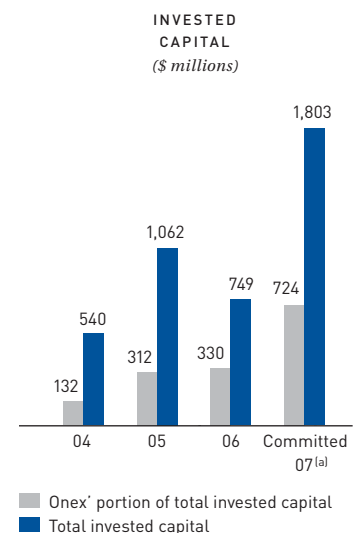
1. Acquire attractive businesses

We believe that large-scale acquisitions are the most efficient means for Onex to deploy capital and create long-term value. We seek to manage the risk and optimize the returns of these acquisitions by adhering to key operating principles:

Financial strength for acquisitions. Onex, the parent company, maintains a strong financial position with substantial liquidity in order to be responsive to new acquisition opportunities and to support the growth of existing operating companies. At December 31, 2006, we had approximately \$1.5 billion of cash. Onex also has committed capital through its private equity Funds:

- **Onex Partners Funds** – Onex Partners LP (“Onex Partners I”) is a \$1.9 billion (US\$1.655 billion) fund and Onex Partners II LP (“Onex Partners II”) is a \$4.0 billion (US\$3.45 billion) fund. Onex controls the General Partner and Manager of the Onex Partners Funds. As at December 31, 2006, the uncalled committed capital available through the Onex Partners Funds from other limited partners was \$2.5 billion.
- **ONCAP Funds** – ONCAP has raised two private equity Funds – ONCAP L.P. (“ONCAP I”), a \$400 million fund and ONCAP II L.P. (“ONCAP II”), a \$574 million fund – both of which are focused on acquiring and building value in North American mid-cap companies. Onex has committed 45 percent of ONCAP II's total capital; Onex controls the General Partner and Manager of the ONCAP Funds. The uncalled committed capital available from other limited partners in the ONCAP II Fund was approximately \$286 million at December 31, 2006.

The adjacent chart shows Onex' ability to put funds to work by year since 2004.



(a) Represents committed and/or completed investments as of February 13, 2007.

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

Management ownership. Each member of Onex' management team has a very meaningful personal financial interest in the Company and its operating companies. We believe this personal commitment aligns Onex management's personal objectives with Onex' overall value creation objective.

Onex also believes that management of the acquired companies should share in the risks 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.

Diversification of capital. Onex deliberately diversifies its private equity 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. In addition, Onex established Onex Real Estate Partners ("OREP") in partnership with an experienced and dedicated management team. The objective of the partnership is to acquire and to improve real estate assets in North America. Onex also established Onex Capital Management to invest in securities of publicly traded North American companies in order to generate long-term capital appreciation.

2006 Performance against objective

- We completed the acquisition of The Warranty Group, Inc. in a transaction valued at approximately \$800 million. Onex and Onex Partners invested \$568 million, of which Onex' share was \$179 million.
- ONCAP acquired CSI Global Education and Environmental Management Solutions.
- OREP, in a joint venture, acquired Town and Country Trust in a transaction valued at approximately \$1.7 billion. As well, OREP made three investments in Camden properties, which are residential apartment communities in the United States.
- We made four major investment commitments at the end of 2006 – Tube City IMS, Raytheon Aircraft Company, Qantas Airways and Kodak Health Group – that have a combined anticipated investment of \$1.8 billion. Onex' portion of these investments is expected to be \$724 million. We expect these transactions to close during the first half of 2007.
- Onex' management team and board of directors invested \$37 million in the acquisitions completed by Onex in 2006. The Onex management team also invested \$15 million in Onex shares in 2006.

2. Build acquired businesses into industry leaders

A guiding philosophy of Onex' business is assisting the management teams of our operating companies to deal with the strategic, financial and operating issues they face in building the value of their companies. We accomplish this through active ownership and careful monitoring of key performance indicators.

Active ownership. We believe that if a business is good enough to buy, it is good enough to be vigorously developed. Onex works closely with the management teams of our operating companies to set strategies, assist in evaluating acquisitions and in implementing financing arrangements that will build the value of their business. As partners with its operating companies' management teams, Onex' management team offers its depth and breadth of experience in acquisitions, integration, strategy, negotiations and financing that spans more than 20 years and 185 companies.

Key performance indicators. Onex does not get involved in the day-to-day activities of its businesses. While Onex management provides its support in areas such as strategy, acquisitions and financing, Onex believes that each operating company's management team is most familiar with its industry and therefore is the best manager of its business. It is for this reason that a key strategy for Onex is to acquire a business in partnership with that company's management team.

Onex management monitors the performance of each of its businesses by evaluating the important leading indicators of each operating company's performance and prospects.

2006 Performance against objective

- Three of our operating companies – Spirit AeroSystems, Emergency Medical Services and Skilled Healthcare – completed follow-on acquisitions valued at a total of about \$250 million.
- Spirit AeroSystems strengthened its balance sheet with a portion of the proceeds from its initial public offering.
- Improved revenues and operating earnings at most of the Onex operating companies.

3. Expand third-party capital

Onex believes that the private equity fund structure provides substantial value for Onex shareholders through the management fees and carried interest it earns. We plan to continue to raise new funds as existing Funds become fully invested. We may also look for other asset classes where we believe we can create value, such as our real estate initiative.

Earn management fees. The third-party investors in our Funds acknowledge Onex' active role in building the value of the Funds. As the General Partner in our Funds, we receive a management fee of 2 percent on committed capital from third-party investors in Onex Partners II and ONCAP II. As Onex Partners I and ONCAP I were fully invested at the end of 2006, Onex receives a 1 percent management fee calculated on remaining invested capital of third-party investors.

Earn carried interests. The private equity fund structure recognizes the skills of the Onex professional team in creating and realizing value on behalf of the limited partners. The Funds give Onex the ability to earn a carried interest on the returns of the limited partners based on the performance of the individual Onex Partners Funds. The General Partner earns 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 the limited partners on the entire Fund. Consistent with market practice, Onex, as sponsor of the Onex Partners Funds, is allocated 40 percent of the carried interest, with the balance being allocated to the Onex management team.

2006 Performance against objective

- We closed our second large-cap private equity fund with total capital commitments of approximately \$4.0 billion, of which \$2.5 billion was from third-party limited partners.
- Onex received \$35 million in management fees in 2006 and expects to receive approximately \$60 million in 2007.
- Onex earned a carried interest of \$49 million on the realizations of the other limited partners.

4. Have the value created reflected in Onex' share price

Onex believes that its focus on building high-quality businesses creates significant value and multiple exit opportunities. Over the past 23 years, the value Onex has built through its active ownership in its operating companies has been realized through many forms, including initial public offerings of shares, sales to strategic buyers, secondary offerings of shares and assets sales. During that period, Onex has generated a compound annual rate of return of 28 percent on realized investments. Onex' objective is to have the value created reflected in Onex' share price.

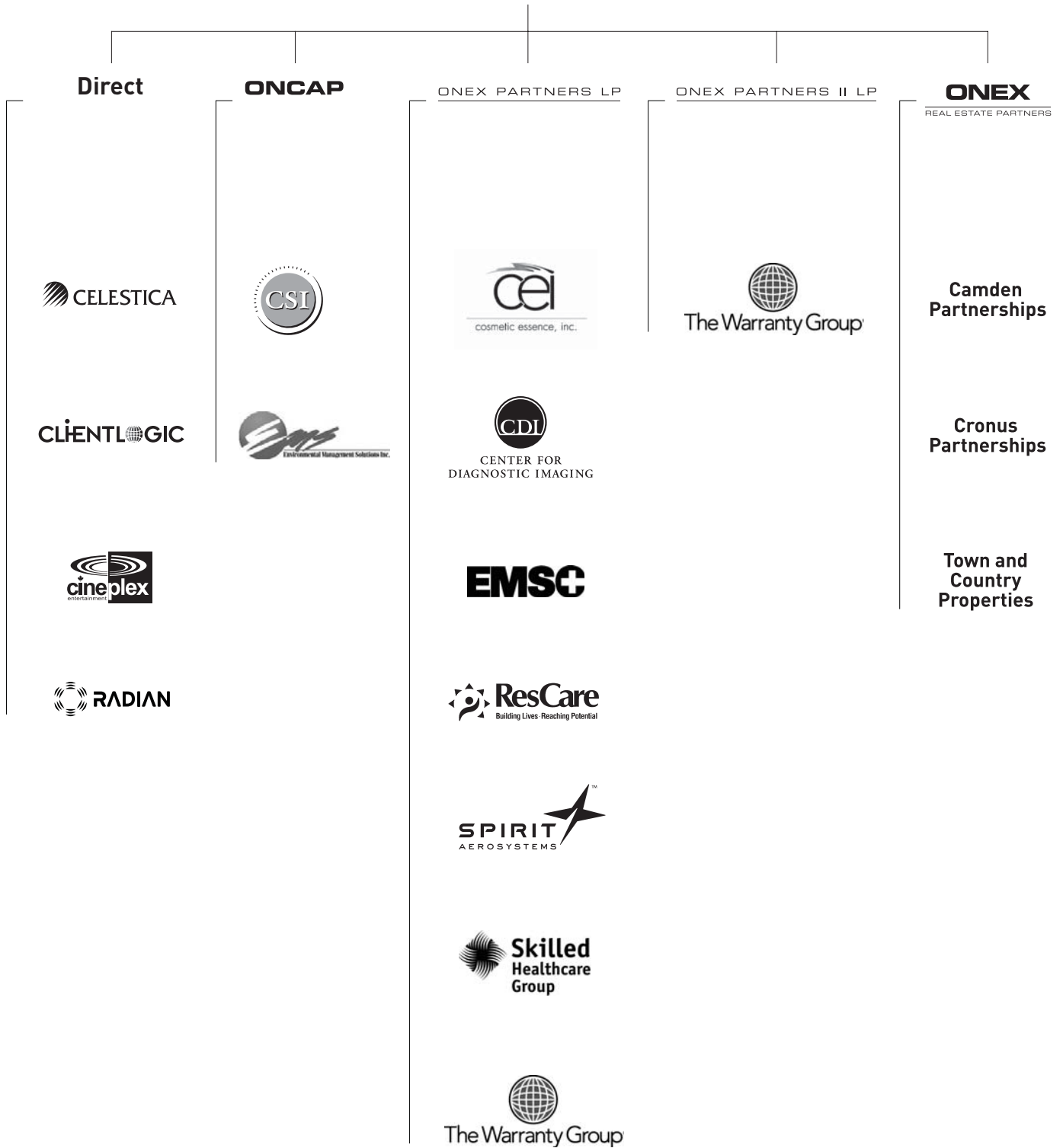
2006 Performance against objective

- Spirit AeroSystems completed a US\$1.7 billion initial public offering of shares at a value of eight times Onex' cost.
- The ONCAP I Fund sold two of its operating companies for an average of 3.7 times its original invested capital.
- OREP realized a net after-tax gain of \$45 million on the sale of a portion of the Town and Country properties and continues to hold the balance of the properties, which it believes have a significant value.

At December 31, 2006, Onex Subordinate Voting Shares were valued at \$28.35 per share, a 50 percent increase for the year.

THE ONEX OPERATING COMPANIES

ONEX



The investment in The Warranty Group is split almost equally between Onex Partners I and II.

INDUSTRY SEGMENTS

At December 31, 2006, Onex had seven reportable industry segments. A description of our operating companies, excluding discontinued businesses, by industry segment, and Onex' economic and voting ownership in those businesses, is presented below.

Industry Segments	Companies	Ownership (Onex Owns/ Onex Votes)
Electronics Manufacturing Services	<p>Celestica Inc. (TSX/NYSE: CLS), one of the world's largest electronics manufacturing services companies for original equipment manufacturers ("OEMs"). (website: www.celestica.com)</p> <p>Revenues: \$10 billion Assets: \$5.4 billion</p>	13%/79%
Aerostructures	<p>Spirit AeroSystems, Inc. (NYSE: SPR), the largest independent non-original equipment manufacturer ("non-OEM") designer and manufacturer of aerostructures in the world. (website: www.spiritaero.com)</p> <p>Revenues: \$3.6 billion Assets: \$3.2 billion</p>	13%/89%
Healthcare	<p>Emergency Medical Services Corporation (NYSE: EMS), a leading provider of emergency medical services in the United States. (website: www.emsc.net)</p> <p>Revenues: \$2.2 billion Assets: \$1.5 billion</p> <p>Center for Diagnostic Imaging, Inc., a leading provider of diagnostic and therapeutic radiology services in the United States. (website: www.cdiradiology.com)</p> <p>Revenues: \$123 million Assets: \$227 million</p> <p>Skilled Healthcare Group, Inc., a leading operator of skilled nursing and assisted living facilities in the United States, specifically in California, Texas, Kansas, Missouri and Nevada, that is focused on treating patients who require a high level of skilled nursing care and extensive rehabilitation therapy. (website: www.skilledhealthcare.com)</p> <p>Revenues: \$603 million Assets: \$1.0 billion</p> <p>Res-Care, Inc. (NASDAQ: RSCR), a leading U.S. provider of residential, training, educational and support services for people with disabilities and special needs. (website: www.rescare.com)</p>	29%/97% 19%/100% 21%/100% 6%/26%
Financial Services	<p>The Warranty Group, Inc., one of the world's largest providers of extended warranty contracts. (website: www.thewarrantygroup.com)</p> <p>Revenues: \$118 million⁽¹⁾ Assets: \$6.6 billion</p>	31%/100%
<p>(1) Represents one month of revenues following its November 2006 acquisition.</p>		
Theatre Exhibition	<p>Cineplex Entertainment Limited Partnership (TSX: CGX.UN), Canada's largest film exhibition company operating 130 theatres with a total of 1,305 screens under the Cineplex Odeon, Famous Players and Galaxy Entertainment brands. (website: www.cineplex.com)</p> <p>Revenues: \$741 million Assets: \$893 million</p>	22%/100% ^(a)
<p>(a) Voting is with respect to Cineplex Entertainment Limited Partnership.</p>		
Customer Management Services	<p>ClientLogic Corporation, a leading global call centre company providing customer support and business process outsourcing. (www.clientlogic.com)</p> <p>Revenues: \$749 million Assets: \$256 million</p>	67%/89%

Industry Segments	Companies	Ownership (Onex Owns/ Onex Votes)
Other Businesses		
<ul style="list-style-type: none"> • <i>Personal Care Products</i> 	<p>Cosmetic Essence, Inc., a leading provider of outsourced supply chain management services, including manufacturing, filling, packaging and distribution, to the personal care products industry. (website: www.cosmeticessence.com)</p> <p>Revenues: \$292 million Assets: \$352 million</p>	21%/100%
<ul style="list-style-type: none"> • <i>Mid-Cap Opportunities</i> 	<p>ONCAP, a private equity fund focused on acquiring and building the value of mid-sized capitalization companies based in North America (website: www.oncap.com), which actively manages investments in CSI Global Education Inc. and Environmental Management Solutions, Inc. (TSX: EMS)</p> <p>Revenues: \$27 million⁽²⁾ Assets: \$207 million⁽³⁾</p> <p><small>(2) Represents only revenues of CSI. (3) Represents combined assets of CSI and Environmental Management Solutions.</small></p>	45%/100%
<ul style="list-style-type: none"> • <i>Communications Infrastructure</i> 	<p>Radian Communication Services Corporation, a North American wireless communications infrastructure and network services company. (website: www.radiancorp.com)</p> <p>Revenues: \$132 million Assets: \$60 million</p>	89%/100%
<ul style="list-style-type: none"> • <i>Real Estate</i> 	<p>Onex Real Estate Partners LP, a partnership dedicated to acquiring and improving real estate assets in North America.</p>	85%/100%

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, 2006 compared to those for the year ended December 31, 2005 and, in selected areas, to those for the year ended December 31, 2004.

SIGNIFICANT EVENTS IN 2006

A number of significant events occurred during the year that affected Onex' consolidated results for 2006 and their comparability to results for 2005. These events are discussed below. These significant events are presented with the most recent events first.

ONCAP to sell CMC Electronics

In late January 2007, ONCAP signed an agreement to sell its interest in CMC Electronics Inc. ("CMC Electronics") for proceeds of approximately \$340 million, of which Onex' share would be approximately \$140 million. Onex has presented CMC Electronics' results as discontinued since management of ONCAP determined that it would sell its holdings in CMC Electronics and began the sale process during the fourth quarter of 2006. The sale is expected to close in the first half of 2007.

Note 3 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2006 and 2005 balance sheets that have been restated to be shown as discontinued.

ONCAP to sell WIS International

In December 2006, ONCAP signed an agreement to sell WIS International ("WIS") to a third party in a transaction valued at \$445 million. As a result of the signed agreement, the operating results of WIS have been reclassified as discontinued in the audited annual consolidated financial statements for the year ended December 31, 2006; the comparative fiscal 2005 results of WIS were also reclassified as discontinued operations. In January 2007, ONCAP completed the sale of WIS with ONCAP receiving a total of \$222 million compared to an investment of \$30 million. Onex' portion of the proceeds was \$75 million.

Note 3 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2006 and 2005 balance sheets that have been restated to be shown as discontinued.

Acquisition of The Warranty Group

At the end of November 2006, Onex completed the acquisition of The Warranty Group, Inc. ("The Warranty Group"), one of the world's largest providers of extended warranty contracts, in a transaction valued at approximately \$800 million. Onex, Onex Partners I and Onex Partners II collectively invested \$568 million of equity for an approximate 98 percent initial ownership interest. Of the total equity, Onex' share was \$179 million for a 31 percent ownership interest.

The Warranty Group operates in 33 countries and has more than 2,150 employees. The company underwrites and administers extended warranties on a wide variety of consumer goods, including automobiles, consumer electronics and major home appliances. The company also provides consumer credit and other specialty insurance products in connection with consumer loans.

The Warranty Group's operations have been consolidated and reported in a new reportable segment – Financial Services – from the date of acquisition. Note 2 to the audited annual consolidated financial statements provides additional information on this acquisition.

Spirit AeroSystems completes US\$1.7 billion initial public offering

In late November 2006, the parent of Spirit AeroSystems, Inc. ("Spirit AeroSystems"), the largest independent non-OEM designer and manufacturer of aerostructures in the world, completed an initial public offering of 63.4 million shares of class A common stock (NYSE: SPR); the offering was priced at US\$26.00 per share for gross proceeds of US\$1.7 billion. As part of this offering, Spirit AeroSystems issued approximately 10.4 million new shares while Onex, Onex Partners I and certain limited partners sold 48.3 million shares. Onex, Onex Partners I and certain limited partners received total net proceeds of \$1.4 billion for their shares sold.

Onex' portion of the net proceeds was \$390 million, which resulted in Onex recording a pre-tax gain of \$314 million on the net sale of those shares. In addition, Onex received \$49 million as its portion of the carried interest. The effect of the new shares issued by Spirit AeroSystems resulted in an additional non-cash accounting dilution gain of \$100 million, of which Onex' share was \$29 million. Onex, Onex Partners I and certain limited partners continue to hold 64.2 million shares of Spirit AeroSystems' common stock for an approximate 46 percent ownership interest. Of the total shares held, Onex holds 17.1 million shares for a 13 percent ownership interest.

These gains are reported as gains on sales of operating investments in Onex' audited annual consolidated financial statements.

Onex closes second private equity fund, Onex Partners II LP

In August 2006, Onex closed its second large-cap private equity fund, Onex Partners II, with total capital commitments of approximately \$4.0 billion. Virtually all of the existing investors in Onex Partners I committed to participate in Onex Partners II and several significant new investors were added. Onex has committed to a 41 percent participation in Onex Partners II, a much larger portion than the 24 percent it had committed to Onex Partners I. This will enable Onex to put its cash resources to work at a faster pace than before.

We believe that the fund structure provides substantial benefits for Onex shareholders. Onex will benefit from management fees paid by other investors in Onex Partners II; the annualized amount of management fees to Onex that will be generated from the Onex Partners I and II Funds, as well as the ONCAP II Fund, is expected to total approximately \$60 million in 2007. Additionally, the General Partner is entitled to earn a carried interest on the overall gains of the investors in each of these three Funds, which has the potential – given Onex' track record of value growth – to provide a meaningful amount of value to Onex.

Emergency Medical Services acquires air ambulance services and inpatient services providers

In July 2006, Emergency Medical Services Corporation ("EMSC") completed its acquisition of Air Ambulance Specialists, Inc. ("Air Ambulance Specialists") in a transaction valued at US\$12 million. Air Ambulance Specialists is a leader in the management of domestic and international air ambulance transportation. This acquisition is a natural complement to American Medical Response's extensive ground ambulance service network.

In November 2006, EMSC acquired Clinical Staffing Solutions ("CSS") in a transaction valued at US\$12 million. CSS provides hospitalist and specialty unit coverage in 14 hospitals or outpatient facilities in Pennsylvania and New Jersey. This purchase expands EmCare's existing inpatient services division.

Cineplex Entertainment secondary unit offering

In June 2006, Cineplex Entertainment Limited Partnership ("Cineplex Entertainment") and Cineplex Galaxy Income Fund ("CGIF") completed a treasury and secondary offering of trust units. The offering consisted of the issuance and sale of 2 million trust units from treasury and the sale of 3.2 million trust units controlled by Onex, the parent company. In conjunction with Onex' sale of its units, Onex entered into a forward contract to acquire beneficial ownership of 1.4 million units already controlled by it through Cineplex Odeon Corporation. The forward contract may be settled in or after January 2007 at a price computed with reference to the secondary offering.

Onex received net proceeds of \$28 million and recorded a \$25 million pre-tax gain on the net sale of those trust units. Cineplex Entertainment received net proceeds of \$30 million for its 2 million treasury unit offering. The effect of the additional units being issued resulted in a non-cash accounting dilution gain of \$12 million being recorded, of which Onex' share was \$6 million. Cineplex Entertainment used its net proceeds from the offering to indirectly repay indebtedness under the company's senior secured revolving credit facility. Onex' ownership in Cineplex Entertainment was reduced to 22 percent from 27 percent as a result of the above transactions.

These gains are reported as gains on sales of operating investments in Onex' audited annual consolidated financial statements.

Spirit AeroSystems acquires BAE Systems' aerostructures business

On April 1, 2006, Spirit AeroSystems acquired the aerostructures business unit of BAE Systems plc in a transaction valued at \$171 million. This purchase was fully funded by Spirit AeroSystems, and this business now operates as Spirit AeroSystems (Europe) Ltd. ("Spirit Europe"). Spirit Europe has operations in Prestwick, Scotland and Samlesbury, England. Its largest customer is Airbus, which provides approximately 80 percent of Spirit Europe's revenues. The business produces structural components, primarily for wings, for such Airbus aircraft as the A320 family, the A330, the A340 and the A380. In addition, the company supplies components for The Boeing Company's ("Boeing") 767 and 777, as well as the Raytheon Hawker 850XP. This acquisition enhanced Spirit AeroSystems' manufacturing operations and added important new customers.

Onex Real Estate acquires Town and Country Trust

In March 2006, Onex Real Estate Partners ("OREP"), in a joint venture with Morgan Stanley Real Estate and Sawyer Realty Holdings LLC, acquired Town and Country Trust ("Town and Country") in an all-cash transaction valued at approximately \$1.7 billion, including the assumption of debt. OREP invested approximately \$116 million for a 48 percent equity interest in the Town and Country joint venture. Onex' share of that investment was \$100 million, representing a 41 percent equity interest.

Town and Country is a real estate investment trust that owned and operated 37 apartment communities in the Mid-Atlantic States and Florida. Note 2 to the audited annual consolidated financial statements provides additional information on this acquisition.

During the second quarter of 2006, OREP reorganized the Town and Country assets into five regional components and determined that it would divest the assets in those components. As a result of a plan to sell the assets, the results of Town and Country's operations have been accounted for as discontinued.

For the remaining 10 properties that were not sold at year-end, OREP determined that due to a change in market conditions, seven of those properties would not be sold in the near future. Therefore, the operations of those seven properties have been reclassified and reported as continuing operations in the Other segment of Onex' audited annual consolidated financial statements.

Skilled Healthcare completes three acquisitions

In early March 2006, Skilled Healthcare Group, Inc. ("Skilled Healthcare"), a leading skilled nursing and assisted living facility operator in the United States, expanded its operations with the purchase of a group of three long-term care facilities in the state of Missouri. This acquisition added 436 skilled nursing and assisted living beds and broadened Skilled Healthcare's operations beyond the company's existing operations in the states of California, Texas, Kansas and Nevada.

In June 2006, Skilled Healthcare purchased the leasehold interest of one skilled nursing facility with 100 beds in Nevada.

In December 2006, Skilled Healthcare completed its third acquisition with the purchase of a skilled nursing facility in Missouri. This acquisition expanded Skilled Healthcare's operation by adding 130 skilled nursing and assisted living beds. These purchases, which were funded entirely by Skilled Healthcare, have been consolidated and reported in the healthcare segment from their dates of acquisition. Skilled Healthcare's subsidiaries now operate 73 skilled nursing and assisted living facilities and also provide hospice and rehabilitation therapy services in its affiliated facilities and for third parties.

ONCAP's sale of Canadian Securities Registration Systems

In mid-March 2006, ONCAP I completed the sale of its operating company, Canadian Securities Registration Systems Ltd. ("CSRS"), to Resolve Business Outsourcing Income Fund ("Resolve"). ONCAP I received cash proceeds of \$90 million compared to its investment of \$29 million in CSRS made in April 2004. In addition, as part of this sale, ONCAP I received one million units of Resolve for a 3 percent equity interest. As a result of this sale, Onex received proceeds of \$30 million and recorded a pre-tax gain of

\$25 million. Following this sale, ONCAP I ceased to have control of CSRS and therefore, for accounting purposes, the gain on the sale and CSRS' results are reported as earnings from discontinued operations in Onex' audited annual consolidated financial statements.

The comparative 2005 full-year results of CSRS have been reclassified to be presented as discontinued. Note 3 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2005 balance sheet that have been restated to be shown as discontinued.

Cineplex Entertainment completes sale of seven theatres

In late March 2006, Cineplex Entertainment completed the sale of seven theatres with 78 screens located in the province of Quebec in a transaction valued at approximately \$2 million. Onex' share of the gain on those theatres was nominal. These seven theatres were required to be sold as a condition of the regulatory approval obtained for the Famous Players acquisition in mid-July 2005 under which Cineplex Entertainment agreed to sell a total of 34 theatres. The company sold the other 27 theatres in 2005.

The comparative results for the year ended December 31, 2005 of the theatres that have been sold have been reclassified and presented as discontinued. Note 3 to the audited annual consolidated financial statements discloses those assets and liabilities in the December 31, 2005 balance sheet that have been restated as discontinued.

Accounting gain recorded on J.L. French Automotive

J.L. French Automotive Castings, Inc. ("J.L. French Automotive") was unable to meet the financial requirements under certain of its lending agreements as a result of the difficult market conditions affecting the North American automotive supply sector. Consequently, in February 2006, J.L. French Automotive filed a voluntary petition for reorganization under Chapter 11 in the United States. In July 2006, the restructured company emerged from bankruptcy following the U.S. Bankruptcy Court's approval of J.L. French Automotive's plan of reorganization. Onex no longer has an ownership interest in J.L. French Automotive. The disposition of Onex' interest

in J.L. French Automotive resulted in an accounting gain of \$615 million being recorded by Onex. This gain arises as Onex had recorded in prior years, for accounting purposes, losses of J.L. French Automotive that were in excess of Onex' investment in J.L. French Automotive. A significant portion of these prior year losses was due to the write-off and amortization of goodwill. The accounting gain is included in earnings from discontinued operations. Onex' prior period consolidated financial results have been restated to report those operations of J.L. French Automotive as discontinued.

