



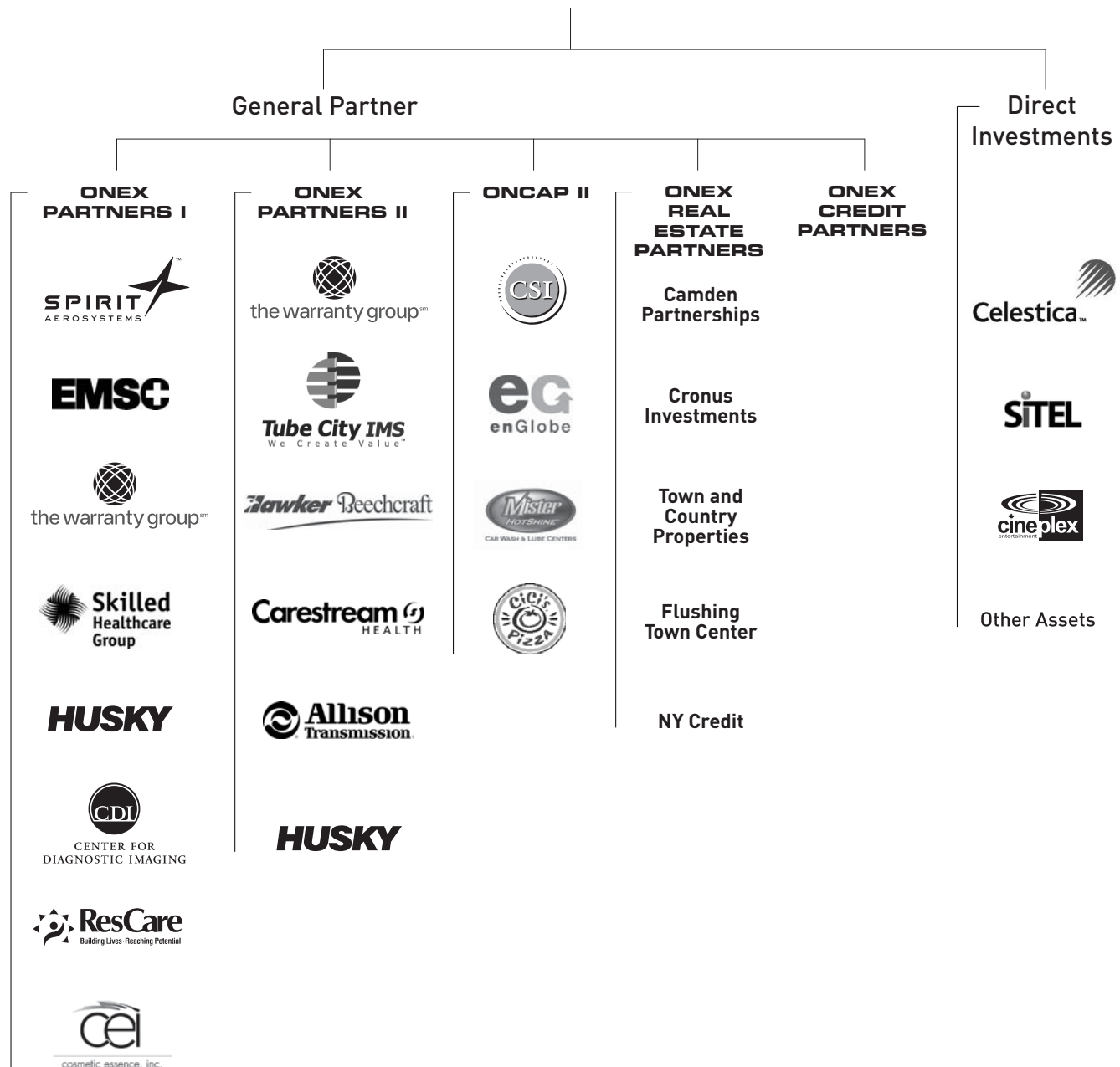
# Management's Discussion and Analysis and Financial Statements

December 31, 2007

# THE ONEX OPERATING COMPANIES

Onex' businesses generate annual revenues of \$33 billion, have assets of \$38 billion and employ 237,000 people worldwide.

# ONEX



The investment in The Warranty Group is split almost equally between Onex Partners I and II. The investment in Husky is split approximately 20%/80% between Onex Partners I and II, respectively.

## Table of Contents

**2** Management's Discussion and Analysis  
**64** Consolidated Financial Statements

**111** Summary Historical Financial Information  
**112** Shareholder Information

# ONEX CORPORATION

## **A Leading Private Equity Investor and Alternative Asset Manager**

Founded in 1984, Onex is one of North America's oldest and most successful private equity investors and alternative asset managers. Onex has completed more than 220 acquisitions valued at approximately \$34 billion. Employing a disciplined, active ownership investment approach in these acquisitions, the Company has generated 2.9 times its invested capital, earning a 27 percent compound annual IRR on realized and publicly traded investments.

Onex manages approximately \$4.8 billion of third-party capital through its Onex Partners and ONCAP families of funds, as well as Onex Credit Partners. Through these Funds, Onex generates annual management fee income from third parties and is entitled to a carried interest on that third-party capital. Onex also has a real estate investment platform, Onex Real Estate Partners, through which it expects to raise third-party capital in the future.

## **The Onex Funds**

### *Large-cap Private Equity*

- Onex Partners LP, initiated November 2003 – US\$1.655 billion
- Onex Partners II LP, initiated November 2006 – US\$3.45 billion

### *Mid-cap Private Equity*

- ONCAP L.P., initiated December 1999 – \$400 million
- ONCAP II L.P., initiated May 2006 – \$574 million

### *Distressed Credit*

- Onex Credit Partners, established in November 2007 – US\$350 million

### *Real Estate*

- Onex Real Estate Partners, initiated January 2005 – US\$400 million

Onex is a public company whose shares are traded on the Toronto Stock Exchange under the symbol OCX.

Throughout this report, all amounts are in Canadian dollars unless otherwise indicated.

# 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"). As such, this MD&A should be read in conjunction with the audited annual consolidated financial statements and notes thereto 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 27, 2008. The Board of Directors carries out its responsibility for the review of this disclosure through its Audit and Corporate Governance Committee, comprised exclusively of independent directors. The Audit and Corporate Governance Committee has reviewed the disclosure and recommended its approval by the Board of Directors. The Board of Directors has approved this disclosure.

The MD&A is presented in the following sections:

- 3 Onex Business Objective and Strategies**
- 6 Industry Segments**
- 9 Financial Review**
- 9 Significant Events in 2007**
- 12 Consolidated Operating Results**
- 36 Fourth-Quarter Results**
- 39 Consolidated Financial Position**
- 47 Liquidity and Capital Resources**
- 55 Recent Accounting Pronouncements**
- 55 Disclosure Controls and Procedures and Internal Controls over Financial Reporting**
- 57 Outlook**
- 59 Risk Management**

Onex Corporation's financial filings, including the 2007 MD&A and Financial Statements and interim quarterly reports, Annual Information Form and Management Circular, are available on the Company's website at [www.onex.com](http://www.onex.com) or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at [www.sedar.com](http://www.sedar.com).

## **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. 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. These cautionary statements expressly qualify all forward-looking statements in this MD&A.*

## ONEX BUSINESS OBJECTIVE AND STRATEGIES

**OUR OBJECTIVE:** Onex' business objective is to create long-term value for shareholders and partners and to have that value reflected in our share price. The discussion that follows outlines Onex' strategies to achieve that objective and that drove our performance in 2007.

### OUR STRATEGY: Private Equity Investing + Alternative Asset Management

Our strategy to deliver value to shareholders and partners is concentrated on two activities: private equity investing and alternative asset management. Our private equity investing focuses on our disciplined, active ownership approach of acquiring and building industry-leading businesses in partnership with outstanding management teams. The objective of our alternative asset management business is to manage and grow third-party capital that brings management fees to Onex and enhances Onex' return through carried interests. This also enables Onex to be efficient and responsive to acquisition opportunities in our private equity investing.

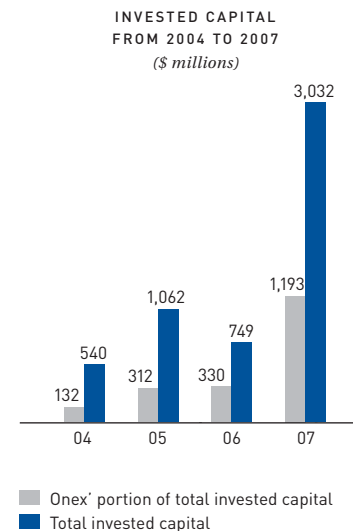
### PRIVATE EQUITY INVESTING: Acquire, Build and Grow Value

Onex seeks to acquire attractive businesses, build them into industry leaders and grow their value. We look to maintain substantial financial strength and have capital available for our private equity investing.

### 2007 Performance

#### Acquire attractive businesses

- Onex Partners completed five major acquisitions and investments:
  - **Tube City IMS** in a transaction valued at \$730 million; **Carestream Health** in a transaction valued at \$2.6 billion; and **Husky Injection Molding Systems** in a transaction valued at \$960 million. Onex, Onex Partners and Onex management invested \$1.4 billion in these transactions, of which Onex' share was \$524 million.
  - In partnership with other private equity firms we acquired **Hawker Beechcraft** in a transaction valued at \$3.8 billion and **Allison Transmission** in a transaction valued at \$5.9 billion; Onex, Onex Partners, certain limited partners and Onex management invested \$1.4 billion in these transactions; Onex' portion was \$488 million.
- ONCAP acquired **Mister Car Wash** and **CiCi's Pizza**; Onex, ONCAP and Onex management invested \$105 million of equity and debt in these two transactions, of which Onex' portion was \$47 million.



- Onex Real Estate Partners invested \$146 million collectively in **NY Credit**, a real estate specialty finance company, **Flushing Town Center**, a large-scale commercial and residential development, and **Cronus investments**, a real estate partnership, in 2007. Onex' portion of these investments was \$134 million.

### **Build our businesses into industry leaders**

- Onex' operating company, ClientLogic, acquired and merged with SITEL Corporation during 2007 in a transaction valued at \$550 million; the acquisition tripled the size of the business. Now operating as Sitel Worldwide, the company is a leading global provider of outsourced customer care services.
- Emergency Medical Services, Skilled Healthcare and Center for Diagnostic Imaging also completed follow-on acquisitions valued at approximately \$180 million to build their businesses.

### **Grow the value of our businesses**

- Spirit AeroSystems completed a secondary share offering at approximately 10 times Onex' original cost. Onex sold a portion of its ownership in Spirit AeroSystems, receiving \$361 million in proceeds including a carried interest in the share sales of our limited partners.
- Skilled Healthcare completed an initial public offering of shares at US\$15.50 per share, almost double Onex' original cost. Onex sold a portion of its ownership in Skilled Healthcare, receiving \$43 million in proceeds including a carried interest in the share sales of our limited partners.
- Emergency Medical Services closed the year at an NYSE value that was approximately four times Onex' original cost.
- ONCAP sold WIS and CMC Electronics for more than five times its original invested capital. Onex' proceeds on these sales was \$225 million, including a carried interest.

### **Financial strength**

- **Onex** – At December 31, 2007, Onex, the parent company, had approximately \$700 million of cash and no debt.
- **Onex Partners Funds** – Onex has third-party committed uncalled capital of \$680 million available through the Onex Partners Funds for future Onex-sponsored investments.
- **ONCAP Funds** – ONCAP has third-party committed uncalled capital available in the ONCAP II Fund of approximately \$216 million at December 31, 2007 for future ONCAP-sponsored investments.

### **ALTERNATIVE ASSET MANAGEMENT: Manage and Grow Third-Party Capital**

Our alternative asset management business provides substantial value for Onex shareholders through the management fees it earns on third-party capital and the carried interest opportunity on that capital. We seek to grow alternative assets under management and create new alternative asset classes.

#### **2007 Performance**

##### **Manage third-party capital**

- Onex earned \$55 million in management fees in 2007 from the Onex Partners and ONCAP Funds.
- In 2007, Onex received total carried interest of \$46 million on the realizations by third-party limited partners' sale of shares of Onex Partners I investments: Spirit AeroSystems and Skilled Healthcare. At the end of 2007, Onex had unrealized carried interest of \$85 million, based on the market value of the public entities in Onex Partners I. It also has \$2.1 billion of invested capital subject to a carried interest through the private companies held by Onex Partners I, Onex Partners II and ONCAP II.

##### **Grow third-party capital**

- Onex began fundraising for a third large-cap private equity Fund, Onex Partners III, with expected total capital commitments of approximately US\$4.5 billion. Approximately US\$3.5 billion of total commitments would be provided by third parties, which, when invested, would provide Onex with the opportunity to earn a further and larger carried interest.
- Onex established Onex Credit Partners, a US\$350 million distressed credit platform, focused on generating attractive, risk-adjusted returns through the purchase of undervalued credit securities.

### **OUR OBJECTIVE: Have the Value Created from Investing and Alternative Asset Management Reflected in Our Share Price**

#### **2007 Performance**

- Onex' Subordinate Voting Share price was up 23 percent during 2007 to \$34.99 per share at December 31, 2007.

## INDUSTRY SEGMENTS

At December 31, 2007, Onex had seven reportable industry segments. A description of our operating companies by industry segment, and Onex' net economic and voting ownership in those businesses, is presented below.

Industry Segments	Companies	Ownership (Onex Owns/ Onex Votes)
<b>Electronics Manufacturing Services</b>	<p><b>Celestica Inc.</b> (TSX/NYSE: CLS), one of the world's largest electronics manufacturing services companies for original equipment manufacturers ("OEMs") (website: www.celestica.com).</p> <p><b>Revenues: \$8.6 billion    Assets: \$4.4 billion</b></p> <p><b>Onex shares held: 27.3 million</b></p>	<b>12%<sup>(2)</sup>/79%</b>
<b>Aerostructures</b>	<p><b>Spirit AeroSystems, Inc.</b> (NYSE: SPR), the largest independent non-OEM designer and manufacturer of aerostructures in the world (website: www.spiritaero.com).</p> <p><b>Revenues: \$4.1 billion    Assets: \$3.3 billion</b></p> <p><b>Onex shares held: 8.6 million</b></p> <p><b>Onex Partners I shares subject to a carried interest: 17.2 million</b></p>	<b>6%<sup>(2)</sup>/76%</b>
<b>Healthcare</b>	<p><b>Emergency Medical Services Corporation</b> (NYSE: EMS), a leading provider of emergency medical services in the United States (website: www.emsc.net).</p> <p><b>Revenues: \$2.3 billion    Assets: \$1.4 billion</b></p> <p><b>Onex shares held: 12.1 million</b></p> <p><b>Onex Partners I shares subject to a carried interest: 16.3 million</b></p> <p><b>Center for Diagnostic Imaging, Inc.</b>, a leading provider of diagnostic and therapeutic radiology services in the United States (website: www.cdiradiology.com).</p> <p><b>Revenues: \$123 million    Assets: \$182 million</b></p> <p><b>Total Onex, Onex Partners I and Onex management investment at cost: \$88 million</b></p> <p><b>Onex portion: \$21 million</b></p> <p><b>Onex Partners I portion subject to a carried interest: \$64 million</b></p> <p><b>Skilled Healthcare Group, Inc.</b> (NYSE: SKH), an organization of leading skilled nursing and assisted living facilities operators in the United States, specifically in California, Texas, Kansas, Missouri, New Mexico and Nevada, that is focused on treating patients who require a high level of skilled nursing care and extensive rehabilitation therapy (website: www.skilledhealthcare-group.com).</p> <p><b>Revenues: \$678 million    Assets: \$1.0 billion</b></p> <p><b>Onex shares held: 3.5 million</b></p> <p><b>Onex Partners I shares subject to a carried interest: 10.7 million</b></p> <p><b>Carestream Health, Inc.</b>, a leading provider of medical and dental imaging and healthcare information technology solutions (website: www.carestreamhealth.com).</p> <p><b>Revenues: \$1.8 billion<sup>(i)</sup>    Assets: \$3.1 billion</b></p> <p><b>Total Onex, Onex Partners II and Onex management investment at cost: \$521 million</b></p> <p><b>Onex portion: \$206 million</b></p> <p><b>Onex Partners II portion subject to a carried interest: \$292 million</b></p>	<p><b>29%/97%</b></p> <p><b>19%/100%</b></p> <p><b>9%/90%</b></p> <p><b>39%/100%</b></p>
	<p><b>Res-Care, Inc.<sup>(1)</sup></b> (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> <p><b>Revenues: \$1.5 billion    Assets: \$824 million</b></p> <p><b>Onex shares held: 2.0 million</b></p> <p><b>Onex Partners I shares subject to a carried interest: 6.2 million</b></p>	<b>6%/25%</b>

(1) This investment is accounted for on an equity basis in Onex' audited annual consolidated financial statements.