Note 3 to the audited annual consolidated financial statements discloses J.L. French Automotive's assets and liabilities in the December 31, 2005 balance sheet that have been restated to be shown as discontinued.

ONCAP II completes two acquisitions

In early January 2006, ONCAP's second fund, ONCAP II, completed its acquisition of CSI Global Education Inc. ("CSI"), Canada's leader in interactive investment education for the securities and financial services industries. In March and November 2006, ONCAP II invested in Environmental Management Solutions Inc. ("Environmental Management Solutions"), a leading environmental services company in the management, treatment and reuse and disposal of organic waste and contaminated soil.

ONCAP II invested \$55 million in the equity and debt of these two acquisitions. Onex' portion of these investments was \$25 million. ONCAP II has a 90 percent equity interest in CSI and holds a 62 percent equity ownership in Environmental Management Solutions on an as-converted basis. CSI's operations have been consolidated from the date of acquisition and reported with other ONCAP investments in the Other segment. Environmental Management Solutions' financial results from the date of acquisition in November 2006 are not significant to Onex' consolidated results, and therefore, are not consolidated in the audited annual statement of earnings for the year ended December 31, 2006. As at December 31, 2006, Environmental Management Solutions' balance sheet has been included in the audited balance sheet. Note 2 to the audited annual consolidated financial statements provides additional information on these investments.

Sale of Futuremed

In early January 2006, Futuremed Health Care Products Limited Partnership ("Futuremed"), an operating company of ONCAP I, completed a \$120 million initial public offering. In that offering, ONCAP I sold all of its Futuremed shares, receiving \$74 million in net proceeds. Including prior distributions, ONCAP I has received net proceeds of \$100 million compared to its investment in Futuremed of \$25 million made in February 2004. Onex' share of those proceeds was \$32 million. At the time of filing Futuremed's registration statement in December 2005, management of ONCAP had determined that it intended to sell the majority of its holdings in Futuremed. As a result, Onex presented Futuremed's results as discontinued operations in the audited annual consolidated financial statements for the year ended December 31, 2005.

Note 3 to the audited annual consolidated financial statements discloses the assets and liabilities in the December 31, 2005 balance sheet that have been restated to be shown as discontinued.

Share repurchases under Onex' Normal Course Issuer Bids

During 2006, Onex repurchased 9,176,300 Subordinate Voting Shares under its Normal Course Issuer Bids at an average cost per share of \$22.17, for a total cost of \$203 million. Onex' shareholders' equity at December 31, 2006 has been reduced for the effect of Onex' repurchases of Subordinate Voting Shares under its Normal Course Issuer Bids.

CONSOLIDATED OPERATING RESULTS

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

Critical 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 the 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, contract accounting, development costs and losses and loss adjustment expenses reserves 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.

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 in these factors could affect the estimated valuation allowance and income tax expense. Note 14 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 period.

During 2006, Onex' operating company 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.

Development costs

Included in deferred charges in 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 anticipated number of production units to which such costs relate.

Losses and loss adjustment expenses reserves

The Warranty Group records losses and loss adjustment expenses reserves, which represent the estimated ultimate net cost of all reported and unreported losses on warranty contracts. The reserves for unpaid losses and loss adjustment expenses are estimated using individual care-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency claims reporting patterns of The Warranty Group's third-party administrators. While there is considerable variability inherent in these estimates, management of The Warranty Group believes the reserves for losses and loss adjustment expenses are adequate, and they continually review and adjust those reserves as necessary as experience develops or new information becomes known.

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 for both the parent company and its operating companies; changes in the market value of Onex' publicly traded operating companies; 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, 2006.

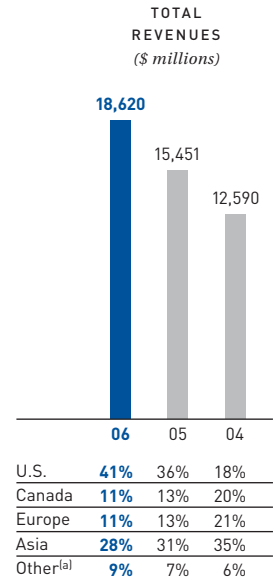
The statement of earnings for the year ended December 31, 2005 has been restated from that previously reported in accordance with required accounting policies for discontinued operations of those businesses that were disposed of or planned to be disposed of in 2006. These include the operations of:

- J.L. French Automotive;
- CSRS;
- ClientLogic's warehouse management business;
- Town and Country;
- WIS International; and
- CMC Electronics Inc.

Consolidated revenues

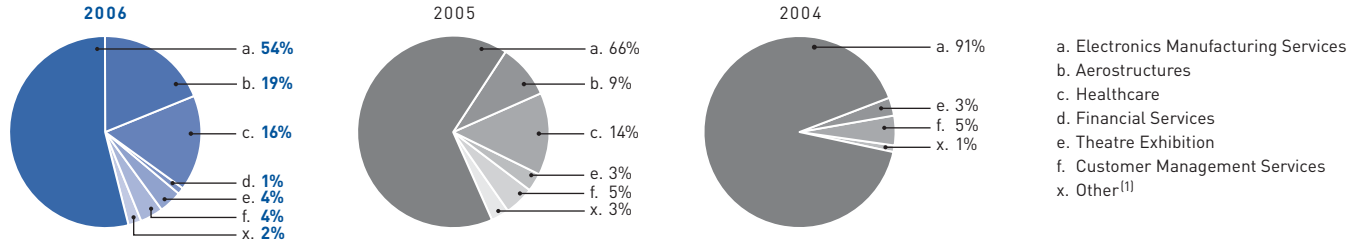
Consolidated revenues were \$18.6 billion, up 21 percent from \$15.5 billion in 2005 and up 23 percent from \$12.6 billion in 2004.

A percentage breakdown of total revenues by industry segment is provided in the charts below for the years ended December 31, 2006, 2005 and 2004.



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

Segmented Total Consolidated Revenue Breakdown



(1) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2005 other includes CEI, Radian and parent company. 2004 other includes Radian and parent company.

Table 1 presents revenues in Canadian dollars and in the functional currency of the companies in 2006, 2005 and 2004 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			
		Year ended December 31	2006	2005	Change (%)	2006	2005	Change (%)
		Electronics Manufacturing Services	\$ 9,982	\$ 10,257	(3)%	US\$ 8,812	US\$ 8,471	4 %
		Aerostructures	3,631	1,436	153 %	US\$ 3,208	US\$ 1,208	166 %
		Healthcare	2,920	2,126	37 %	US\$ 2,575	US\$ 1,758	46 %
		Financial Services	118	-	-	US\$ 103	-	-
		Theatre Exhibition	741	491	51 %	C\$ 741	C\$ 491	51 %
		Customer Management Services	749	686	9 %	US\$ 660	US\$ 584	13 %
		Other ^(a)	479	455	5 %	C\$ 479	C\$ 455	5 %
		Total	\$ 18,620	\$ 15,451	21 %			

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

(a) 2006 other includes CEI, Radian, ONCAP and parent company. 2005 other includes CEI, Radian and parent company.

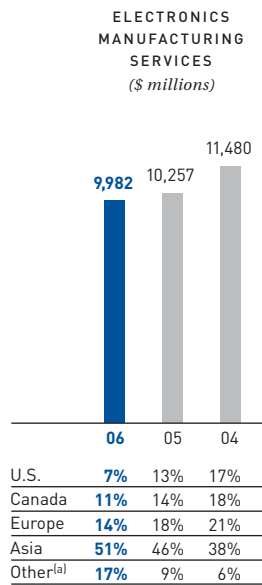
	(\$ millions)	Canadian Dollars			Functional Currency			
		Year ended December 31	2005	2004	Change (%)	2005	2004	Change (%)
		Electronics Manufacturing Services	\$ 10,257	\$ 11,480	(11)%	US\$ 8,471	US\$ 8,840	(4)%
		Aerostructures	1,436	-	-	US\$ 1,208	-	-
		Healthcare	2,126	-	-	US\$ 1,758	-	-
		Theatre Exhibition	491	318	54%	C\$ 491	C\$ 318	54 %
		Customer Management Services	686	674	2%	US\$ 584	US\$ 541	20 %
		Other ^(a)	455	118	286%	C\$ 455	C\$ 118	286 %
		Total	\$ 15,451	\$ 12,590	23%			

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

(a) 2005 other includes CEI, Radian and parent company. 2004 other includes Radian and parent company.

Electronics Manufacturing Services

Celestica reported revenues of \$10.0 billion in 2006 (54 percent of Onex' total consolidated revenues in 2006), a 3 percent decline from \$10.3 billion in 2005 (66 percent of Onex' total consolidated revenues in 2005). In the company's functional currency, Celestica reported US\$8.8 billion in 2006, up 4 percent from US\$8.5 billion in 2005. Celestica's growth was primarily from new customers in the consumer electronics sector that more than offset the declines in its telecommunications and computing sectors resulting from demand weakness and program disengagements. Revenues rose 14 percent in Celestica's Asia region, which represents more than half of the company's total business, due primarily to higher volumes and new customers. Partially offsetting the revenue increase in Asia was a decline in revenues in Celestica's Europe region, which fell 18 percent, due to continued weak demand. Revenues for the Americas were essentially flat compared to 2005. In addition, revenues from acquisitions were not significant in 2006 and 2005.

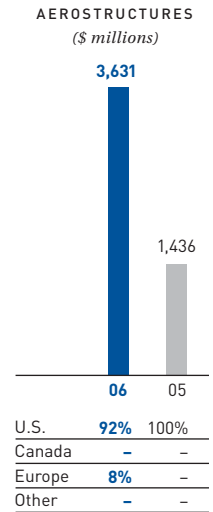


(a) Other includes primarily operations in Central and South America and Australia.

Celestica reported revenues of \$10.3 billion in 2005, an 11 percent decline from \$11.5 billion in 2004 (91 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 revenues 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.

Aerostructures

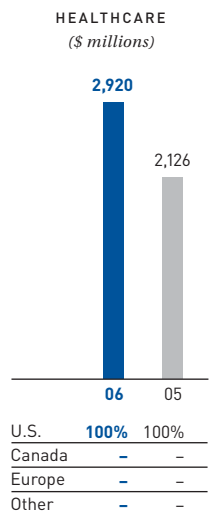
For the year ended December 31, 2006, Spirit AeroSystems reported revenues of \$3.6 billion (19 percent of Onex' total consolidated revenues in 2006) compared to \$1.4 billion for 2005 (9 percent of Onex' total consolidated revenues in 2005). In the company's functional currency, Spirit AeroSystems reported revenues of US\$3.2 billion for 2006, up significantly from US\$1.2 billion for the year ended December 31, 2005. Of Spirit AeroSystems' total revenues in 2006, approximately US\$1.6 billion, or 49 percent, were from fuselage systems, US\$888 million, or 28 percent, from propulsion systems, US\$720 million, or 22 percent, from wing systems and the balance from after-market spares and repair support.



The aerostructures segment was a new reportable segment in 2005 following Onex' acquisition of Spirit AeroSystems in mid-June 2005. The 2006 results represent a full year of operations compared to six-and-a-half months of revenues reported in 2005. This is the major reason for the significant increase in revenues in 2006. In addition, the acquisition of Spirit Europe in April 2006 added revenues of \$355 million for the balance of 2006.

Healthcare

The healthcare segment revenues include the operations of Emergency Medical Services, Center for Diagnostic Imaging ("CDI") and Skilled Healthcare. The healthcare segment reported consolidated revenues of \$2.9 billion in 2006 (16 percent of Onex' total consolidated revenues in 2006), up 37 percent from \$2.1 billion in 2005 (14 percent of Onex' total consolidated revenues in 2005). The revenue increase in the healthcare segment was primarily due to the inclusion of Skilled Healthcare in 2006. This business was acquired in late



December 2005. Table 2 provides revenues by operating company in the healthcare segment for 2006 and 2005 in both Canadian dollars and the companies' functional currencies. There are no comparative revenues for 2004 since all of the businesses in the healthcare segment were acquired in 2005. ResCare is accounted for by the equity method and thus the company's revenues are not consolidated.

Healthcare Revenues

Year ended December 31	Canadian Dollars		Functional Currency	
	2006	2005	2006	2005
Emergency Medical Services	\$ 2,194	\$ 2,002	US\$ 1,934	US\$ 1,656
Center for Diagnostic Imaging	123	124	US\$ 109	US\$ 102
Skilled Healthcare	603	— ^(a)	US\$ 532	— ^(a)
Total	\$ 2,920	\$ 2,126	US\$ 2,575	US\$ 1,758

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' audited consolidated statement of earnings for the year ended December 31, 2005.

Emergency Medical Services

During 2006, Emergency Medical Services Corporation ("EMSC") reported revenues of \$2.2 billion, up 10 percent, or \$192 million, from \$2.0 billion in 2005. In the company's functional currency, EMSC's revenues grew 17 percent to US\$1.9 billion in 2006 from US\$1.7 billion in 2005. EMSC operates its business under two subsidiaries: American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. ("EmCare").

AMR is a leading provider of ambulance transport services in the United States. AMR provides emergency 911 ambulance transport services and non-emergency ambulance transport services, including critical care transfer, wheelchair transports and other inter-facility transports. It also offers training, dispatch centres and other services to communities and public safety agencies. AMR generated approximately US\$1.2 billion of EMSC's total revenues in 2006. This compares to US\$1.1 billion in 2005. The 12 percent, or US\$130 million, growth in AMR's revenues was due primarily to the inclusion of a full 12 months of revenues compared to the 11 months of revenues in 2005 following Onex' acquisition of EMSC in February 2005 and to the additional revenues generated from AMR's acquisition of Air Ambulance Specialists in July 2006 (US\$12 million).

EmCare is a leading provider of outsourced emergency department staffing and management services in the United States. The company generates income from hospital contracts for emergency department staffing, hospitalist and radiology services and other management services. EmCare contributed US\$745 million of EMSC's total revenues in 2006, up 25 percent from US\$596 million in 2005. Several factors contributed to EmCare's revenue growth: approximately US\$42 million was from new hospital contracts in 2006; an approximate 5 percent increase in new patient visits from existing contracts; higher revenue per patient visit of approximately 7 percent; as well as the inclusion of a full 12 months of revenues in 2006 compared to 11 months in 2005 following the acquisition.

Center for Diagnostic Imaging

Center for Diagnostic Imaging, Inc. ("CDI") operates 39 diagnostic imaging centres in 12 markets in the United States, providing imaging services such as MRI, CT, diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound. Reported revenues for CDI totalled \$123 million in 2006, down slightly from \$124 million in 2005. Excluding the impact of foreign currency translation, CDI's revenues grew 7 percent to US\$109 million in 2006 from US\$102 million in 2005 due primarily to new centres opened in 2006.

Skilled Healthcare

Skilled Healthcare Group, Inc. (“Skilled Healthcare”) has two segments for revenues: long-term care services and ancillary services. The majority of its revenues are from long-term care services, which include skilled nursing care and integrated rehabilitation therapy services to residents in the company’s network of 73 skilled nursing facilities. In addition, the company earns ancillary service revenue by providing related healthcare services, such as rehabilitation therapy services to third-party facilities and hospice care. For the year ended December 31, 2006, Skilled Healthcare reported revenues of \$603 million, or US\$532 million in the company’s functional currency. Long-term care service revenue accounted for US\$470 million of total 2006 revenues while US\$62 million of revenues were from ancillary services. Included in Skilled Healthcare’s revenues for 2006 is acquisition revenue growth from the three acquisitions that the company completed in the year (US\$9 million).

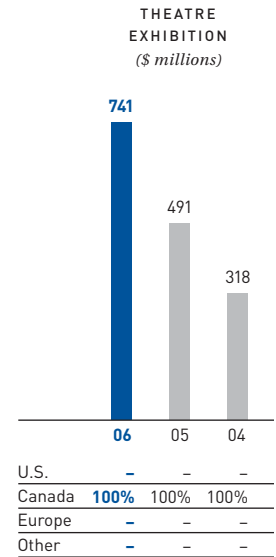
The company’s financial results for the four days from its December 27, 2005 acquisition date to December 31, 2005 were not significant to Onex’ consolidated results and accordingly, Skilled Healthcare’s revenues are not included in the healthcare segment of Onex’ consolidated revenues for the year ended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

Financial Services

The financial services segment is a new reportable segment in 2006 following Onex’ acquisition of The Warranty Group on November 30, 2006. Reported 2006 revenues for The Warranty Group represent one month of revenues from the time of its acquisition, which totalled \$118 million (1 percent of Onex’ total consolidated revenues in 2006). In the company’s functional currency, The Warranty Group reported revenues of US\$103 million. The company underwrites and administers extended warranties on a wide variety of consumer goods, including automobiles, consumer electronics and major home appliances. It also provides consumer credit and other specialty insurance products in connection with consumer loans. The Warranty Group operates in 33 countries through more than 2,150 employees.

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 \$741 million for 2006 (4 percent of Onex’ total consolidated revenues in 2006), up 51 percent from revenues of \$491 million reported in 2005 (3 percent of Onex’ total consolidated revenues in 2005). The growth in revenues in 2006 was due primarily to the acquisition of Famous Players in July 2005 (\$219 million), new theatre openings (\$16 million), an increase in box-office and concession revenues per patron (\$10 million), and higher other revenues (\$6 million), partially offset by the impact of disposed theatres (\$1 million).

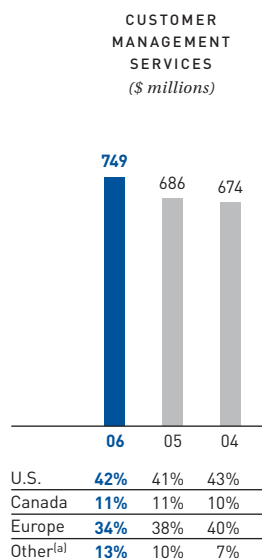


Reported revenues for Cineplex were \$491 million for the year ended December 31, 2005, up \$173 million, or 54 percent from \$318 million in 2004 (3 percent of Onex’ total consolidated revenues in 2004). The acquisition of Famous Players in July 2005 accounted for \$183 million of the total revenue 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.

Customer Management Services

ClientLogic Corporation ("ClientLogic") reported revenues of \$749 million in 2006 (4 percent of Onex' total consolidated revenues in 2006), up \$63 million, or 9 percent, from \$686 million in 2005 (5 percent of Onex' total consolidated revenues in 2005). Excluding the impact of foreign currency translation, ClientLogic's revenues grew 13 percent to US\$660 million in 2006 from US\$584 million in 2005. Customer contact management revenue grew by US\$76 million due primarily to new customers of US\$86 million, partially offset by lower revenues of \$10 million from existing customers who did not continue or renew their contracts.

For the year ended December 31, 2005, revenues for ClientLogic were up \$12 million to \$686 million from \$674 million in 2004 (5 percent of Onex' total consolidated revenues in 2004). In the company's local currency and under Canadian GAAP, ClientLogic's revenues grew 20 percent to US\$584 million in 2005 from US\$541 million in 2004. Customer contact management revenue grew US\$43 million due to the expansion of business from existing customers of US\$31 million and from new customers of US\$44 million. 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.



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

Other Businesses

Personal Care Products

Cosmetic Essence, Inc. ("CEI") is a provider of outsourced supply chain management services to the personal care products industry, including formulating, manufacturing, filling, packaging and distribution. For the year ended December 31, 2006, CEI generated revenues of \$292 million

(2 percent of Onex' total consolidated revenues in 2006), down 4 percent from \$304 million in 2005 (2 percent of Onex' total consolidated revenues in 2005). In the company's functional currency, CEI's revenues were US\$257 million in 2006, up US\$4 million, or 2 percent, from US\$253 million in 2005. The growth in revenues in 2006 was primarily from new customers and the inclusion of a full year of revenues from Hauer Custom Manufacturing, Inc. ("Hauer"), acquired in April 2005.

During 2005, CEI reported revenues of \$304 million. 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. 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 largely as a result of them entering 2005 with excess inventory. In addition, CEI's acquisition of 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 brought new customers to CEI and enabled 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.

Mid-Cap Opportunities

ONCAP reported revenues of \$27 million in 2006 (less than 1 percent of Onex' total consolidated revenues in 2006). CSI Global Education Inc. ("CSI"), acquired in January 2006, accounted for substantially all of the revenues in 2006. Environmental Management Solutions' financial results from the date of acquisition in November 2006 were not material to Onex' consolidated results.

There are no comparative revenues for 2005 and 2004 since ONCAP completed its investments in CSI and Environmental Management Solutions in 2006. The reported results for 2006, 2005 and 2004 of ONCAP's businesses – WIS and CMC Electronics – were reclassified in 2006 and reported as discontinued since ONCAP had made the decision prior to December 31, 2006 to sell those businesses.

Communications Infrastructure

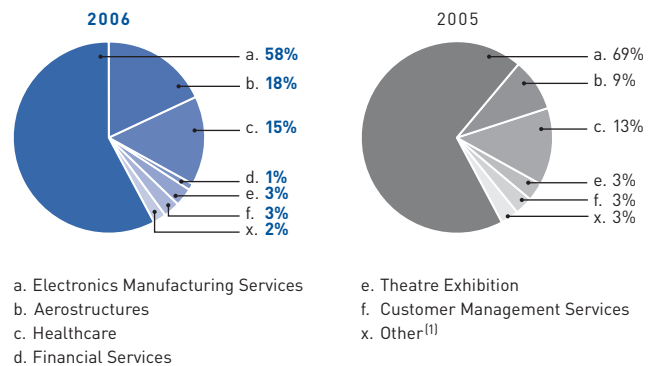
Radian Communication Services Corporation's ("Radian") services include wireless network design, installation, management and optimization, tower engineering and manufacturing and broadcast systems. During 2006, Radian reported revenues of \$132 million (less than 1 percent of Onex' total consolidated revenues in 2006), down slightly from \$134 million in 2005 (1 percent of Onex' total consolidated revenues in 2005). Approximately \$7 million of the revenue decline in 2006 was from a weakening in the broadcast tower manufacturing market and a delay in the start of some large customer contracts in the United States. Partially offsetting these factors was higher revenues from the company's Peoria (ROHN Industries) manufacturing facility (\$4 million).

Revenues at Radian totalled \$134 million in 2005, up from \$113 million in 2004 (1 percent of Onex' total consolidated revenues in 2004). During 2005, telecommunications carriers began to implement a number of capital spending programs, particularly in the U.S. market, which contributed 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.

Consolidated cost of sales

Consolidated cost of sales was \$16.2 billion in 2006 compared to \$13.7 billion in 2005. 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, 2006 and 2005.

Segmented Total Consolidated Cost of Sales Breakdown



(1) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2005 other includes CEI, Radian and parent company.

Table 3 provides a detailed breakdown of reported cost of sales by industry segment for 2006 and 2005 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.

Changes in Cost of Sales by Industry Segment

Year ended December 31	Canadian Dollars			Functional Currency		
	2006	2005	Change (%)	2006	2005	Change (%)
Electronics Manufacturing Services	\$ 9,378	\$ 9,537	(2)%	US\$ 8,277	US\$ 7,876	5 %
Aerostructures	2,919	1,232	137 %	US\$ 2,579	US\$ 1,034	149 %
Healthcare	2,423	1,808	34 %	US\$ 2,135	US\$ 1,495	43 %
Financial Services	60	-	-	US\$ 52	-	-
Theatre Exhibition	594	392	52 %	C\$ 594	C\$ 392	52 %
Customer Management Services	453	420	8 %	US\$ 399	US\$ 369	8 %
Other ^(a)	334	343	(3)%	C\$ 334	C\$ 343	(3)%
Total	\$ 16,161	\$ 13,732	18 %			

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

(a) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2005 other includes CEI, Radian and parent company.

Table 4 provides additional details on cost of sales as a percentage of revenues by industry segment for 2006 and 2005.

Cost of Sales as a Percentage of Revenues by Industry Segment

	2006	2005
Electronics Manufacturing Services	94%	93%
Aerostructures	80%	86%
Healthcare	83%	85%
Financial Services	51%	-
Theatre Exhibition	80%	80%
Customer Management Services	60%	61%
Other ^(a)	70%	75%
Total	87%	89%

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) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company.
2005 other includes CEI, Radian and parent company.

Electronics Manufacturing Services

Celestica's cost of sales was \$9.4 billion in 2006 compared to \$9.5 billion in 2005. In the company's functional currency, cost of sales increased 5 percent to US\$8.3 billion in 2006 from US\$7.9 billion in 2005, while revenues were up 4 percent. Cost of sales as a percentage of revenues was 94 percent in 2006, up slightly from 93 percent in 2005. Celestica reported gross profit in 2006 of US\$535 million, a 10 percent decline from US\$595 million in 2005 due primarily to net inventory charges of US\$36 million taken at two of its facilities in the Americas. The majority of the inventory

Healthcare Cost of Sales

Year ended December 31	Canadian Dollars		Functional Currency	
	2006	2005	2006	2005
Emergency Medical Services	\$ 1,923	\$ 1,766	US\$ 1,695	US\$ 1,461
Center for Diagnostic Imaging	40	42	US\$ 36	US\$ 34
Skilled Healthcare	460	— ^(a)	US\$ 404	— ^(a)
Total	\$ 2,423	\$ 1,808	US\$ 2,135	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 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' audited consolidated statement of earnings for the year ended December 31, 2005.

charge consisted of additional inventory provisions recorded in Mexico to cover excess inventory created by demand reductions and weak inventory management processes. In addition, gross profit was adversely affected by the continued inefficiencies at its Mexican facilities associated with supporting program transfers and ramping up new customers, and under-utilization of its European facilities. Partially offsetting these declines were lower costs due to the various restructuring programs and margin improvements in Asia.

Aerostructures

Cost of sales at Spirit AeroSystems was \$2.9 billion in 2006 compared to \$1.2 billion in 2005. Excluding the impact of foreign currency translation, Spirit AeroSystems booked cost of sales of US\$2.6 billion in 2006 compared to US\$1.0 billion in 2005. The primary factor for the significant increase in cost of sales in 2006 was the inclusion of a full year of cost of sales in 2006 compared to six-and-a-half months in 2005 following Onex' acquisition of Spirit AeroSystems in mid-June 2005. Cost of sales was 80 percent of revenues in 2006, down from 86 percent in 2005 due primarily to lower employee benefit costs and the effect of the strike at Boeing in September 2005 that increased costs associated with a reduced number of shipments.

Healthcare

The healthcare segment reported cost of sales of \$2.4 billion in 2006 compared to \$1.8 billion in 2005. Table 5 provides cost of sales by operating company in the healthcare segment for 2006 and 2005 in both Canadian dollars and the companies' functional currencies.

Emergency Medical Services

EMSC reported cost of sales of \$1.9 billion in 2006 compared to \$1.8 billion in 2005 for the period of Onex' ownership from February 2005. In the company's functional currency, cost of sales for EMSC was US\$1.7 billion in 2006 compared to US\$1.5 billion in 2005. Cost of sales recorded by AMR was US\$1.1 billion in 2006 compared to US\$927 million in 2005. EmCare reported cost of sales of US\$644 million in 2006 compared to US\$534 million in 2005. The overall increase in EMSC's cost of sales in 2006 was due primarily to the inclusion of a full 12 months of cost of sales compared to 11 months in 2005 following its acquisition. AMR's expansion into Medicaid managed transportation and the purchase of Air Ambulance Specialists, an air medical transportation services business, also added cost of sales in 2006. Cost of sales as a percentage of revenues of 88 percent in 2006 remained essentially unchanged from 2005.