(2) Onex' economic ownership percentage excludes shares held in connection with the Management Investment Plan.



Industry Segments	Companies	Ownership (Onex Owns/ Onex Votes)
Financial Services	<p><b>The Warranty Group, Inc.</b>, one of the world's largest providers of extended warranty contracts (website: www.thewarrantygroup.com).</p> <p><b>Revenues: \$1.4 billion    Assets: \$5.5 billion</b></p> <p><b>Total Onex, Onex Partners I, Onex Partners II and Onex management investment at cost: \$556 million</b></p> <p><b>Onex portion: \$175 million</b></p> <p><b>Onex Partners I portion subject to a carried interest: \$204 million</b></p> <p><b>Onex Partners II portion subject to a carried interest: \$155 million</b></p>	30%/100%
Customer Support Services	<p><b>Sitel Worldwide Corporation</b>, a leading global provider of outsourced customer care services (website: www.sitel.com).</p> <p><b>Revenues: \$1.9 billion    Assets: \$1.0 billion</b></p> <p><b>Onex investment at cost: \$308 million</b></p>	66%/88%
Metal Services	<p><b>Tube City IMS Corporation</b>, a leading provider of outsourced services to steel mills (website: www.tubecityims.com).</p> <p><b>Revenues: \$1.7 billion<sup>(i)</sup>    Assets: \$881 million</b></p> <p><b>Total Onex, Onex Partners II and Onex management investment at cost: \$234 million</b></p> <p><b>Onex portion: \$92 million</b></p> <p><b>Onex Partners II portion subject to a carried interest: \$132 million</b></p> <p>(i) Represents 11 months of revenues following its January 2007 acquisition.</p>	35%/100%
Other Businesses		
• Theatre Exhibition	<p><b>Cineplex Entertainment Limited Partnership<sup>(1)</sup></b> (TSX: CGX.UN), Canada's largest film exhibition company operating 131 theatres with a total of 1,327 screens under the Cineplex Odeon, Cinema City, Coliseum, Colossus, Famous Players, Galaxy, Scotiabank Theatre and SilverCity brands (website: www.cineplex.com).</p> <p><b>Revenues: \$805 million    Assets: \$778 million</b></p> <p><b>Onex units held: 12.8 million</b></p> <p>(a) On April 2, 2007, Onex ceased to have voting rights on certain units of Cineplex Entertainment Limited Partnership held by unitholders other than Onex and accordingly ceased to have the right to appoint a majority of the directors. Onex now has the right to appoint three of the seven directors of the General Partner of Cineplex Entertainment Limited Partnership.</p>	22% <sup>(2)</sup> /(a)
• Aircraft & Aftermarket	<p><b>Hawker Beechcraft Corporation<sup>(1)</sup></b>, a leading designer and manufacturer of business jet, turbo-prop and piston aircraft (website: www.hawkerbeechcraft.com).</p> <p><b>Revenues: \$3.0 billion<sup>(i)</sup>    Assets: \$4.6 billion</b></p> <p><b>Total Onex, Onex Partners II and Onex management investment at cost: \$564 million</b></p> <p><b>Onex portion: \$223 million</b></p> <p><b>Onex Partners II portion subject to a carried interest: \$319 million</b></p> <p>(i) Represents nine months of revenues following its March 2007 investment.</p>	20%/49%
• Commercial Vehicles	<p><b>Allison Transmission, Inc.<sup>(1)</sup></b>, the world leader in the design and manufacture of automatic transmissions for on-highway trucks and buses, off-highway equipment and military vehicles (website: www.allisontransmission.com).</p> <p><b>Revenues: \$903 million<sup>(i)</sup>    Assets: \$6.4 billion</b></p> <p><b>Total Onex, Onex Partners II, certain limited partners and Onex management investment at cost: \$805 million</b></p> <p><b>Onex portion: \$250 million</b></p> <p><b>Onex Partners II portion subject to a carried interest: \$357 million</b></p> <p>(i) Represents four months of revenues following its August 2007 investment.</p>	15%/49%

(1) This investment is accounted for on an equity basis in Onex' audited annual consolidated financial statements.

(2) Onex' economic ownership percentage excludes shares held in connection with the Management Investment Plan.

Industry Segments	Companies	Ownership (Onex Owns/ Onex Votes)
<b>Other Businesses (cont'd)</b>		
<ul style="list-style-type: none"> <li>• <i>Injection Molding</i></li> </ul>	<p><b>Husky Injection Molding Systems Ltd.</b>, the leading global supplier of injection molding equipment and services to the PET plastics industry (website: www.husky.ca).</p> <p><b>Revenues: \$<sup>(i)</sup></b>                      <b>Assets: \$1.6 billion</b></p> <p><b>Total Onex, Onex Partners I, Onex Partners II and Onex management investment at cost: \$626 million</b></p> <p>    <b>Onex portion: \$226 million</b></p> <p>    <b>Onex Partners I portion subject to a carried interest: \$97 million</b></p> <p>    <b>Onex Partners II portion subject to a carried interest: \$278 million</b></p> <p>(i) There are no reported revenues since Husky was acquired in mid-December 2007.</p>	<b>36%/100%</b>
<ul style="list-style-type: none"> <li>• <i>Personal Care Products</i></li> </ul>	<p><b>Cosmetic Essence, Inc.</b>, 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><b>Revenues: \$266 million</b>    <b>Assets: \$275 million</b></p> <p><b>Total Onex, Onex Partners I and Onex management investment at cost: \$138 million</b></p> <p>    <b>Onex portion: \$32 million</b></p> <p>    <b>Onex Partners I portion subject to a carried interest: \$100 million</b></p>	<b>21%/100%</b>
<ul style="list-style-type: none"> <li>• <i>Communications Infrastructure</i></li> </ul>	<p><b>Radian Communication Services Corporation</b>, a wireless communications infrastructure and network services company (website: www.radiancorp.com).</p> <p><b>Revenues: \$90 million</b>    <b>Assets: \$35 million</b></p> <p><b>Onex investment at cost: \$107 million</b></p>	<b>89%/100%</b>
<ul style="list-style-type: none"> <li>• <i>Mid-cap Opportunities</i></li> </ul>	<p><b>ONCAP</b>, a private equity fund focused on acquiring and building the value of mid-capitalization companies based in North America (website: www.oncap.com), which actively manages investments in CSI Global Education Inc., EnGlobe Corp. (TSX: EG), Mister Car Wash and CiCi's Pizza.</p> <p><b>Revenues: \$396 million</b>    <b>Assets: \$734 million</b></p> <p><b>Total Onex, ONCAP and Onex management investment at cost: \$159 million</b></p> <p>    <b>Onex portion: \$71 million</b></p> <p>    <b>ONCAP portion: \$83 million</b></p>	<b>44%/100%</b>
<ul style="list-style-type: none"> <li>• <i>Real Estate</i></li> </ul>	<p><b>Onex Real Estate Partners</b>, a platform dedicated to acquiring and improving real estate assets in North America.</p> <p><b>Onex investment in Onex Real Estate transactions at cost: \$158 million<sup>(1)</sup></b></p>	<b>86%/100%</b>
<ul style="list-style-type: none"> <li>• <i>Distressed Credit</i></li> </ul>	<p><b>Onex Credit Partners</b>, a credit investing platform focused on generating attractive risk-adjusted returns through the purchase of undervalued credit securities.</p> <p><b>Onex investment in Onex Credit Partners' funds at cost: \$50 million</b></p>	<b>50%/50%</b>

(1) Investment at cost in Onex Real Estate excludes Onex' investment in Town and Country properties as Town and Country has been substantially realized and has returned all of Onex' invested capital.

## 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, 2007 compared to those for the year ended December 31, 2006 and, in selected areas, to those for the year ended December 31, 2005.

### SIGNIFICANT EVENTS IN 2007

A number of significant events occurred during the year that affected Onex' consolidated results for 2007 and their comparability to the results for 2006. These events are discussed below. These significant events are presented with the most recent events first.

#### Acquisition of Husky Injection Molding Systems

In mid-December 2007, Onex completed the acquisition of Husky Injection Molding Systems Ltd. ("Husky") in a transaction valued at \$960 million. Onex, Onex Partners LP ("Onex Partners I"), Onex Partners II LP ("Onex Partners II") and management of Onex and Husky collectively invested \$633 million of equity in the transaction for a 100 percent ownership interest. Onex' share of that equity investment was \$226 million for an initial 36 percent ownership interest.

Husky is one of the world's largest suppliers of injection molding equipment and services to the plastics industry. The company's broad product lines offer its customers the ability to manufacture a wide range of plastics products such as bottles and caps for beverages, containers for food, automotive components and consumer electronics parts. Husky has a sales and service network consisting of more than 40 offices worldwide, as well as manufacturing facilities in Canada, the United States, Luxembourg and China.

Husky's financial results from the date of acquisition in mid-December 2007 were not significant to Onex' consolidated results, and therefore, were not consolidated in the audited annual statement of earnings for the year ended December 31, 2007. As at December 31, 2007, Husky's balance sheet has been included in Onex' audited annual consolidated balance sheet.

#### Onex Credit Partners

As part of Onex' initiative to grow its alternative asset management business, in November 2007, Onex established Onex Credit Partners. This credit investing platform focuses on generating attractive risk-adjusted returns through the purchase of undervalued credit securities. Onex acquired a 50 percent interest in GK Capital, which at the time of acquisition had approximately US\$300 million of assets under management, and subsequently renamed the business Onex Credit Partners. Onex retained the entire GK Capital team, led by Michael Gelblat and Stuart Kovensky, seasoned credit investing professionals and co-founders of GK Capital. At December 31, 2007, Onex Credit Partners had US\$350 million of assets under management, which included Onex' initial US\$50 million investment.

#### Acquisition of Allison Transmission

In early August 2007, Onex, in partnership with The Carlyle Group, acquired Allison Transmission, Inc. ("Allison Transmission") from General Motors Corporation in a transaction valued at \$5.9 billion. Onex Partners II and The Carlyle Group equally split the total equity investment of \$1.6 billion (US\$1.5 billion). Onex, Onex Partners II, certain limited partners and Onex management invested approximately \$805 million (US\$763 million). Onex' portion of that investment was \$250 million (US\$237 million) for an initial 16 percent ownership interest. Allison Transmission has been accounted for on an equity basis.

Allison Transmission is the world leader in the design and manufacture of automatic transmissions for on-highway trucks and buses, off-highway equipment and military vehicles. The company employs approximately 3,300 people and sells its transmissions through a worldwide distribution network with sales offices in North America, South America, Europe, Africa and Asia. Allison Transmission generates annual revenues of approximately \$2 billion.

### **Spirit AeroSystems completes \$1.2 billion secondary offering**

In late May 2007, Spirit AeroSystems Holdings, Inc. ("Spirit AeroSystems") completed a secondary offering of approximately 34.3 million shares of Class A common stock at a price of US\$33.50 per share. Onex, Onex Partners I and certain limited partners sold approximately 31.8 million shares in the offering for gross proceeds of \$1.2 billion and recorded a pre-tax gain of \$965 million. Spirit AeroSystems did not issue any new shares as part of this offering.

Onex received net proceeds of \$361 million on its portion of the shares sold, including \$42 million of carried interest. Onex recorded a pre-tax gain of \$258 million on the sale of its shares. Onex, Onex Partners I and certain limited partners continue to hold 32.4 million shares of Spirit AeroSystems' common stock, which represents a 24 percent ownership interest, and continue to retain voting control of the company. Onex' portion of the Spirit AeroSystems shares held at December 31, 2007 is 8.6 million shares for a 6 percent ownership interest.

### **Skilled Healthcare completes initial public offering**

In mid-May 2007, Skilled Healthcare Group, Inc. ("Skilled Healthcare") completed an initial public offering of approximately 19 million shares of Class A common stock (NYSE: SKH) following a stock split. The offering was priced at US\$15.50 per share for gross proceeds of approximately \$325 million. As part of the offering, Skilled Healthcare issued approximately 8.3 million new common shares while Onex and Onex Partners I sold 10.6 million shares. Onex and Onex Partners I received total net proceeds of \$166 million for their shares sold and recorded a pre-tax gain of \$68 million.

Onex' portion of the net proceeds was \$43 million, including \$4 million of carried interest. Onex recorded a net pre-tax gain of \$13 million on the sale. The issuance of the new common shares by Skilled Healthcare resulted in an additional non-cash accounting dilution gain of \$20 million, of which Onex' share was \$5 million. Onex, Onex Partners I and Onex management continue to hold 14.8 million shares of Skilled Healthcare's common stock for an approximate

40 percent ownership interest. Of the total shares held, Onex holds 3.5 million shares for a 9 percent ownership interest. After giving effect to the stock split at the time of the initial public offering, Onex' cost of Skilled Healthcare's stock was US\$8.19 per share.

### **Acquisition of Carestream Health**

In late April 2007, Onex completed the \$2.6 billion acquisition of the Health Group division of Eastman Kodak Company ("Kodak"). Following the purchase, the business continued operations under the new name of Carestream Health, Inc. ("Carestream Health"). Onex, Onex Partners II and management of Onex and Carestream Health invested \$527 million in the equity of Carestream Health for a 100 percent ownership interest. Onex' share of the total equity was \$206 million for an initial 39 percent ownership interest.

Carestream Health is a leading global provider of medical and dental imaging and healthcare information technology solutions. The company's offerings include digital x-ray systems, molecular imaging systems and x-ray film, as well as dental imaging products, software and services. Onex also acquired Kodak's non-destructive testing business, which sells x-ray film and digital x-ray products to the non-destructive testing market.

Carestream Health's results from the date of acquisition have been reported in the healthcare segment in Onex' audited annual consolidated financial statements.

### **ONCAP II completes two acquisitions – Mister Car Wash and CiCi's Pizza**

In early April 2007, ONCAP II acquired the Mister Car Wash chain, now the second-largest conveyor car wash business in the United States. Mister Car Wash currently operates 60 car washes, 24 lube shops and three convenience stores in eight regional markets in the western United States. Mister Car Wash employs more than 2,500 people and services more than seven million vehicles a year. Also, in early June 2007, ONCAP acquired CiCi's Pizza, a leading franchisor of family-oriented "all you want" buffet-style restaurants serving fresh pizza, pasta, salad and desserts. CiCi's Pizza has 611 franchised restaurants and 12 CiCi's To Go stores throughout 29 states in the United States.

Onex, ONCAP II and Onex management invested \$105 million of equity and debt in these two acquisitions. Onex' portion of these investments was \$47 million. Onex and ONCAP II have an initial 89 percent ownership interest in Mister Car Wash and an initial 54 percent ownership interest in CiCi's Pizza. The operations of Mister Car Wash and CiCi's Pizza have been consolidated in Onex' other segment with other current ONCAP investments from the dates of their acquisitions.

### **Cineplex Entertainment**

In early April 2007, Onex ceased to have voting rights on certain units of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment") held by other Cineplex Entertainment unitholders. As a result, Onex no longer had sufficient voting rights over the units to continue to elect a majority of the board of the General Partner of Cineplex Entertainment, retaining the right to elect three of the seven directors. Therefore, beginning in the second quarter of 2007, Onex no longer consolidates Cineplex Entertainment and now accounts for its 23 percent ownership interest on an equity basis. On a comparative basis, Cineplex Entertainment's results are consolidated in Onex' audited annual consolidated statement of earnings for the year ended December 31, 2006.