Center for Diagnostic Imaging

Cost of sales for CDI was \$40 million in 2006 and \$42 million in 2005. Excluding the impact of foreign currency translation, reported cost of sales for CDI was US\$36 million in 2006 and US\$34 million in 2005. Cost of sales was up slightly in 2006 compared to 2005 due primarily to new centre openings and the overall 7 percent increase in revenues. Cost of sales was 33 percent of revenues in 2006, unchanged from 2005.

Skilled Healthcare

Skilled Healthcare reported cost of sales of \$460 million, or US\$404 million in the company's functional currency, in 2006. A comparison to 2005 is not available because 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 cost of sales is not included in the healthcare segment of Onex' consolidated cost of sales for the year ended December 31, 2005.

Financial Services

For the one-month period following Onex' acquisition of The Warranty Group, that company reported cost of sales of \$60 million, or US\$52 million, in the company's functional currency. Cost of sales was 51 percent of revenues.

Theatre Exhibition

Cineplex reported cost of sales of \$594 million in 2006, a 52 percent increase from \$392 million reported in 2005. This compares to a 51 percent increase in revenues for the same period. A full year of operations from Famous Players, acquired in July 2005, added \$183 million to cost of sales in 2006. Cost of sales as a percentage of revenues was 80 percent for both 2006 and 2005. Approximately 40 percent and 7 percent of the total cost of sales were attributable to film and concession costs, respectively. During 2006, film costs increased by \$77 million due primarily to the inclusion of a full year of film costs from the July 2005 Famous Players acquisition. As a percentage of box-office revenue, film costs were 52 percent in 2006, essentially equal to 2005. Cost of concessions increased \$17 million to \$44 million in 2006 due primarily to the inclusion of a full year of cost of concessions associated with Famous Players. Cost of concessions was 20 percent of concession revenues in 2006, essentially unchanged from 2005.

Customer Management Services

ClientLogic reported cost of sales of \$453 million in 2006, up \$33 million from cost of sales in 2005. In ClientLogic's functional currency, the company reported cost of sales of US\$399 million in 2006 compared to US\$369 million in 2005, an increase of 8 percent. This compares to an increase of 13 percent in revenues in the company's functional currency for the same period. ClientLogic's cost of sales as a percentage of revenues was 60 percent in 2006, compared to 61 percent in 2005. The decline in cost of sales as a percentage of revenues was driven primarily by a favourable shift in business to higher-margin geographies and better management of low-margin business.

Other Businesses

Personal Care Products

CEI reported cost of sales of \$214 million, or US\$189 million in the company's functional currency, in 2006. This compares to cost of sales of \$229 million, or US\$190 million in the company's functional currency, in 2005. Cost of sales was 73 percent of revenues in 2006, down from 75 percent in 2005. The decrease in CEI's cost of sales in its functional currency was primarily from lower manufacturing overhead achieved through cost management initiatives.

Mid-Cap Opportunities

ONCAP reported cost of sales of \$2 million in 2006. As was the case with revenues, substantially all of the cost of sales was associated with CSI. There is no comparative cost of sales for 2005 since all of ONCAP's reported businesses were acquired in 2006. The cost of sales for ONCAP for 2005 was restated to report as discontinued operations for CSRS, WIS and CMC Electronics.

Communications Infrastructure

Radian's cost of sales was \$114 million in 2006 compared to \$113 million in 2005. As a percentage of revenues, the company's cost of sales was 86 percent in 2006, up from 84 percent in 2005 due to higher costs on certain larger projects resulting from inefficiencies at Radian's U.S. and Canadian operations.

Operating earnings

Operating earnings is defined as EBIAT, or earnings before interest expense, amortization of intangible assets and deferred charges and income taxes. As Onex' objective is to achieve an operating earnings measurement of our businesses, the Company also excludes foreign exchange gain (loss), stock-based compensation charges, non-recurring items such as acquisition and restructuring charges, as well as 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, 2006 and 2005.

Operating Earnings Reconciliation

TABLE 6	(\$ millions)	2006	2005
Earnings before the undernoted items		\$ 1,372	\$ 806
Amortization of property, plant and equipment		(370)	(333)
Interest and other income		131	144
Equity-accounted investments		17	1
Operating earnings		\$ 1,150	\$ 618
Foreign exchange gain (loss)		22	(35)
Stock-based compensation		(634)	(44)
Amortization of intangible assets and deferred charges		(91)	(81)
Interest expense of operating companies		(339)	(223)
Derivative instruments		-	4
Gains on sales of operating investments, net		1,307	921
Acquisition, restructuring and other expenses		(292)	(252)
Debt prepayment		-	(6)
Writedown of goodwill and intangible assets		(10)	(3)
Writedown of long-lived assets		(3)	(5)
Earnings before income taxes, non-controlling interests and discontinued operations		\$ 1,110	\$ 894

Onex uses EBIAT as a measure 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 of, or as a substitute for, net earnings prepared in accordance with Canadian GAAP.

Consolidated operating earnings of \$1,150 million in 2006 were up 86 percent, or \$532 million, from \$618 million in 2005. Table 7 provides a breakdown of and the change in operating earnings by industry segment for the years ended December 31, 2006 and 2005.

Operating Earnings by Industry Segment

TABLE 7	(\$ millions)	2006	2005	Change (\$)
Electronics Manufacturing				
Services		\$ 201	\$ 285	\$ (84)
Aerostructures		508	82	426
Healthcare		256	138	118
Financial Services		44	-	44
Theatre Exhibition		55	33	22
Customer Management Services		55	40	15
Other ^(a)		31	40	(9)
Total		\$ 1,150	\$ 618	\$ 532

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) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company.
2005 other includes CEI, Radian and parent company.

During 2006, Onex' operating earnings growth was driven by several factors:

- a \$426 million increase in Spirit AeroSystems' operating earnings in 2006 resulting from: the inclusion of a full 12 months of operating earnings from Spirit AeroSystems, acquired in mid-June 2005 (\$250 million); lower cost of sales in 2006 due to favourable cost trends and higher production rates (\$67 million) and the effect of the Boeing strike in September 2005 that had resulted in a reduced number of shipments in that prior period (\$38 million); and Spirit AeroSystems' purchase of Spirit Europe in April 2006 (\$11 million). Spirit AeroSystems' operating earnings exclude development costs of \$100 million in 2006 (2005 – \$55 million) that were capitalized under Canadian GAAP and that Spirit AeroSystems expensed under U.S. GAAP;
- Onex' acquisitions of Skilled Healthcare (\$91 million) in December 2005 and of The Warranty Group in late November 2006 (\$44 million); and

- an improvement in insurance claims costs at EMSC, as well as the inclusion of a full 12 months of that company's results in 2006 compared to 11 months of operating earnings from the time of the company's acquisition in February 2005 (\$30 million).

Partially offsetting the impact of these factors was a decline in operating earnings of \$84 million at Celestica resulting principally from net inventory charges of US\$36 million at two of the company's facilities in the Americas, as well as higher costs from inefficiencies at its facilities in Mexico and Eastern Europe, partially offset by restructuring benefits and margin improvements in Asia.

Stock-based compensation

During 2006, stock-based compensation expense was \$634 million compared to \$44 million in 2005. Table 8 provides a breakdown of and the change in stock-based compensation by industry segment for the years ended December 31, 2006 and 2005.

Stock-based Compensation Expense (Income) by Industry Segment

TABLE 8	(\$ millions)	2006	2005	Change (\$)
Electronics Manufacturing				
Services		\$ 23	\$ 28	\$ (5)
Aerostructures		438	11	427
Healthcare		3	2	1
Theatre Exhibition		1	8	(7)
Customer Management Services		(1)	-	(1)
Other ^(a)		170	(5)	175
Total Stock-based Compensation Expense		\$ 634	\$ 44	\$ 590

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) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company.
2005 other includes CEI, Radian and parent company.

The increase in stock-based compensation expense in 2006 was driven by:

- Spirit AeroSystems, which contributed \$427 million of the increase in stock-based compensation expense due primarily to charges related to Spirit AeroSystems' Union Equity Participation plan following the company's initial public offering of shares; the total value of the Union Equity Participation plan was \$343 million, of which \$196 million was paid in cash and \$147 million is to be settled in shares in March 2007. Additionally, Spirit AeroSystems also recorded stock-based compensation charges associated with the revaluation of prior common stock purchases and restricted stock awards to other employees of Spirit AeroSystems as a result of the initial public offering and the rise in value of its stock plans; and
- the growth in value of Onex' stock options and investment rights from their value at December 31, 2005, which added \$169 million in stock-based compensation expense; the 50 percent growth in value of Onex shares during 2006 resulted in a \$113 million increase in the unrealized value of Onex stock options; and approximately \$49 million of the growth in value was associated with the unrealized value of the investment rights under the MIP of Spirit AeroSystems.

Partially offsetting these factors was a \$7 million decline in stock-based compensation expense at Cineplex due to a one-time \$8 million stock-based compensation charge recorded in 2005 as a result of units issued to management as part of the Famous Players acquisition that year.

Foreign exchange gain (loss)

The foreign exchange gain (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.

For the year ended December 31, 2006, a net foreign exchange gain of \$22 million was recorded due primarily to the slight increase in the value of the U.S. dollar relative to the Canadian dollar; the exchange rate was 1.1654 Canadian dollars at December 31, 2006 compared to

1.1630 Canadian dollars at December 31, 2005. Since Onex, the parent company, holds a significant portion of its cash in U.S. dollars, it recorded a \$10 million foreign exchange gain as a result of the exchange rate movement on the value of the U.S. cash held. There was a net foreign exchange loss of \$35 million recorded in 2005. The parent company accounted for \$31 million of the total foreign exchange loss due to the weakening of the U.S. dollar compared to the Canadian dollar to 1.1630 Canadian dollars at December 31, 2005 from 1.2020 Canadian dollars at December 31, 2004. Note 27 to the audited annual consolidated financial statements provides a breakdown of foreign exchange gains (loss) by industry segment.

Interest and other income

Interest and other income was down \$13 million, or 9 percent, to \$131 million in 2006 from \$144 million in 2005. The decrease was due primarily to:

- \$35 million of other income recorded by Onex, the parent company, in 2005 on the realization of non-strategic market-related investments; and
- \$17 million of other income recorded by Celestica in 2005 associated with the repurchase of its Liquid Yield Option™ notes ("LYONs").

Partially offsetting the above factors were:

- higher interest and other income at Spirit AeroSystems of \$19 million resulting from the inclusion of a full 12 months of interest and other income in 2006;
- \$11 million of interest and other income from The Warranty Group, acquired in late November 2006; and
- higher interest income of \$13 million at Onex, the parent company.

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.

Consolidated interest expense was up \$116 million to \$339 million in 2006 from \$223 million in 2005. Table 9 details the change in consolidated interest expense from 2005 to 2006.

Change in Interest Expense

Reported interest expense for 2005	\$ 223
Additional interest expense in 2006 due to:	
A full year of Spirit AeroSystems interest expense	26
A full year of Skilled Healthcare, acquired on December 27, 2005	52
Cineplex Entertainment	21
Interest expense reductions due to:	
EMSC's repayment of debt from initial public offering	(6)
Other	23
Reported interest expense for 2006	\$ 339

Spirit AeroSystems added \$26 million in interest expense in 2006 as a result of the inclusion of a full 12 months of that company's interest expense compared to six-and-a-half months in 2005. Skilled Healthcare contributed a further \$52 million in interest expense in 2006 since the company was acquired in late December 2005. In addition, Cineplex Entertainment added \$21 million in interest expense in 2006 over 2005 due to the inclusion of a full year of interest expense on the additional debt taken on as a result of the July 2005 acquisition of Famous Players, which included that company's issuance of \$105 million of convertible debentures and other third-party financing. Partially offsetting these expenses was lower reported interest expense at EMSC of \$6 million in 2006 due primarily to its \$114 million debt repayment following its initial public offering in December 2005.

Equity-accounted investments

Onex reported earnings on equity-accounted investments of \$17 million in 2006 compared to \$1 million in 2005. The 2006 earnings from equity-accounted investments primarily represents Onex' share in the net earnings of Res-Care, Inc. ("ResCare"), Cypress Property & Casualty Insurance Company ("Cypress"), a Florida homeowners insurance company, and OREP's investment in the Camden partnerships, which are multi-unit apartment community development projects in the United States. Onex' share of Cypress' earnings accounted for \$12 million of the growth in equity-accounted investments in 2006. Cypress reported strong profitability in 2006 largely due to reduced claims resulting from a mild hurricane season. Approximately \$2 million of the earnings on equity-accounted investments represents Onex' share of ResCare's net earnings.

Gains on sales of operating investments

Consolidated gains on sales of operating investments totalled \$1,307 million in 2006 compared to \$921 million in 2005. Table 10 details the nature of the gains recorded in 2006 compared to 2005.

Gains on Sales of Operating Investments

	2006	2005
Gains on:		
Sale of shares of Spirit AeroSystems	\$ 1,146	\$ -
Dilution gain on issue of shares by Spirit AeroSystems	100	-
Sale of units of Cineplex Entertainment	25	-
Dilution gain on June 2006 issue of units by Cineplex Entertainment	12	-
Close of exchangeable debentures on Celestica shares	-	560
Close of forward sales agreements on Celestica shares	-	191
Sale of CGG convertible bonds	-	41
Dilution gain on July 2005 issue of units by Cineplex Entertainment	-	53
Dilution gain on issue of shares by EMSC	-	40
Other, net	24	36
Total	\$ 1,307	\$ 921

In late November 2006, Spirit AeroSystems completed a US\$1.7 billion initial public offering of common stock. As part of that offering, Spirit AeroSystems issued 10.4 million new shares; Onex, Onex Partners I and certain limited partners sold 48.3 million shares. The gain that was recorded has two components: a gain on the shares sold and an accounting dilution gain resulting from the new share issuance at a value above the net book value per share. The gain on shares sold by Onex, Onex Partners I and certain limited partners was \$1.1 billion, of which Onex' share was \$314 million. The non-cash accounting dilution gain recorded from the new share issuance was \$100 million, of which Onex' portion was \$29 million.

Onex, the parent company, recorded a \$25 million pre-tax gain as a result of the sale of some of its Cineplex Entertainment trust units as part of a secondary offering completed in June 2006. In conjunction with its sale of units, Onex also entered into a forward contract to acquire beneficial ownership of 1.4 million units already controlled by it through Cineplex Odeon Corporation. The forward contract may be settled in or after January 2007 at a price computed with reference to the secondary offering. In addition, a \$12 million non-cash accounting dilution gain was recorded relating to Cineplex Entertainment's issuance of 2 million trust units from treasury, the proceeds from which were used to indirectly repay indebtedness under the company's revolving credit facility. Onex' share of that gain was \$6 million.

Acquisition, restructuring and other expenses

Acquisition, restructuring and other expenses are considered to be costs incurred by the operating companies to realign organizational structures or restructure manufacturing capacity to obtain operating synergies critical to building the long-term value of those businesses. During 2006, acquisition, restructuring and other expenses totalled \$292 million, up 16 percent from the \$252 million reported in 2005. Table 11 details acquisition, restructuring and other expenses by operating company.

Acquisition, Restructuring and Other Expenses

TABLE 11	(\$ millions)	2006	2005
Celestica		\$ 240	\$ 193
Spirit AeroSystems		31	42
ClientLogic		3	9
Other		18	8
Total		\$ 292	\$ 252

Celestica incurred approximately \$240 million of these expenses in 2006 compared to \$193 million in 2005. Many of the costs were recorded in connection with Celestica's restructuring plans, which were spread over several reporting periods. These plans, which include reducing workforce and consolidating facilities, are intended to improve capacity utilization and accelerate margin improvements. Included in Celestica's 2006 acquisition, restructuring and other expenses was a \$69 million charge associated with the sale of its manufacturing facilities in Italy. Note 19 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.

Spirit AeroSystems recorded \$31 million in acquisition, restructuring and other expenses for 2006 related to the continued transition to and set-up of a stand-alone business following the separation of the company's operations from Boeing, as well as the integration of the April 2006 purchase of Spirit Europe from BAE Systems.

Income taxes

During 2006, the consolidated provision for income taxes was \$24 million compared to a provision of \$70 million in 2005. Spirit AeroSystems accounted for much of the provision for income taxes in 2006. 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 carry-forwards for which a full valuation allowance had previously been provided. Note 14 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 earnings (losses) 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 2006, the non-controlling interests amount in Onex' operating companies' net earnings was \$830 million compared to a \$3 million interest in net losses in 2005. 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)	2006	2005
Electronics Manufacturing Services		\$ 153	\$ 53
Aerostructures		(99)	15
Healthcare		(45)	(44)
Financial Services		(15)	-
Theatre Exhibition		(6)	(16)
Customer Management Services		(6)	(1)
Other ^(a)		103	76
Minority interest of gains on sales of operating investments		(915)	(80)
Total		\$ (830)	\$ 3

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

The significant change in the non-controlling interests amount in 2006 was due to the interest of the other limited partners of Onex Partners I in the gain recorded as a result of the Spirit AeroSystems initial public offering. Approximately \$832 million of that gain was on the shares sold by other limited partners in the offering, while \$71 million resulted from the portion of other limited partners in the non-cash accounting dilution gain recorded as a result of Spirit AeroSystems' new share issuance at a per share value above the per share net book value.

Earnings (loss) from continuing operations

Onex' consolidated earnings from continuing operations, including gains on sales of operating investments, was \$256 million (\$1.93 per share) in 2006 compared to earnings from continuing operations of \$827 million (\$5.95 per share) reported in 2005 and a loss of \$248 million (\$1.75 per share) reported in 2004. 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)	2006	2005	2004
Earnings (loss) before income taxes and non-controlling interests:				
Electronics Manufacturing Services		\$ (160)	\$ (39)	\$ (752)
Aerostructures		(22)	(1)	-
Healthcare		105	47	-
Financial Services		32	-	-
Theatre Exhibition		1	(11)	28
Customer Management Services		23	(7)	(4)
Other ^(a)		(176)	(16)	(174)
Gains on sales of operating investments		1,307	921 ^(b)	108
		1,110	894	(794)
Provision for income taxes		(24)	(70)	(295)
Non-controlling interests of operating companies		(830)	3	841
Earnings (loss) from continuing operations		\$ 256	\$ 827	\$ (248)

(a) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2005 other includes CEI, Radian and parent company. 2004 other includes Radian 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 \$746 million (\$5.62 per share) in 2006 compared to earnings from discontinued operations of \$138 million (\$1.00 per share) in 2005.

Table 14 provides a breakdown of earnings (loss) by company, including the net after-tax gains (loss) on sales of operating investments as well as Onex' share of earnings (loss) of those businesses that were discontinued in 2006 and 2005.

Earnings (Loss) from Discontinued Operations

TABLE 14 | (\$ millions)

	2006			2005		
	Gain (loss), net of tax	Onex' share of earnings (loss)	Total	Gain, net of tax	Onex' share of earnings (loss)	Total
J.L. French Automotive	\$ 615	\$ -	\$ 615	\$ -	\$ (67)	\$ (67)
Sale of Futuremed	19	-	19	-	(1)	(1)
Sale of CSRS	21	-	21	-	(3)	(3)
Cineplex Entertainment theatre divestitures	-	-	-	2	-	2
Sale of Town and Country	45	(15)	30	-	-	-
ClientLogic's warehouse management business	(2)	(3)	(5)	-	(7)	(7)
Sky Chefs	50	-	50	-	-	-
Planned sale of WIS	-	7	7	-	1	1
Planned sale of CMC Electronics	-	7	7	45	1	46
Sale of InsLogic	2	-	2	73	-	73
Sale of Magellan	-	-	-	22	2	24
Sale of CVG	-	-	-	68	2	70
Earnings (loss) from discontinued operations	\$ 750	\$ (4)	\$ 746	\$ 210	\$ (72)	\$ 138

As discussed in the significant events section on page 11 of this report, the operations of J.L. French Automotive, Futuremed, CSRS, ClientLogic's warehouse management business, certain of Town and Country's assets, WIS and CMC Electronics were classified as discontinued in 2006. In addition to these operations, included in the 2005 earnings from discontinued operations were the operations of Futuremed, Cineplex Entertainment's theatre divestitures, Magellan Health Services, Inc. ("Magellan") and Commercial Vehicle Group, Inc. ("CVG"). Note 3 to the audited annual consolidated financial statements provides additional disclosure on earnings (loss) from discontinued operations.

In addition to those operations that were discontinued in 2006, Onex recorded a \$50 million recovery of taxes related to the sale of Sky Chefs in 2001 in earnings from discontinued operations. This recovery resulted from the resolution of items associated with a previously recorded provision for tax indemnities under the agreement for the sale of Sky Chefs.

Consolidated net earnings

Consolidated net earnings in 2006 were \$1,002 million compared to \$965 million in 2005 and \$35 million in 2004. 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)

TABLE 15	(\$ millions)	2006	2005	2004
Onex' share of net earnings (loss):				
Electronics Manufacturing				
	Services	\$ (23)	\$ (13)	\$ (202)
	Aerostructures	(2)	(6)	-
	Healthcare	19	10	-
	Financial Services	6	-	-
	Theatre Exhibition	(6)	(3)	7
	Customer Management Services	4	(10)	(4)
	Other ^(a)	(93)	(72)	(157)
	Net after-tax gains on sales of operating investments	351	921	108
Earnings (loss) from continuing operations				
		256	827	(248)
Earnings from discontinued operations				
		746	138	283
Consolidated net earnings				
		\$ 1,002	\$ 965	\$ 35

(a) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2005 other includes CEI, Radian and parent company. 2004 other includes Radian and parent company.

Table 16 presents the earnings (loss) per share from continuing operations, discontinued operations and net earnings (loss).

Earnings (Loss) per Subordinate Voting Share

TABLE 16	(\$ per share)	2006	2005	2004
Basic and Diluted:				
	Continuing operations	\$ 1.93	\$ 5.95	\$ (1.75)
	Discontinued operations	\$ 5.62	\$ 1.00	\$ 2.00
	Net earnings	\$ 7.55	\$ 6.95	\$ 0.25

FOURTH-QUARTER RESULTS

Table 17 presents the statements of earnings for the fourth quarters ended December 31, 2006 and 2005.

Fourth-Quarter Statements of Earnings

TABLE 17	(\$ millions)	2006	2005
Revenues			
		\$ 4,992	\$ 4,148
	Cost of sales	(4,282)	(3,637)
	Selling, general and administrative expenses	(324)	(247)
Earnings before the undernoted items			
		\$ 386	\$ 264
	Amortization of property, plant and equipment	(114)	(88)
	Interest and other income	48	29
	Equity-accounted investments	7	-
Operating earnings			
		\$ 327	\$ 205
	Foreign exchange gain (loss)	47	(8)
	Stock-based compensation	(470)	1
	Amortization of intangible assets and deferred charges	(33)	(22)
	Interest expense of operating companies	(94)	(67)
	Derivative instruments	-	1
	Gains on sales of operating investments, net	1,249	51
	Acquisition, restructuring and other expenses	(82)	(102)
	Debt prepayment	-	(2)
	Writedown of goodwill and intangible assets	(5)	(1)
	Writedown of long-lived assets	(3)	(1)
Earnings before income taxes, non-controlling interests and discontinued operations			
		\$ 936	\$ 55
	Recovery of (provision for) income taxes	34	(21)
	Non-controlling interests	(759)	(5)
Earnings from continuing operations			
		\$ 211	\$ 29
Earnings (loss) from discontinued operations			
		33	(37)
Earnings (Loss) for the Period			
		\$ 244	\$ (8)

Consolidated revenues were \$5.0 billion for the fourth quarter of 2006, up 20 percent, or \$844 million from the same quarter of 2005. Operating earnings were \$327 million in the fourth quarter of 2006, up 60 percent from \$205 million

in the fourth quarter of 2005. Table 18 provides a breakdown and change in fourth-quarter revenues and operating earnings by industry segment.

Fourth-Quarter Revenues and Operating Earnings by Industry Segment

	Revenues			Operating Earnings		
	2006	2005	Change (\$)	2006	2005	Change (\$)
Electronics Manufacturing Services	\$ 2,580	\$ 2,431	\$ 149	\$ 30	\$ 61	\$ (31)
Aerostructures	966	642	324	121	73	48
Healthcare	763	578	185	73	36	37
Financial Services	118	-	118	44	-	44
Theatre Exhibition	196	193	3	20	20	-
Customer Management Services	206	180	26	16	11	5
Other ^(a)	163	124	39	23	4	19
Total	\$ 4,992	\$ 4,148	\$ 844	\$ 327	\$ 205	\$ 122

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

(a) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2005 other includes CEI, Radian and parent company.

Fourth-quarter revenues rose primarily due to:

- Celestica's revenues increased \$149 million as a result of revenue growth in most of its market segments; in particular, the company's consumer segment grew more than 50 percent compared to the fourth quarter last year due to new customer wins;
- Spirit AeroSystems' growth in revenues of \$324 million was due primarily to the inclusion of a full quarter of revenues of Spirit Europe, acquired in April 2006, as well as higher production rates and the negative impact of the 2005 Boeing strike on that prior period;
- Onex' acquisition of Skilled Healthcare in late December 2005 added \$159 million in revenues; and
- the acquisition of The Warranty Group in late November 2006 boosted revenues by \$118 million in the quarter.

Operating earnings grew in the fourth quarter of 2006 compared to 2005 as a result of several factors:

- the acquisitions of The Warranty Group (\$44 million) and Skilled Healthcare (\$25 million); and
- a \$48 million growth in operating earnings at Spirit AeroSystems due to favourable cost trends, the inclusion of a full quarter of results of Spirit Europe, higher production rates and the negative impact of the 2005 Boeing strike on that prior period.

Partially offsetting the above factors was a \$31 million decrease in operating earnings at Celestica primarily resulting from net inventory charges taken in the Americas and continued higher than expected costs in Mexico and Europe, which more than offset the strong performance in Asia.

During the fourth quarter of 2006, Spirit AeroSystems completed an initial public offering of common shares. As part of this offering, Spirit AeroSystems issued approximately 10.4 million new shares while Onex, Onex Partners I and certain limited partners sold 48.3 million of their shares. Onex, Onex Partners I and certain limited partners received total gross proceeds of \$1.4 billion for their shares sold, of which Onex' share of the net proceeds was \$390 million. A pre-tax gain of \$1.2 billion was recorded in the fourth quarter of 2006 as a result of the initial public offering. The gain had two components: a \$1.1 billion pre-tax gain on the net sale of shares by Onex and Onex Partners I and a \$100 million non-cash accounting dilution gain on the new share issuance at a value above the net book value per share. Onex' portion of the pre-tax gain was \$343 million. Onex, Onex Partners I and certain limited partners continue to hold 64.2 million shares of Spirit AeroSystems.

During the fourth quarter of 2006, stock-based compensation expense was \$470 million compared to income from stock-based compensation of \$1 million recorded during the fourth quarter of 2005. The increase in the stock-based compensation expense recorded in the fourth quarter was due to:

- a stock-based compensation charge of approximately \$369 million recorded by Spirit AeroSystems in the quarter primarily relating to the value of its Union Equity Participation plan following the company's initial public offering in November 2006; and
- Onex, the parent company, recording \$97 million of the total stock-based compensation expense as a result of the increase in the value of Onex' stock options and the unrealized value under the MIP of the investment rights that are now being recorded in regard to Spirit AeroSystems following the sale of shares in the initial public offering of that company (\$49 million).