### **Purchase of Hawker Beechcraft**

In late March 2007, Onex, in partnership with the private equity subsidiary of Goldman Sachs, acquired Raytheon Aircraft Company in a transaction valued at \$3.8 billion. The total initial equity invested by Onex, Onex Partners II and Onex management was \$605 million for an initial 49 percent ownership interest, of which Onex' share was \$238 million for an initial 20 percent ownership interest. The acquired business now operates as Hawker Beechcraft Corporation ("Hawker Beechcraft") and has been accounted for on an equity basis. In July 2007, Onex, Onex Partners II and Onex management received a \$41 million distribution from Hawker Beechcraft resulting from a purchase price adjustment under the purchase agreement. As a result of this adjustment, Onex' investment in Hawker Beechcraft was reduced by \$15 million to \$223 million.

Hawker Beechcraft is a leading manufacturer of business jet, turboprop and piston aircraft through its Hawker and Beechcraft brands. Its products include the

Hawker 900XP, part of the best-selling business jet family in the history of the general aviation industry, as well as the King Air family of aircraft, the industry's best-selling turbo-prop line. Hawker Beechcraft is also a significant manufacturer of military training aircraft for the U.S. Air Force and Navy and for a variety of foreign governments.

### **Acquisition of Tube City IMS**

Onex completed the \$730 million acquisition of Tube City IMS Corporation ("Tube City IMS") in late January 2007; Onex, Onex Partners II and management of Onex and Tube City IMS invested \$257 million of equity in the transaction for a 100 percent ownership interest. Onex' share of that equity investment was \$92 million for an initial 36 percent ownership interest.

Tube City IMS is a leading provider of outsourced services to steel mills. Tube City IMS provides raw materials procurement, scrap and materials management and slag processing and other services. The company currently operates at 69 steel mills in the United States, Canada and Europe, and procures materials for mills and foundries worldwide.

Tube City IMS' results have been reported in a new reportable segment – Metal Services – in Onex' audited annual consolidated financial statements from the date of the acquisition.

### **ClientLogic acquires SITEL Corporation**

In January 2007, ClientLogic Corporation ("ClientLogic") completed the \$550 million acquisition of SITEL Corporation. ClientLogic and SITEL Corporation were merged immediately following this purchase, with the new company operating as Sitel Worldwide Corporation ("Sitel Worldwide").

Sitel Worldwide is a leading global provider of outsourced customer care services, offering fully integrated, world-class customer care and back-office processing services. The merger created a company with annualized revenues of approximately \$1.9 billion and significant diversification in its customer base, geographies and service offerings. The company operates more than 155 facilities throughout North America, South America, Europe, Africa and Asia Pacific and employs 64,000 associates in 27 countries. The merger has enabled annualized cost savings of more than US\$83 million for Sitel Worldwide in 2007.

### **ONCAP's sale of WIS and CMC Electronics**

In January 2007, ONCAP completed the sale of its operating company, WIS International ("WIS"), for \$445 million. ONCAP received cash proceeds of \$222 million on this sale compared to its \$30 million investment made in 2003. Onex' share of the proceeds was \$80 million, on which Onex recorded a pre-tax gain of \$52 million.

In March 2007, ONCAP sold its operating company, CMC Electronics Inc. ("CMC Electronics"), which it acquired in 2001. ONCAP received proceeds of \$148 million on this sale, bringing total proceeds realized by ONCAP on CMC Electronics to \$284 million compared to its \$70 million investment. Onex' proceeds from the sale, including those from its direct investment in CMC Electronics, were \$145 million. Onex recorded a pre-tax gain of \$90 million on these proceeds. Including these proceeds, the total amount Onex has received on CMC Electronics is \$261 million compared to an investment of \$63 million in 2001.

The gains on the sales of WIS and CMC Electronics were reported as earnings from discontinued operations in the audited annual consolidated statement of earnings for the year ended December 31, 2007.

### **Share repurchases under Onex' Normal Course Issuer Bid**

During 2007, Onex repurchased 3,357,000 Subordinate Voting Shares under its Normal Course Issuer Bid at an average cost per share of \$33.81 for a total cost of \$113 million. Onex' shareholders' equity at December 31, 2007 has been reduced for the effect of these repurchases of Subordinate Voting Shares.

Onex believes that it is in the best interest of its remaining shareholders to repurchase its Subordinate Voting Shares when they are trading at prices that reflect a significant discount from their value as perceived by Onex.

## **CONSOLIDATED OPERATING RESULTS**

This section should be read in conjunction with Onex' audited annual consolidated statements of earnings and 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 these financial statements in conformity with Canadian GAAP requires management of Onex and management of the operating companies 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 December 31, 2007 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 the allowance for doubtful accounts, inventory valuation, the valuation of intangible assets and goodwill, the useful lives of property, plant and equipment and intangible assets, revenue recognition under contract accounting, pension and post-employment benefits, losses and loss adjustment expenses reserves, 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 judgements, assumptions and estimates. Due to the material nature of these factors, they are discussed here in greater detail.

### **Impairment tests of goodwill, intangible assets and long-lived 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 amount that appears on Onex' audited annual consolidated balance sheets at December 31, 2007 and 2006 was recorded by the operating companies. Goodwill is not amortized, but assessed for impairment at the reporting unit level annually, or sooner if events or changes in circumstances or market conditions indicate that the carrying amount could exceed fair value. The test for goodwill impairment used by our operating companies is to assess the fair value of each reporting unit within an operating company and determine if the goodwill associated with that unit is less than its carrying value. This assessment takes into consideration several factors, including, but not limited to, future cash flows and market conditions. If the fair value is determined to be lower than the carrying value at an individual reporting unit, then goodwill is considered to be impaired and an impairment charge must be recognized. Each operating company has developed its own internal valuation model to determine the fair value. These models are subjective and require management of the particular operating company to exercise judgement in making assumptions about future results, including revenues, operating expenses, capital expenditures and discount rates.

The impairment test for intangible assets and long-lived assets with limited lives is similar to that of goodwill.

### **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, using the units-of-delivery method. 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 2007, 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 sheets are capitalized development costs of Spirit AeroSystems primarily associated with that company's product development on The Boeing Company's ("Boeing") 787 aircraft. These development costs are amortized over the first 500 production units.

### **Losses and loss adjustment expenses reserves**

The Warranty Group, Inc. ("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 case-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 appropriate, and they continually review and adjust those reserves as necessary as experience develops or new information becomes known.

### New accounting policies in 2007

#### Financial instruments, hedges and comprehensive income

On January 1, 2007, Onex adopted the *Canadian Institute of Chartered Accountants Handbook* ("CICA Handbook") Section 3855, "Financial Instruments – Recognition and Measurement"; Section 3865, "Hedges"; Section 1530, "Comprehensive Income"; and Section 3861, "Financial Instruments – Disclosure and Presentation". Under these new standards, Onex is required to measure certain securities and hedging derivatives at fair value and include a new line called accumulated other comprehensive earnings in the consolidated statements of shareholders' equity and comprehensive earnings to report unrealized gains or losses, all net of income taxes, related to certain available-for-sale securities, cash flow hedges and foreign exchange gains or losses on the net investment in self-sustaining operations.

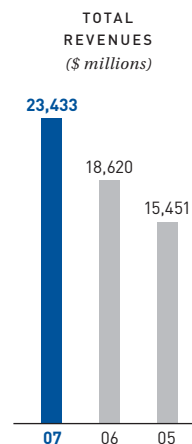
The adoption of these standards did not have a significant effect on the audited annual consolidated financial statements. The comparative audited annual consolidated financial statements have not been restated for the adoption of these new standards other than to reclassify the change in currency translation adjustment to a component of accumulated other comprehensive earnings. For details of the specific accounting changes and related impacts, see note 1 to the audited annual consolidated financial statements.

### Variability of results

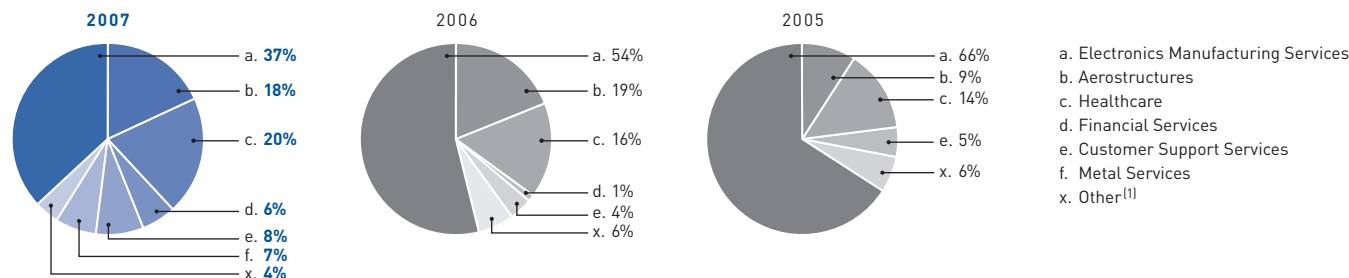
Onex' audited annual consolidated operating results may vary substantially from year to year for a number of reasons, including some of the following: acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the Canadian dollar and certain foreign currencies, primarily the U.S. 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 in 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 material factors that affected Onex' operating segments and audited annual consolidated results for the year ended December 31, 2007.

### Consolidated revenues

Consolidated revenues were \$23.4 billion, up 26 percent from \$18.6 billion in 2006 and up 52 percent from \$15.5 billion in 2005. A percentage breakdown of total revenues by industry segment is provided in the following charts for the years ended December 31, 2007, 2006 and 2005.



### Segmented Total Consolidated Revenue Breakdown



(1) 2007 and 2006 other include Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2005 other includes Cineplex Entertainment, CEI, Radian and the parent company.



Table 1 presents revenues by industry segment in Canadian dollars and in the functional currency of the companies in 2007, 2006 and 2005 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	2007	2006	Change (%)	2007	2006
Electronics Manufacturing Services	\$ 8,617	\$ 9,982	(14)%	US\$ 8,070	US\$ 8,812	(8)%	
Aerostructures	4,147	3,631	14 %	US\$ 3,861	US\$ 3,208	20 %	
Healthcare	4,826	2,920	65 %	US\$ 4,573	US\$ 2,575	78 %	
Financial Services	1,399	118 <sup>(a)</sup>	1,086 %	US\$ 1,304	US\$ 103 <sup>(a)</sup>	1,166 %	
Customer Support Services	1,868	749	149 %	US\$ 1,748	US\$ 660	165 %	
Metal Services	1,676	-	-	US\$ 1,575	-	-	
Other <sup>(b)</sup>	900	1,220	(26)%	C\$ 900	C\$ 1,220	(26)%	
<b>Total</b>	<b>\$ 23,433</b>	<b>\$ 18,620</b>	<b>26 %</b>				

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

(a) Represents one month of revenues from The Warranty Group's November 2006 acquisition date.

(b) 2007 and 2006 other include Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company.

	(\$ millions)	Canadian Dollars			Functional Currency		
		Year ended December 31	2006	2005	Change (%)	2006	2005
Electronics Manufacturing Services	\$ 9,982	\$ 10,257	(3)%	US\$ 8,812	US\$ 8,471	4%	
Aerostructures	3,631	1,436 <sup>(a)</sup>	153 %	US\$ 3,208	US\$ 1,208 <sup>(a)</sup>	166%	
Healthcare	2,920	2,126	37 %	US\$ 2,575	US\$ 1,758	46%	
Financial Services	118 <sup>(b)</sup>	-	-	US\$ 103 <sup>(b)</sup>	-	-	
Customer Support Services	749	686	9 %	US\$ 660	US\$ 584	13%	
Other <sup>(c)</sup>	1,220	946	29 %	C\$ 1,220	C\$ 946	29%	
<b>Total</b>	<b>\$ 18,620</b>	<b>\$ 15,451</b>	<b>21 %</b>				

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

(a) Represents six-and-a-half months of revenues from Spirit AeroSystems' mid-June 2005 acquisition date.

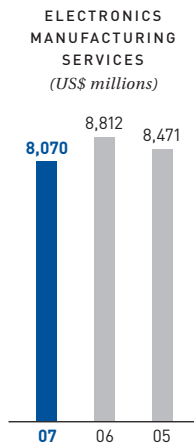
(b) Represents one month of revenues from The Warranty Group's November 2006 acquisition date.

(c) 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2005 other includes Cineplex Entertainment, CEI, Radian and the parent company.

### Electronics Manufacturing Services

Celestica Inc. ("Celestica") reported revenues of \$8.6 billion in 2007 (37 percent of Onex' total consolidated revenues in 2007), down 14 percent from \$10.0 billion in 2006 (54 percent of Onex' total consolidated revenues in 2006). In the company's functional currency, Celestica reported US\$8.1 billion in 2007, an 8 percent decline from US\$8.8 billion in 2006. Approximately 75 percent of Celestica's revenue decrease resulted from program losses and customer disengagements primarily in the industrial and communications markets. Lower volumes primarily from customers in the communications market also contributed to the year-over-year decline in revenues. Partially offsetting these revenue declines was a 3 percent increase in revenues over 2006 from new customers, new program wins and stronger end market demand in the consumer and server markets.

Celestica reported revenues of \$10.0 billion 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 revenues of US\$8.8 billion in 2006, up 4 percent from US\$8.5 billion in 2005. Celestica's revenue growth in its functional currency was primarily from new customers in the consumer electronics sector that more than offset the decline in its telecommunications and computing sectors resulting from demand weakness and program disengagements.

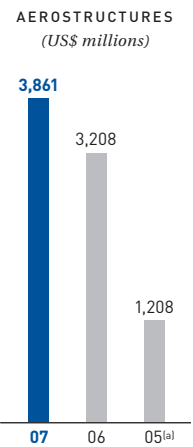


### Aerostructures

Spirit AeroSystems' revenues were \$4.1 billion (18 percent of Onex' total consolidated revenues in 2007), up 14 percent from \$3.6 billion (19 percent of Onex' total consolidated revenues in 2006). In the company's functional currency, Spirit AeroSystems reported revenues of US\$3.9 billion in 2007, up \$653 million, or 20 percent, from US\$3.2 billion for 2006.

Revenues grew at Spirit AeroSystems in 2007 due primarily to a 14 percent increase in shipments to Boeing on its B737, B747, B767 and B777 programs over 2006 and delivery of the first B787 production forward fuselage. In total, Spirit AeroSystems' shipments to Boeing and Airbus increased 27 percent year-over-year. In addition, Spirit AeroSystems' acquisition of Spirit AeroSystems (Europe) Ltd. ("Spirit Europe") in April 2006 contributed \$149 million of Spirit AeroSystems' total revenue growth in 2007.

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.



(a) Represents six-and-a-half months of revenues following its acquisition date.

### Healthcare

The healthcare segment revenues include the operations of Emergency Medical Services, Center for Diagnostic Imaging, Skilled Healthcare and Carestream Health. The healthcare segment reported consolidated revenues of \$4.8 billion in 2007 (20 percent of Onex' total consolidated revenues in 2007), up 65 percent from \$2.9 billion in 2006 (16 percent of Onex' total consolidated revenues in 2006). The revenue increase in the healthcare segment was primarily due to the April 2007 acquisition of Carestream Health.

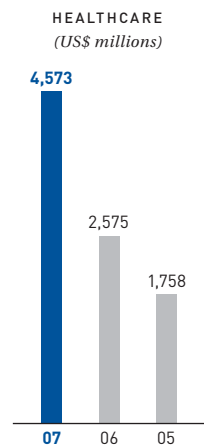


Table 2 provides revenues by operating company in the healthcare segment for 2007, 2006 and 2005 in both Canadian dollars and the companies' functional currencies. Res-Care, Inc. ("ResCare") is accounted for by the equity method and thus the company's revenues are not consolidated.

## Healthcare Revenues

Year ended December 31	Canadian Dollars			Functional Currency		
	2007	2006	Change (%)	2007	2006	Change (%)
Emergency Medical Services	\$ 2,262	\$ 2,194	3 %	US\$ 2,107	US\$ 1,934	9%
Center for Diagnostic Imaging	123	123	-	US\$ 115	US\$ 109	6%
Skilled Healthcare	678	603	12 %	US\$ 635	US\$ 532	19%
Carestream Health	1,763 <sup>(a)</sup>	-	-	US\$ 1,716 <sup>(a)</sup>	-	-
<b>Total</b>	<b>\$ 4,826</b>	<b>\$ 2,920</b>	<b>65 %</b>	<b>US\$ 4,573</b>	<b>US\$ 2,575</b>	<b>78%</b>

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

(a) Carestream Health's financial results are from the date of acquisition on April 30, 2007 to December 31, 2007.

Year ended December 31	Canadian Dollars			Functional Currency		
	2006	2005	Change (%)	2006	2005	Change (%)
Emergency Medical Services	\$ 2,194	\$ 2,002	10 %	US\$ 1,934	US\$ 1,656	17%
Center for Diagnostic Imaging	123	124	(1)%	US\$ 109	US\$ 102	7%
Skilled Healthcare	603	- <sup>(a)</sup>	-	US\$ 532	- <sup>(a)</sup>	-
<b>Total</b>	<b>\$ 2,920</b>	<b>\$ 2,126</b>	<b>37%</b>	<b>US\$ 2,575</b>	<b>US\$ 1,758</b>	<b>46%</b>

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

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

### Emergency Medical Services

During 2007, Emergency Medical Services Corporation ("EMSC") reported revenues of \$2.3 billion, up 3 percent, or \$68 million, from \$2.2 billion in 2006. In the company's functional currency, EMSC's revenues grew 9 percent to US\$2.1 billion in 2007 from US\$1.9 billion in 2006. 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 2007, an increase of US\$30 million, or 3 percent

from 2006. The growth in AMR's revenues was due primarily to higher transport revenues from AMR's acquisitions of Abbott Ambulance, based in St. Louis, Missouri and Medic-West Ambulance, based in Las Vegas, Nevada. 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\$888 million of EMSC's total revenues in 2007, up 19 percent from US\$745 million in 2006. Several factors contributed to EmCare's revenue growth: approximately US\$72 million was from net new hospital contracts in 2007 and the inclusion of a full year of revenues from net new hospital contracts in 2006; and approximately US\$71 million was from existing contracts due primarily to an 8 percent increase in revenue per patient visit from third-party payors.

During 2006, EMSC's revenues were \$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. AMR generated approximately US\$1.2 billion of EMSC's total revenues in 2006 compared 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 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 ("CDI") operates 41 diagnostic imaging centres in 10 markets in the United States, providing imaging services such as magnetic resonance imaging (MRI), computed tomography (CT), diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound. CDI reported revenues of \$123 million in both 2007 and 2006. Excluding the impact of foreign currency translation, CDI reported revenues of US\$115 million in 2007, up 6 percent from US\$109 million in 2006. The growth in revenues in 2007 was due primarily to new centres (US\$2 million) and a 6 percent increase in MRI volumes at existing centres. For the year ended December 31, 2007, approximately 65 percent of CDI's revenues were derived from MRI services, 12 percent from CT services, 10 percent from diagnostic and therapeutic injections and the balance from other services.

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 has two revenue segments: 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 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. Skilled Healthcare reported revenues of \$678 million, an increase of \$75 million, or 12 percent, from \$603 million in 2006. In the company's functional currency, Skilled Healthcare reported revenues of US\$635 million, up US\$103 million, or 19 percent, from US\$532 million last year.

Long-term care services revenues increased US\$87 million, or 19 percent, to US\$557 million in 2007 due primarily to a 19 percent increase in skilled nursing facilities revenues (US\$85 million) and to a 12 percent increase in assisted living facilities revenues (US\$2 million); these increases in long-term care services resulted primarily from higher reimbursement rates from Medicare, Medicaid, managed care and private pay sources, as well as higher patient acuity mix and US\$57 million from higher occupancy as a result of add-on acquisitions completed in 2006 and 2007 in Missouri and New Mexico. Ancillary services increased US\$16 million, or 24 percent, in 2007 compared to 2006.

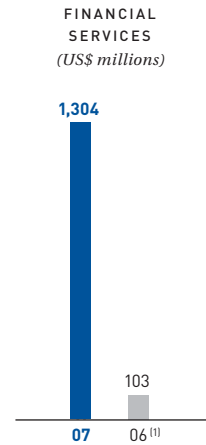
For the year ended December 31, 2006, Skilled Healthcare reported revenues of \$603 million, or US\$532 million in the company's functional currency. Long-term care service revenue accounted for US\$470 million of total 2006 revenues while US\$62 million of revenues were from ancillary services. Included in Skilled Healthcare's revenues for 2006 is acquisition revenue growth of US\$9 million from the three acquisitions that the company completed in the year. 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.

### Carestream Health

Carestream Health, acquired in late April 2007, reported 2007 revenues from the time of its acquisition totalling \$1.8 billion, or US\$1.7 billion in the company's functional currency. The company provides products and services for the capture, processing, viewing, sharing, printing and storing of images and information for medical and dental applications. The company also has a non-destructive testing business, which sells x-ray film and digital radiology products to the non-destructive testing market. Carestream Health's revenues are in five reportable segments: Medical Film and Printing Solutions, Dental, Digital Capture Solutions, Healthcare Information Solutions and Other. During 2007, the Medical Film and Printing Solutions segment, which provides digital and film products to the medical industry, accounted for US\$866 million of total 2007 revenues; US\$348 million of revenues were reported in the Dental segment, which provides film products, digital products and dental practice management software products to the dental industry; the Digital Capture Solutions segment, which provides computed radiology and digital radiology systems and service to the medical and non-destructive testing industry, accounted for US\$326 million of revenues in 2007; US\$134 million of revenues were reported in the Healthcare Information Solutions segment, which provides solutions that address radiology and cross-enterprise information technology needs of hospitals; and the balance was in the other segment.

### Financial Services

During 2007, The Warranty Group reported revenues of \$1.4 billion (6 percent of Onex' total consolidated revenues in 2007) compared to \$118 million (less than 1 percent of Onex' total consolidated revenues in 2006) of revenues reported in 2006. Excluding the impact of foreign currency translation, The Warranty Group reported revenues of US\$1.3 billion in 2007 compared to US\$103 million for the year ended December 31, 2006. The Warranty Group's revenues consist of warranty revenues, insurance premiums and administrative and marketing fees earned on warranties and service contracts for manufacturers, retailers and distributors of consumer electronics, appliances, homes and autos as well as credit card enhancements and travel and leisure programs through a global organization. Of The Warranty Group's total revenues in 2007, approximately US\$1.0 billion was from premiums earned on warranty contracts and US\$0.3 billion from contract fees and other income.



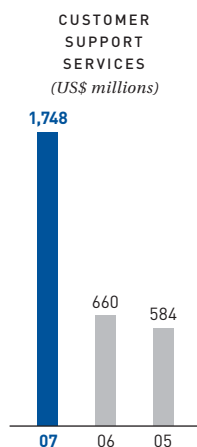
(1) Represents one month of revenues following its November 2006 acquisition.

The financial services segment was a new reportable segment in 2006 following Onex' acquisition of The Warranty Group in late November 2006. The 2007 results represent a full year of operations compared to one month of revenues reported in 2006. This is the major reason for the significant increase in revenues from 2006.

### Customer Support Services

Sitel Worldwide (formerly ClientLogic Corporation) reported revenues of \$1.9 billion (8 percent of Onex' total consolidated revenues in 2007), up \$1.1 billion from \$749 million in 2006 (4 percent of Onex' total consolidated revenues in 2006). In the company's functional currency, Sitel Worldwide's revenues grew 165 percent to US\$1.7 billion in 2007 from US\$660 million in 2006. The acquisition of SITES Corporation in January 2007 accounted for the majority of the increase in revenues (US\$1.0 billion) in 2007. In addition, higher volumes from new and existing customers, as well as favourable foreign currency translation from the weakening of the U.S. dollar, boosted Sitel Worldwide's revenues in the year.

For the year ended December 31, 2006, Sitel Worldwide reported revenues of \$749 million, 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, Sitel Worldwide'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 US\$10 million from existing customers who did not continue or renew their contracts.



### Metal Services

The metal services segment is a new reportable segment in 2007 following Onex' acquisition of Tube City IMS in January 2007. Reported 2007 revenues for Tube City IMS represent 11 months of revenues from the time of its acquisition, which totalled \$1.7 billion (7 percent of Onex' total consolidated revenues in 2007), or US\$1.6 billion in the company's functional currency. Tube City IMS has two revenue categories: service revenue and revenue from the sale of materials. Service revenue is generated from scrap management, scrap preparation, raw materials optimization, metal recovery and sales, material handling or product handling, slag or co-product processing and metal recovery services and surface conditioning. Revenue from the sale of materials is mainly generated by the company's raw materials procurement business, but also includes revenue from two locations in Tube City IMS' pre-production materials handling business that purchase, process and sell scrap inventory for its operations in addition to receiving service revenue through scrap handling services to steel mill customers. During 2007, service revenues totalled US\$0.4 billion and revenues from raw materials procurement were US\$1.2 billion.

### Injection Molding

Husky is one of the world's largest suppliers of injection molding equipment and services to the plastics industry. The company's operating financial results for the few days from its mid-December 2007 acquisition date to December 31, 2007 were not significant to Onex' consolidated results. Accordingly, Husky's revenues were not included in Onex' consolidated revenues for the year ended December 31, 2007.

### Other Businesses

The other businesses segment primarily includes the revenues of Cosmetic Essence, Inc. ("CEI"), the ONCAP companies – CSI Global Education Inc. ("CSI"), EnGlobe Corp. ("EnGlobe"), Mister Car Wash and CiCi's Pizza – Radian Communication Services Corporation ("Radian") and Cineplex Entertainment.

Table 3 provides revenues by operating company in the other businesses segment for 2007, 2006 and 2005 in both Canadian dollars and the companies' functional currencies.

### Other Businesses Revenues

Year ended December 31	Canadian Dollars			Functional Currency		
	2007	2006	Change (%)	2007	2006	Change (%)
CEI	\$ 266	\$ 292	(9)%	US\$ 249	US\$ 257	(3)%
ONCAP companies <sup>(a)</sup>	396	27	1,367 %	C\$ 396	C\$ 27	1,367 %
Radian	90	132	(32)%	C\$ 90	C\$ 132	(32)%
Cineplex Entertainment <sup>(b)</sup>	179	741	(76)%	C\$ 179	C\$ 741	(76)%
Other	(31)	28	(211)%	C\$ (31)	C\$ 28	(211)%
<b>Total</b>	<b>\$ 900</b>	<b>\$ 1,220</b>	<b>(26)%</b>			

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

(a) 2007 ONCAP companies include CSI, EnGlobe, Mister Car Wash and CiCi's Pizza. 2006 ONCAP companies include CSI. There were no comparative 2005 revenues for ONCAP companies since revenues of WIS and CMC Electronics were reclassified to discontinued operations in 2006 and 2005 following ONCAP's sale of those businesses in 2007.

(b) 2007 revenues represents three months of operations consolidated by Onex due to the change in accounting from consolidation to equity basis of accounting beginning in April 2007. This compares to a full 12 months of revenues in 2006.

Year ended December 31	Canadian Dollars			Functional Currency		
	2006	2005	Change (%)	2006	2005	Change (%)
CEI	\$ 292	\$ 304	(4)%	US\$ 257	US\$ 253	2 %
ONCAP companies <sup>(a)</sup>	27	-	-	C\$ 27	-	-
Radian	132	134	(2)%	C\$ 132	C\$ 134	(2)%
Cineplex Entertainment	741	491	51 %	C\$ 741	C\$ 491	51 %
Other	28	17	65 %	C\$ 28	C\$ 17	65 %
<b>Total</b>	<b>\$ 1,220</b>	<b>\$ 946</b>	<b>29 %</b>			

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

(a) 2006 ONCAP companies include CSI. There were no comparative 2005 revenues for ONCAP companies since revenues of WIS and CMC Electronics were reclassified to discontinued operations in 2006 and 2005 following ONCAP's sale of those businesses in 2007.

CEI's reported revenues were \$266 million in 2007 (1 percent of Onex' total consolidated revenues in 2007), down 9 percent from \$292 million (2 percent of Onex' total consolidated revenues in 2006) last year. Excluding the impact of foreign currency translation, CEI's revenues were down 3 percent to US\$249 million in 2007 from US\$257 million in 2006 due primarily to the company's decision to exit its license product business, slightly offset by net higher revenues from new and existing customers. For the year ended December 31, 2006, CEI generated revenues of \$292 million, 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., acquired in April 2005.

ONCAP's companies – CSI, EnGlobe, Mister Car Wash and CiCi's Pizza – reported combined revenues of \$396 million in 2007 (2 percent of Onex' total consolidated revenues in 2007), up \$369 million from \$27 million reported in 2006 (less than 1 percent of Onex' total consolidated revenues in 2006). Approximately \$197 million of the revenue growth for 2007 was due to ONCAP's acquisitions of Mister Car Wash, now the second-largest conveyor car wash business in the

United States, in April 2007 and CiCi's Pizza, a leading franchisor of family-oriented "all you want" buffet-style restaurants, in June 2007. The balance of the 2007 revenue growth was from the inclusion of a full year of revenues of EnGlobe, acquired in November 2006, as well as higher revenues at CSI due to that company's purchase of the assets of the Institute of Canadian Bankers in early 2007. There are no comparative revenues for 2005 since ONCAP completed its investments in CSI and EnGlobe in 2006. ONCAP's businesses – WIS and CMC Electronics – previously reported revenues in 2006 and 2005 were reclassified in 2006 and reported as discontinued.

Radian reported revenues of \$90 million (less than 1 percent of Onex' total consolidated revenues in 2007) compared to \$132 million in 2006 (less than 1 percent of Onex' total consolidated revenues in 2006) and \$134 million in 2005 (1 percent of Onex' total consolidated revenues in 2005). The 32 percent decline in revenues in 2007 was due primarily to the sale of a business division. Revenues for 2006 were down 2 percent from 2005 due largely to a delay in the start of some large customer contracts in the United States and a weak broadcast tower manufacturing market in 2006.

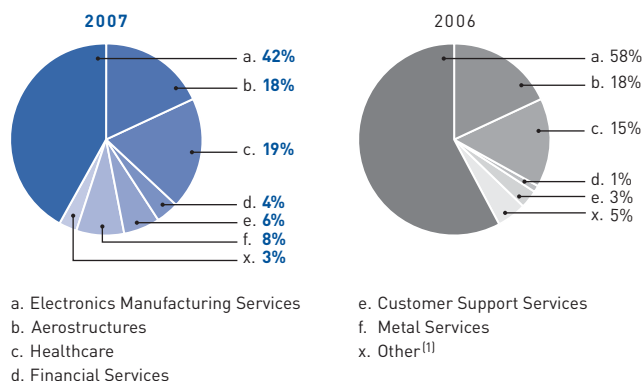
During 2007, Onex consolidated \$179 million of revenues of Cineplex Entertainment, which represented three months of operations. In early April 2007, Onex ceased to have voting rights on certain units of Cineplex Entertainment held by other Cineplex Entertainment unitholders. As a result, Onex no longer has sufficient voting rights over the units to continue to elect a majority of the board of the General Partner of Cineplex Entertainment. Therefore, beginning in the second quarter of 2007, Onex changed the accounting for Cineplex Entertainment to be on an equity basis, and no longer consolidated Cineplex Entertainment's revenues. This compares to fully consolidating Cineplex Entertainment's revenues in 2006 of \$741 million and of \$491 million in 2005. The growth in revenues in 2006 over 2005 was due primarily to the acquisition of Famous Players in July 2005.

In addition, the negative reported revenues in the other segment for 2007 was due primarily to a lower valuation of Onex Capital Management's ("OCM") U.S. securities.

### Consolidated cost of sales

Consolidated cost of sales was \$19.2 billion in 2007 compared to \$16.2 billion in 2006. 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, 2007 and 2006.

### Segmented Total Consolidated Cost of Sales Breakdown



(1) 2007 and 2006 other include Cineplex Entertainment, CEI, Radian, ONCAP and the parent company.



Table 4 provides a detailed breakdown of reported cost of sales by industry segment for 2007 and 2006 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 currency translations on cost of sales.

### Changes in Cost of Sales by Industry Segment

Year ended December 31	Canadian Dollars			Functional Currency		
	2007	2006	Change (%)	2007	2006	Change (%)
Electronics Manufacturing Services	\$ 8,079	\$ 9,378	(14)%	US\$ 7,563	US\$ 8,277	(9)%
Aerostructures	3,344	2,919	15 %	US\$ 3,112	US\$ 2,579	21 %
Healthcare	3,659	2,423	51 %	US\$ 3,455	US\$ 2,135	62 %
Financial Services	727	60 <sup>(a)</sup>	1,112 %	US\$ 677	US\$ 52 <sup>(a)</sup>	1,202 %
Customer Support Services	1,205	453	166 %	US\$ 1,128	US\$ 399	183 %
Metal Services	1,529	-	-	US\$ 1,437	-	-
Other <sup>(b)</sup>	643	928	(31)%	C\$ 643	C\$ 928	(31)%
<b>Total</b>	<b>\$ 19,186</b>	<b>\$ 16,161</b>	<b>19 %</b>			

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

(a) Represents one month of cost of sales from The Warranty Group's November 2006 acquisition date.