Acquisition, restructuring and other expenses totalled \$82 million for the fourth quarter of 2006 compared to \$102 million for the same quarter of last year. Approximately \$68 million of the total fourth-quarter acquisition, restructuring and other expenses was recorded by Celestica and \$7 million by Spirit AeroSystems.

The 2006 fourth-quarter earnings from discontinued operations of \$33 million include a net after-tax gain of \$45 million on the sale of certain Town and Country properties, acquired in March 2006. Partially offsetting this was Onex' share of the after-tax operating losses of those properties of \$15 million. This compares to a \$37 million loss from discontinued operations in 2005, which primarily represents Onex' share of the operating loss of J.L. French Automotive.

SUMMARY QUARTERLY INFORMATION

Table 19 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 2006 and 2005 as a result of operations that have been discontinued and reclassified as discussed above.

	2006				2005			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Revenues	\$ 4,992	\$ 4,810	\$ 4,624	\$ 4,194	\$ 4,148	\$ 4,083	\$ 3,849	\$ 3,371
Earnings (loss) from continuing operations	\$ 211	\$ (35)	\$ 47	\$ 33	\$ 29	\$ (55)	\$ 233	\$ 620
Net earnings (loss)	\$ 244	\$ 31	\$ 48	\$ 679	\$ (8)	\$ 13	\$ 239	\$ 721
Earnings (loss) per Subordinate Voting Share								
Basic and Diluted:								
Continuing operations	\$ 1.64	\$ (0.27)	\$ 0.35	\$ 0.24	\$ 0.21	\$ (0.40)	\$ 1.68	\$ 4.46
Net earnings (loss)	\$ 1.89	\$ 0.24	\$ 0.36	\$ 4.95	\$ (0.06)	\$ 0.09	\$ 1.72	\$ 5.19

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.

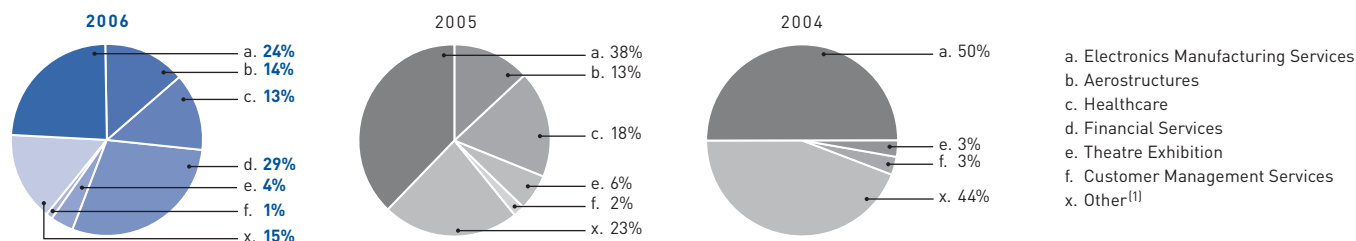
CONSOLIDATED FINANCIAL POSITION

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 \$22.6 billion at December 31, 2006 from \$14.8 billion at December 31, 2005. The charts below show the percentage breakdown of total consolidated assets by industry segment as at December 31, 2006, 2005 and 2004.

Segmented Total Consolidated Assets Breakdown



(1) 2006 and 2005 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company. 2004 other includes CEI, Radian, ONCAP and parent company.

Consolidated assets grew in 2006 due primarily to:

- Onex' acquisition of The Warranty Group in late November 2006 (\$6.4 billion). The primary components of the assets are current and long-term portions of ceded claims recoverable (\$1.5 billion); current and long-term prepaid premiums (\$0.9 billion); investments held (\$1.2 billion); property, plant and equipment and other assets (\$1.8 billion); and goodwill and intangibles (\$1.0 billion);
- the capitalization of development costs for the Boeing 787 program at Spirit AeroSystems (\$100 million) in 2006, as well as the inclusion of assets from Spirit AeroSystems' purchase of Spirit Europe (\$288 million); and
- ONCAP II's purchase of CSI and Environmental Management Solutions (\$189 million).

Table 20 outlines the more significant acquisitions completed by Onex and its operating companies in 2006, 2005 and 2004. Note 2 to the audited annual consolidated financial statements provides additional disclosure on the acquisitions completed in 2006 and 2005.

2006 Acquisitions

TABLE 20 | *Operating company and total assets at time of acquisition*

Spirit AeroSystems – \$288 million	Spirit AeroSystems' acquisition of BAE Systems' aerostructures business unit, with operations in Prestwick, Scotland and Samlesbury, England. The company now operates as Spirit AeroSystems (Europe) Ltd.
The Warranty Group – \$6,569 million	Onex' acquisition of The Warranty Group, one of the world's largest providers of extended warranty contracts
Town and Country – \$817 million⁽¹⁾	Onex Real Estate's acquisition of Town and Country Trust, a real estate investment trust that owns and operates 37 apartment communities in the Mid-Atlantic States and Florida
ONCAP – \$214 million	Two acquisitions in 2006: <ul style="list-style-type: none"> • CSI Global Education Inc., Canada's leading provider of financial education and testing services • Environmental Management Solutions, a leading environmental services company in the management, treatment and re-use and disposal of organic waste and contaminated soil

(1) A significant portion of Town and Country was recorded as a discontinued operation as at December 31, 2006.

2005 Acquisitions

Operating company and total assets at time of acquisition

CDI – \$251 million	Onex' acquisition of Center for Diagnostic Imaging, Inc., a leading provider of diagnostic and therapeutic radiology services in the United States
EMSC – \$1,516 million	Onex' acquisition of Emergency Medical Services Corporation, a leading provider of emergency medical services, operating through American Medical Response, the leading U.S. provider of ambulance transport services, and EmCare, the leading provider of outsourced services for hospital emergency department physician staffing and management
Spirit AeroSystems – \$1,591 million	Onex' acquisition of Spirit AeroSystems, Inc., the world's largest Tier 1 aerostructures manufacturer
Skilled Healthcare – \$932 million	Onex' acquisition of Skilled Healthcare Group, Inc., a leading operator of skilled nursing and assisted living facilities in California, Texas, Kansas and Nevada, focusing on treating elderly patients who require a high level of skilled nursing care and extensive rehabilitation therapy
Cineplex Entertainment – \$622 million	Cineplex' purchase of the Famous Players movie business, a film exhibition company operating 80 theatres with 785 screens across Canada
ONCAP – \$198 million	Two acquisitions in 2005: <ul style="list-style-type: none"> • 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 • 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

2004 Acquisitions

TABLE 20 | *Operating company and total assets at time of acquisition*

Celestica – \$832 million	Two acquisitions in 2004: <ul style="list-style-type: none"> • Manufacturers' Services Limited – a full-service global electronics manufacturing and supply chain services company • NEC Corporation assets – acquired certain assets located in the Philippines
Magellan – \$1,629 million ⁽¹⁾	Onex' investment in Magellan Health Services, Inc., a leading U.S. provider of managed behavioural healthcare and insurance services
ONCAP – \$248 million	Two acquisitions in 2004: <ul style="list-style-type: none"> • Futuremed Health Care Products L.P.⁽¹⁾ – the leading Canadian supplier of medical supplies and equipment to long-term care facilities • Canadian Securities Registration Systems Ltd.⁽²⁾ – a leading Canadian provider of registration and search services to financial institutions and auto acceptance and leasing companies
CEI – \$383 million	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

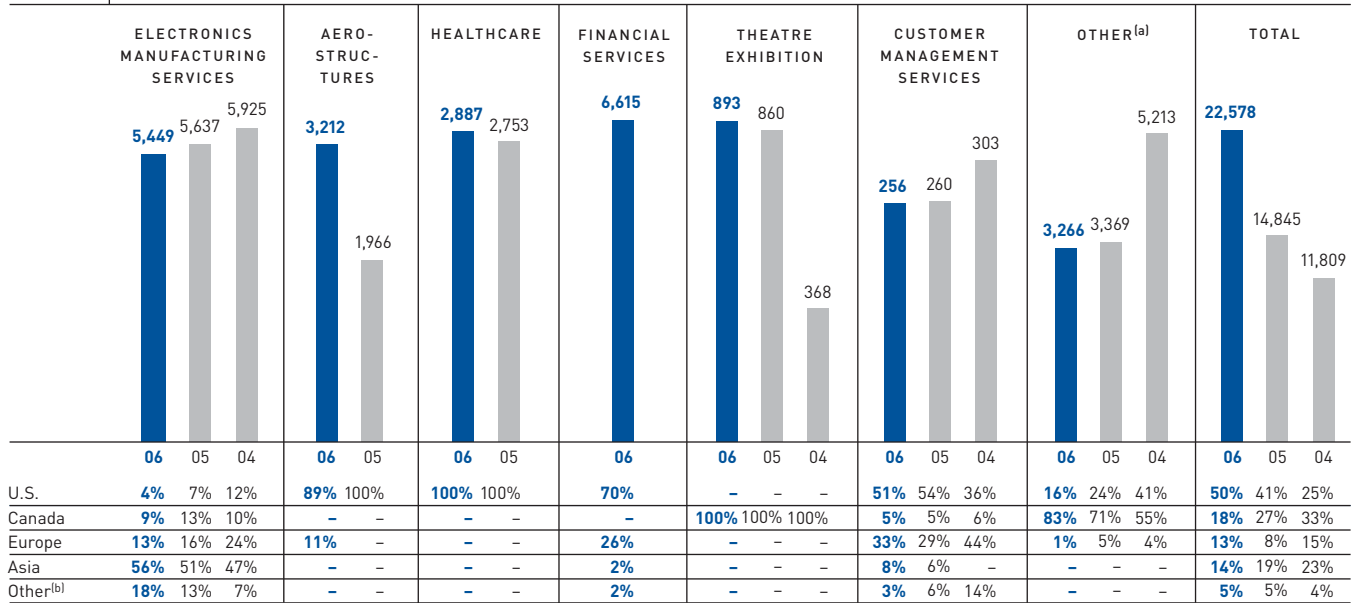
(1) These investments were recorded as discontinued operations as at December 31, 2005.

(2) This investment was recorded as a discontinued operation as at December 31, 2006.

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 Real Estate and parent company. Includes discontinued operations of \$531 million, \$1,114 million and \$2,596 million for 2006, 2005 and 2004, respectively.

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

Included in the December 31, 2006 consolidated assets in the Other segment are:

- \$198 million of investments made by Onex Capital Management, 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 is a leading provider of residential, training and educational support services for people with disabilities and special needs.

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

- the elimination of the assets of J.L. French Automotive, which was no longer consolidated at December 31, 2006 due to Onex no longer controlling that business following its emergence from bankruptcy in July 2006; J.L. French Automotive represented \$408 million of the total consolidated assets at December 31, 2005.

The December 31, 2005 consolidated assets have been restated from those originally presented to show the assets of J.L. French Automotive, CSRS and ClientLogic's warehouse management business as discontinued. The assets of WIS and CMC Electronics are also presented as discontinued as the determination was made prior to December 31, 2006 to sell these businesses.

At December 31, 2005, total consolidated assets were up \$3.0 billion to \$14.8 billion from \$11.8 billion at December 31, 2004 due to the inclusion of the assets of CDI, which added \$237 million in assets, EMSC, which added \$1.5 billion in assets, \$2.0 billion in assets from the acquisition of Spirit AeroSystems and \$925 million from the December 2005 purchase of Skilled Healthcare.

Warranty reserves and unearned premiums

Onex' consolidated balance sheet as at December 31, 2006 includes The Warranty Group's gross warranty and property and casualty reserves, as well as gross warranty unearned premiums, which combined total \$4.9 billion. The current portion is \$2.3 billion, while the long-term portion is \$2.6 billion. Gross warranty and property casualty reserves of \$1.7 billion represent the estimated future losses on warranty contracts and property and casualty insurance policies. The property and casualty reserves component of \$1.4 billion has been ceded 100 percent to third-party reinsurers, which has created a ceded claims recoverable asset. Approximately 80 percent of the reserves have been ceded to a subsidiary of Aon Corporation (the former parent of The Warranty Group). The Warranty Group's liability for gross warranty and property and casualty unearned premiums totalled \$3.2 billion. Approximately 92 percent of the unearned premiums are warranty business related and represent the portion of the revenue received that has not yet been earned as revenue by The Warranty Group on extended warranty products sold by multiple distribution channels. Typically, there is a time delay between when the warranty contract starts to earn and the contract effective date. The contracts generally commence earning after the original manufacturer's warranty on a product expires. Note 10 to the audited annual consolidated financial statements provides details of the gross warranty and property and casualty reserves for loss and loss adjustment expenses and warranty unearned premiums as at December 31, 2006.

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 \$3.8 billion at December 31, 2006, \$3.7 billion at December 31, 2005 and \$1.3 billion at December 31, 2004. Table 21 summarizes consolidated long-term debt by industry segment.

Consolidated Long-term Debt, Without Recourse to Onex

(Net of amounts held by Onex)

TABLE 21	(\$ millions)	2006	2005	2004
Electronics Manufacturing				
Services		\$ 874	\$ 872	\$ 750
Aerostructures		687	839	-
Healthcare		1,177	1,196	-
Financial Services		233	-	-
Theatre Exhibition		350	346	129
Customer Management Services		196	206	192
Other ^(a)		324	195	190
		3,841	3,654	1,261
Current portion of long-term debt of operating companies		(43)	(36)	(97)
Total		\$ 3,798	\$ 3,618	\$ 1,164

(a) 2006 other includes CEI, Radian, Onex Real Estate and ONCAP. 2005 other includes CEI and Radian. 2004 other includes Radian.

The increase in long-term debt at December 31, 2006 from year-end 2005 resulted primarily from the acquisition of The Warranty Group, which has debt of \$233 million.

During the third quarter of 2006, ClientLogic completed a US\$170 million debt refinancing of its credit facility. The new facility consists of a US\$40 million senior secured loan and a US\$130 million senior secured revolving credit facility. Proceeds from the new facility were used to repay US\$157 million outstanding under the prior debt facility. In late January 2007, ClientLogic closed a new credit facility that provides for total financing of US\$760 million. The new facility consists of a US\$675 million term loan that matures in 2014 and a US\$85 million revolving credit facility that matures in 2013. ClientLogic used the proceeds from this new facility to repay its US\$170 million credit facility, as well as funding for its acquisition of SITEL Corporation that was completed in January 2007.

Spirit AeroSystems reduced its long-term debt at December 31, 2006 to \$687 million from \$839 million at December 31, 2005 primarily by repaying a portion of its debt with proceeds from its November 2006 initial public offering.

Other liabilities

Other liabilities increased \$774 million to \$1.8 billion at December 31, 2006 from \$1.0 billion at December 31, 2005. The increase in other liabilities in 2006 was due primarily to:

- Spirit AeroSystems, which received cash advance payments of US\$400 million from Boeing relating to the Boeing 787 program development costs; the cash advances are to be settled against payments due to Spirit AeroSystems on future delivery of 787 components to Boeing; and
- an increase in stock-based compensation liability at Onex, the parent company, of approximately \$160 million due to the \$98 million increase in value of Onex' stock options as a result of the 50 percent increase in the Onex share price at December 31, 2006 from December 31, 2005; and the balance was primarily associated with the value of the unrealized investment rights under the MIP on Spirit AeroSystems.

Non-controlling interests

The non-controlling interests liability in Onex' audited consolidated balance sheet as at December 31, 2006 primarily represents the ownership interests of shareholders other than Onex in Onex' consolidated operating companies. At December 31, 2006, the non-controlling interests balance amounted to \$4.6 billion compared to \$3.6 billion at December 31, 2005. Table 22 details the change in the non-controlling interests balance from December 31, 2005 to December 31, 2006.

Change in Non-controlling Interests

TABLE 22 | (\$ millions)

Non-controlling interests as at December 31, 2005	\$ 3,565
Non-controlling interests in net earnings	
of operating companies in 2006	830
Investments by shareholders other than Onex in:	
Onex Partners Funds	424
Other operating companies	115
Distributions to limited partners of Onex Partners I	(974)
Spirit AeroSystems' initial public offering	622
Foreign currency translation	51
Other	(39)
Non-controlling interests as at December 31, 2006	\$ 4,594

The limited partners in the Onex Partners Funds invested a total of \$424 million primarily for the acquisition of The Warranty Group.

Spirit AeroSystems' initial public offering added \$622 million to non-controlling interests during 2006 as a result of new shareholders acquiring a combination of new Onex, Onex Partners and certain limited partners shares in the public offering (\$475 million) and the issuance of shares to the Union Equity Participation plan by Spirit AeroSystems (\$147 million). Offsetting this were distributions to the limited partners of \$974 million relating primarily to the sale of a portion of their interests in Spirit AeroSystems.

Shareholders' equity

Shareholders' equity increased to \$1.8 billion at December 31, 2006 from \$1.2 billion at December 31, 2005 due primarily to \$1.0 billion of net earnings reported for the year ended December 31, 2006. Table 23 provides a reconciliation of the change in shareholders' equity from December 31, 2005 to December 31, 2006.

Change in Shareholders' Equity

TABLE 23 | (\$ millions)

Shareholders' equity as at December 31, 2005	\$ 1,152
Regular dividends declared	(15)
Shares repurchased and cancelled	(203)
Currency translation adjustment on self-sustaining foreign operations	(121)
Net earnings for 2006	1,002
Shareholders' equity as at December 31, 2006	\$ 1,815

Onex' audited consolidated statements of shareholders' equity also show the changes to the components of shareholders' equity for the years ended December 31, 2006 and 2005.

Shares outstanding

At January 31, 2007, Onex had 128,928,039 Subordinate Voting Shares issued and outstanding. Table 24 shows the change in the number of Subordinate Voting Shares outstanding from December 31, 2005 to January 31, 2007.

Change in Subordinate Voting Shares Outstanding

TABLE 24	
Subordinate Voting Shares outstanding at December 31, 2005	138,079,031
Shares repurchased and cancelled under Onex' Normal Course Issuer Bids	(9,176,300)
Issue of shares – Dividend Reinvestment Plan	5,308
Issue of shares – Stock options exercised	20,000
Subordinate Voting Shares outstanding at January 31, 2007	128,928,039

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 15 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 Senior Preferred Shares outstanding during 2006.

Cash dividends

During 2006, Onex declared dividends of \$0.11 per Subordinate Voting Share, 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 2005 and 2004. Total payments for dividends have decreased with the repurchase of Subordinate Voting Shares under the Normal Course Issuer Bids as discussed on page 43.

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 2006, Onex issued 4,404 Subordinate Voting Shares under the Plan at an average cost of \$22.12 per Subordinate Voting Share, creating cash savings of less than \$1 million. During 2005, 2,865 Subordinate Voting Shares were issued under the Plan at an average cost of \$19.69 per Subordinate Voting Share, creating cash savings of less than \$1 million. During 2004, Onex issued 72,166 Subordinate Voting Shares under the Plan at an average cost of \$15.08 per Subordinate Voting Share, creating cash savings of approximately \$1 million. In January 2007, Onex issued an additional 904 Subordinate Voting Shares under the Plan at an average cost of \$28.36 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, 2006, Onex had 13,095,100 options outstanding to acquire Subordinate Voting Shares, of which 6,409,700 options were vested and all of those vested options were exercisable. Table 25 provides a detailed reconciliation of the options outstanding at December 31, 2006.

Change in Stock Options Outstanding

TABLE 25	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2004	13,961,700	\$ 15.71
Granted	-	\$ -
Exercised or surrendered	(110,600)	\$ 8.10
Expired	(416,500)	\$ 18.19
Outstanding at December 31, 2005	13,434,600	\$ 15.69
Granted	435,000	\$ 26.01
Exercised or surrendered	(758,000)	\$ 8.80
Expired	(16,500)	\$ 20.02
Outstanding at December 31, 2006	13,095,100	\$ 16.43

During 2006, 758,000 options were exercised or surrendered at an average exercise price of \$8.80. Approximately 738,000 options were surrendered for cash consideration aggregating \$14 million and 20,000 options were exercised for Subordinate Voting Shares of Onex at a total value of less than \$1 million. This compares to 110,600 options exercised or surrendered in 2005 and 8,345,800 options in 2004. Of the total options exercised, no options were exercised for Subordinate Voting Shares in 2005 and 71,000 were exercised for shares in 2004 at a total value of \$1 million.

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. Onex, the parent 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. 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 2006, Onex issued 40,000 DSUs to its directors (2005 – 45,000) with a cost of \$2 million (2005 – \$1 million) being recorded as stock-based compensation expense. At December 31, 2006, Onex had 177,134 DSUs outstanding.

Normal Course Issuer Bids

Onex had Normal Course Issuer Bids (the "Bids") in place during 2006 that enable it to repurchase up to 10 percent of its public float of Subordinate Voting Shares during the period of the relevant Bid. 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 2006, Onex repurchased 9,176,300 Subordinate Voting Shares under the Bids at a total cost of \$203 million. Under similar Bids, Onex repurchased 939,200 Subordinate Voting Shares at a total cost of \$18 million during 2005 and 9,143,100 Subordinate Voting Shares at a total cost of \$150 million in 2004.

Currency translation adjustment

The currency translation component decreased shareholders' equity by \$121 million in 2006 compared to a decline of \$7 million in 2005. 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. During 2006, the decline in the currency translation adjustment was due primarily to the elimination of J.L. French Automotive.

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 26	(\$ millions)	2006	2005
Cash from operating activities		\$ 896	\$ 811
Cash from (used in) financing activities		\$ (690)	\$ 563
Cash used in investing activities		\$ (376)	\$(1,507)
Consolidated cash from continuing operations		\$ 2,944	\$ 3,089

Cash from operating activities

Cash from operating activities totalled \$896 million in 2006 compared to cash from operating activities of \$811 million in 2005. Cash generated from operations was up 10 percent over the last year due primarily to the inclusion of Skilled Healthcare, acquired in December 2005; a full year of results for Spirit AeroSystems, acquired in mid-June 2005; and the acquisition of Spirit Europe in April 2006. A detailed discussion of the consolidated operating results can be found under the heading "Consolidated Operating Results" on page 15 of this MD&A.

Included in cash from operating activities is cash from non-cash working capital, warranty reserves and unearned premiums and other liabilities and discontinued operations of \$38 million. Cash advance payments of US\$400 million received by Spirit AeroSystems from Boeing in 2006 relating to the funding of development costs for the 787 program were partially offset by cash of \$293 million used to fund working capital requirements at Spirit AeroSystems as a result of inventory held as part of the 787 program. In addition, Celestica used \$91 million of cash to fund working capital, primarily inventory.

Cash from (used in) financing activities

Cash used in financing activities was \$690 million in 2006. The cash used in financing activities was from:

- cash spent of \$203 million by Onex, the parent company, to repurchase its Subordinate Voting Shares under the Company's Normal Course Issuer Bids; and
- \$961 million of cash paid by Onex Partners to limited partners, other than Onex, on the partial sale of shares of Spirit AeroSystems as part of that company's initial public offering.

Partially offsetting the cash used in financing activities were:

- Spirit AeroSystems' initial public offering of 10.4 million new shares that brought in \$283 million of cash;
- cash received of \$424 million from the limited partners of Onex Partners primarily for the acquisition of The Warranty Group, which was completed in late November 2006; and
- \$30 million of cash received by Cineplex Entertainment as a result of the company's secondary unit offering in June 2006.

This compares to cash from financing activities of \$563 million in 2005. Included in 2005 cash from financing activities were:

- US\$250 million of gross proceeds received by Celestica on its 7.625 percent 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; and
- cash received from the limited partners of Onex Partners I primarily for the acquisition of EMSC, completed in February 2005, Spirit AeroSystems, purchased in mid-June 2005, and Skilled Healthcare, acquired in late December 2005.

Partially offsetting these amounts was cash spent of \$273 million by Celestica to repurchase the equity component of its LYONs; \$384 million of cash used for distributions by CMC Electronics relating to the earlier sales of its Cincinnati Electronics subsidiary in 2004 and a portion of its NovAtel shares in January 2005, as well as cash payments by Onex Partners I to limited partners other than Onex on the sale of its Compagnie Générale de Géophysique convertible bonds and Magellan shares.

Cash used in investing activities

Cash used in investing activities totalled \$376 million in 2006 compared to cash used of \$1,507 million in 2005. The decline in cash used in investing activities was due primarily to less cash spent on acquisitions and higher proceeds from sales of operating investments in 2006 compared to 2005.

Acquisitions completed in 2006 used cash of \$850 million compared to \$1,346 million spent on acquisitions in 2005. Onex' purchase of The Warranty Group and Spirit AeroSystems' acquisition of Spirit Europe accounted for \$623 million of the cash spent on acquisitions in 2006. This is net of cash in the acquired business. Note 2 to the audited annual consolidated financial statements discloses the amount of cash invested in each acquisition completed during 2006 and 2005. Table 20 provides more details of acquisitions completed in 2006 and 2005.

Proceeds from sales of operating investments brought in cash of \$1,391 million in 2006, up \$986 million from proceeds received of \$405 million in 2005. The 2006 proceeds from sales of operating investments are primarily from Onex and Onex Partners' sale of shares in the Spirit AeroSystems initial public offering in November 2006.

In addition, there was \$100 million of cash used in other investing activities by Spirit AeroSystems on 787 development costs that were capitalized by Spirit AeroSystems.

Onex' operating companies spent \$823 million on property, plant and equipment during 2006 compared to \$495 million in 2005. Table 27 details property, plant and equipment expenditures by industry segment.

Property, Plant and Equipment Expenditures

TABLE 27	(\$ millions)	2006	2005
Electronics Manufacturing Services		\$ 215	\$ 185
Aerostructures		394	169
Healthcare		111	82
Financial Services		3	-
Theatre Exhibition		70	33
Customer Management Services		19	18
Other ^(a)		11	8
Total		\$ 823	\$ 495

(a) 2006 other includes CEI, Radian, ONCAP, Onex Real Estate and parent company.
2005 other includes CEI, Radian and parent company.

Celestica recorded \$215 million in property, plant and equipment expenditures related primarily to the expansion of manufacturing capabilities in lower-cost geographies, including China, the Czech Republic, Romania, Thailand and Mexico. Spirit AeroSystems recorded \$394 million in property, plant and equipment expenditures primarily on capital expenditures for the 787 program and tooling enhancements for its other programs. Cineplex Entertainment recorded \$70 million in capital expenditures primarily for new theatre construction. EMSC recorded \$69 million in property, plant and equipment expenditures relating primarily to the purchase of new ambulances and medical equipment. CDI spent \$17 million in property, plant and equipment expenditures associated with the purchase of equipment for new centres, the upgrade of equipment in its existing centres and for operating lease buyouts. ClientLogic recorded \$19 million in capital expenditures mainly for expansions to its near-shore and offshore call centre capacity in 2006, as well as technology and telephony upgrades to improve call centre efficiencies.

Consolidated cash resources

At December 31, 2006, consolidated cash with continuing operations was \$2.9 billion compared to \$3.1 billion at December 31, 2005. Onex, the parent company, represented approximately \$1.5 billion of cash on hand and Celestica had approximately \$0.9 billion of cash at December 31, 2006. No amount of cash of the other limited partners of Onex Partners is included in the Onex consolidated cash amount. At December 31, 2006 the other limited partners in Onex Partners had remaining commitments to provide \$2.5 billion of funding for future Onex-sponsored acquisitions. Onex has a conservative cash management policy that limits the investment of its cash to short-term low-risk money-market products.

ADDITIONAL USES OF CASH

Commitments

At December 31, 2006, Onex and its operating companies had total commitments as follows:

Commitments

Corporate investments	\$ 1,384
Capital expenditures	181
Letters of credit, letters of guarantee and surety and performance bonds	459
Total commitments	\$ 2,024

Corporate investments

The corporate investment commitments of \$1.4 billion noted in table 28 primarily include Onex' commitments to pending transactions that were not completed as of December 31, 2006 as discussed below.