(b) 2007 and 2006 other include Cineplex Entertainment, CEI, Radian, ONCAP and the parent company.

Table 5 provides additional details on cost of sales as a percentage of revenues by industry segment for 2007 and 2006.

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

	2007	2006
Electronics Manufacturing Services	94%	94%
Aerostructures	81%	80%
Healthcare	76%	83%
Financial Services	52%	51%
Customer Support Services	65%	60%
Metal Services	91%	-
Other <sup>(a)</sup>	71%	76%
<b>Total</b>	<b>82%</b>	<b>87%</b>

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

(a) 2007 and 2006 other include Cineplex Entertainment, CEI, Radian, ONCAP and the parent company.

### Electronics Manufacturing Services

Celestica's cost of sales was \$8.1 billion in 2007 compared to \$9.4 billion in 2006. In the company's functional currency, cost of sales decreased 9 percent to US\$7.6 billion in 2007 from US\$8.3 billion in 2006. This decline was in line with the 8 percent decline in Celestica's revenues in the company's functional currency. Cost of sales as a percentage of revenues was 94 percent in 2007, unchanged from 2006. Celestica reported gross profit of US\$507 million in 2007, down 5 percent from US\$535 million in 2006. The decline in gross profit was due primarily to lower volumes, underutilization of facilities in Europe and higher costs associated with customer disengagements at its Mexican facility, which more than offset the benefits from the company's restructuring plans and operational efficiencies.

Included in the gross profit of 2006 was a net charge of US\$36 million taken at two of its facilities in the Americas. The majority of the charge consisted of additional inventory provisions recorded in Mexico to cover excess inventory created by demand reductions.

## Aerostructures

Cost of sales at Spirit AeroSystems was \$3.3 billion in 2007 compared to \$2.9 billion in 2006. Excluding the impact of foreign currency translation, Spirit AeroSystems booked cost of sales of US\$3.1 billion in 2007 compared to US\$2.6 billion in 2006. Cost of sales in the company's functional currency was up 21 percent compared to a 20 percent increase in revenues. Cost of sales as a percentage of revenues was 81 percent in 2007 compared to 80 percent in 2006.

## Healthcare Cost of Sales

TABLE 6   (\$ millions)	Canadian Dollars			Functional Currency		
	2007	2006	Change (%)	2007	2006	Change (%)
Year ended December 31						
Emergency Medical Services	\$ 1,972	\$ 1,923	3 %	US\$ 1,838	US\$ 1,695	8%
Center for Diagnostic Imaging	39	40	(3)%	US\$ 36	US\$ 36	-
Skilled Healthcare	520	460	13 %	US\$ 486	US\$ 404	20%
Carestream Health	1,128 <sup>(a)</sup>	-	-	US\$ 1,095 <sup>(a)</sup>	-	-
Total	\$ 3,659	\$ 2,423	51 %	US\$ 3,455	US\$ 2,135	62%

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

(a) Carestream Health's financial results are from the date of acquisition on April 30, 2007 to December 31, 2007.

## Emergency Medical Services

EMSC reported cost of sales of \$2.0 billion in 2007 compared to \$1.9 billion in 2006. In the company's functional currency, cost of sales for EMSC was US\$1.8 billion in 2007 compared to US\$1.7 billion in 2006. Cost of sales recorded by the AMR subsidiary was US\$1.1 billion in 2007, essentially unchanged from 2006. The EmCare subsidiary reported cost of sales of US\$754 million in 2007 compared to US\$644 million in 2006. The overall increase in EMSC's cost of sales in 2007 was due primarily to higher revenues as discussed previously in this report. Cost of sales as a percentage of revenues was 87 percent in 2007, essentially unchanged from 2006.

## Healthcare

The healthcare segment reported cost of sales of \$3.7 billion in 2007 compared to \$2.4 billion in 2006. Table 6 provides cost of sales by operating company in the healthcare segment for 2007 and 2006 in both Canadian dollars and the companies' functional currencies.

## Center for Diagnostic Imaging

Cost of sales for CDI was \$39 million in 2007 and \$40 million in 2006. Excluding the impact of foreign currency translation, reported cost of sales for CDI was US\$36 million for both 2007 and 2006. Cost of sales was 32 percent of revenues in 2007 compared to 33 percent in 2006. The decline in cost of sales as a percentage of revenues in 2007 was due primarily to a 6 percent increase in revenues in the company's functional currency while cost of sales remained essentially unchanged.

### Skilled Healthcare

Skilled Healthcare's cost of sales totalled \$520 million in 2007, up 13 percent, or \$60 million, from \$460 million in 2006. In the company's functional currency, cost of sales for Skilled Healthcare was US\$486 million in 2007, up US\$82 million from US\$404 million in 2006. Long-term services cost of sales increased 18 percent, or US\$66 million, in 2007 over 2006 due primarily to higher operating costs per patient day and to higher occupancy. Much of the increase in operating costs per patient day at skilled nursing facilities was due to higher labour costs (US\$13 million) resulting from a 6 percent increase in hourly rate, and additional staffing, particularly in the nursing area, for higher acuity patient mix. Cost of sales from ancillary services increased US\$24 million, or 28 percent, in 2007 compared to 2006 due primarily to higher ancillary revenues from new and existing rehabilitation therapy contracts. Cost of sales as a percentage of revenue at Skilled Healthcare was 77 percent in 2007, up slightly from 76 percent in 2006.

### Carestream Health

Cost of sales of Carestream Health from the time of its acquisition in April 2007 was \$1.1 billion, or US\$1.1 billion in the company's functional currency. Cost of sales by the company's reportable segments was US\$570 million for the Medical Film and Printing Solutions segment, US\$170 million for the Dental segment, US\$228 million for the Digital Capture Solutions segment, US\$99 million for the Healthcare Information Solutions segment and the balance in the other segment. Cost of sales as a percentage of revenues was 64 percent in 2007. Cost of sales was higher than what would normally be the case due primarily to a \$102 million one-time charge included in cost of sales in 2007 originating from the step up in value of inventory on the company's balance sheet at the date of acquisition. Accounting principles for acquisitions require that inventory be stepped up in value to the selling price of the inventory less the direct cost to complete and sell the product. Therefore, when the stepped up inventory is subsequently sold in the normal course of business, cost of sales is increased for the effect of the inventory step-up with the result that the accounting for these sales will not report the typical profit margins for the company.

### Financial Services

The Warranty Group reported cost of sales of \$727 million in 2007 compared to \$60 million in 2006. Excluding the impact of foreign currency translation, cost of sales of The Warranty Group was US\$677 million in 2007 compared to US\$52 million in 2006. It is important to note that 2006 cost of sales represents one month of operations following Onex' acquisition of The Warranty Group in late November 2006. The Warranty Group's cost of sales consists primarily of the change in reserves for future warranty and insurance claims, current claims payments, administrative and marketing expenses, deferred acquisition costs and related amortization for warranties and service contracts for manufacturers, retailers and distributors of consumer electronics, appliances, homes and autos as well as credit card enhancements and travel and leisure programs.

### Customer Support Services

For the year ended December 31, 2007, Sitel Worldwide reported cost of sales of \$1.2 billion, up \$752 million from \$453 million of cost of sales in 2006. In Sitel Worldwide's functional currency, the company reported cost of sales of US\$1.1 billion in 2007 compared to US\$399 million in 2006. The significant increase in cost of sales was due to the acquisition of and merger with SITEL Corporation in January 2007. Sitel Worldwide's cost of sales as a percentage of revenues was 65 percent in 2007 compared to 60 percent in 2006. The increase in cost of sales as a percentage of revenues was driven primarily by the acquired SITEL Corporation customer contracts carrying a lower margin contribution percentage than legacy ClientLogic customers, as well as the adverse impact of a weakened U.S. dollar on customer contracts billed in U.S. dollars but serviced from off-shore operations.

### Metal Services

The cost of sales for Tube City IMS totalled \$1.5 billion, or US\$1.4 billion in the company's functional currency, for the 11-month period following Onex' acquisition of the company. Cost of sales as a percentage of revenues was 91 percent in 2007. Much of the cost of sales of Tube City IMS is associated with the procurement cost of scrap materials for its customers.

## Other Businesses

The other businesses segment reported cost of sales of \$643 million in 2007 compared to \$928 million in 2006. Table 7 provides cost of sales by operating company in the other businesses segment for 2007 and 2006 in both Canadian dollars and the companies' functional currencies.

### Other Businesses Cost of Sales

TABLE 7	(\$ millions)	Canadian Dollars			Functional Currency		
		Year ended December 31	2007	2006	Change (%)	2007	2006
		<b>\$ 200</b>	\$ 214	(7)%	<b>US\$ 187</b>	US\$ 189	(1)%
CEI		<b>222</b>	2	<b>11,000 %</b>	<b>C\$ 222</b>	C\$ 2	<b>11,000 %</b>
ONCAP companies <sup>(a)</sup>		<b>73</b>	114	<b>(36)%</b>	<b>C\$ 73</b>	C\$ 114	<b>(36)%</b>
Radian		<b>148</b>	594	<b>(75)%</b>	<b>C\$ 148</b>	C\$ 594	<b>(75)%</b>
Cineplex Entertainment <sup>(b)</sup>		-	4	-	-	C\$ 4	-
Other		<b>\$ 643</b>	\$ 928	<b>(31)%</b>			
Total							

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

(a) 2007 ONCAP companies include CSI, EnGlobe, Mister Car Wash and CiCi's Pizza. 2006 ONCAP companies include CSI.

(b) 2007 cost of sales represents three months of operations consolidated by Onex due to the change in accounting from consolidation to equity basis of accounting beginning in April 2007. This compares to a full 12 months of cost of sales in 2006.

CEI reported cost of sales of \$200 million, or US\$187 million in the company's functional currency, in 2007. This compares to cost of sales of \$214 million, or US\$189 million in the company's functional currency, in 2006. Cost of sales was 75 percent of revenues in 2007, up 2 percent from 73 percent in 2006. The increase in CEI's cost of sales in its functional currency was due primarily to a shift in product mix.

The ONCAP companies reported cost of sales of \$222 million in 2007 compared to \$2 million in 2006. As was the case with revenues, substantially all of the cost of sales increase was associated with the acquisitions of Mister Car Wash and CiCi's Pizza completed in 2007, as well as the inclusion of a full year of cost of sales of EnGlobe.

Radian's cost of sales was \$73 million in 2007 compared to \$114 million in 2006. As a percentage of revenues, the company's cost of sales was 81 percent in 2007 compared to 86 percent in 2006.

## Operating earnings

Operating earnings is defined as 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 earnings (loss) from equity-accounted investments, foreign exchange gains (loss), stock-based compensation charges, non-recurring items such as acquisition and restructuring charges, other income, gains on sales of operating investments, as well as non-controlling interests and discontinued operations. Table 8 provides a reconciliation of the audited annual consolidated statements of earnings to operating earnings for the years ended December 31, 2007 and 2006.

### Operating Earnings Reconciliation

TABLE 8	(\$ millions)	2007	2006
Earnings before the undernoted items		<b>\$ 2,084</b>	\$ 1,372
Amortization of property, plant and equipment		<b>(535)</b>	(370)
Interest income		<b>125</b>	122
<b>Operating earnings</b>		<b>\$ 1,674</b>	\$ 1,124
Amortization of intangible assets and deferred charges		<b>(409)</b>	(91)
Interest expense of operating companies		<b>(537)</b>	(339)
Earnings (loss) from equity-accounted investments		<b>(44)</b>	25
Foreign exchange gains (loss)		<b>(118)</b>	22
Stock-based compensation		<b>(150)</b>	(634)
Other income		<b>6</b>	9
Gains on sales of operating investments, net		<b>1,144</b>	1,307
Acquisition, restructuring and other expenses		<b>(123)</b>	(292)
Writedown of goodwill and intangible assets		<b>(7)</b>	(10)
Writedown of long-lived assets		<b>(15)</b>	(3)
Earnings before income taxes, non-controlling interests and discontinued operations		<b>\$ 1,421</b>	\$ 1,118

Onex uses operating earnings 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, operating earnings may not be comparable to measures used by other companies. Operating earnings are 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 \$1.7 billion in 2007 were up 49 percent, or \$550 million, from \$1.1 billion in 2006. Table 9 provides a breakdown of and the change in operating earnings (loss) by industry segment for the years ended December 31, 2007 and 2006.

### Operating Earnings (Loss) by Industry Segment

TABLE 9	(\$ millions)	2007	2006	Change (\$)
Electronics Manufacturing				
Services		<b>\$ 162</b>	\$ 201	<b>\$ (39)</b>
Aerostructures		<b>552</b>	501	<b>51</b>
Healthcare		<b>453</b>	250	<b>203</b>
Financial Services		<b>402</b>	43	<b>359</b>
Customer Support Services		<b>97</b>	54	<b>43</b>
Metal Services		<b>35</b>	-	<b>35</b>
Other <sup>(a)</sup>		<b>(27)</b>	75	<b>(102)</b>
<b>Total</b>		<b>\$ 1,674</b>	\$ 1,124	<b>\$ 550</b>

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

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

During 2007, Onex' overall operating earnings growth was driven by several factors:

- a \$51 million increase in Spirit AeroSystems' operating earnings resulting primarily from the inclusion of a full year of operating earnings for Spirit Europe following its acquisition in April 2006 and increased product deliveries at Spirit AeroSystems' existing North American operations;
- the inclusion of a full 12 months of operating earnings of The Warranty Group, acquired in November 2006 (\$359 million) reported in the financial services segment;
- Onex' acquisitions of Tube City IMS in January 2007 (\$35 million), reported in the metal services segment; and of Carestream Health in April 2007 (\$177 million) in the healthcare segment representing the initial period of Onex' ownership from April 2007 to December 31, 2007. Included in Carestream Health's operating earnings was a \$102 million charge originating from the opening valuation of inventory on the company's balance sheet at the date of acquisition. Accounting principles for acquisitions require that inventory be stepped up in value to its selling price less the direct cost to complete and sell the product. Accordingly, when that inventory is subsequently sold in the normal course of business, cost of sales is increased for the effect of the inventory step-up with the result that the accounting for these sales will not report the typical profit margins for the company;
- the SITEL Corporation acquisition in January 2007 by ClientLogic primarily boosted operating earnings in the customer support services segment by \$43 million;
- higher revenues and improved operating costs increased operating earnings at EMSC by \$18 million; and
- \$24 million of operating earnings from ONCAP's acquisitions of Mister Car Wash and CiCi's Pizza.

Partially offsetting the growth in operating earnings was a \$39 million reduction in operating earnings at Celestica in 2007 stemming primarily from lower revenues and a \$52 million operating loss in the other segment recorded by OCM, which resulted primarily from a lower valuation of OCM's U.S. securities. In addition, the change in accounting of Cineplex Entertainment from consolidation to equity accounting as previously discussed resulted in a \$47 million reduction in operating earnings in 2007, which was also reported in the other segment.

Husky's operating earnings for the few days from its mid-December 2007 acquisition date to December 31, 2007 were not significant and therefore not included in Onex' consolidated operating earnings in 2007. Looking forward to 2008, we expect that Husky will report an operating loss in the first and second quarters of 2008 due to the effect of purchase price accounting on the company's opening balance sheet, in particular regarding inventory. Accordingly, when that inventory is subsequently sold in the normal course of business, for accounting purposes these sales will not report the typical profit margins and so will not cover the operating costs of the business in that period.

### **Amortization of intangible assets and deferred charges**

Amortization of intangible assets and deferred charges totalled \$409 million in 2007, up \$318 million from \$91 million in 2006. The increase in amortization of intangible assets and deferred charges resulted primarily from the inclusion of a full year of amortization of intangible assets of The Warranty Group (\$175 million) and from the inclusion of eight months of amortization of Carestream Health (\$116 million), acquired in April 2007.