Pending or recent transactions

Acquisition of Tube City IMS Corporation

In early November 2006, Onex announced that it had agreed to acquire Tube City IMS Corporation ("Tube City IMS"), a leading provider of outsourced services to steel mills, in a transaction valued at approximately \$730 million. This acquisition was completed in January 2007 with Onex Partners II investing \$234 million in the equity to complete the purchase. Onex' share of that investment was \$92 million. Third-party lenders to Tube City IMS provided the balance of the funding for this acquisition. Tube City IMS provides raw materials procurement, scrap and materials management and slag processing services, through its Tube City and IMS divisions, which operate in 67 steel mills throughout the United States, Canada and Europe. This business will be consolidated and reported from the time of its acquisition in the Other segment of Onex' consolidated financial statements for 2007.

Investment in Qantas Airways Limited

In mid-December 2006, Onex announced that, together with its partners in Airline Partners Australia, it had entered into an agreement with Qantas Airways Limited ("Qantas") (ASX: QAN) to acquire 100 percent of that company for a total equity purchase price of \$10.2 billion. Qantas is Australia's

largest domestic and international airline, serving 142 destinations in 39 countries. If completed as planned, Onex would hold a 12.5 percent economic interest in Airline Partners Australia. Of the total investment planned to be made by Airline Partners Australia, Onex Partners II would contribute \$408 million, of which Onex' portion would be approximately \$167 million. This investment is subject to certain conditions, including the acceptance of the offer by holders of 90 percent or more of the outstanding Qantas shares. The independent members of the Qantas board of directors have unanimously recommended that shareholders accept the offer in the absence of a superior competing offer. It is anticipated that the transaction would be completed in the first half of 2007. This acquisition, if completed, will be accounted for using the cost method of accounting in Onex' consolidated financial statements.

Acquisition of Raytheon Aircraft Company

In December 2006, Onex Corporation announced that it was joining with GS Capital Partners, an affiliate of Goldman Sachs, to acquire Raytheon Aircraft Company ("Raytheon Aircraft"), the business aviation division of Raytheon Company (NYSE: RTN). The transaction is valued at approximately \$3.8 billion (US\$3.3 billion) and will be completed by Hawker Beechcraft Corporation, a company newly formed by Onex and GS Capital Partners. Raytheon Aircraft is a leading manufacturer of business jet, turboprop and piston aircraft through its Hawker and Beechcraft brands and is the fifth-largest business jet producer in the world. The company also manufactures military training aircraft for the U.S. Air Force and Navy, and for a small number of foreign governments. Onex Partners II and GS Capital Partners will equally split the total equity investment of \$1.2 billion (US\$1.06 billion). Onex' share of Onex Partners II's equity investment will be approximately \$239 million (US\$205 million). This acquisition is subject to regulatory approvals and is expected to close in the first half of 2007. This business, if acquired, will be accounted for using proportionate consolidation.

Acquisition of the Health Group of Kodak

In early January 2007, Onex announced that it had reached an agreement to acquire the Health Group of Eastman Kodak Company (the "Health Group") in a transaction initially valued at approximately \$2.8 billion (US\$2.4 billion). The Health Group is a leading provider of medical imaging and healthcare information technology solutions.

Its offerings include digital x-ray systems, molecular imaging systems and x-ray film, as well as dental imaging products, software and services. Onex will also acquire Kodak's non-destructive testing business, which sells x-ray film and digital x-ray products in the non-destructive testing market. It is planned that Onex Partners II will make an equity investment of approximately \$550 million (US\$475 million), of which Onex' share will be approximately \$225 million (US\$195 million). This acquisition is subject to customary approvals and is expected to close in the first half of 2007. Upon completion of the acquisition, the business is to be named Carestream Health, Inc. and Onex will consolidate the operations of this business.

As the timing for the completion of these transactions cannot be determined with any precision, the impact of the above acquisitions on Onex' 2007 consolidated financial condition, results of operations and cash flows cannot be forecasted.

ClientLogic Acquisition of SITEL Corporation

In October 2006, ClientLogic entered into a definitive agreement to purchase SITEL Corporation ("SITEL") (NYSE: SWW). This acquisition was completed in late January 2007 with ClientLogic having paid approximately US\$450 million in cash for all of the outstanding common stock of SITEL following approval by SITEL's shareholders in early January 2007. ClientLogic merged with SITEL and the merged company has more than 67,000 employees across 28 countries. The merged company, now operating as SITEL Worldwide Corporation, provides world-class solutions from more than 145 facilities throughout North America, South Amer-

ica, Europe, Africa and Asia Pacific. This acquisition was financed entirely by ClientLogic through that company's new US\$760 million credit facility that closed in late January 2007. At the time of closing, ClientLogic had drawn US\$450 million on its new credit facility to complete the acquisition. The merged entity will be consolidated and reported in the customer management services segment in Onex' consolidated financial statements for 2007.

Capital expenditures

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

- Spirit AeroSystems, which had \$162 million of capital commitments, principally for property, plant and equipment and tooling expenditures to support its contracts with Boeing and other aircraft manufacturers; and
- Cineplex Entertainment, which had capital commitments of \$19 million associated primarily with the construction of new theatre properties that will be completed and opened at various times during the periods 2007–2009.

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, 2006, the commitments with respect to these guarantees collectively totalled \$459 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 29 presents the aggregate amount of future cash outflows for contractual obligations as at December 31, 2006 for the Onex operating companies.

Contractual Obligations

	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	\$ 3,841	\$ 43	\$ 481	\$ 569	\$ 2,748
Capital and operating leases	2,209	292	440	332	1,145
Purchase obligations	181	172	9	–	–
Total contractual obligations	\$ 6,231	\$ 507	\$ 930	\$ 901	\$ 3,893

A breakdown of long-term debt by industry segment is provided in table 21. Note 11 to the audited annual consolidated financial statements also provides detailed long-term debt disclosure by operating company. In addition, note 12 to the audited annual consolidated financial statements provides further disclosure on capital and operating leases.

Underfunded post-retirement benefit plans

During 2006, Onex' operating companies made cash contributions of \$122 million to various pension and non-pension post-employment benefit plans. As at December 31, 2006, some of Onex' operating companies had underfunded liabilities of \$146 million (2005 – \$102 million) with defined benefit pension plans and \$120 million (2005 – \$135 million) for non-pension post-retirement plans.

ADDITIONAL SOURCES OF CASH

Private equity funds

Onex has additional sources of cash from its private equity Funds. During 2006, Onex Partners I concluded its investment period, having completed nine investments or acquisitions with \$1.6 billion of equity being put to work. While Onex Partners I has uncalled committed capital available, this capital is reserved for possible future funding for any of the Fund's existing businesses.

During 2006, Onex raised a second fund, Onex Partners II, a \$4.0 billion private equity fund. Onex Partners II will provide capital to Onex-sponsored acquisitions that are not related to Onex' operating companies that existed prior to the formation of Onex Partners II and that are not allocated to ONCAP. This substantial pool of committed funds in Onex Partners II will enable Onex to continue to be more flexible and timely in responding to investment opportunities. In addition, Onex has a mid-cap private equity fund, ONCAP II, with total committed capital of \$574 million.

Onex controls the General Partner and the Manager of all its private equity Funds. The Onex Partners Funds have 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. Table 30 presents the total capital commitments under the Onex Partners and ONCAP Funds, and the available uncalled committed capital at December 31, 2006.

Private Equity Funds Commitments

As at December 31, 2006	Total Committed Capital	Onex Committed Capital	Available Uncalled Committed Capital (excluding Onex)
TABLE 30 (\$ millions)			
Onex Partners I	US\$ 1,655	US\$ 400	US\$ 204
Onex Partners II	US\$ 3,450	US\$ 1,407	US\$ 1,980
ONCAP II	\$ 574	\$ 258	\$ 286

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.

Management Investment Plan

Onex has a Management Investment Plan (the "MIP") in place that requires its management members to invest in each of the operating companies acquired by Onex.

The aggregate investment by management members under the MIP is limited to 9 percent of Onex' interest in each acquisition. The form of the investment is a cash purchase for 1/6th (1.5 percent) of the MIP's share of the aggregate investment and investment rights for the remaining 5/6ths (7.5 percent) of the MIP's share at the same price. Amounts invested under the 1 percent investment requirement in Onex Partners transactions are allocated to meet the 1.5 percent of Onex' investment requirement under the MIP. The investment rights to acquire the remaining 5/6ths vest equally over four years. If Onex disposes of 90 percent 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 Onex earns a minimum 15 percent per annum compound rate of return for that acquisition after giving effect to the investment rights.

The funds required for investments under the MIP are neither loaned to the management members nor guaranteed by Onex or the operating companies. During 2006, there were investments of \$2 million under the MIP compared to \$4 million in 2005. Management members received \$28 million under the MIP related to the realizations Onex achieved primarily on Spirit AeroSystems in 2006. This compares to \$11 million in realizations under the MIP on sales of Magellan, Commercial Vehicle Group, Inc. and CGG in 2005. Notes 1 and 23 to the audited annual consolidated financial statements provide additional details on the MIP.

The Onex Partners Funds

The structure of both Onex Partners Funds requires Onex management to invest a minimum of 1 percent in all acquisitions. Onex management and directors have committed to invest an additional 3 percent of the total capital invested by the Onex Partners Funds. This structure applies to those acquisitions completed through Onex Partners II up to April 21, 2007, the anniversary date of the Fund's first closing. A new commitment is to be made for the subsequent fund year. The total amount invested in 2006 by Onex management and directors on acquisitions and investments completed through the Onex Partners Funds was \$22 million.

Carried interest

The Onex Partners Funds' General Partner will also receive a carried interest of 20 percent on the realized gains of the third-party limited partners in each Fund, subject to an 8 percent compound annual preferred return to such limited partners on all amounts contributed to the relevant Fund. This carried interest will be based on the overall performance of each of Onex Partners I and II, independently, and includes typical catch-up and clawback provisions. Consistent with market practice, Onex, as sponsor of the Onex Partners Funds, will be allocated 40 percent of the carried interest with 60 percent being allocated to the Onex management team.

During 2006, Onex received a carried interest of \$49 million on the realized gain of Spirit AeroSystems. This amount, while received in cash, is deferred from inclusion in income for accounting purposes until such time as there is no potential for repayment. The total deferred carried interest for Onex at December 31, 2006 was \$60 million. Management of Onex received a carried interest of \$74 million on the realized gain of Spirit AeroSystems in 2006. There were no realized gains on investments or acquisitions completed by Onex Partners II.

Investment in Onex shares and acquisitions

During 2006, Onex adopted a program designed to further align the interests of the Company's senior management and other investment professionals with those of Onex shareholders through increased share ownership. Under this program, members of senior management of Onex are required to invest at least 25 percent of all amounts

received under the MIP and carried interests toward the purchase of Onex Subordinate Voting Shares until they individually hold at least 1,000,000 Onex Subordinate Voting Shares. Under this program, approximately \$15 million of Onex management's realizations under the MIP and carried interest were invested in the purchase of Subordinate Voting Shares during 2006.

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 I and II at the same cost as Onex and other outside investors. During 2006, approximately \$13 million in investments were made by Onex management and Onex board members; this compares to \$21 million in investments made by management and the Onex board in 2005.

Management fees

During the investment period of the Onex Partners Funds (up to six years), Onex receives a management fee of 2 percent on the committed capital of the relevant Fund provided by third-party investors. Thereafter, a 1 percent management fee is payable to Onex based on invested capital. During 2006, the investment period of Onex Partners I was completed and Onex, therefore, will receive a 1 percent management fee on Onex Partners I's remaining invested capital, which was approximately \$877 million at December 31, 2006. That amount will decline over time as realizations occur.

Management fees received by Onex from third-party investors in the Onex Partners Funds totalled \$30 million in 2006 (2005 – \$24 million).

Debt of operating companies

Onex does not guarantee the debt on behalf of its operating companies, nor are there any cross-guarantees between operating companies. Onex will hold the debt of certain operating companies, which amounted to \$175 million at December 31, 2006 compared to \$137 million at December 31, 2005. Approximately \$18 million of the increase in debt of operating companies was Onex' purchase of subordinated notes of CSI as part of that company's acquisition by ONCAP II. These notes bear interest at 15 percent and mature in 2012. Note 11 to the audited annual consolidated financial statements provides information on the debt of operating companies held by Onex.

RECENT ACCOUNTING PRONOUNCEMENTS

Financial instruments, hedges and comprehensive income

The Canadian Institute of Chartered Accountants issued three new standards: Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income. These standards will apply to Onex in the fiscal year beginning on January 1, 2007.

The Financial Instruments section prescribes when a financial asset, liability or non-financial derivative is to be recognized in the balance sheet and the measurement of that amount. It also specifies how financial instrument gains and losses are to be presented. The Hedges standard is applicable for designated hedging relationships and builds on existing Canadian GAAP guidance by specifying how hedge accounting is applied and what disclosures are necessary when it is applied. The Comprehensive Income section introduces new standards for presentation and disclosure of components of comprehensive income. These components include unrealized gains and losses on financial assets that will be held for sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations and changes in fair value of cash flow hedging instruments. Onex is currently evaluating the impact of these new standards.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

Multilateral Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators ("CSA") requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions

about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the issuer.

Onex' CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2006 and have concluded that those disclosure controls and procedures were effective for the year then ended.

Internal controls over financial reporting

Multilateral Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the issuer, that those internal controls have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the issuer has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

During 2006, Onex management, including its CEO and CFO, evaluated the Company's internal controls over financial reporting to ensure that they had been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. While no changes occurred during the last fiscal quarter of 2006 that, in the view of Onex management, have materially affected, or that are reasonably likely to materially affect, Onex' internal control over financial reporting, the Company regularly acquires new businesses, many of which were privately owned or were divisions of larger organizations prior to their acquisition by Onex. The Company continues to assess the design of internal controls over financial reporting in its most recently acquired businesses, including in particular those acquired during the last fiscal quarter. It has not identified in that review any weakness that has materially affected, or that is reasonably likely to materially affect, Onex' internal control over financial reporting.

OUTLOOK

As discussed in the Onex Business Objective and Strategies section of this discussion, which begins on page 5, the Onex team has consistently applied a set of core skills in its pursuit of value creation for shareholders and partners.

In pursuit of Onex' objective of acquiring and building industry-leading businesses, we believe that large-scale acquisitions are the most efficient means to deploy capital and create long-term value. As discussed in detail on page 46, we also entered 2007 with commitments to complete four sizeable transactions, with a combined potential investment totalling \$1.8 billion, in Tube City IMS, Raytheon Aircraft Company, Qantas Airways and Kodak Health Group. Onex' share of the investments in those businesses is expected to be approximately \$724 million.

Given the nature of the private equity business, it is not possible to determine whether these purchases, which we expect to close in the first half of 2007, will be followed by additional investments in 2007. We do believe, however, that the ready access we have to investment capital through our fund structure, and the skill our team has demonstrated in deploying it, have established Onex as a valued acquirer of large-scale businesses. We intend to continue to be an important force in these markets. At year-end 2006, Onex, directly and through its Funds, had \$4.3 billion in cash and commitments that can be deployed to take advantage of attractive opportunities to create future growth, not only in value but also in revenues and operating income for Onex.

As the General Partner in our Funds, we earn management fees for our work with our operating companies. The management fees that are expected to be received in 2007 should amount to approximately \$60 million, substantially offsetting Onex' corporate office costs.

The fund structure also recognizes the skills of Onex' professional team in building and realizing value by providing Onex the opportunity to earn a carried interest on the returns of our limited partners based on the performance of each Onex Partners Fund and ONCAP Fund. The General Partner earns a carried interest of 20 percent on the realized gains of the third-party limited partners in each Fund, subject to an 8 percent compound annual preferred return to the limited partners. Consistent with market practice, Onex, as sponsor of the Onex Partners Funds, is allocated 40 percent of the carried interest, with the balance being allocated to the Onex management team.

It is not possible to estimate the number or amount of our value realizations, and so it is not possible to estimate what Onex' carried interest might be in its Funds in a given year. One fact is clear, however: from 1984 through December 31, 2006, Onex has achieved an annual compound return on its invested capital of approximately 28 percent. If this magnitude of return can be achieved on the current, and any future companies held by the Onex Partners Funds, the potential return on Onex' invested capital and the carried interest that Onex can earn will be substantial. Thus, we believe it is in the best interests of Onex, its shareholders and its partners to remain clearly focused on our primary business objective: to create long-term value by acquiring and building industry-leading businesses and controlling and managing ancillary funds. We believe that the pursuit of that objective will be reflected in the price of Onex Subordinate Voting Shares.

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 opportunity 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 does have equity partners with whom it shares the risk of ownership. Onex Partners LP and Onex Partners II LP streamline Onex' process of sourcing and drawing on commitments from such equity partners.

An acquired company is not burdened with more debt than it can likely sustain, but rather is structured so that it has the financial and operating leeway to maximize long-term growth in value. Finally, Onex buys in financial partnership with management. This strategy not only gives Onex the benefit of experienced managers but also is designed to ensure 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. Onex does not get involved in the day-to-day operations of acquired companies.

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, it is appropriate and reasonable for Onex, as an equity owner, to do so. 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 acquired company 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 should be 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 optimize 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 ("Onex Partners I"), a \$1.9 billion pool of capital raised from Onex and major institutional co-investors. During 2004, 2005 and 2006, we successfully deployed this capital in a variety of attractive businesses with the result that Onex Partners I's investment period was completed in 2006. Onex raised a second fund, Onex Partners II LP, in 2006. Onex Partners II, a \$4.0 billion pool of capital, completed its first investment in November 2006.

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 engages 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 reasonable, 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 of the term debt or otherwise minimize the effect of interest rate increases on a 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 2006. As discussed, approximately 41 percent of consolidated revenues and 50 percent of consolidated assets were in the United States. Approximately 48 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 2006, shareholders' equity reflected a \$121 million decrease in the value of Onex' net equity in those operating companies that operate in U.S. currency, as well as the elimination of J.L. French Automotive.

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.

Insurance claims The Warranty Group underwrites and administers extended warranties and credit insurance on a wide variety of consumer goods including automobiles, consumer electronics and major home appliances. Unlike most property insurance risk, the risk associated with extended warranty claims is non-catastrophic and short-lived, resulting in predictable loss trends. The predictability of claims, which is enhanced by the large volume of claims data in the company's database, enables The Warranty Group to appropriately measure and price risk.

Commodity prices Certain of Onex' operating companies are vulnerable to price fluctuations in major commodities.

Aluminum, titanium and composites represent the principal raw materials used in Spirit AeroSystems' manufacturing operations. The company has more than 850 active suppliers of its raw materials with no one supplier representing more than 4 percent of its cost of sales. Spirit AeroSystems has entered into long-term supply contracts with substantially all of its suppliers of raw materials, which limits the company's exposure to rising raw material prices. Most of the raw materials purchased are based on a fixed pricing or at reduced rates through Boeing's or Airbus' high volume purchase contracts. Spirit AeroSystems continues to seek ways to further reduce raw material costs and recently, began a sourcing initiative to increase the amount of material sourced from low cost countries in Asia and Central Europe.

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 often 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

Since 2005, 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 U.S. 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.

Certain Onex operating companies have major customers that represent more than 10 percent of annual revenues. Spirit AeroSystems primarily relied on one major customer, Boeing, at the time of its acquisition by Onex. The table in note 22 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; many of these operating companies have also adopted supplemental policies appropriate to these industries or businesses. Senior officers of each of these companies are ultimately responsible for ensuring compliance with these policies. They are required to report annually to their company's board of directors and to Onex regarding compliance.

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.

Many 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 and the estimated costs of remedial work and related activities are managed either through agreement with 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.

[signed]

Ewout R. Heersink
Chief Financial Officer
February 14, 2007

[signed]

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, 2006 and 2005 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, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

[signed]

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada

February 14, 2007

CONSOLIDATED BALANCE SHEETS

As at December 31 <i>(in millions of dollars)</i>	2006	2005
Assets		
Current assets		
Cash and short-term investments	\$ 2,944	\$ 3,089
Marketable securities	1,129	-
Accounts receivable	2,586	2,054
Inventories (note 4)	2,345	1,898
Other current assets (note 5)	1,694	425
Current assets held by discontinued operations (note 3)	139	294
	10,837	7,760
Property, plant and equipment (note 6)	2,899	2,382
Investments (note 7)	1,822	440
Other assets (note 8)	2,894	825
Intangible assets (note 9)	1,036	359
Goodwill	2,696	2,247
Long-lived assets held by discontinued operations (note 3)	394	832
	\$ 22,578	\$ 14,845
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities	\$ 4,066	\$ 3,141
Current portion of warranty reserves and unearned premiums (note 10)	2,246	-
Current portion of long-term debt, without recourse to Onex (note 11)	43	36
Current portion of obligations under capital leases, without recourse to Onex (note 12)	35	17
Current liabilities held by discontinued operations (note 3)	96	970
	6,486	4,164
Long-term portion of warranty reserves and unearned premiums (note 10)	2,623	-
Long-term debt of operating companies, without recourse to Onex (note 11)	3,798	3,618
Long-term portion of obligations under capital leases of operating companies, without recourse to Onex (note 12)	70	64
Other liabilities (note 13)	1,818	1,044
Future income taxes (note 14)	1,050	731
Long-term liabilities held by discontinued operations (note 3)	324	507
	16,169	10,128
Non-controlling interests	4,594	3,565
Shareholders' equity	1,815	1,152
	\$ 22,578	\$ 14,845

Commitments and contingencies are reported in notes 12 and 23.

Signed on behalf of the Board of Directors

[signed]

[signed]

Director

Director

CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31 <i>(in millions of dollars except per share data)</i>	2006	2005
Revenues	\$ 18,620	\$ 15,451
Cost of sales	(16,161)	(13,732)
Selling, general and administrative expenses	(1,087)	(913)
Earnings Before the Undernoted Items	1,372	806
Amortization of property, plant and equipment	(370)	(333)
Amortization of intangible assets and deferred charges	(91)	(81)
Interest expense of operating companies (note 16)	(339)	(223)
Interest and other income	131	144
Equity-accounted investments	17	1
Foreign exchange gain (loss)	22	(35)
Stock-based compensation (note 17)	(634)	(44)
Derivative instruments	-	4
Gains on sales of operating investments, net (note 18)	1,307	921
Acquisition, restructuring and other expenses (note 19)	(292)	(252)
Debt prepayment	-	(6)
Writedown of goodwill and intangible assets	(10)	(3)
Writedown of long-lived assets	(3)	(5)
Earnings before income taxes, non-controlling interests and discontinued operations	1,110	894
Provision for income taxes (note 14)	(24)	(70)
Non-controlling interests	(830)	3
Earnings from continuing operations	256	827
Earnings from discontinued operations (note 3)	746	138
Net Earnings for the Year	\$ 1,002	\$ 965
Net Earnings per Subordinate Voting Share (note 20)		
Basic and Diluted:		
Continuing operations	\$ 1.93	\$ 5.95
Discontinued operations	\$ 5.62	\$ 1.00
Net earnings	\$ 7.55	\$ 6.95

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in millions of dollars except per share data)</i>	Share Capital (note 15)	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Total Shareholders' Equity
Balance – December 31, 2004	\$ 582	\$ (288)	\$ (67)	\$ 227
Dividends declared ^(a)	-	(15)	-	(15)
Purchase and cancellation of shares	(4)	(14)	-	(18)
Currency translation adjustment	-	-	(7)	(7)
Net earnings for the year	-	965	-	965
Balance – December 31, 2005	578	648	(74)	1,152
Dividends declared ^(a)	-	(15)	-	(15)
Purchase and cancellation of shares	(37)	(166)	-	(203)
Currency translation adjustment ^(b)	-	-	(121)	(121)
Net earnings for the year	-	1,002	-	1,002
Balance – December 31, 2006	\$ 541	\$ 1,469	\$ (195)	\$ 1,815

(a) Dividends declared per Subordinate Voting Share during 2006 totalled \$0.11 (2005 – \$0.11).

(b) Included in currency translation adjustment is a negative \$129 relating to the discontinued operations of J.L. French Automotive Castings, Inc., as described in note 3.

In 2006, shares issued under the dividend reinvestment plan amounted to less than \$1 (2005 – less than \$1).

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 <i>(in millions of dollars)</i>	2006	2005
Operating Activities		
Net earnings for the year	\$ 1,002	\$ 965
Earnings from discontinued operations	(746)	(138)
Items not affecting cash:		
Amortization of property, plant and equipment	370	333
Amortization of intangible assets and deferred charges	91	81
Writedown of goodwill and intangible assets	10	3
Writedown of long-lived assets	3	5
Non-cash component of restructuring (note 19)	91	18
Non-controlling interests	830	(3)
Future income taxes (note 14)	72	(9)
Stock-based compensation (note 17)	438	44
Derivative instruments	-	(4)
Gains on sales of operating investments, net (note 18)	(1,307)	(921)
Other	4	(32)
	858	342
Changes in non-cash working capital items:		
Accounts receivable	(128)	(75)
Inventories	(619)	(62)
Other current assets	7	35
Accounts payable and accrued liabilities	258	273
Increase [decrease] in cash due to changes in working capital items	(482)	171
Increase in warranty reserves and unearned premiums and other liabilities	520	286
Cash from discontinued operations	-	12
	896	811
Financing Activities		
Issuance of long-term debt	543	988
Repayment of long-term debt	(792)	(830)
Cash dividends paid	(15)	(15)
Repurchase of share capital	(203)	(18)
Issuance of share capital by operating companies	822	958
Distributions by operating companies	(1,036)	(337)
Repurchase of share capital by operating companies	-	(273)
Increase [decrease] due to other financing activities	(9)	166
Cash used by discontinued operations	-	(76)
	(690)	563
Investing Activities		
Acquisition of operating companies, net of cash in acquired companies of \$144 (2005 - \$263) (note 2)	(850)	(1,346)
Purchase of property, plant and equipment	(823)	(495)
Proceeds from sales of operating investments	1,391	405
Decrease due to other investing activities	(266)	(77)
Cash from discontinued operations	172	6
	(376)	(1,507)
Decrease in Cash for the Year		
Increase [decrease] in cash due to changes in foreign exchange rates	10	(62)
Cash, beginning of the year - continuing operations	3,089	2,642
Cash, beginning of the year - discontinued operations	26	668
Cash, end of year	2,955	3,115
Short-term investments	-	-
Cash and short-term investments	2,955	3,115
Cash held by discontinued operations (note 3)	(11)	(26)
Cash and Short-term Investments Held by Continuing Operations	\$ 2,944	\$ 3,089

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 millions of 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 principal operating companies and Onex’ ownership and voting interests in these entities are as follows:

	December 31, 2006		December 31, 2005	
	Ownership	Voting	Ownership	Voting
Celestica Inc. (“Celestica”)	13%	79%	13%	79%
Cineplex Entertainment ^(a)	22%	100%	27%	100%
ClientLogic Corporation (“ClientLogic”)	67%	89%	68%	89%
Radian Communication Services Corp. (“Radian”)	89%	100%	90%	100%
Cosmetic Essence, Inc. (“CEI”)	21%	100%	22%	100%
Center for Diagnostic Imaging, Inc. (“CDI”)	19%	100%	20%	100%
Emergency Medical Services Corporation (“EMSC”)	29%	97%	29%	97%
Spirit AeroSystems, Inc. (“Spirit AeroSystems”)	13%	89%	29%	100%
Skilled Healthcare Group, Inc. (“Skilled Healthcare”)	21%	100%	22%	100%
The Warranty Group, Inc. (“TWG”)	31%	100%	-	-
Onex Real Estate Partners (“OREP”)	85%	100%	85%	100%
ONCAP I	30%	100%	30%	100%
ONCAP II	45%	100%	-	-
J.L. French Automotive Castings, Inc. (“J.L. French Automotive”)	-	-	77%	100%

(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 23(f). The voting interests include 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 consolidate at December 31, 2006 are accounted for by the equity method and include Res-Care, Inc. (“ResCare”), Cypress Property & Casualty Insurance Company and certain real estate partnerships as described in note 25.