### **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 \$198 million to \$537 million in 2007 from \$339 million in 2006. Table 10 details the change in consolidated interest expense from 2006 to 2007.

## Change in Interest Expense

TABLE 10 | (\$ millions)

Reported interest expense for 2006	<b>\$ 339</b>
Additional interest expense in 2007 due to:	
A full year of The Warranty Group interest expense	<b>13</b>
Acquisitions:	
Tube City IMS	<b>41</b>
Carestream Health	<b>122</b>
Sitel Worldwide	<b>35</b>
Interest expense reductions due to:	
Skilled Healthcare's repayment of debt using proceeds from its initial public offering	<b>(5)</b>
Other	<b>(8)</b>
Reported interest expense for 2007	<b>\$ 537</b>

The Warranty Group, acquired in November 2006, added \$13 million in interest expense in 2007 as a result of the inclusion of a full 12 months of that company's interest expense compared to approximately one month in 2006. The inclusion of the debt associated with the acquisitions of Tube City IMS in January 2007 and Carestream Health in April 2007 added a further \$41 million and \$122 million, respectively, of interest expense in 2007.

Sitel Worldwide added \$35 million in interest expense in 2007 due to additional interest costs associated with the company's new larger credit facility, consisting of

a US\$675 million term loan and a US\$85 million revolving credit facility. The new facility was used to repay Client-Logic's previous facility and to fund the purchase of SITEL Corporation in January 2007 as well as three additional acquisitions.

Partially offsetting these expenses was lower reported interest expense at Skilled Healthcare of \$5 million in 2007 due primarily to the company using proceeds received on the sale of new common shares in its initial public offering in May 2007 to redeem US\$70 million of its 11 percent senior subordinated notes, partially offset by borrowings to fund its 2007 acquisitions.

## Earnings (loss) from equity-accounted investments

Earnings from equity-accounted investments in 2007 represent Onex' and/or Onex Partners' portion of the earnings (loss) of Allison Transmission; Cineplex Entertainment; Hawker Beechcraft; ResCare; Cypress Insurance Group (Florida & Texas) ("Cypress"), a homeowners' insurance company; and Onex Real Estate's investments in the Camden partnerships, Flushing Town Center and NY Credit. Onex reported a loss on equity-accounted investments of \$44 million in 2007 compared to earnings of \$25 million last year. Table 11 details the earnings (loss) of equity-accounted investments by company, as well as Onex' share of those earnings (loss).

## Earnings (Loss) from Equity-accounted Investments

TABLE 11 | (\$ millions)

	2007		2006	
	Net earnings (loss) <sup>(a)</sup>	Onex' share of net earnings (loss)	Net earnings <sup>(a)</sup>	Onex' share of net earnings
Allison Transmission <sup>(b)</sup>	<b>\$ (75)</b>	<b>\$ (24)</b>	\$ -	\$ -
Cineplex Entertainment <sup>(c)</sup>	<b>7</b>	<b>7</b>	-	-
Hawker Beechcraft <sup>(b)</sup>	<b>(4)</b>	<b>(2)</b>	-	-
ResCare	<b>11</b>	<b>3</b>	10	2
Other <sup>(d)</sup>	<b>17</b>	<b>17</b>	15	15
Total	<b>\$ (44)</b>	<b>\$ 1</b>	\$ 25	\$ 17

(a) The net earnings (loss) represent Onex' and/or Onex Partners' share of the net earnings (loss) in those businesses.

(b) Onex completed its investments in Hawker Beechcraft and Allison Transmission in March and August 2007, respectively.

(c) Beginning in the second quarter of 2007, Onex changed the accounting for Cineplex Entertainment to be on an equity basis.

(d) Other includes Cypress and Onex Real Estate.

Allison Transmission contributed \$75 million of the loss on equity-accounted investments. Approximately \$50 million of the loss was due to the step-up in value of the inventory on the company's balance sheet at the date of acquisition. Accounting principles for acquisitions require that inventory be stepped up in value to the selling price of the inventory less the direct cost to complete and sell the product. Accordingly, when that inventory is subsequently sold in the normal course of business, for accounting purposes these sales will not report the typical profit margins for the company and therefore, will not cover the operating costs of the business in that period leading to the operating loss. In addition, included in Allison Transmission's loss was a deferred tax provision of \$29 million associated with the company's indefinite life assets. Onex' share of Allison Transmission's net loss was \$24 million.

Partially offsetting this loss was \$7 million of Onex' share of the net earnings of Cineplex Entertainment and \$14 million of Onex' share of Cypress' net earnings in 2007. Cypress reported strong profitability in 2007 largely due to lower claims from a mild hurricane season.

### Foreign exchange gains (loss)

Foreign exchange gains (loss) reflect the impact of changes in foreign currency exchange rates, primarily on the U.S.-dollar-denominated cash held at Onex, the parent company.

For the year ended December 31, 2007, a consolidated net foreign exchange loss of \$118 million was recorded due primarily to the decrease in the value of the U.S. dollar relative to the Canadian dollar; the exchange rate was 0.9913 Canadian dollars at December 31, 2007 compared to 1.1654 Canadian dollars at December 31, 2006. Since Onex, the parent company, holds a significant portion of its cash in U.S. dollars, this exchange rate movement decreased the value of the U.S. cash held and Onex recorded a foreign exchange loss of \$132 million in 2007. Partially offsetting the foreign exchange loss was foreign exchange gains recorded at the operating companies.

During 2006, a net consolidated 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 to 1.1654 Canadian dollars at December 31, 2006 compared to 1.1630 Canadian dollars at December 31, 2005. Onex, the parent company, accounted for \$10 million of the total consolidated foreign exchange gains in 2006.

### Stock-based compensation

During 2007, stock-based compensation expense was \$150 million compared \$634 million in 2006. Table 12 provides a breakdown of and the change in stock-based compensation by industry segment for the years ended December 31, 2007 and 2006.

### Stock-based Compensation Expense (Income) by Industry Segment

TABLE 12	(\$ millions)	2007	2006	Change (\$)
Electronics Manufacturing				
Services		\$ 14	\$ 23	\$ (9)
Aerostructures		36	438	(402)
Healthcare		3	3	-
Financial Services		3	-	3
Customer Support Services		2	(1)	3
Other <sup>(a)</sup>		3	2	1
Onex, the parent company		89	169	(80)
<b>Total</b>		<b>\$ 150</b>	<b>\$ 634</b>	<b>\$ (484)</b>

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

(a) Other includes Cineplex Entertainment, CEI and ONCAP.

Stock-based compensation expense declined by \$484 million in 2007 due primarily to:

- a \$402 million decrease in stock-based compensation expense recorded by Spirit AeroSystems. This change was primarily associated with a charge that Spirit AeroSystems recorded in the fourth quarter of 2006 relating to the company's Union Equity Participation plan following Spirit AeroSystems' initial public offering of shares in November 2006; the total value of the Union Equity Participation plan was \$343 million. Additionally, Spirit AeroSystems recorded stock-based compensation charges in 2006 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



- an \$80 million decrease compared to 2006 in stock-based compensation expense recorded by Onex, the parent company. Included in the 2006 stock-based compensation expense was a \$49 million charge associated with the unrealized value of the investment rights under the Management Investment Plan of Spirit AeroSystems following that company's initial public offering. The bal-

ance of the change in the stock-based compensation expense was due primarily to the revaluation of the liability for Onex' stock options. There was a 50 percent increase in the market value of Onex shares in 2006 compared to a 23 percent increase in 2007. While there was an increase in value of the liability in both years, the increase was greater in 2006.

### Gains on sales of operating investments

Consolidated gains on sales of operating investments were \$1.1 billion in 2007 compared to \$1.3 billion in 2006. Table 13 details the nature of the gains recorded in 2007 compared to 2006, as well as Onex' share of those gains.

### Gains on Sales of Operating Investments

	2007		2006	
	Total gains	Onex' share of gains	Total gains	Onex' share of gains
Gains on:				
Issue of shares by Sitel Worldwide	\$ 36	\$ 36	\$ -	\$ -
Sale of shares of Skilled Healthcare	68	13	-	-
Dilution gain on issue of shares by Skilled Healthcare	20	5	-	-
Sale of shares by Spirit AeroSystems	965	258	1,146	314
Dilution gain on issue of shares by Spirit AeroSystems	-	-	100	29
Carried interest	48	48	-	-
Sale of units of Cineplex Entertainment	-	-	25	25
Dilution gain on June 2006 issue of units by Cineplex Entertainment	-	-	12	6
Other, net	7	7	24	24
<b>Total</b>	<b>\$ 1,144</b>	<b>\$ 367</b>	<b>\$ 1,307</b>	<b>\$ 398</b>

#### Sitel Worldwide

During the second quarter of 2007, certain investors, other than Onex, invested \$36 million in the equity of Sitel Worldwide. In prior years, Onex had to record the losses of non-controlling interests of ClientLogic prior to the acquisition of SITEL Corporation as the non-controlling interests amount in the company cannot be recorded as a negative amount. While Onex did not receive the cash proceeds, for consolidation reporting purposes Onex is required to record the amount paid in by the investors in Sitel Worldwide as a gain. Onex will continue to record gains until the losses from non-controlling investors have been recovered.

#### Skilled Healthcare

In mid-May 2007, Skilled Healthcare completed an initial public offering of common stock. As part of that offering, Skilled Healthcare issued 8.3 million new common shares; Onex and Onex Partners I sold 10.6 million shares. Onex' portion of the shares sold was 2.5 million shares for net proceeds of \$43 million, including a carried interest of \$4 million. The gain that was recorded has two components: a gain on the shares sold and an accounting dilution gain resulting from the new common share issuance at a value above the net book value per share. The gain on shares sold by Onex and Onex Partners I was \$68 million, of which Onex' portion was \$13 million. The non-cash accounting dilution gain recorded from the new common share issuance was \$20 million, of which Onex' portion was \$5 million.

### Spirit AeroSystems

In late May 2007, Spirit AeroSystems completed a \$1.2 billion secondary offering of 34.3 million shares of Class A common stock. Onex, Onex Partners I and certain limited partners sold approximately 31.8 million shares in the offering for net proceeds of \$1.1 billion. Onex' portion of the shares sold was 9.2 million shares for net proceeds of \$361 million, including carried interest received of \$42 million. A \$965 million pre-tax gain on the sale of Spirit AeroSystems shares was recorded in the second quarter, of which Onex' portion was \$258 million.

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. Onex' share of the net proceeds was \$439 million, including a carried interest of \$49 million. The non-cash accounting dilution gain recorded from the new share issuance was \$100 million, of which Onex' portion was \$29 million.

### Carried interest

The General Partners of Onex Partners I and II, which are controlled by Onex, are entitled to a carried interest of 20 percent on the realized gains of third-party limited partners in each Fund, subject to an 8 percent compound annual preferred return to those limited partners on all amounts contributed in each particular Fund. Onex, as sponsor of Onex Partners I and II, is entitled to 40 percent of the carried interest and the Onex management team is

entitled to 60 percent. Under the terms of the partnership agreements, Onex may receive carried interest as realizations occur. The ultimate amount of carried interest earned will be based on the overall performance of each of Onex Partners I and II, independently, and includes typical catch-up and clawback provisions. Accordingly, any carried interest amounts received by Onex are deferred from inclusion in income for accounting purposes until such time that the potential for clawback is remote.

Table 14 provides a reconciliation of the deferred carried interest on Onex' balance sheet as at December 31, 2006 to the carried interest deferred as at December 31, 2007.

### Carried Interest Reconciliation

TABLE 14 | (\$ millions)

Carried interest deferred at December 31, 2006	<b>\$ 60</b>
Carried interest received on realizations:	
Spirit AeroSystems' secondary offering	<b>42</b>
Skilled Healthcare's initial public offering	<b>4</b>
Carried interest recorded as gains on sales of operating investments in 2007	<b>(48)</b>
Carried interest deferred at December 31, 2007	<b>\$ 58</b>

During 2007, Onex received carried interest of \$4 million and \$42 million, respectively, on the realized gains of Skilled Healthcare and Spirit AeroSystems, as discussed earlier. Onex determined that, with these realizations, the potential for clawback was remote on a significant portion of the carried interest received. Accordingly, Onex recorded \$48 million of carried interest in gains on sales of operating investments during the second quarter of 2007. Onex continues to defer from inclusion in income a further \$58 million of carried interest that has been received as cash as of December 31, 2007.

### 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. Acquisition, restructuring and other expenses totalled \$123 million in 2007, down from \$292 million reported in 2006. Table 15 details acquisition, restructuring and other expenses by operating company.

#### Acquisition, Restructuring and Other Expenses

TABLE 15	(\$ millions)	2007	2006
Celestica		\$ 39	\$ 240
Spirit AeroSystems		12	31
Carestream Health		43	-
Other		29	21
Total		\$ 123	\$ 292

Restructuring expenses at Celestica were lower by \$201 million in 2007 compared to 2006. Many of the costs, which were spread over several reporting periods, were recorded in connection with Celestica's restructuring plans to rationalize its manufacturing network to lower demand levels and to reduce its overhead costs. These restructuring plans include reducing workforce and consolidating facilities.

Partially offsetting that decline was \$43 million of acquisition, restructuring and other expenses recorded by Carestream Health relating to the transition and set-up of that company's operations as a stand-alone business following its separation from Kodak.

### Income taxes

During 2007, the consolidated income tax provision was \$295 million compared to a provision of \$24 million in 2006. Most of the provision in income taxes in 2007 was recorded by Spirit AeroSystems (\$177 million), The Warranty Group (\$67 million) and EMSC (\$39 million).

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

In the audited annual consolidated statements of earnings, the non-controlling interests amount represents the interests of shareholders other than Onex in the net earnings or losses of Onex' operating companies and in the gains on sales of operating investments. During 2007, this amount was \$1.0 billion of Onex' operating companies' earnings and gains compared to \$838 million in 2006. Table 16 details the earnings (losses), including gains, by industry segment attributable to non-controlling shareholders in our operating companies.

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

TABLE 16	(\$ millions)	2007	2006
Electronics Manufacturing Services		\$ (17)	\$ (153)
Aerostructures		264	99
Healthcare		29	53
Financial Services		87	15
Customer Support Services		4	6
Metal Services		(7)	-
Other <sup>(a)</sup>		(120)	(97)
Minority interest of gains on sales of operating investments		777	915
Total		\$ 1,017	\$ 838

(a) 2007 other includes Cineplex Entertainment, CEI, Allison Transmission, Hawker Beechcraft, Radian, ONCAP, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company.

A significant change in the non-controlling interests amount in 2007 was due to the participation of the other limited partners of Onex Partners I in the \$762 million of gains recorded as a result of the Spirit AeroSystems secondary offering and the Skilled Healthcare initial public offering. A further \$15 million resulted from the portion of other limited partners in the non-cash accounting dilution gain recorded as a result of Skilled Healthcare's new common share issuance at a value per share above the net book value per share.

In addition, the public offerings of shares of Spirit AeroSystems in November 2006 and May 2007 increased the ownership by shareholders other than Onex. This increased the non-controlling interest in the net earnings as shown in the aerostructures segment.

### Earnings from continuing operations

Onex' consolidated earnings from continuing operations, including gains on sales of operating investments, were \$109 million (\$0.85 per share) in 2007 compared to earnings from continuing operations of \$256 million (\$1.93 per share) in 2006 and earnings of \$827 million (\$5.95 per share) reported in 2005. Table 17 details the earnings (loss) from continuing operations by industry segment before income taxes, non-controlling interests and discontinued operations.

### Earnings from Continuing Operations

TABLE 17	(\$ millions)	2007	2006	2005
Earnings (loss) before income taxes and non-controlling interests:				
Electronics Manufacturing				
Services	\$ 1	\$ (160)	\$ (39)	
Aerostructures	469	(22)	(1)	
Healthcare	55	113	51	
Financial Services	192	32	-	
Customer Support Services	11	23	(7)	
Metal Services	(18)	-	-	
Other <sup>(a)</sup>	(433)	(175)	(27)	
Gains on sales of operating investments	1,144	1,307	921	
	1,421	1,118	898	
Provision for income taxes	(295)	(24)	(70)	
Non-controlling interests of operating companies	(1,017)	(838)	(1)	
Earnings from continuing operations	\$ 109	\$ 256	\$ 827	

(a) 2007 other includes Cineplex Entertainment, CEI, Hawker Beechcraft, Allison Transmission, Radian, ONCAP, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2005 other includes Cineplex Entertainment, CEI, Radian and the parent company.