Onex also controls and consolidates the operations of Onex Partners LP (“Onex Partners I”) and Onex Partners II LP (“Onex Partners II”), referred to collectively as “Onex Partners” (as described in note 23(d) and 23(e)). At December 31, 2006, Onex and Onex Partners I have invested in CEI, CDI, EMSC, Spirit AeroSystems, Skilled Healthcare, ResCare and a portion of TWG. Onex Partners II has invested in TWG.

Joint ventures, which are not variable interest entities (“VIEs”), are accounted for using the proportionate consolidation method. The consolidated financial statements include revenues of \$21 (2005 – \$6), net assets of \$54 (2005 – nil) and net earnings before income taxes of \$63 (2005 – nil) with respect to joint ventures. Included in net earnings before income taxes from joint ventures is a gain relating to the sale of certain Town and Country Trust (“Town and Country”) properties as described in note 3.

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's integrated operations, including investment-holding subsidiaries, translate 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

Cash includes liquid investments such as term deposits, money market instruments and commercial paper that mature in less than three months from the balance sheet date. The investments are carried at cost plus accrued interest, which approximates market value.

Short-term investments

Short-term investments consist of liquid investments such as money market instruments and commercial paper that mature in three months to a year. The investments are 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: five 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, 2006, the Company capitalized computer software costs of \$18 (2005 – \$31).

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

The Company's subsidiary, Onex Capital Management LP ("OCM"), formerly "Onex Public Markets Group", invests in public companies without the intent of obtaining influence over its investees. OCM is considered an Investment Company under Accounting Guideline 18 ("AcG-18"), "Investment Companies". As a result, the investments of OCM 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, 2006, included in income is \$9 of net realized gains (2005 – \$10) and \$4 of net unrealized gains (2005 – nil). At December 31, 2006, Onex' carrying value in OCM was \$235 (2005 – \$134) and its economic ownership percentage was 92% (2005 – 92%).

OCM does not control or have significant influence over any of its investments.

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

Deferred charges

Deferred charges include costs incurred by the operating companies relating to the issuance of debt and are deferred and amortized over the term of the related debt or as the debt is retired, if earlier.

Other long-term investments

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

Acquisition costs relating to the financial services segment

Certain costs of acquiring warranty business, principally commissions, underwriting and sales expenses that vary, and are primarily related to the production of new business, are deferred and amortized as the related premiums and contract fees are earned. The possibility of premium deficiencies and the related recoverability of deferred acquisition costs is evaluated annually. Management considers the effect of anticipated investment income in its evaluation of premium deficiencies and the related recoverability of deferred acquisition costs.

Certain arrangements with producers of warranty contracts include profit-sharing provisions whereby the underwriting profits, after a fixed percentage allowance for the company and an allowance for investment income, are remitted to the producers on a retrospective basis. At December 31, 2006, \$711 of unearned premiums and contract fees were subject to retrospective commission agreements.

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 two to 25 years. The weighted average period of amortization at December 31, 2006 was approximately eight years (2005 – seven years).

Losses and loss adjustment expenses reserves

Losses and loss adjustment expenses reserves relate to TWG and represent the estimated ultimate net cost of all reported and unreported losses incurred and unpaid through December 31, 2006. The company does not discount losses and loss adjustment expenses reserves. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency and claims reporting patterns of the company's third-party administrators. Although considerable variability is inherent in such estimates, management believes the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

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 post-retirement benefits earned by employees are accrued in the period incurred and are actuarially determined using the projected benefit method prorated 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 or the fair market 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 (2005 – 11 years) and for those active employees covered by the other significant post-retirement benefit plans is 18 years (2005 – 18 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 the future tax assets will not be realized prior to their expiration.

Revenue recognition

Electronics Manufacturing Services

Revenue from the electronics manufacturing services segment consists primarily of product sales, where revenue is recognized upon shipment, when title passes to the customer. 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.

Aerostructures

A significant portion of Spirit AeroSystems' revenues are under long-term, volume-based pricing contracts, requiring delivery of products over several years. Revenue from these contracts is recognized under the contract method of accounting. Revenues and profits are recognized on each contract in accordance with the percentage-of-completion method of accounting, using the units-of-delivery method. The contract method of accounting involves the use of various estimating techniques to project costs at 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.

The company reevaluates its contract estimates periodically and reflects changes in estimates in the current period, and uses the cumulative catch-up method of accounting for revisions in estimates of total costs or the extent of progress on a contract.

For revenues not recognized under the contract method of accounting, Spirit AeroSystems recognizes revenues from the sale of products at the point of passage of title, which is generally

at the time of shipment. Revenues earned from providing maintenance services, including any contracted research and development, are recognized when the service is completed or other contractual milestones are attained.

Healthcare

Revenue in the healthcare segment consists primarily of service revenue related to EMSC's healthcare transportation and emergency management service businesses and CDI's patient service revenue. Revenue is recognized at the time of the service and is recorded net of provisions for contractual discounts and estimated uncompensated care.

Financial Services

Financial services segment revenue consists of revenue on TWG's warranty contracts primarily in North America and the United Kingdom. The company records revenue and associated unearned revenue on warranty contracts issued by North American obligor companies at the net amount remitted by the selling dealer or retailer "dealer cost". Cancellations of these contracts are typically processed through the selling dealer or retailer, and the company refunds only the unamortized balance of the dealer cost. However, the company is primarily liable on these contracts and must refund the full amount of customer retail price if the selling dealer or retailer cannot or will not refund their portion. The amount the company has historically been required to pay under such circumstances has been negligible. The potentially refundable excess of customer retail price over dealer cost at December 31, 2006 was approximately \$1,481.

The company records revenue and associated unearned revenue on warranty contracts issued by statutory insurance companies domiciled in the United Kingdom at the customer retail price. The difference between the customer retail price and dealer cost is recognized as commission and deferred as a component of deferred acquisition costs.

The company has dealer obligor and administrator obligor service contracts with the dealers or retailers to facilitate the sale of extended warranty contracts. Dealer obligor service contracts result in sales of extended warranty contracts in which the dealer/retailer is designated as the obligor. Administrator obligor service contracts result in sales of extended warranty contracts in which the company is designated as the obligor. For both dealer obligor and administrator obligor, premium and/or contract fee revenue is recognized over the contractual exposure period of the contracts. Unearned premiums and contract fees on single-premium insurance related to warranty agreements are calculated to result in premiums and contract fees being earned over the period at risk. Factors are developed based on historical analyses of claim payment patterns over the duration of the policies in force. All other unearned premiums and contract fees are determined on a pro rata method.

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

Reinsurance premiums, commissions, losses and loss adjustment expenses are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of revenue. Expense reimbursement received in connection with reinsurance ceded has been accounted for as a reduction of the related acquisition costs. Reinsurance receivables and prepaid reinsurance premium amounts are reported as assets.

Theatre Exhibition

Box office and concession revenues are recognized when sales are received at theatres. Other revenues include those from advertising, games and theatre rentals and are recognized as services are provided.

Customer Management Services

The customer management services segment generates revenue primarily through its customer contact management services by providing customer service and technical support to its clients' customers through phone, e-mail, online chat and mail. These services are generally charged by the minute or hour, per employee, per subscriber or user, or on a per item basis for each transaction processed and revenue is recognized at the time services are performed. A portion of the revenue is often subject to performance standards. Revenue subject to monthly or longer performance standards is recognized when such performance standards are met.

The company is reimbursed by clients for certain pass-through out-of-pocket expenses, consisting primarily of telecommunication, postage and shipping costs. The reimbursement and related costs are reflected in the accompanying audited annual consolidated statements of earnings as revenue and cost of services, respectively.

Other

Other segment revenues consist of product sales and services. Product sales revenue is recognized upon shipment when title passes to the customer. Service revenue is recorded at the time the services are performed.

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.

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 2006, \$130 (2005 – \$52) in research and development costs were expensed and \$266 of development costs (2005 – \$55) were capitalized. Capitalized development costs relating to the aerostructures segment are included in deferred charges. The costs will be amortized over the anticipated number of production units to which such costs relate.

Stock-based compensation

The Company follows the fair value-based method of accounting, which is 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 15(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. 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 23(f). 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 the underlying investments, with a corresponding expense recorded in the audited annual consolidated statements of earnings.

The third type of plan 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 by reference to the value of underlying subordinate voting shares at the balance sheet 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 of plan is employee stock option and other stock-based compensation 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.

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 Accounting Standards Board Accounting Guideline 13 ("AcG-13"), the carrying values of the financial instruments are not adjusted to reflect their current market values. The current market values of these instruments are disclosed in note 21.

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 in the audited annual consolidated balance sheets as current assets or current liabilities and are recognized 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.

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 claims incurred but not yet reported for the Company's healthcare and financial services segments. 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.

Future accounting changes

The CICA has issued three new standards: Financial Instruments – Recognition and Measurement, Hedges and Comprehensive Income. These standards will be effective for the Company on January 1, 2007, and require the following:

Financial Instruments – Recognition and Measurement

All financial assets and liabilities will be carried at fair value in the consolidated balance sheet, except the following, which will be carried at amortized cost unless designated as held for trading upon initial recognition: loans and receivables, certain securities and non-trading financial liabilities. Realized and unrealized gains and losses on financial assets and liabilities that are held for trading will be recorded in the audited annual consolidated statement of earnings. Unrealized gains and losses on financial assets that are held as available-for-sale will be recorded in other comprehensive income until realized, when they will be recorded in the audited annual consolidated statement of earnings. All derivatives, including embedded derivatives that must be separately accounted for, will be recorded at fair value in the audited annual consolidated balance sheet.

Hedges

In a fair value hedge, the change in fair value of the hedging derivative will be offset in the audited annual consolidated statement of earnings against the change in the fair value of the hedged item relating to the hedged risk. In a cash flow hedge, the change in fair value of the derivative, to the extent effective, will be recorded in other comprehensive income until the asset or liability being hedged affects the audited annual consolidated statement of earnings, at which time the related change in fair value of the derivative will also be recorded in the audited annual consolidated statement of earnings. Any hedge ineffectiveness will be recorded in the audited annual consolidated statement of earnings.

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

Comprehensive Income

Unrealized gains and losses on financial assets that will be held as available-for-sale, unrealized foreign currency translation amounts arising from self-sustaining foreign operations and changes in the fair value of cash flow hedging instruments will be recorded in a statement of other comprehensive income until recognized in the consolidated statement of earnings. Other comprehensive income will form part of shareholders' equity.

Transitional impact

The transitional impact of these new standards is still being evaluated.

2. CORPORATE INVESTMENTS

During 2006 and 2005, 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.

2006 ACQUISITIONS

a) In January 2006, ONCAP II completed the acquisition of CSI Global Education Inc. ("CSI"). CSI is Canada's leading provider of financial education and testing services. In March and November 2006, ONCAP II invested in Environmental Management Solutions Inc. ("Environmental"). Environmental is a leading environmental services company in the management, treatment and re-use and disposal of organic waste and contaminated soil. The total investment made by ONCAP II was \$55 in debt and equity. Onex' net investment in these acquisitions was \$25. Onex has indirect voting control of CSI through ONCAP II. ONCAP II has a 90% equity ownership in CSI and, on a converted basis, ONCAP II has a 62% equity ownership interest in Environmental.

b) In March 2006, the acquisition of Town and Country was completed through a joint venture with Onex Real Estate Partners LP ("OREP"), Morgan Stanley Real Estate and Sawyer Realty Holdings LLC. Town and Country owned and operated 37 apartment communities in the United States. The total equity investment by the joint venture was \$244 for a 100% equity ownership interest. The equity investment by OREP was \$116 for a 48% equity ownership interest. Onex' net investment in this acquisition was \$100 for a 41% equity ownership at the time of acquisition. Onex accounts for Town and Country as a joint venture, applying the proportionate consolidation method.

Beginning in the second quarter of 2006, a portion of the results of Town and Country has been recorded as discontinued operations, as described in note 3.

c) In April 2006, Spirit AeroSystems completed the acquisition of the aerostructures business unit of BAE Systems plc, with operations in Prestwick, Scotland and Samlesbury, England. The total purchase price of the acquisition was \$171 for a 100% equity ownership, which was financed by Spirit AeroSystems using its available cash.

d) In November 2006, the Company completed the acquisition of the Aon Warranty Group division of Aon Corporation. Upon closing, the division was renamed The Warranty Group, Inc. ("TWG"). TWG underwrites and administers extended warranties on a variety of consumer goods and also provides consumer credit and other specialty insurance products primarily through automobile dealers. The total equity investment was \$568 for an initial 98% ownership interest, provided through Onex and Onex Partners. Onex' net investment was \$179 for a 31% equity ownership. Onex has effective voting control of TWG through Onex Partners.

e) Other includes acquisitions made by Celestica, Skilled Healthcare, EMSC and Onex Real Estate Partners.

The purchase prices of the acquisitions described above were allocated to the net assets acquired based on their relative fair values at the dates 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 2006 acquisitions are as follows:

2006 Acquisitions

	ONCAP II ^(a)	Town and Country ^(b)	Spirit AeroSystems ^(c)	TWG ^(d)	Other ^(e)
Cash	\$ 18	\$ 9	\$ -	\$ 116	\$ 1
Marketable securities	-	-	-	1,219	-
Other current assets	53	2	125	1,511	13
Intangible assets with limited life	39	7	35	615	11
Intangible assets with indefinite life	26	-	-	21	-
Goodwill	40	-	12	373	41
Property, plant and equipment and other long-term assets	38	799	116	2,714	50
	214	817	288	6,569	116
Current liabilities	(59)	(13)	(79)	(2,827)	(3)
Long-term liabilities ⁽¹⁾	(101)	(688)	(38)	(3,164)	(8)
	54	116	171	578	105
Non-controlling interests in net assets	(37)	(16)	-	(10)	-
Interest in net assets acquired	\$ 17	\$ 100	\$ 171	\$ 568	\$ 105

(1) Included in long-term liabilities of ONCAP II is \$17 of acquisition financing provided by ONCAP II related to the acquisition of CSI, of which Onex' share is \$8.

2005 ACQUISITIONS

a) In January 2005, the Company completed the acquisition of CDI. CDI owns and operates diagnostic imaging centres 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 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, 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.

d) In July 2005, Cineplex Entertainment completed the acquisition of the Famous Players movie exhibition business in a transaction valued at \$474. To provide financing for the acquisition, various debt and equity transactions were entered into, as described in note 11(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 18. Onex continued to control and consolidate Cineplex Entertainment subsequent to the transaction.

2. CORPORATE INVESTMENTS (cont'd)

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 3.

e) In December 2005, the Company completed the acquisition of Skilled Healthcare. Skilled Healthcare operates skilled nursing and assisted living facilities in California, Texas, Kansas, Nevada and Missouri. 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.

f) 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. In 2006, the operations of WIS and CSRS were reclassified as discontinued operations, as described in note 3.

g) Other includes acquisitions completed by CEI, CDI and Celestica.

Details of the 2005 acquisitions are as follows:

2005 Acquisitions	CDI ^(a)	EMSC ^(b)	Spirit AeroSystems ^(c)	Cineplex Entertainment ^(d)	Skilled Healthcare ^(e)	ONCAP ^(f)	Other ^(g)
Cash	\$ 14	\$ 18	\$ 168	\$ 20	\$ 43	\$ -	\$ -
Current assets	21	609	642	14	73	32	7
Intangible assets with limited life	39	111	38	40	3	44	9
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	743	317	345	9	21
	251	1,516	1,591	622	932	198	39
Current liabilities	(28)	(304)	(140)	(87)	(69)	(26)	(6)
Acquisition financing	-	-	-	(353)	-	(143)	(23)
Long-term liabilities ⁽¹⁾	(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 original acquisitions.

The cost of acquisitions made during the year includes restructuring and integration costs of nil (2005 - \$15). As at December 31, 2006, accounts payable and accrued liabilities and other long-term liabilities include \$2 and nil, respectively (2005 - \$138 and \$3) of restructuring and integration costs, for these and earlier acquisitions.

3. EARNINGS FROM DISCONTINUED OPERATIONS

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

	2006	2005	2006			2005		
	Revenue		Gain (Loss), Net of Tax	Onex' Share of Earnings (Loss)	Total	Gain, Net of Tax	Onex' Share of Earnings (Loss)	Total
Futuremed ^(a)	\$ -	\$ 94	\$ 19	\$ -	\$ 19	\$ -	\$ (1)	\$ (1)
J.L. French Automotive ^(b)	-	584	615	-	615	-	(67)	(67)
CSRS ^(c)	-	81	21	-	21	-	(3)	(3)
Cineplex Entertainment ^(d)	8	47	-	-	-	2	-	2
Town and Country ^(e)	46	-	45	(15)	30	-	-	-
ClientLogic warehouse ^(f)	22	29	(2)	(3)	(5)	-	(7)	(7)
Sky Chefs ^(g)	-	-	50	-	50	-	-	-
WIS International ^(h)	288	211	-	7	7	-	1	1
CMC Electronics ⁽ⁱ⁾	197	203	-	7	7	45	1	46
InsLogic	-	-	2	-	2	73	-	73
Magellan	-	744	-	-	-	22	2	24
Commercial Vehicle Group	-	-	-	-	-	68	2	70
	\$ 561	\$ 1,993	\$ 750	\$ (4)	\$ 746	\$ 210	\$ (72)	\$ 138

a) In January 2006, ONCAP I's operating company, Futuremed Health Care Products Limited Partnership ("Futuremed"), completed an initial public offering, with 92% of ONCAP I's ownership being sold and the remaining portion being sold in February 2006. Through the offering, ONCAP I received net proceeds of \$74, of which Onex' share was \$25. Onex' gain on the transaction was \$23, before a tax provision of \$4.

Under the terms of the MIP, as described in note 23(f), management members participated in the realizations the Company achieved on the sale of Futuremed. Amounts paid on account of these transactions related to the MIP totalled \$2 and have been deducted from earnings from discontinued operations.

In addition, management of ONCAP I received \$6 as its carried interest from investors other than Onex on those investors' proceeds of \$49.

b) The difficult conditions affecting the North American automotive supply sector rendered J.L. French Automotive unable to meet the financial requirements under certain of its lending agreements. In February 2006, J.L. French Automotive filed for protection under Chapter 11 of the Bankruptcy Code in the United States. At that time, Onex ceased all involvement with the company and expected little to no proceeds from the bankruptcy process. As a result, Onex recorded the operations of J.L. French Automotive as discontinued and recorded an accounting gain of \$615, which consists primarily of the reversal of losses previously recorded in excess of the Company's investment in J.L. French Automotive. In July 2006, J.L. French Automotive emerged from bankruptcy and Onex has no further economic interest in the company. There was no MIP distribution regarding J.L. French Automotive as the required performance targets were not met.

c) In March 2006, ONCAP I's operating company, CSRS, was purchased by Resolve Business Outsourcing Income Fund ("Resolve") concurrent with Resolve's initial public offering. ONCAP I received convertible units of Resolve and net cash proceeds of \$90, of which Onex' share was \$30. Onex' gain on the transaction was \$25, before a tax provision of \$4.

Under the terms of the MIP, management members participated in the realizations the Company achieved on its sale of CSRS. Amounts paid on account of these transactions related to the MIP totalled \$1 and have been deducted from earnings from discontinued operations.

In addition, management of ONCAP I received \$5 as its carried interest from investors other than Onex on those investors' proceeds of \$60.

d) In 2006, Cineplex Entertainment disposed of the remaining seven theatres that were part of its consent agreement pursuant to its 2005 acquisition of Famous Players.

e) In the second quarter of 2006, OREP undertook steps toward the divestiture of all of the assets from the acquisition of Town and Country, as described in note 2. At December 31, 2006, 27 of the 37 properties had been sold by the joint venture for proceeds of \$1,520, resulting in a pre-tax gain of \$196. Onex' share of this gain was \$77, before a tax provision of \$32. After using a significant portion of the proceeds to repay debt relating to the properties sold, the joint venture distributed approximately \$130 to OREP in the fourth quarter of 2006.

Three properties are to be sold in the first quarter of 2007. The results of these properties, together with the result of the 27 properties sold, have been included in earnings from discontinued operations.

3. EARNINGS FROM DISCONTINUED OPERATIONS (cont'd)

Due to a change in market conditions, the remaining seven properties are no longer being actively marketed for sale and therefore are no longer considered discontinued operations. The results of these seven properties are included in the Other segment in continuing operations for the period since acquisition.

f) During 2006, ClientLogic disposed of its warehouse management business and therefore that business has been classified as discontinued.

g) In June 2001, Onex sold its remaining interest in Sky Chefs, Inc. ("Sky Chefs") and recorded the operations of Sky Chefs as discontinued operations at that time. In conjunction with the sale, a provision for tax indemnities under the purchase and sale agreement was recorded. In September 2006, these matters were resolved and, as a result, Onex has recorded a recovery of taxes related to the Sky Chefs sale in the amount of \$50 in the results from discontinued operations.

h) In December 2006, ONCAP I entered into an agreement to sell its interest in WIS International. The sale closed in January 2007 with ONCAP I receiving proceeds of \$222, of which Onex' share was \$75.

i) In the fourth quarter of 2006, ONCAP I undertook steps to sell its interest in CMC Electronics. In January 2007, ONCAP I entered into an agreement to sell its interest in CMC Electronics for proceeds of approximately \$340, of which Onex' share would be approximately \$140. The sale is expected to be completed in the first half of 2007.

The results of operations for the businesses described above have been reclassified as discontinued in the audited annual consolidated statements of earnings and audited annual consolidated statements of cash flows for the years ended December 31, 2006 and 2005. The amounts for operations now discontinued that are included in the December 31, 2006 and December 31, 2005 audited annual consolidated balance sheets are as follows:

As at December 31, 2006

	Town and Country	ClientLogic warehouse	WIS International	CMC Electronics	Total
Cash	\$ -	\$ -	\$ 1	\$ 10	\$ 11
Accounts receivable	1	2	21	40	64
Inventories	-	-	-	48	48
Other current assets	-	-	2	14	16
Current assets held by discontinued operations	1	2	24	112	139
Property, plant and equipment	45	-	14	28	87
Other assets	-	-	6	8	14
Intangibles	-	-	44	26	70
Goodwill	-	-	147	76	223
Long-lived assets held by discontinued operations	45	-	211	138	394
Accounts payable and accrued liabilities	(1)	-	(14)	(71)	(86)
Current portion of long-term debt, without recourse to Onex	-	-	(1)	(1)	(2)
Current portion of obligations under capital leases, without recourse to Onex	-	-	(1)	(7)	(8)
Current liabilities held by discontinued operations	(1)	-	(16)	(79)	(96)
Long-term debt, without recourse to Onex	(39)	-	(162)	(91)	(292)
Current portion of obligations under capital leases, without recourse to Onex	-	-	(1)	-	(1)
Other liabilities	-	-	(18)	(13)	(31)
Long-term liabilities held by discontinued operations	(39)	-	(181)	(104)	(324)
Cumulative translation adjustment	-	-	5	(3)	2
Net assets of discontinued operations	\$ 6	\$ 2	\$ 43	\$ 64	\$ 115

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As at December 31, 2005

	Futurimed	J.L. French Automotive	CSRS	Cineplex Enter- tainment	ClientLogic warehouse	WIS Interna- tional	CMC Electronics	Total
Cash	\$ -	\$ 15	\$ 4	\$ -	\$ -	\$ 7	\$ -	\$ 26
Accounts receivable	10	38	4	-	4	20	50	126
Inventories	6	48	-	-	-	-	46	100
Other current assets	1	21	4	1	-	10	5	42
Current assets held by discontinued operations	17	122	12	1	4	37	101	294
Property, plant and equipment	1	263	2	3	4	14	25	312
Other assets	1	5	3	-	-	6	-	15
Intangibles	40	18	60	-	-	51	31	200
Goodwill	12	-	62	-	-	155	76	305
Long-lived assets held by discontinued operations	54	286	127	3	4	226	132	832
Bank indebtedness, without recourse to Onex	-	-	-	-	-	-	(1)	(1)
Accounts payable and accrued liabilities	(8)	(71)	(6)	-	(2)	(23)	(62)	(172)
Current portion of long-term debt, without recourse to Onex	-	(783)	-	-	-	(2)	(4)	(789)
Current portion of obligations under capital leases, without recourse to Onex	-	(7)	-	-	-	(1)	-	(8)
Current liabilities held by discontinued operations	(8)	(861)	(6)	-	(2)	(26)	(67)	(970)
Long-term debt, without recourse to Onex	(53)	-	(67)	-	-	(158)	(20)	(298)
Current portion of obligations under capital leases, without recourse to Onex	-	(12)	-	-	-	(1)	-	(13)
Other liabilities	-	(13)	(43)	(3)	-	(35)	(16)	(110)
Non-controlling interests	(8)	-	-	-	-	(8)	(70)	(86)
Long-term liabilities held by discontinued operations	(61)	(25)	(110)	(3)	-	(202)	(106)	(507)
Cumulative translation adjustment	-	(129)	-	-	-	-	(3)	(132)
Net assets (liabilities) of discontinued operations	\$ 2	\$ (607)	\$ 23	\$ 1	\$ 6	\$ 35	\$ 57	\$ (483)

4. INVENTORIES

Inventories comprised the following:

As at December 31	2006	2005
Raw materials	\$ 1,044	\$ 994
Work in progress	868	662
Finished goods	433	242
	\$ 2,345	\$ 1,898

5. OTHER CURRENT ASSETS

Other current assets comprised the following:

As at December 31	2006	2005
Current portion of ceded claims recoverable held by TWG (note 10)	\$ 600	\$ -
Current portion of prepaid premiums of TWG	395	-
Current deferred income taxes (note 14)	224	43
Other	475	382
	\$ 1,694	\$ 425

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following:

As at December 31	2006			2005		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 187	\$ -	\$ 187	\$ 127	\$ -	\$ 127
Buildings	1,345	267	1,078	1,119	189	930
Machinery and equipment	2,837	1,496	1,341	2,369	1,269	1,100
Construction in progress	293	-	293	225	-	225
	\$ 4,662	\$ 1,763	\$ 2,899	\$ 3,840	\$ 1,458	\$ 2,382

The above amounts include property, plant and equipment under capital leases of \$247 (2005 – \$283) and related accumulated amortization of \$114 (2005 – \$64).

As at December 31, 2006, property, plant and equipment included \$7 (2005 – \$6) of assets held for sale.

7. INVESTMENTS

Investments comprised the following:

As at December 31	2006	2005
Marketable securities ^(a)	\$ 180	\$ 123
Public entities held by OCM ^(b)	198	140
Equity-accounted investments ^(c)	174	136
Investments held by TWG ^(d)	1,170	-
Other	100	41
	\$ 1,822	\$ 440

a) Marketable securities are recorded at cost, less provision for impairment that is other than temporary. The market value of these securities at December 31, 2006 was \$180 (2005 – \$118).

b) Public entities held by OCM are recorded at market. At December 31, 2006, the securities held by OCM include \$26 (2005 – \$13) of unrealized gains and \$27 (2005 – \$13) of unrealized losses.

c) Equity-accounted investments consist primarily of investments in ResCare and three real estate partnerships. The Company and Onex Partners had an initial \$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. The current carrying value of the ResCare investment is \$119 (2005 – \$117). ResCare is included in the Healthcare segment in note 27.