Earnings from continuing operations in the healthcare segment for the year ended December 31, 2007 were down \$58 million from 2006 due primarily to a loss from continuing operations reported by Carestream Health. This loss resulted primarily from costs stemming from the valuation of inventory on the company's balance sheet at the date of its acquisition. Accounting principles for acquisitions require that inventory be stepped up in value to its selling price less the direct cost to complete and sell the product. Accordingly, when that inventory is subsequently sold in the normal course of business, the accounting for these sales will not report the typical profit margins for the company and therefore, will not cover the operating costs of the business in that period leading to the reported loss. The amount of \$102 million recorded by Carestream Health was a pre-tax step-up in inventory.

The increase in loss in the other segment in 2007 was due primarily to the foreign exchange loss of \$132 million recorded by Onex, the parent company, on its U.S. cash. This compares to a foreign exchange gain of \$10 million recorded by Onex, the parent company, in 2006.

In addition, the loss from continuing operations in the other segment includes the \$75 million loss from equity-accounted investments of Allison Transmission and a \$52 million operating loss on OCM as previously discussed.

### Earnings from discontinued operations

Earnings from discontinued operations were \$119 million (\$0.93 per share) in 2007 compared to \$746 million (\$5.62 per share) in 2006. Table 18 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 2007 and in fiscal 2006.

### Earnings from Discontinued Operations

TABLE 18   (\$ millions)	2007			2006		
	Gain, net of tax	Onex' share of loss	Total	Gain (loss), net of tax	Onex' share of earnings (loss)	Total
Sale of WIS	\$ 41	\$ -	\$ 41	\$ -	\$ 7	\$ 7
Sale of CMC Electronics	76	-	76	-	7	7
Sale of certain Town and Country properties	4	(2)	2	45	(15)	30
J.L. French Automotive	-	-	-	615	-	615
Sky Chefs	-	-	-	50	-	50
InsLogic	-	-	-	2	-	2
Sale of CSRS	-	-	-	21	-	21
Sale of Futuremed	-	-	-	19	-	19
Sitel Worldwide's warehouse management business	-	-	-	(2)	(3)	(5)
<b>Total</b>	<b>\$ 121</b>	<b>\$ (2)</b>	<b>\$ 119</b>	<b>\$ 750</b>	<b>\$ (4)</b>	<b>\$ 746</b>

As discussed in the significant events section on page 9 of this report, during 2007 the operations of WIS, CMC Electronics and certain Town and Country properties were classified as discontinued. In addition to these operations, included in the earnings from discontinued operations for 2006 are the operations and gains on disposition of J.L.

French Automotive Castings, Inc. ("J.L. French Automotive"), Canadian Securities Registration Systems Ltd. ("CSRS"), Futuremed Health Care Products Limited Partnership ("Futuremed") and Sitel Worldwide's warehouse management business.

## Consolidated net earnings

Consolidated net earnings were \$228 million in 2007 compared to \$1.0 billion in 2006 and \$965 million in 2005. Table 19 identifies the net earnings (loss) by industry segment as well as the contribution from net after-tax gains on the sales of operating investments and discontinued operations.

### Consolidated Net Earnings

	2007	2006	2005
Onex' share of net earnings (loss):			
Electronics Manufacturing			
Services	\$ (3)	\$ (23)	\$ (13)
Aerostructures	28	(2)	(6)
Healthcare	(3)	19	10
Financial Services	38	6	-
Customer Support Services	(19)	4	(10)
Metal Services	(4)	-	-
Other <sup>(a)</sup>	(262)	(99)	(75)
Net after-tax gains on sales of operating investments	334	351	921
Earnings from continuing operations	109	256	827
Earnings from discontinued operations	119	746	138
<b>Consolidated net earnings</b>	<b>\$ 228</b>	<b>\$ 1,002</b>	<b>\$ 965</b>

(a) 2007 other includes Cineplex Entertainment, CEI, Hawker Beechcraft, Allison Transmission, Radian, ONCAP, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2005 other includes Cineplex Entertainment, CEI, Radian and the parent company.

Table 20 presents the earnings per share from continuing operations, discontinued operations and net earnings.

### Earnings per Subordinate Voting Share

	2007	2006	2005
Basic and Diluted:			
Continuing operations	\$ 0.85	\$ 1.93	\$ 5.95
Discontinued operations	\$ 0.93	\$ 5.62	\$ 1.00
Net earnings	\$ 1.78	\$ 7.55	\$ 6.95

## FOURTH-QUARTER RESULTS

Table 21 presents the statements of earnings (loss) for the fourth quarters ended December 31, 2007 and 2006.

### Fourth-Quarter Statements of Earnings (Loss)

	2007	2006
<b>Revenues</b>	<b>\$ 6,022</b>	\$ 4,992
Cost of sales	(4,837)	(4,282)
Selling, general and administrative expenses	(612)	(324)
<b>Earnings before the undernoted items</b>	<b>\$ 573</b>	\$ 386
Amortization of property, plant and equipment	(139)	(114)
Interest income	30	41
<b>Operating earnings</b>	<b>\$ 464</b>	\$ 313
Amortization of intangible assets and deferred charges	(130)	(33)
Interest expense of operating companies	(137)	(94)
Earnings (loss) from equity-accounted investments	(26)	9
Foreign exchange gains	3	47
Stock-based compensation	3	(470)
Other income	9	7
Gains on sales of operating investments, net	-	1,249
Acquisition, restructuring and other expenses	(59)	(82)
Writedown of goodwill and intangible assets	(5)	(5)
Writedown of long-lived assets	(15)	(3)
<b>Earnings before income taxes, non-controlling interests and discontinued operations</b>	<b>\$ 107</b>	\$ 938
Recovery of (provision for) income taxes	(99)	34
Non-controlling interests	(18)	(761)
<b>Earnings (loss) from continuing operations</b>	<b>\$ (10)</b>	\$ 211
Earnings from discontinued operations	-	33
<b>Net Earnings (Loss) for the Period</b>	<b>\$ (10)</b>	\$ 244

Consolidated revenues were \$6.0 billion for the fourth quarter of 2007, up 21 percent, or \$1.0 billion, from the same quarter of 2006. Operating earnings were \$464 million in the fourth quarter of 2007, up 48 percent from \$313 million in

the fourth quarter of 2006. Table 22 provides a breakdown and change in fourth-quarter revenues and operating earnings by industry segment.

#### Fourth-Quarter Revenues and Operating Earnings by Industry Segment

Quarter ended December 31	Revenues			Operating Earnings		
	2007	2006	Change (\$)	2007	2006	Change (\$)
Electronics Manufacturing Services	\$ 2,175	\$ 2,580	\$ (405)	\$ 63	\$ 30	\$ 33
Aerostructures	963	966	(3)	124	119	5
Healthcare	1,420	763	657	172	71	101
Financial Services	349	118	231	99	43	56
Customer Support Services	464	206	258	30	16	14
Metal Services	435	–	435	5	–	5
Other <sup>(a)</sup>	216	359	(143)	(29)	34	(63)
<b>Total</b>	<b>\$ 6,022</b>	<b>\$ 4,992</b>	<b>\$ 1,030</b>	<b>\$ 464</b>	<b>\$ 313</b>	<b>\$ 151</b>

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

(a) Other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company.

Fourth-quarter consolidated revenues grew primarily due to:

- the inclusion of revenues from Onex' acquisitions in 2007 – Tube City IMS in January 2007 of \$435 million (metal services segment) and Carestream Health in April 2007 of \$688 million;
- the inclusion of a full quarter of revenues of The Warranty Group, acquired in November 2006, of \$231 million (financial services segment);
- a \$258 million increase in revenues at Sitel Worldwide primarily from ClientLogic's acquisition of and merger with SITEL Corporation in January 2007 (customer support services segment); and
- the inclusion of ONCAP's acquisitions of Mister Car Wash in April 2007 and CiCi's Pizza in June 2007, which added \$76 million in revenues in the other segment for the quarter.

Partially offsetting the revenue growth was a reduction in Celestica's recorded revenues by \$405 million to \$2.2 billion for the fourth quarter of 2007 compared to the same period in 2006. Revenues declined due to weaker demand, program losses and customer disengagements in the communications and industrial markets. As most of Celestica's sales are generated in U.S. dollars, the decline in the value of the U.S. dollar compared to the Canadian dollar was a significant factor in the reported decline in Canadian dollar revenues. Partially offsetting the revenue decline in 2007 were higher revenues from new customer and program wins in the consumer market compared to the same period in 2006.

The change to Cineplex Entertainment being accounted for on an equity basis beginning in the second quarter of 2007 reduced consolidated revenues in the other segment. This is discussed in detail in the significant events section on page 9 of this report. Prior to the second quarter of 2007, Cineplex Entertainment was fully consolidated in Onex' consolidated statements of earnings. Cineplex Entertainment's revenues were \$196 million for the fourth quarter of 2006.

Consolidated operating earnings grew in the fourth quarter of 2007 compared to 2006 as a result of several factors:

- Onex' acquisitions of Tube City IMS in January 2007 and Carestream Health in April 2007 contributed \$5 million and \$115 million, respectively, to operating earnings in the quarter;
- the inclusion of a full quarter of operating earnings of The Warranty Group (\$56 million);
- a \$33 million increase in operating earnings at Celestica due largely to a net inventory charge booked in the fourth quarter of 2006, as well as improved results in 2007 in the company's Mexican and European operations;
- growth in operating earnings at Sitel Worldwide, formerly ClientLogic, of \$14 million primarily associated with its January 2007 acquisition of SITEL Corporation; and
- ONCAP's purchases of Mister Car Wash in April 2007 and CiCi's Pizza in June 2007, which added \$10 million in operating earnings in the quarter.

Partially offsetting the growth in operating earnings was the change in accounting of Cineplex Entertainment from consolidation to equity accounting, which resulted in a \$20 million reduction in operating earnings in the fourth quarter.

During the fourth quarter of 2007, there was a loss on equity-accounted investments of \$26 million compared to earnings on equity-accounted investments of \$9 million in the fourth quarter of last year. Approximately \$53 million of the loss from equity-accounted investments in the fourth quarter of 2007 was from Allison Transmission due primarily to a deferred tax provision associated with the company's indefinite life assets as previously discussed on page 30. Partially offsetting this was \$26 million of Onex' and Onex Partners' share of earnings of Hawker Beechcraft.

Stock-based compensation contributed \$3 million of income in the fourth quarter of 2007 compared to an expense of \$470 million for the same quarter last year. The stock-based compensation expense in the fourth quarter of 2006 was due primarily to a \$369 million charge recorded by Spirit AeroSystems in that quarter primarily related to the value of its Union Equity Participation plan following the company's initial public offering in November 2006.

Included in the fourth quarter of 2006 earnings was a \$1.2 billion pre-tax gain resulting from the sale of a portion of shares in Spirit AeroSystems by Onex, Onex Partners I and certain limited partners in that company's initial public offering in November 2006. Onex' portion of that pre-tax gain was \$343 million.

#### Fourth-Quarter Major Cash Flow Components

TABLE 23	(\$ millions)	2007	2006
	Cash from operating activities	\$ 620	\$ 122
	Cash from (used in) financing activities	\$ 211	\$ (495)
	Cash from (used in) investing activities	\$ (555)	\$ 1,777
	Consolidated cash	\$ 2,462	\$ 2,944

Cash from operating activities totalled \$620 million in the fourth quarter of 2007 compared to cash from operating activities of \$122 million in 2006. Much of the increase in the cash in the quarter was from newly acquired businesses – Tube City IMS in January 2007 and Carestream Health in April 2007 – as well as from the inclusion of a full quarter of cash from operations of The Warranty Group, acquired in November 2006, and improved operating results of Celestica.

Cash from financing activities was \$211 million in the fourth quarter of 2007 due primarily to the cash received from limited partners of Onex Partners I and II and Onex management for the purchase of Husky in December 2007. Partially offsetting this cash was \$35 million spent on Onex' repurchase of its Subordinate Voting Shares under the Company's Normal Course Issuer Bid. This compares to cash used in financing activities of \$495 million due primarily to cash paid by Onex Partners to limited partners, other than Onex, on the partial sale of Spirit AeroSystems as part of that company's November 2006 initial public offering.

Cash used in investing activities totalled \$555 million due primarily to the cash spent on the acquisition of Husky in mid-December. This compares to cash from investing activities of \$1.8 billion driven from proceeds on sales of operating companies investments primarily as a result of Onex and Onex Partners' sale of shares in Spirit AeroSystems' initial public offering.



**SUMMARY QUARTERLY INFORMATION**

Table 24 summarizes Onex' key consolidated financial information for the last eight quarters.

TABLE 24   (\$ millions except per share amounts)	2007				2006			
	Dec.	Sept.	June	Mar.	Dec.	Sept.	June	Mar.
Revenues	\$ 6,022	\$ 6,028	\$ 5,862	\$ 5,521	\$ 4,992	\$ 4,810	\$ 4,624	\$ 4,194
Earnings (loss) from continuing operations	\$ (10)	\$ (76)	\$ 162	\$ 33	\$ 211	\$ (35)	\$ 47	\$ 33
Net earnings (loss)	\$ (10)	\$ (77)	\$ 166	\$ 149	\$ 244	\$ 31	\$ 48	\$ 679
<b>Earnings (loss) per Subordinate Voting Share</b>								
Basic and Diluted:								
Continuing operations	\$ (0.08)	\$ (0.59)	\$ 1.26	\$ 0.26	\$ 1.64	\$ (0.27)	\$ 0.35	\$ 0.24
Net earnings (loss)	\$ (0.08)	\$ (0.60)	\$ 1.29	\$ 1.16	\$ 1.89	\$ 0.24	\$ 0.36	\$ 4.95

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.

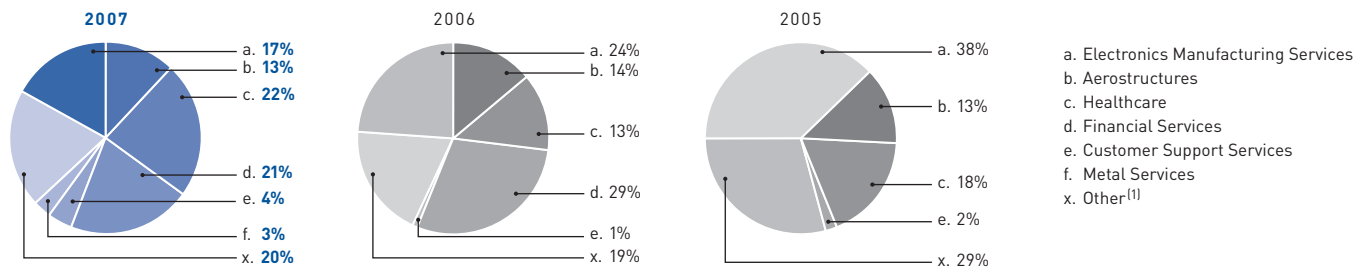
**CONSOLIDATED FINANCIAL POSITION**

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 \$26.2 billion at December 31, 2007 from \$22.6 billion at December 31, 2006 and 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, 2007, 2006 and 2005.

**Segmented Total Consolidated Assets Breakdown**



(1) 2007 other includes Husky, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2005 other includes Cineplex Entertainment, CEI, Radian and the parent company.

The overall 16 percent growth in consolidated assets in 2007 was driven primarily by acquisitions completed by Onex and its operating companies. Table 25 outlines the more significant acquisitions completed in 2007, 2006

and 2005. In addition, note 2 to the audited annual consolidated financial statements provides further balance sheet disclosure on those acquisitions completed in 2007 and 2006.