In 2006, the Company formed three real estate partnerships to develop residential units in the United States. At December 31, 2006, Onex' share of these partnerships had a carrying value of \$23.

d) The table below presents the amortized cost and fair value of all investments in fixed maturity securities held by TWG at December 31, 2006.

	Amortized Cost ⁽¹⁾	Fair Value
U.S. government and agencies	\$ 314	\$ 313
States and political subdivisions	40	40
Foreign governments	514	510
Corporate bonds	673	671
Mortgage-backed securities	79	79
Asset-backed securities	34	34
	\$ 1,654	\$ 1,647
Current portion ⁽²⁾	(484)	(484)
Long-term portion	\$ 1,170	\$ 1,163

- (1) Amortized cost represents cost plus accrued interest and accrued discount or premium, if applicable.
 (2) The current portion is included in marketable securities on the consolidated balance sheet.

Fair values generally represent quoted market value prices for securities traded in the public marketplace or analytically determined values using bid or closing prices for securities not traded in the public marketplace.

Management believes that all unrealized losses on individual securities are the result of normal price fluctuations due to market conditions and are not an indication of other-than-temporary impairment. Management further believes it has the intent and ability to hold these securities until they fully recover in value. These determinations are based upon the relatively small level of losses in relation to total fair value and an in-depth analysis of individual securities.

The amortized cost and fair value of fixed-maturity securities owned by TWG at December 31, 2006, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Years to maturity:		
One or less	\$ 484	\$ 484
After one through five	757	753
After five through ten	276	273
After ten	24	24
Mortgage-backed securities	79	79
Asset-backed securities	34	34
	\$ 1,654	\$ 1,647

Expected maturities differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 2006, fixed-maturity securities with a carrying value of \$372 were on deposit with various state insurance departments and Canadian insurance regulators, respectively, to satisfy U.S. domestic and Canadian regulatory requirements.

8. OTHER ASSETS

Other assets comprised the following:

As at December 31	2006	2005
Deferred charges	\$ 116	\$ 94
Deferred development charges	329	55
Future income taxes (note 14)	459	234
Boeing receivable ^(a)	223	247
Deferred pension	241	65
Long-term portion of ceded claims recoverable (note 10)	874	-
Long-term portion of prepaid premium	476	-
Other	176	130
	\$ 2,894	\$ 825

a) 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 of Spirit AeroSystems. The fair value is being accreted to the principal amount of US\$277 over the term of the agreement. The carrying value of the receivable as at December 31, 2006 was \$273 (2005 – \$247), of which the current portion of \$50 is included in accounts receivable.

9. INTANGIBLE ASSETS

Intangible assets comprised the following:

As at December 31	2006	2005
Intellectual property with limited life, net of accumulated amortization of \$152 (2005 – \$143)	\$ 6	\$ 16
Intangible assets with limited life, net of accumulated amortization of \$266 (2005 – \$193)	925	288
Intangible assets with indefinite life	105	55
	\$ 1,036	\$ 359

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

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

10. WARRANTY RESERVES AND UNEARNED PREMIUMS

The following describes the reserves and unearned premiums liabilities of TWG, which was acquired in November 2006.

Reserves

The following table provides details of TWG's ending reserves for losses and loss adjustment expenses ("LAE"), net of ceded claims recoverable, as at December 31, 2006:

	Property and Casualty ^(a)	Warranty ^(b)	Total Reserves
Net reserve for losses and LAE, December 31, 2006	\$ -	\$ 194	\$ 194
Add current portion of ceded claims recoverable (note 5)	492	108	600
Add long-term portion of ceded claims recoverable (note 8)	874	-	874
Total ceded claims recoverable ⁽¹⁾	1,366	108	1,474
Gross reserve for losses and LAE, December 31, 2006 ⁽²⁾	1,366	302	1,668
Current portion of reserves	(492)	(302)	(794)
Long-term portion of reserves	\$ 874	\$ -	\$ 874

(1) Ceded claims recoverable represent the portion of reserves ceded to third-party reinsurers.

(2) Reserves for losses and LAE represent the estimated ultimate net cost of all reported and unreported losses incurred and unpaid through December 31, 2006, as described in note 1.

a) Property and casualty reserves represent estimated future losses on property and casualty policies. The property and casualty reserves and the corresponding ceded claims recoverable were acquired on the acquisition of TWG. The property and casualty business is being run off and new business is not being booked. The reserves are 100% ceded to third-party reinsurers, with approximately 80% of the reserves having been ceded to a subsidiary of Aon Corporation, the former parent of TWG.

b) Warranty reserves represent future losses on warranty policies written by TWG. Due to the nature of the warranty reserves, substantially all of the ceded claims recoverable and warranty reserves are of a current nature.

Unearned Premiums

The following table provides details of the unearned premiums as at December 31, 2006:

	2006
Unearned premiums	\$ 3,201
Current portion of unearned premiums	(1,452)
Long-term portion of unearned premiums	\$ 1,749

11. 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		2006	2005
Celestica^(a)	7.875% subordinated notes due 2011	\$ 583	\$ 581
	7.625% subordinated notes due 2013	291	291
		874	872
Cineplex Entertainment^(b)	Revolving credit facility and term loans due 2009	248	244
	Galaxy Entertainment notes due 2028	100	100
	Other	2	2
		350	346
ClientLogic^(c)	Revolving credit facility and term loans due 2010 and 2012	-	159
	Revolving credit facility and term loan	154	-
	Other, including debt denominated in foreign currencies	103	99
		257	258
Radian^(d)	Revolving credit facility and term loan due 2008	36	32
	Subordinated secured debentures due 2008	19	16
		55	48
Cosmetic Essence^(e)	Revolving credit facility and term loans due 2010 and 2011	140	155
	Subordinated secured notes due 2010	85	77
		225	232
Center for Diagnostic Imaging^(f)	Revolving credit facility and term loan due 2010	77	81
Emergency Medical Services^(g)	Revolving credit facility and term loan due 2012	264	289
	Subordinated secured notes due 2015	291	291
	Other	2	-
		557	580
Spirit AeroSystems^(h)	Revolving credit facility and term loan due 2010 and 2013	687	810
	Other	-	29
		687	839
Skilled Healthcare⁽ⁱ⁾	Revolving credit facility and term loan due 2010 and 2012	308	301
	11.0% subordinated notes due 2014	232	231
	Other	3	3
		543	535
The Warranty Group^(j)	Term loan due 2012	233	-
ONCAP II companies^(k)	Revolving credit facility and term loans due 2011	57	-
	Subordinated notes due 2012	21	-
		78	-
Onex Real Estate Partners companies^(l)	Term loans due 2008	72	-
	Other	8	-
		80	-
Less: long-term debt held by the Company		(175)	(137)
Current portion of long-term debt of operating companies		(43)	(36)
Consolidated long-term debt of operating companies, without recourse to Onex		\$ 3,798	\$ 3,618

11. 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 that 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 have been made in the audited annual consolidated financial statements with respect to any possible non-compliance.

a) Celestica

Celestica has a credit facility for US\$600 that matures in June 2007. There were no borrowings outstanding under this facility at December 31, 2006. 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, 2006, Celestica was limited to approximately US\$60 of available debt incurrence. Celestica also has uncommitted bank overdraft facilities available for operating requirements that total US\$48 at December 31, 2006.

Celestica's senior subordinated notes due 2011 have 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 8.2% for 2006 (2005 – 6.4%). The 2011 notes may be redeemed on July 1, 2008 or later at various premiums above face value.

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.

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 in 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 in 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 reflected as long-term debt.

The Class C LP Units issued by Cineplex Entertainment are redeemable by CGIF under certain conditions and as such have characteristics of both debt and equity. As a result, at December 31, 2006 an amount of \$100 (2005 – \$98) is classified as a liability and included in other liabilities. An amount of \$9 (2005 – \$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, 2006, nil and \$13 (2005 – nil and \$9) were outstanding on the 364-day and four-year revolving facilities and \$235 (2005 – \$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, 2005, ClientLogic had US\$137 outstanding under a March 2005 credit facility. In August 2006, ClientLogic completed a debt refinancing and repaid the amounts outstanding under the March 2005 credit facility. The August 2006 credit agreement consists of a US\$40 term loan, due in 2011, and a US\$130 revolving credit facility. At December 31, 2006, US\$40 and US\$92 were outstanding on the term loan and revolving facility, respectively.

On January 29, 2007, in connection with its acquisition of SITEL Corporation ("SITEL") as described in note 26, ClientLogic closed a new credit facility consisting of a US\$675 term loan, maturing in January 2014 and a US\$85 revolving credit facility, maturing in January 2013. The term loan and revolving facility bear interest at a rate of LIBOR plus an applicable margin. The proceeds from the new facility were used to repay the previous facility and fund the SITEL acquisition.

At December 31, 2006 ClientLogic had US\$57 (2005 – US\$59) in other debt instruments with varying terms. Included in this amount are mandatorily redeemable preferred shares held by Onex of US\$53 (2005 – \$51). In connection with the acquisition of SITEL in January 2007, these preferred shares were converted into common shares of ClientLogic.

ClientLogic has US\$31 (2005 – US\$25) of loan notes outstanding, denominated in pounds sterling, which bear interest at 8.35%. The notes were repaid in January 2007 in connection with the SITEL acquisition.

d) Radian

Radian's credit agreement has a revolving credit facility of \$23 and a term loan of \$14. Borrowings under the credit agreement are due in April 2008. Both the revolving credit facility and term loan bear interest at short-term borrowing rates plus a margin. The outstanding borrowings at December 31, 2006 on the revolving credit facility and term loan were \$22 and \$14 (2005 – \$17 and \$15), respectively. The weighted average interest rate for borrowings under the credit agreement was 8.5% in 2006 (2005 – 7.0%). 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 accrue interest at a rate of 7.0% per annum and mature in 2008.

e) Cosmetic Essence

CEI has entered into credit agreements that 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\$110; 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, 2006, CEI had US\$120 (2005 – US\$133) 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.

CEI has entered into an interest rate swap agreement that effectively fixes the interest rate on borrowings under the credit agreement. The amount of principal covered under the swap agreement declined to US\$70 in 2006, and declines annually until expiry in 2009.

CEI also has a promissory note outstanding in the amount of US\$72 (2005 – US\$66), of which US\$66 (2005 – US\$61) 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.

f) 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 up to US\$20 of revolving credit loans. Loans under the agreement bear interest at LIBOR plus a margin and are secured by the assets of CDI. At December 31, 2006, US\$66 and nil (2005 – US\$69 and nil) were outstanding under the term loan and revolving loans, respectively.

CDI has entered into an interest rate swap agreement that effectively fixes the interest rate on US\$50 of borrowings under the credit agreement. The interest rate swap agreement expires in 2008.

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

g) 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, 2006, US\$226 and nil (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.

h) 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. In November 2006, Spirit AeroSystems used a portion of the proceeds from its initial public offering to permanently repay US\$100 of the senior secured term loan and amended its credit agreement. The significant components of the amendment were to extend the maturity of the senior secured term loan from 2011 to 2013, increase the amount available under the senior revolving credit facility to US\$400 from US\$175 and reduce the applicable interest rate margins by 0.5%. At December 31, 2006, US\$590 and nil (2005 – US\$697 and nil) were outstanding under the term loan and revolving facility, respectively. The senior secured term loan requires quarterly principal instalments of US\$1, with the balance due in four equal quarterly instalments of US\$139 beginning on December 31, 2012. The revolving facility requires the principal to be repaid at maturity in June 2010.

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 mature in two to four 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.

i) 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, 2006, US\$199 (2005 – \$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 2012, with annual principal instalments of 1% of the balance. Outstanding amounts on the revolving loan are due in 2010. Both the term loan and the revolving loan bear interest at the prime rate or LIBOR, plus a margin. At December 31, 2006, US\$256 and US\$9 (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.

In compliance with its lien agreement, Skilled Healthcare has entered into an interest rate cap agreement. The agreement has a principal amount of US\$148, a cap rate of 6.0% and expires in 2008.

j) The Warranty Group

In November 2006, TWG entered into a US\$225 credit agreement consisting of a US\$200 term loan and up to US\$25 of revolving credit loans and swing line loans. The amounts outstanding on the credit agreement bear interest at LIBOR plus a margin based on TWG's credit rating. The term loan requires annual payments of US\$2, with the balance due in 2012. Revolving and swing loans, if outstanding, are due in 2012. At December 31, 2006, US\$200 and nil were outstanding on the term loan and the revolving and swing loans, respectively.

The debt is subject to various terms and conditions, including TWG maintaining a minimum credit rating and certain financial ratios relating to minimum capitalization levels.

k) ONCAP II companies

ONCAP II's investee companies consist of Environmental and CSI. 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 the credit agreements, combined term borrowings of \$57 are outstanding and combined revolving credit facilities of \$16 are undrawn and available. The available facilities bear interest at various rates based on a base floating rate plus a margin. During 2006, interest rates ranged from 6.5% to 7.5% on borrowings under the revolving credit and term facilities. The term loans have quarterly repayments and mature in 2011. The companies also have subordinated notes of \$21, due in 2012, that bear interest at 15%, of which the Company owns approximately \$18.

l) Onex Real Estate Partners companies

Long-term debt held by Onex Real Estate Partners companies consists of long-term debt of US\$62 due in 2008 relating to the seven Town and Country properties that are considered continuing operations, as described in note 3, and long-term debt of US\$6 relating to other Onex Real Estate Partners investments.

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

2007	\$ 43
2008	114
2009	367
2010	203
2011	366
Thereafter	2,748
	\$ 3,841

12. LEASE COMMITMENTS

The future minimum lease payments are as follows:

	Capital Leases	Operating Leases
For the year:		
2007	\$ 42	\$ 250
2008	26	215
2009	14	185
2010	7	171
2011	5	149
Thereafter	40	1,105
Total future minimum lease payments	\$ 134	\$ 2,075
Less: imputed interest	(29)	
Balance of obligations under capital leases, without recourse to Onex	105	
Less: current portion	(35)	
Long-term obligations under capital leases, without recourse to Onex	\$ 70	

Substantially all of the lease commitments relate to the operating companies. Operating leases primarily relate to leased premises.

13. OTHER LIABILITIES

Other liabilities comprised the following:

As at December 31	2006	2005
Reserves ^(a)	\$ 207	\$ 210
Boeing advance ^(b)	685	233
Deferred revenue and other deferred items	349	120
Convertible debentures	100	98
Pension and non-pension post-retirement benefits (note 24)	137	199
Stock-based compensation	211	53
Other ^(c)	129	131
	\$ 1,818	\$ 1,044

a) Reserves consist primarily of US\$150 (2005 – US\$144) established by EMSC for automobile, workers compensation, general liability and professional liability. This includes the use of an off-shore captive insurance program.

b) Pursuant to the 787 aircraft long-term supply agreement, Boeing will make advance payments to Spirit AeroSystems. As at December 31, 2006, US\$600 (2005 – US\$200) in such advance payments had been made and will be settled against future sales of Spirit AeroSystems’ 787 aircraft units to Boeing. US\$13 of the payments have been recorded as a current liability.

c) Other includes the long-term portion of acquisition and restructuring accruals as well as amounts for anticipated liabilities arising from indemnifications.

14. INCOME TAXES

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

Year ended December 31	2006	2005
Income tax provision at statutory rates	\$ (401)	\$ (318)
Increase (decrease) related to:		
Decrease (increase) in valuation allowance	(49)	86
Amortization of non-deductible items	(5)	(1)
Income tax rate differential of operating investments	56	77
Non-taxable gains	409	184
Other, including permanent differences	(34)	(98)
Provision for income taxes	\$ (24)	\$ (70)
Classified as:		
Current	\$ 48	\$ (79)
Future	(72)	9
Provision for income taxes	\$ (24)	\$ (70)

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

As at December 31	2006	2005
Future income tax assets:		
Net operating losses carried forward	\$ 939	\$ 975
Net capital losses carried forward	1	-
Accounting provisions not currently deductible	311	123
Property, plant and equipment, intangible and other assets	135	82
Share issue costs of operating investments	2	4
Acquisition and integration costs	172	45
Pension and non-pension post-retirement benefits	(27)	-
Deferred revenue	166	-
Other	85	31
Less: valuation allowance ⁽¹⁾	(1,101)	(983)
	683	277
Future income tax liabilities:		
Property, plant and equipment, intangible and other assets	(267)	(51)
Pension and non-pension post-retirement benefits	(14)	(19)
Gains on sales of operating investments	(678)	(639)
Other	(101)	(22)
	(1,060)	(731)
Future income tax liabilities, net	\$ (377)	\$ (454)
Classified as:		
Current asset	\$ 224	\$ 43
Long-term asset	459	234
Current liability	(10)	-
Long-term liability	(1,050)	(731)
Future income tax liabilities, net	\$ (377)	\$ (454)

(1) Future tax assets are recorded based on their expected future tax value. The valuation allowance claimed against the future tax assets primarily relates to non-capital losses of Celestica, Cineplex Entertainment and parent company. A valuation allowance on non-capital losses is recorded where it is more likely than not that the non-capital losses will expire prior to utilization.

At December 31, 2006, Onex and its investment-holding companies have tax-loss carryforwards of \$391 available to reduce future income taxes to the year 2026.

At December 31, 2006, 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 \$2,955, of which \$696 had no expiry, \$874 were available to reduce future taxes between 2007 and 2011, inclusive, and \$1,385 were available with expiration dates of 2012 through 2026.

Cash taxes recovered during the year amounted to \$53 (2005 – cash taxes paid of \$114).

15. 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 2006, under the Dividend Reinvestment Plan, the Company issued 4,404 (2005 – 2,865) Subordinate Voting Shares at a total value of less than \$1 (2005 – less than \$1). In 2006, 20,000 Subordinate Voting Shares were issued upon the exercise of stock options at a value of less than \$1. In 2005, no Subordinate Voting Shares were issued upon the exercise of stock options.

Onex renewed its Normal Course Issuer Bid in April 2006 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 10.5 million shares.

The Company repurchased and cancelled under Normal Course Issuer Bids 9,176,300 (2005 – 939,200) of its Subordinate Voting Shares at a cash cost of \$203 during 2006 (2005 – \$18). The excess of the purchase cost of these shares over the average paid-in amount was \$166 (2005 – \$14), which was charged to retained earnings. After these purchases, at December 31, 2006, the Company had the capacity under the current Normal Course Issuer Bid to purchase approximately 3.4 million shares.

c) At December 31, 2006, the issued and outstanding share capital consisted of 100,000 (2005 – 100,000) Multiple Voting Shares, 128,927,135 (2005 – 138,079,031) Subordinate Voting Shares and 176,078 (2005 – 176,078) Series 1 Senior Preferred Shares. The Series 1 Senior Preferred Shares have no paid-in amount reflected in these audited annual 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, 2006, there were 177,134 (2005 – 116,301) units outstanding, for which \$2 (2005 – \$1) has been recorded as compensation expense.

Details of DSUs outstanding are as follows:

	Number of DSUs
Outstanding at December 31, 2004	40,000
Granted	45,000
Additional units issued in lieu of directors' fees and cash dividends	31,301
Redeemed	-
Outstanding at December 31, 2005	116,301
Granted	40,000
Additional units issued in lieu of directors' fees and cash dividends	24,833
Redeemed	(4,000)
Outstanding at December 31, 2006	177,134

15. SHARE CAPITAL (cont'd)

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 "hurdle price"). At December 31, 2006, 15,612,000 (2005 – 15,632,000) Subordinate Voting Shares were reserved for issuance under the Plan, against which options representing 13,095,100 (2005 – 13,434,600) 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.

Options outstanding at December 31, 2006 consisted of the following:

Number of Options Outstanding	Exercise Price	Number of Options Exercisable	Hurdle Price	Remaining Life (years)
329,000	\$ 7.30	329,000	\$ 9.13	1.1
694,000	\$ 8.62	694,000	\$ 10.78	1.3
610,000	\$ 20.23	610,000	\$ 25.29	3.0
628,400	\$ 20.50	500,200	\$ 25.63	5.5
625,000	\$ 14.90	375,000	\$ 18.63	6.1
7,260,000	\$ 15.87	2,904,000	\$ 19.84	7.2
2,513,700	\$ 18.18	997,500	\$ 22.73	7.9
140,000	\$ 19.25	-	\$ 24.07	9.1
295,000	\$ 29.22	-	\$ 36.53	9.9
13,095,100		6,409,700		

Details of options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 2004	13,961,700	\$ 15.71
Granted	-	-
Exercised or surrendered	(110,600)	\$ 8.10
Expired	(416,500)	\$ 18.19
Outstanding at December 31, 2005	13,434,600	\$ 15.69
Granted	435,000	\$ 26.01
Exercised or surrendered	(758,000)	\$ 8.80
Expired	(16,500)	\$ 20.02
Outstanding at December 31, 2006	13,095,100	\$ 16.43

During 2006, the total cash consideration paid on options surrendered was \$14 (2005 – \$1). 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.

16. INTEREST EXPENSE OF OPERATING COMPANIES

Year ended December 31	2006	2005
Interest on long-term debt of operating companies	\$ 317	\$ 210
Interest on obligations under capital leases of operating companies	8	4
Other interest of operating companies	14	9
Interest expense of operating companies	\$ 339	\$ 223

Cash interest paid during the year amounted to \$319 (2005 – \$221).

17. STOCK-BASED COMPENSATION

Year ended December 31	2006	2005
Spirit AeroSystems ^(a)	\$ 438	\$ 11
Celestica	23	28
Other ^(b)	173	5
	\$ 634	\$ 44

a) In 2006, Spirit AeroSystems recorded stock-based compensation charges, primarily relating to its November 2006 initial public offering. Included in the expense is a \$343 charge relating to the Union Equity Plan. Of this amount, \$196 was paid in cash at the time of the offering, with the remaining to be settled in shares in March 2007.

b) Other includes \$113 relating to Onex' stock option plan, as described in note 15(e), and \$49 from MIP units relating to the November 2006 Spirit AeroSystems initial public offering. The amount related to the Onex stock option plan is primarily due to the 50% increase in the market price of Onex shares during 2006.

18. GAINS ON SALES OF OPERATING INVESTMENTS, NET

During 2006 and 2005, Onex completed a number of 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	2006	2005
Gains on:		
Sale of shares of Spirit AeroSystems ^(a)	\$ 1,146	\$ -
Dilution gain on issue of shares by Spirit AeroSystems ^(b)	100	-
Sale of units of Cineplex Entertainment ^(c)	25	-
Dilution gain on June 2006 issue of units by Cineplex Entertainment ^(d)	12	-
Close of exchangeable debentures on Celestica shares ^(e)	-	560
Close of forward sales agreements on Celestica shares ^(f)	-	191
Sale of CGG convertible bonds ^(g)	-	41
Dilution gain on July 2005 issue of units by Cineplex Entertainment ^(h)	-	53
Issue of shares by EMSC ⁽ⁱ⁾	-	40
Other, net ^(j)	24	36
	\$ 1,307	\$ 921

a) In November 2006, Spirit AeroSystems completed an initial public offering of common stock. As part of the offering, Onex, Onex Partners I and certain limited partners sold 48.3 million shares, of which Onex' share was 13.9 million shares. Net proceeds of \$1,351 were received by Onex, Onex Partners I and certain limited partners, resulting in a pre-tax gain of \$1,146. Onex' share of the net proceeds and pre-tax gain was \$390 and \$314, respectively. Onex recorded a tax provision of \$55 on the gain.

Amounts paid on account of these transactions related to the MIP totalled \$19 and have been deducted from the gain. Additional amounts received on account of the transactions related to the carried interest totalled \$123, of which Onex' portion was \$49 and management's portion was \$74. As described in note 23(d), Onex' portion of the carried interest is deferred from inclusion in income.

b) In November 2006, as part of Spirit AeroSystems' initial public offering, Spirit AeroSystems issued 10.4 million new common shares. As a result of the dilution of the Company's ownership interest in Spirit AeroSystems from the issuance, a non-cash dilution gain of \$100 was recorded, of which Onex' share was \$29. This reflects Onex' share of the increase in book value of the net assets of Spirit AeroSystems due to the issue of additional shares.

18. GAINS ON SALES OF OPERATING INVESTMENTS, NET (cont'd)

As a result of the dilutive transaction above and Onex' sale of shares as described in note 18(a), Onex' economic ownership in Spirit AeroSystems was reduced from 29% to 14% and Onex' voting interest was reduced from 100% to 90%. Onex continues to control and consolidate Spirit AeroSystems after these transactions.

c) In June 2006, Onex sold 3.2 million units of Cineplex Entertainment as part of a secondary offering. In conjunction with the sale of units, Onex entered into a forward contract to purchase 1.4 million units in or after January 2007 at a price computed with reference to the secondary offering. Onex received net proceeds from these transactions of \$28 and recorded a pre-tax gain of \$25.

Amounts accrued on account of these transactions related to the MIP (as described in note 23(f)) totalled \$2 and have been deducted from the gain.

d) In June 2006, Cineplex Entertainment issued 2.0 million units from treasury and used the proceeds to indirectly repay indebtedness under its development facility of its senior secured revolving credit facility. As a result of the dilution of the Company's ownership interest in Cineplex Entertainment from the treasury issue, a non-cash dilution gain of \$12 was recorded, of which Onex' share was \$6. This reflects Onex' share of the increase in book value of the net assets of Cineplex Entertainment due to the issue of additional units.

As a result of the dilutive transaction above, and Onex' sale of units as described in note 18(c), Onex' economic ownership was reduced from 27% to 22%.

Onex continues to control and consolidate Cineplex Entertainment.

e) In February 2005, the Company redeemed all of the outstanding exchangeable debentures and satisfied the debenture obligation through the delivery of approximately 9.2 million Celestica subordinate voting shares. In connection with the delivery, the Company converted the approximately 9.2 million 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; however, the Company continued to have voting control of Celestica. The cash for these exchangeable debentures was received by the Company when it originally entered into these arrangements in 2000.

f) 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 continued to have voting control of Celestica. The forward sales agreements were originally entered into in 2000 and 2001.

g) During 2005, through three separate transactions, Onex and Onex Partners sold their investment in bonds of Compagnie Générale de Géophysique ("CGG") for proceeds of \$145, of which Onex' share was \$34. The total pre-tax gain on the sales was \$41, of which Onex' share was \$9.

Amounts paid on account of these transactions related to the MIP, as described in note 23(f), totalled \$1 and have been deducted from the gain. Amounts related to the carried interest, as described in note 23(d), totalled \$4, of which Onex' portion was deferred.

h) 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.

i) In December 2005, EMSC completed a US\$113 initial public offering of common stock. 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.

j) Included in "Other" is a gain of \$12 (2005 - \$32) from the interest in Ripplewood, a U.S.-based acquisition fund.

19. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES

Year ended December 31	2006	2005
Celestica ⁽¹⁾	\$ 240	\$ 193
Spirit AeroSystems	31	42
ClientLogic	3	9
Other	18	8
	\$ 292	\$ 252

(1) Included in 2006 acquisition, restructuring and other expenses for Celestica is a loss of \$37 relating to the sale of its plastics business and a loss of \$69 relating to the sale of one of its production facilities in Europe.

Acquisition, restructuring and other expenses are typically to provide for the costs of facility consolidations, workforce reductions and transition costs incurred at the operating companies.

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.

The tables below provide a summary of acquisition, restructuring and other 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.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Years prior to 2005					
Total estimated expected costs	\$ 449	\$ 166	\$ 39	\$ 373	\$ 1,027 ^(a)
Cumulative costs expensed to date	449	166	39	373	1,027 ^(a)
Expense for the year ended					
December 31, 2006	–	4	–	–	4
Reconciliation of accrued liability					
Closing balance – December 31, 2005	\$ 14	\$ 43	\$ 4		\$ 61
Cash payments	(13)	(12)	(1)		(26)
Charges	–	4	–		4
Closing balance – December 31, 2006	\$ 1	\$ 35	\$ 3		\$ 39

(a) Includes Celestica \$1,017 and ClientLogic \$7.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Initiated in 2005					
Total estimated expected costs	\$ 307	\$ 24	\$ 92	\$ 62	\$ 485 ^(a)
Cumulative costs expensed to date	275	23	87	61	446 ^(b)
Expense for the year ended					
December 31, 2006	131	7	37	54	229
Reconciliation of accrued liability					
Closing balance – December 31, 2005	\$ 51	\$ 16	\$ 14		\$ 81
Cash payments	(122)	(8)	(42)		(172)
Charges	131	7	37		175
Other adjustments	2	–	(1)		1
Closing balance – December 31, 2006	\$ 62	\$ 15	\$ 8		\$ 85

(a) Includes Celestica \$391 and Spirit AeroSystems \$74.

(b) Includes Celestica \$357 and Spirit AeroSystems \$70.

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

Initiated in 2006	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 10	\$ -	\$ 14	\$ 37	\$ 61 ^(a)
Cumulative costs expensed to date	10	-	12	37	59 ^(b)
Expense for the year ended December 31, 2006	10	-	12	37	59
Reconciliation of accrued liability					
Cash payments	\$ (3)	\$ -	\$ (12)		\$ (15)
Charges	10	-	12		22
Other adjustments	1	-	1		2
Closing balance – December 31, 2006	\$ 8	\$ -	\$ 1		\$ 9

(a) Includes Celestica \$38 and Spirit AeroSystems \$3.

(b) Includes Celestica \$38 and Spirit AeroSystems \$2.

Total	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 766	\$ 190	\$ 145	\$ 472	\$ 1,573
Cumulative costs expensed to date	734	189	138	471	1,532
Expense for the year ended December 31, 2006	141	11	49	91	292
Reconciliation of accrued liability					
Closing balance – December 31, 2005	\$ 65	\$ 59	\$ 18		\$ 142
Cash payments	(138)	(20)	(55)		(213)
Charges	141	11	49		201
Other adjustments	3	-	-		3
Closing balance – December 31, 2006	\$ 71	\$ 50	\$ 12		\$ 133

20. 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	2006	2005
Weighted average number of shares (in millions):		
Basic	133	139
Diluted	133	139

21. FINANCIAL INSTRUMENTS

Fair values of financial instruments

The estimated fair values of financial instruments as at December 31, 2006 and 2005 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	2006		2005	
	Carrying Amount	Fair Value/ (Unwind Costs)	Carrying Amount	Fair Value/ (Unwind Costs)
Financial liabilities:				
Long-term debt ⁽ⁱ⁾	\$ 3,841	\$ 3,889	\$ 3,654	\$ 3,665
Foreign currency contracts	\$ 4	\$ 3	\$ -	\$ (8)
Interest rate swap agreements	\$ -	\$ (14)	\$ -	\$ 13

(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.

22. 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.

As at December 31	2006		2005	
	Number of Significant Customers	Percentage of Revenues	Number of Significant Customers	Percentage of Revenues
CDI	1	12%	1	12%
CEI	3	48%	3	49%
Celestica	2	20%	2	26%
ClientLogic	1	15%	1	22%
EMSC	1	26%	1	26%
Radian	1	11%	1	10%
Skilled Healthcare	2	68%	-	-
Spirit AeroSystems	1	91%	1	99%

Accounts receivable from the above significant customers at December 31, 2006 totalled \$758 (2005 – \$672).

23. 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, 2006, the amounts potentially payable in respect of these guarantees totalled \$459. Certain operating companies have guarantees with respect to employee share purchase loans that amounted to less than \$1 at December 31, 2006. These guarantees are without recourse to Onex.

The Company, which includes the operating companies, has commitments in the total amount of approximately \$1,384 in respect of corporate investments, including amounts as described 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 12. The aggregate capital commitments as at December 31, 2006 amounted to \$181.

b) The Company and its operating companies may become parties to legal claims, product liability and warranty claims arising from 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 I with funding commitments totalling approximately US\$1,655. Onex Partners I 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, 2006, approximately US\$1,342 has been invested of the total approximately US\$1,655 of capital committed. Onex has funded US\$315 of its US\$400 commitment. Onex controls the General Partner and Manager of Onex Partners I. Onex management has committed, as a group, to invest a minimum of 1% of Onex Partners I, which may be adjusted annually up to a maximum of 4%. The total amount invested in Onex Partners I by Onex management and directors in 2006 was \$11 (2005 – \$30). Due to the establishment of Onex Partners II, the unfunded commitment of Onex Partners I can only be used for add-on acquisitions to their current investments.

Onex received annual management fees based upon 2% of the capital committed to Onex Partners I by investors other than Onex and Onex management. The annual management fee was reduced to 1% of the net funded commitment at the end of the initial fee period in November 2006, when Onex established a successor fund, Onex Partners II. A carried interest is received on the overall gains achieved by Onex Partners I investors other than Onex to the extent of 20% of the gains, provided that Onex Partners I investors have achieved a minimum 8% return on their investment in Onex Partners I over the life of Onex Partners I. The investment by Onex Partners I investors for this purpose takes into consideration management fees and other amounts paid in by Onex Partners I investors.

The returns to Onex Partners I investors other than Onex and Onex management are based upon all investments made through Onex Partners I, with the result that initial carried interests achieved by Onex on gains could be recovered from Onex if subsequent Onex Partners I investments do not exceed the overall target return level of 8%. Consistent with market practice, Onex, as sponsor of Onex Partners I, is allocated 40% of the carried interest with 60% allocated to management. Onex defers all gains associated with the carried interest to such time when there will be no potential for repayment. For the year ended December 31, 2006, \$49 (2005 – \$11) has been received by Onex as carried interest and deferred while management received \$74 (2005 – \$17) with respect to the carried interest. At December 31, 2006, the total amount of carried interest that has been deferred from income was \$60 (2005 – \$11).

e) In August 2006, Onex completed the closing of Onex Partners II with funding commitments totalling approximately US\$3,450. Onex Partners II is to provide committed capital for future Onex-sponsored acquisitions not related to Onex' operating companies at December 31, 2003 or to ONCAP or Onex Partners I. As at December 31, 2006, approximately US\$248 has been invested of the total approximately US\$3,450 of capital committed. Onex has funded US\$98 of its US\$1,407 commitment. Onex controls the General Partner and Manager of Onex Partners II. Onex management has committed, as a group, to invest a minimum of 1% of Onex Partners II, which may be adjusted annually up to a maximum of 4%. As at December 31, 2006, management and directors had committed 4%. The total amount invested in Onex Partners II investments by Onex management and directors in 2006 was \$11.

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

The returns to Onex Partners II investors other than Onex and Onex management are based upon all investments made through Onex Partners II, with the result that initial carried interests achieved by Onex on gains could be recovered from Onex if subsequent Onex Partners II investments do not exceed the overall target return level of 8%. Consistent with market practice and Onex Partners I, Onex, as sponsor of Onex Partners II, will be allocated 40% of the carried interest with 60% allocated to management. Onex defers all gains associated with the carried interest until such time as there is no potential for repayment. As at December 31, 2006, no amount has been received as carried interest.

f) 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 $\frac{1}{6}$ th (1.5%) of the MIP's share of the aggregate investment and investment rights for the remaining $\frac{5}{6}$ ths (7.5%) of the MIP's share at the same price. Amounts invested under the 1% investment requirement in Onex

Partners transactions are allocated to meet the 1.5% Onex investment requirement under the MIP. The investment rights to acquire the remaining $\frac{5}{6}$ ths 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 2006 was \$2 (2005 – \$4). Investment rights exercisable at the same price for 7.5% (2005 – 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 \$28 in 2006 (2005 – \$11).

g) Members of management and the Board of Directors of the Company invested \$13 in 2006 (2005 – \$21) 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.

h) Each member of Onex management is required to reinvest 25% of the proceeds received related to their share of the MIP and carried interest to acquire Onex shares in the market until the management member owns one million Onex shares. During 2006, Onex management reinvested \$15 million to acquire Onex shares.

i) 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, 2006 was \$11 (2005 – \$12).

j) 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. A significant portion of these asserted deficiencies were resolved in favour of Celestica in the fourth quarter of 2006. Celestica's management has evaluated the assessment and believes it has substantial defences to the remaining asserted deficiencies and has 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.

**24. 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 2006 for defined contribution pension plans were \$89 (2005 – \$56).

Accrued benefit obligations and the fair value of the plan assets for accounting purposes are measured 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 January 2006, and the next required valuation will be as of January 2007 and December 2008.

In 2006, 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 \$122 (2005 – \$65). Included in the total was \$18 (2005 – \$4) contributed to a multi-employer defined benefit plan.

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	
	2006	2005	2006	2005	2006	2005
Accrued benefit obligations:						
Opening benefit obligations	\$ 160	\$ 131	\$ 976	\$ 291	\$ 135	\$ 92
Current service cost	3	2	11	7	7	10
Interest cost	46	8	17	36	6	5
Contributions by plan participants	–	–	1	1	–	1
Benefits paid	(13)	(11)	(15)	(17)	(7)	(10)
Actuarial (gain) loss in year	38	21	15	(29)	(2)	16
Foreign currency exchange rate changes	4	1	43	(39)	1	(4)
Acquisitions during the year	15	1	22	734	2	38
Plan amendments	–	–	1	–	–	(13)
Settlements/curtailments	2	–	(2)	(1)	(24)	–
Reclassification of plans	651	7	(651)	(7)	–	–
Other	4	–	–	–	2	–
Closing benefit obligations	\$ 910	\$ 160	\$ 418	\$ 976	\$ 120	\$ 135
Plan assets:						
Opening plan assets	\$ 169	\$ 147	\$ 885	\$ 203	\$ –	\$ –
Actual return on plan assets	125	17	21	67	–	–
Contributions by employer	10	5	31	18	7	9
Contributions by plan participants	–	–	1	1	–	1
Benefits paid	(13)	(11)	(15)	(17)	(7)	(10)
Foreign currency exchange rate changes	5	2	31	(32)	–	–
Acquisitions during the year	208	1	–	653	–	–
Reclassification of plans	659	8	(659)	(8)	–	–
Other	3	–	(1)	–	–	–
Closing plan assets	\$ 1,166	\$ 169	\$ 294	\$ 885	\$ –	\$ –

Asset category	Percentage of Plan Assets	
	2006	2005
Equity securities	59%	58%
Debt securities	34%	40%
Real estate	3%	-
Other	4%	2%
	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, excluding discontinued operations, 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	
	2006	2005	2006	2005	2006	2005
Deferred benefit amount:						
Plan assets, at fair value	\$ 1,166	\$ 169	\$ 294	\$ 885	\$ -	\$ -
Accrued benefit obligation	(910)	(160)	(418)	(976)	(120)	(135)
Plan surplus (deficit):	\$ 256	\$ 9	\$ (124)	\$ (91)	\$ (120)	\$ (135)
Unrecognized transitional obligation and past service costs	(5)	-	1	(6)	(11)	(12)
Unrecognized actuarial net (gain) loss	(32)	45	110	25	29	31
Reclassification of plans	22	11	(22)	(11)	-	-
Deferred benefit amount – asset (liability)	\$ 241	\$ 65	\$ (35)	\$ (83)	\$ (102)	\$ (116)

The deferred benefit asset is included in the Company's audited annual consolidated balance sheets under "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	
	2006	2005	2006	2005	2006	2005
Net periodic costs:						
Current service cost	\$ 3	\$ 2	\$ 11	\$ 7	\$ 7	\$ 10
Interest cost	46	8	17	36	6	5
Actual return on plan assets	(124)	(17)	(21)	(67)	-	-
Difference between expected return and actual return on plan assets for period	45	7	6	25	-	-
Actuarial (gain) loss	38	21	15	(29)	(2)	16
Difference between actuarial (gain) loss recognized for period and actual actuarial (gain) loss on the accrued benefit obligation for period	(35)	(19)	(9)	35	3	(19)
Plan amendments (curtailment/settlement (gain) loss)	1	-	1	(1)	1	-
Difference between amortization of past service costs for period and actual plan amendments for period	-	-	(1)	-	(1)	-
Settlement benefits	-	-	-	2	-	-
Other	-	-	1	-	1	-
Net periodic costs	\$ (26)	\$ 2	\$ 20	\$ 8	\$ 15	\$ 12

24. 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	
	2006	2005	2006	2005
Accrued benefit obligation				
Weighted average discount rate	4.47%–5.75%	4.23%–6.00%	5.25%–5.60%	5.30%–5.75%
Weighted average rate of compensation increase	0.00%–4.00%	0.00%–4.80%	0.00%–3.58%	0.00%–3.50%
Benefit cost				
Weighted average discount rate	4.47%–6.00%	4.23%–5.75%	5.25%–5.75%	5.25%–6.10%
Weighted average expected long-term rate of return on plan assets	5.00%–8.25%	5.00%–9.25%	n/a	n/a
Weighted average rate of compensation increase	0.00%–4.00%	0.00%–4.80%	0.00%–3.50%	0.00%–4.00%
Assumed healthcare cost trend rates			2006	2005
Initial healthcare cost rate			3.50%–14.00%	9.30%–10.00%
Cost trend rate declines to			3.50%–5.00%	4.50%–5.00%
Year that the rate reaches the rate it is assumed to remain at			Between 2007 and 2015	Between 2010 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	
	2006	2005	2006	2005
Effect on total of service and interest cost components	\$ 2	\$ 2	\$ (1)	\$ (1)
Effect on the post-retirement benefit obligation	\$ 17	\$ 17	\$ (14)	\$ (14)

25. VARIABLE INTEREST ENTITIES

In 2006, the Company formed three real estate partnerships with an unrelated third party. These partnerships were formed to develop residential units on property in the United States. The partnerships are considered variable interest entities under Accounting Guideline 15 (“AcG-15”). However, the Company is not the primary beneficiary of these VIEs and, accordingly, the Company accounts for its interest in the partnerships using the equity-accounting method. The partnerships have combined assets of \$227 as at December 31, 2006. The Company has a maximum exposure to loss of \$178, which includes the carrying value of \$23.

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.

a) In January 2007, the Company completed the acquisition of Tube City IMS Corporation (“TCIMS”), a leading provider of outsourced services to steel mills. Headquartered in Glassport, Pennsylvania, TCIMS provides raw materials procurement, scrap and materials management and slag processing services at 67 steel mills throughout the United States, Canada and Europe. The total equity investment of \$234, for a 91% equity ownership interest, was made through Onex and Onex Partners II. Onex’ net investment in the acquisition was \$92, for a 36% equity ownership interest. Onex has effective voting control of TCIMS through Onex Partners II.

b) In January 2007, ClientLogic completed the acquisition of SITEL Corporation, a global provider of outsourced customer support services. The total purchase price of the acquisition of US\$450 was financed by ClientLogic, without any additional investment by Onex. The new combined entity will operate as SITEL Worldwide Corporation. Onex continues to control the combined entity subsequent to the transaction.

c) In December 2006, the Company, together with its partners in Airline Partners Australia, entered into an agreement to acquire Qantas Airways Limited (“Qantas”) for a total purchase price of approximately \$10,200. Qantas is Australia’s largest domestic and international airline. The Company’s 12.5% economic investment in Airline Partners Australia is expected to be approximately \$408 and will be made through Onex and Onex Partners II. Onex’ share is expected to be approximately \$167. The offer is subject to customary conditions, including receipt of required regulatory approval and acceptance by holders of at least 90% of the outstanding Qantas shares.

d) In December 2006, the Company, together with GS Capital Partners, an affiliate of The Goldman Sachs Group, Inc., agreed to acquire Raytheon Aircraft Company (“RAC”), the business aviation division of Raytheon Company. RAC, headquartered in Wichita, Kansas, is a leading manufacturer of business jet, turbo-prop and piston aircraft through its Hawker and Beechcraft brands. It is also a significant manufacturer of military training aircraft for the U.S. Air Force and Navy, and to a small number of foreign governments. The equity investment of approximately US\$1,060 will be split equally between the Company and GS Capital Partners. The Company’s investment will be made through Onex and Onex Partners II. Onex’ investment is expected to be approximately US\$205. The transaction is subject to regulatory approvals and closing is anticipated in the first half of 2007.

e) In January 2007, the Company entered into an agreement to purchase the Health Group division of Eastman Kodak Company (“Kodak”). The Health Group, which will be renamed Carestream Health, Inc. (“Carestream Health”), is headquartered in Rochester, New York and is a leading provider of medical imaging and healthcare information technology solutions. The equity investment of approximately US\$475 will be made through Onex and Onex Partners II. Onex’ share is expected to be US\$195. The acquisition agreement provides that if Onex Partners II realizes an internal rate of return in excess of 25% on its investment, Kodak will receive payment equal to 25% of the excess return up to US\$200. The transaction is subject to customary regulatory approvals and closing is anticipated in the first half of 2007.

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 2006 (2005 – six): electronics manufacturing services; aerostructures; healthcare; financial services; theatre exhibition; customer management services; 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 the United States. The financial services segment consists of TWG, which underwrites and administers extended warranties on a variety of consumer goods and also provides consumer credit and other specialty insurance products primarily through automobile dealers. 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. Other includes Radian, CEI, Onex Real Estate, ONCAP I, ONCAP II and the parent company.

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

2006 Industry segments

	Electronics Manufacturing Services	Aero- structures	Healthcare	Financial Services	Theatre Exhibition	Customer Management Services	Other	Consolidated Total
Revenues	\$ 9,982	\$ 3,631	\$ 2,920	\$ 118	\$ 741	\$ 749	\$ 479	\$ 18,620
Cost of sales	(9,378)	(2,919)	(2,423)	(60)	(594)	(453)	(334)	(16,161)
Selling, general and administrative expenses	(291)	(194)	(158)	(25)	(33)	(212)	(174)	(1,087)
Earnings (loss) before the undernoted items	313	518	339	33	114	84	(29)	1,372
Amortization of property, plant and equipment	(117)	(49)	(93)	-	(60)	(31)	(20)	(370)
Amortization of intangible assets and deferred charges	(30)	(7)	(23)	(11)	(6)	(1)	(13)	(91)
Interest expense of operating companies	(76)	(54)	(113)	(1)	(46)	(30)	(19)	(339)
Interest and other income	5	39	5	11	1	2	68	131
Equity-accounted investments	-	-	5	-	-	-	12	17
Foreign exchange gains	10	-	-	-	-	1	11	22
Stock-based compensation	(23)	(438)	(3)	-	(1)	-	(170)	(634)
Gains on sales of operating investments, net	-	-	-	-	-	-	1,307	1,307
Acquisition, restructuring and other expenses	(240)	(31)	(7)	-	-	(3)	(11)	(292)
Writedown of goodwill and intangible assets	-	-	(5)	-	-	-	(5)	(10)
Writedown of long-lived assets	(2)	-	-	-	(1)	-	-	(3)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (160)	\$ (22)	\$ 105	\$ 32	\$ 1	\$ 23	\$ 1,131	\$ 1,110
Provision for income taxes								(24)
Non-controlling interests in operating companies								(830)
Earnings from continuing operations								\$ 256
Earnings from discontinued operations								746
Net earnings								\$ 1,002
Total assets ^(a)	\$ 5,449	\$ 3,212	\$ 2,887	\$ 6,615	\$ 893	\$ 256	\$ 3,266	\$ 22,578
Long-term debt ^(b)	\$ 874	\$ 687	\$ 1,177	\$ 233	\$ 350	\$ 196	\$ 324	\$ 3,841
Property, plant and equipment additions	\$ 215	\$ 394	\$ 111	\$ 3	\$ 70	\$ 19	\$ 11	\$ 823
Goodwill additions	\$ -	\$ 12	\$ 40	\$ 373	\$ -	\$ -	\$ 41	\$ 466
Goodwill	\$ 984	\$ 7	\$ 901	\$ 380	\$ 186	\$ -	\$ 238	\$ 2,696

(a) Customer Management Services and Other include discontinued operations as described in note 3.

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

2005 Industry segments

	Electronics Manufacturing Services	Aero- structures	Healthcare	Theatre Exhibition	Customer Management Services	Other	Consolidated Total
Revenues	\$ 10,257	\$ 1,436	\$ 2,126	\$ 491	\$ 686	\$ 455	\$ 15,451
Cost of sales	(9,537)	(1,232)	(1,808)	(392)	(420)	(343)	(13,732)
Selling, general and administrative expenses	(313)	(123)	(111)	(28)	(194)	(144)	(913)
Earnings (loss) before the undernoted items	407	81	207	71	72	(32)	806
Amortization of property, plant and equipment	(146)	(19)	(72)	(41)	(36)	(19)	(333)
Amortization of intangible assets and deferred charges	(34)	(2)	(19)	(3)	(12)	(11)	(81)
Interest expense of operating companies	(68)	(28)	(66)	(25)	(22)	(14)	(223)
Interest and other income	24	20	2	3	4	91	144
Equity-accounted investments	-	-	1	-	-	-	1
Foreign exchange gains (loss)	1	-	-	-	(2)	(34)	(35)
Stock-based compensation	(28)	(11)	(2)	(8)	-	5	(44)
Derivative instruments	-	-	-	-	-	4	4
Gains on sales of operating investments, net	-	-	-	-	-	921	921
Acquisition, restructuring and other expenses	(193)	(42)	(2)	-	(9)	(6)	(252)
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)	\$ (7)	\$ 905	\$ 894
Provision for income taxes							(70)
Non-controlling interests in operating companies							3
Earnings from continuing operations							\$ 827
Earnings from discontinued operations							138
Net earnings							\$ 965
Total assets ^(a)	\$ 5,637	\$ 1,966	\$ 2,753	\$ 860	\$ 260	\$ 3,369	\$ 14,845
Long-term debt ^(b)	\$ 872	\$ 839	\$ 1,196	\$ 346	\$ 206	\$ 195	\$ 3,654
Property, plant and equipment additions	\$ 185	\$ 169	\$ 82	\$ 33	\$ 18	\$ 8	\$ 495
Goodwill additions	\$ 2	\$ -	\$ 873	\$ 198	\$ -	\$ -	\$ 1,073
Goodwill	\$ 1,005	\$ -	\$ 848	\$ 191	\$ 4	\$ 199	\$ 2,247

(a) Theatre Exhibition, Customer Management Services and Other include discontinued operations as described in note 3.

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

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

Geographic segments

	2006					2005						
	Canada	U.S.	Europe	Asia	Other	Total	Canada	U.S.	Europe	Asia	Other	Total
Revenue	\$ 2,010	\$ 7,716	\$ 1,958	\$ 5,208	\$ 1,728	\$ 18,620	\$ 2,051	\$ 5,526	\$ 2,077	\$ 4,760	\$ 1,037	\$ 15,451
Property, plant and equipment	\$ 633	\$ 1,593	\$ 262	\$ 316	\$ 95	\$ 2,899	\$ 608	\$ 1,277	\$ 166	\$ 308	\$ 23	\$ 2,382
Intangible assets	\$ 118	\$ 568	\$ 284	\$ 37	\$ 29	\$ 1,036	\$ 88	\$ 243	\$ 5	\$ 23	\$ -	\$ 359
Goodwill	\$ 219	\$ 1,361	\$ 105	\$ 1,003	\$ 8	\$ 2,696	\$ 209	\$ 1,084	\$ -	\$ 952	\$ 2	\$ 2,247

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

Other includes primarily operations in Mexico, Central and South America and Australia. Significant customers of operating companies are discussed in note 22.

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>	2006	2005	2004	2003	2002
Revenues	\$ 18,620	\$ 15,451	\$ 12,590	\$ 10,609	\$ 14,207
Cost of sales	(16,161)	(13,732)	(11,671)	(9,669)	(12,689)
Selling, general and administrative expenses	(1,087)	(913)	(643)	(672)	(749)
Earnings before the undernoted items	\$ 1,372	\$ 806	\$ 276	\$ 268	\$ 769
Amortization of property, plant and equipment	(370)	(333)	(294)	(317)	(408)
Amortization of goodwill, intangible assets and deferred charges	(91)	(81)	(63)	(84)	(168)
Interest expense of operating companies	(339)	(223)	(81)	(56)	(52)
Interest and other income	131	144	101	80	68
Equity-accounted investments	17	1	(8)	-	-
Foreign exchange gains (loss)	22	(35)	(130)	(116)	18
Stock-based compensation	(634)	(44)	(55)	14	142
Derivative instruments	-	4	29	-	-
Gains on sales of operating investments, net	1,307	921	108	129	21
Acquisition, restructuring and other expenses	(292)	(252)	(195)	(147)	(640)
Debt prepayment	-	(6)	(3)	(2)	(14)
Writedown of goodwill and intangible assets	(10)	(3)	(393)	(188)	(425)
Writedown of long-lived assets	(3)	(5)	(86)	(78)	-
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	1,110	894	(794)	(497)	(689)
Recovery of (provision for) income taxes	(24)	(70)	(295)	(53)	132
Non-controlling interests of operating companies	(830)	3	841	269	575
Earnings (loss) from continuing operations	256	827	(248)	(281)	18
Earnings (loss) from discontinued operations ^(a)	746	138	283	(51)	(163)
Net earnings (loss) for the year	\$ 1,002	\$ 965	\$ 35	\$ (332)	\$ (145)
Total assets	\$ 22,578	\$ 14,845	\$ 11,809	\$ 14,621	\$ 19,890
Shareholders' equity	\$ 1,815	\$ 1,152	\$ 227	\$ 293	\$ 1,044
Dividends declared per Subordinate Voting Share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11
Earnings (loss) per Subordinate Voting Share:					
Continuing operations	\$ 1.93	\$ 5.95	\$ (1.75)	\$ (1.83)	\$ 0.11
Net earnings (loss)	\$ 7.55	\$ 6.95	\$ 0.25	\$ (2.16)	\$ (0.90)
Fully diluted	\$ 7.55	\$ 6.95	\$ 0.25	\$ (2.16)	\$ (0.90)

(a) The earnings from discontinued operations from 2002 to 2003 include the sale of Lantic Sugar/Rogers Sugar and MAGNATRAX. The earnings from discontinued operations from 2002 to 2004 include the sale of Dura Automotive, Loews Cineplex Group and InsLogic. The earnings from discontinued operations from 2002 to 2005 include the sale of Commercial Vehicle Group. The earnings from discontinued operations from 2004 to 2005 include the sale of Magellan. The earnings from discontinued operations from 2002 to 2006 include the disposition of J.L. French Automotive, the discontinued operations of Cineplex Entertainment, the discontinued operations of ClientLogic and the discontinued operations of certain ONCAP companies. The 2006 earnings from discontinued operations also include the 2006 recovery of taxes relating to the 2001 sale of Sky Chefs and the discontinued operations of Town and Country. Previously reported consolidated revenues and earnings figures for the years 2002 to 2005 have been restated to classify the results of the above entities as discontinued operations.

Year-end closing share price

As at December 31	2006	2005	2004	2003	2002
The Toronto Stock Exchange	\$ 28.35	\$ 18.92	\$ 19.75	\$ 14.69	\$ 16.00

SHAREHOLDER INFORMATION

Shares

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

Share symbol

OCX

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, 2006 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 10, 2007 at 10:00 a.m. (Eastern Daylight Time) at Scotiabank Paramount Toronto Theatre 259 Richmond Street West Toronto, Ontario.

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