### 2007 Acquisitions

TABLE 25 | *Operating company and total assets at time of acquisition*

EMSC – <b>\$84 million</b>	<p>EMSC completed two acquisitions:</p> <ul style="list-style-type: none"> <li>• MedicWest Ambulance, a franchised emergency ambulance transportation service provider based in Las Vegas, Nevada</li> <li>• Abbott Ambulance, the largest private provider of emergency and non-emergency ambulance services in St. Louis, Missouri</li> </ul>
Skilled Healthcare – <b>\$97 million</b>	<p>Skilled Healthcare completed the purchase of 10 nursing facilities and a hospice company located primarily in Albuquerque, New Mexico, as well as three healthcare facilities in Missouri</p>
Carestream Health – <b>\$3.4 billion</b>	<p>Onex' acquisition of Carestream Health, Inc., a leading provider of medical and dental imaging and healthcare information technology solutions</p>
Tube City IMS – <b>\$1.1 billion</b>	<p>Onex' purchase of Tube City IMS Corporation, a leading provider of outsourced services to steel mills</p>
Husky – <b>\$1.6 billion</b>	<p>Onex' acquisition of Husky Injection Molding Systems Ltd., a leading global supplier of injection molding equipment and services to the plastics industry</p>
Sitel Worldwide – <b>\$960 million</b>	<p>ClientLogic's purchase and merger with SITEL Corporation. The company now operates as Sitel Worldwide Corporation. Sitel Worldwide completed three add-on acquisitions.</p>
ONCAP – <b>\$726 million</b>	<p>ONCAP completed two investments in 2007:</p> <ul style="list-style-type: none"> <li>• Mister Car Wash, now the second-largest conveyor car wash business in the United States</li> <li>• CiCi's Pizza, a leading franchisor of family-oriented "all you want" buffet-style restaurants serving fresh pizza, pasta, salad and desserts</li> </ul> <p>CSI purchased the assets of the Institute of Canadian Bankers, based in Toronto, Ontario</p> <p>Mister Car Wash completed four add-on acquisitions in the United States</p>

## 2006 Acquisitions

TABLE 25 | *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 – \$6.6 billion	Onex' acquisition of The Warranty Group, one of the world's largest providers of extended warranty contracts
Town and Country – \$817 million <sup>(1)</sup>	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	ONCAP completed two investments in 2006: <ul style="list-style-type: none"> <li>• CSI Global Education Inc., Canada's leading provider of financial education and testing services</li> <li>• EnGlobe Corp. (TSX: EG), a leading environmental services company in the management, treatment and re-use and disposal of organic waste and contaminated soil</li> </ul>

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

## 2005 Acquisitions

*Operating company and total assets at time of acquisition*

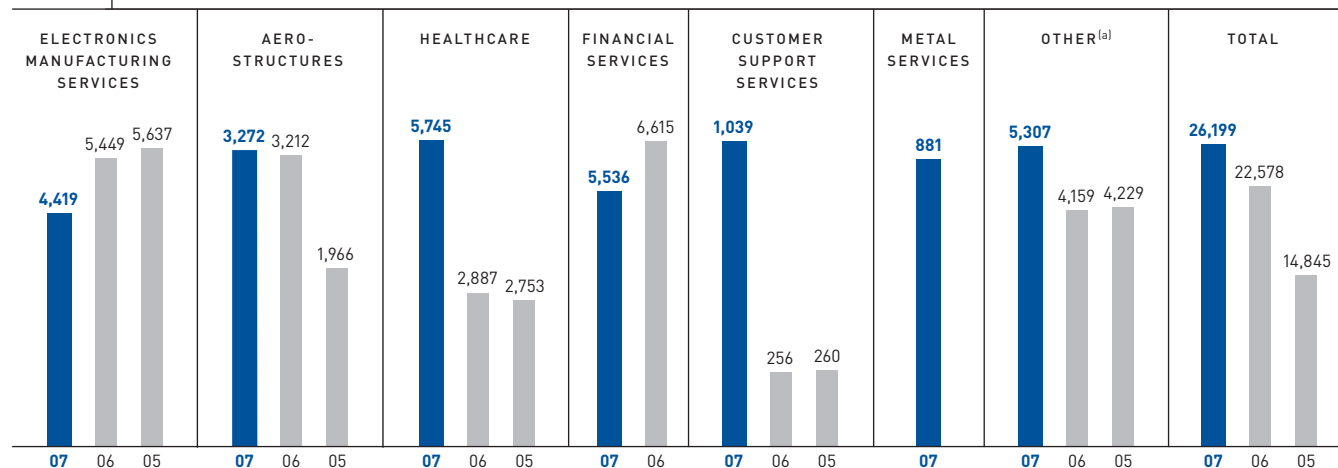
CDI – \$251 million	Onex' acquisition of Center for Diagnostic Imaging, Inc., a leading provider of diagnostic and therapeutic radiology services in the United States
EMSC – \$1.5 billion	Onex' acquisition of Emergency Medical Services Corporation, a leading provider of emergency medical services, operating 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 – \$1.6 billion	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, Nevada, New Mexico and Missouri, focused 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 <sup>(2)</sup>	ONCAP completed two acquisitions in 2005: <ul style="list-style-type: none"> <li>• 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</li> <li>• 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</li> </ul>

(2) These investments were recorded as discontinued operations as at December 31, 2006 and 2005.

Chart 1 shows Onex' consolidated assets by industry segment.

### Asset Diversification by Industry Segment

CHART 1 | (\$ millions)



(a) 2007 other includes Husky, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company. 2005 other includes Cineplex Entertainment, CEI, Radian and the parent company.

In addition, included in Onex' total consolidated assets at December 31, 2007 was a 76 percent growth in investments to \$3.2 billion from \$1.8 billion. Much of that growth was due primarily to the following investments accounted for on an equity basis:

- \$1.1 billion was attributable to the investments in Hawker Beechcraft and Allison Transmission completed by Onex in March and August of 2007;
- \$109 million was the total investment made in Onex Real Estate Partners in 2007 for its investments in NY Credit, a real estate specialty finance company that focuses on originating, acquiring, structuring, selling and trading commercial real estate related loans, and Flushing Town Center; and
- \$50 million was invested in Onex Credit Partners' strategies beginning in November 2007.

At December 31, 2006, total consolidated assets grew to \$22.6 billion from \$14.8 billion at December 31, 2005 due primarily to the inclusion of assets from the acquisitions completed in 2006 as detailed in table 25.

### Intangible assets

Consolidated assets include \$2.7 billion of intangible assets at December 31, 2007, up \$1.7 billion from \$1.0 billion at December 31, 2006. The acquisitions completed by Onex and Onex Partners, as well as ONCAP in 2007, as disclosed in table 25, drove all the increase in intangible assets. Carestream Health accounted for approximately \$1.2 billion of the growth in intangible assets primarily associated with limited life intangibles including developed technology, trademarks and tradenames, and customer relationships that were recorded as part of the company's valuation of its opening balance following Onex' purchase in April 2007. During 2008, we expect that the amortization of the limited life intangible assets of our operating companies will increase significantly from 2007 due to the higher amounts of limited life intangibles recorded by the newly acquired businesses in 2007. Note 9 to the audited annual consolidated financial statements provides additional information on intangible assets.

### Warranty reserves and unearned premiums

Warranty reserves and unearned premiums (consisting of the current and long-term portions) totalled \$3.9 billion at December 31, 2007 compared to \$4.9 billion at December 31, 2006. These warranty reserves and unearned premiums represent The Warranty Group's gross warranty and property and casualty reserves, as well as gross warranty unearned premiums. Gross warranty and property casualty reserves of \$1.3 billion (2006 – \$1.7 billion) represent the estimated future losses on warranty contracts and property and casualty insurance policies. The property and casualty reserves component of \$1.0 billion (2006 – \$1.4 billion) has been ceded 100 percent to third-party reinsurers, which has created a ceded claims recoverable asset. A subsidiary of Aon Corporation, the former parent of The Warranty Group, is the primary reinsurer on approximately 37 percent of the reserves and provides guarantees on all of them as part of the sales agreement with Onex. The Warranty Group's liability for gross warranty and property and casualty unearned premiums totalled \$2.7 billion (2006 – \$3.2 billion). All 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 12 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, 2007 and 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. Future business conditions of an operating company may result in non-compliance with certain covenants by that operating company.

Total long-term debt (consisting of the current portion of long-term debt and long-term debt, net of deferred charges) was \$6.3 billion at December 31, 2007, up from \$3.8 billion at December 31, 2006 and \$3.7 billion at December 31, 2005. The debt associated with acquisitions completed in 2007 was the primary factor of growth in long-term debt at December 31, 2007 from year-end 2006. Table 26 summarizes consolidated long-term debt by industry segment.

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

TABLE 26	(\$ millions)	2007	2006	2005
Electronics Manufacturing				
Services		\$ 752	\$ 874	\$ 872
Aerostructures		567	687	839
Healthcare		2,835	1,177	1,196
Financial Services		194	233	-
Customer Support Services		680	196	206
Metal Services		370	-	-
Other <sup>(a)</sup>		937	674	541
		<b>6,335</b>	3,841	3,654
Current portion of long-term debt of operating companies		<b>(176)</b>	(43)	(36)
Total		<b>\$ 6,159</b>	\$ 3,798	\$ 3,618

(a) 2007 other includes Husky, CEI, Radian, ONCAP and Onex Real Estate. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP and Onex Real Estate. 2005 other includes Cineplex Entertainment, CEI and Radian.

The acquisition of Tube City IMS in January 2007 added \$370 million of debt. Tube City IMS' debt is comprised of a senior secured asset-based revolving credit facility, a senior secured term loan facility and a senior secured synthetic letter of credit that bear interest at a base rate plus a margin of up to 2.5 percent and that mature in 2014 and senior subordinated notes due in 2015 that bear interest at a rate of 9.75 percent.

Carestream Health, purchased in April 2007, added debt of \$1.9 billion, which represents senior secured first and second lien term loans that bear interest at LIBOR plus a margin of 2 percent and 5.25 percent, respectively, or at a base rate plus a margin of 1.00 percent and 4.25 percent. These loans mature in 2013. During the period of Onex' ownership in 2007, the company paid down approximately US\$63 million of its long-term debt from operating cash flows.

Onex' purchase of Husky in mid-December 2007 increased consolidated long-term debt by \$389 million. Husky's long-term debt comprises a term loan and revolving credit facility that bear interest at LIBOR plus a margin that ranges from 3 percent to 3.25 percent. These facilities mature in 2012.

Sitel Worldwide, formerly ClientLogic, added a net amount of \$484 million of long-term debt primarily associated with that company's purchase of and merger with SITEL Corporation. The company's new facility of US\$760 million consists of a US\$675 million term loan that bears interest at LIBOR plus a margin of up to 2.75 percent and that matures in 2014. Proceeds from the new credit facility were used to repay ClientLogic's prior US\$170 million credit facility and to fund the acquisition of SITEL Corporation.

Long-term debt growth from acquisitions in 2007 was partially offset by the change in accounting for Cineplex Entertainment from consolidation in 2006 to equity basis in 2007. At December 31, 2006, Onex consolidated \$350 million of long-term debt of Cineplex Entertainment, which was included in the other segment.

Note 10 to the audited annual consolidated financial statements provides additional information on the long-term debt of Onex' operating companies.

### Future income taxes

Future income taxes on Onex' consolidated balance sheet at December 31, 2007 totalled \$1.4 billion compared to \$1.1 billion at December 31, 2006. Onex and Onex Partners' acquisitions of Tube City IMS, Carestream Health and Husky, as well as ONCAP's acquisition of CiCi's Pizza, accounted for most of the increase in 2007 over 2006. Note 14 to the audited annual consolidated financial statements provides additional information on future income taxes.

At December 31, 2007, Onex and its investment-holding companies have nil tax-loss carryforwards (2006 – \$391 million). During 2007, Onex Corporation accelerated recognition of certain sources of income and gains for tax purposes. Consequently, losses that may have otherwise expired are now reflected as tax paid reserves and increased basis for tax purposes.

### Non-controlling interests

The non-controlling interests liability in Onex' audited annual consolidated balance sheet as at December 31, 2007 primarily represents the ownership interests of shareholders other than Onex in Onex' consolidated operating companies and equity-accounted investments. At December 31, 2007, the non-controlling interests balance amounted to \$6.1 billion compared to \$4.6 billion at December 31, 2006. Table 27 details the change in the non-controlling interests balance from December 31, 2006 to December 31, 2007.

### Change in Non-controlling Interests

TABLE 27 | (\$ millions)

Non-controlling interests as at December 31, 2006		<b>\$ 4,594</b>
Non-controlling interests in net earnings of 2007:		
Gains on sales of operating investments	<b>777</b>	
Operating companies' earnings	<b>240</b>	<b>1,017</b>
Investments by shareholders other than Onex in:		
Onex Partners I and II		<b>1,718</b>
Skilled Healthcare's initial public offering – issuance of new shares		<b>128</b>
New shareholders' purchase of Onex' and Onex Partners I's shares of Skilled Healthcare and Spirit AeroSystems sold in public offerings		<b>240</b>
Distributions to limited partners of Onex Partners I		<b>(869)</b>
Foreign currency translation		<b>(858)</b>
Other		<b>179</b>
Non-controlling interests as at December 31, 2007		<b>\$ 6,149</b>

The non-controlling interests in net earnings of operating companies in 2007 were \$1.0 billion. Approximately \$777 million of those earnings were from the gains on the shares sold by other limited partners in the offerings of Spirit AeroSystems and Skilled Healthcare as well as the dilution gain on Skilled Healthcare.

A total of \$1.7 billion was invested by limited partners in acquisitions and investments completed in 2007. The limited partners of Onex Partners II invested in the acquisitions completed in 2007 of Tube City IMS and Carestream Health as well as the investments in Hawker Beechcraft and Allison Transmission. In addition, the limited partners of Onex Partners I and II invested in the purchase of Husky completed in mid-December 2007.

New shareholders' purchase of shares sold by Onex and Onex Partners I in Spirit AeroSystems' secondary offering and Skilled Healthcare's initial public offering added \$240 million to non-controlling interests in 2007. In addition, the issue of new common shares by Skilled Healthcare as part of its initial public offering added \$128 million to non-controlling interests in 2007.

Partially offsetting these increases were distributions to the limited partners of Onex Partners I of \$869 million for the sale of a portion of their interests in Spirit AeroSystems' secondary offering and Skilled Healthcare's initial public offering.

### Shareholders' equity

Shareholders' equity decreased slightly to \$1.7 billion at December 31, 2007 from \$1.8 billion at December 31, 2006 due primarily to the repurchase of shares under the Company's normal course issuer bid at a cost of \$113 million. Table 28 provides a reconciliation of the change in shareholders' equity from December 31, 2006 to December 31, 2007.

### Change in Shareholders' Equity

Shareholders' equity as at December 31, 2006	<b>\$ 1,815</b>
Change in accounting policies	<b>1</b>
Regular dividends declared	<b>(14)</b>
Shares repurchased and cancelled	<b>(113)</b>
Net earnings	<b>228</b>
Other comprehensive loss for 2007	<b>(214)</b>
Shareholders' equity as at December 31, 2007	<b>\$ 1,703</b>

Onex' audited annual consolidated statements of shareholders' equity and comprehensive earnings also show the changes to the components of shareholders' equity for the years ended December 31, 2007 and 2006.

### Shares outstanding

At January 31, 2008, Onex had 124,200,252 Subordinate Voting Shares issued and outstanding. Table 29 shows the change in the number of Subordinate Voting Shares outstanding from December 31, 2006 to January 31, 2008.

### Change in Subordinate Voting Shares Outstanding

Subordinate Voting Shares outstanding at December 31, 2006	<b>128,927,135</b>
Shares repurchased and cancelled under Onex' Normal Course Issuer Bid	<b>(4,732,900)</b>
Issue of shares – Dividend Reinvestment Plan	<b>6,017</b>
Subordinate Voting Shares outstanding at January 31, 2008	<b>124,200,252</b>

Onex also has 100,000 Multiple Voting Shares outstanding, which have a nominal paid-in value, and 176,078 Series 1 Senior Preferred Shares, which have no paid-in amount reflected in Onex' audited annual consolidated financial statements. Note 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 2007.

### Cash dividends

During 2007, 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 2006 and 2005. Total payments for dividends have decreased with the repurchase of Subordinate Voting Shares under the Normal Course Issuer Bids as discussed on page 46.

### 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 2007, Onex issued 3,952 Subordinate Voting Shares under the Plan at an average cost of \$34.67 per Subordinate Voting Share, creating cash savings of less than \$1 million. During 2006, 4,404 Subordinate Voting Shares were issued under the Plan at an average cost of \$22.12 per Subordinate Voting Share, creating cash savings of less than \$1 million.

During 2005, Onex issued 2,865 Subordinate Voting Shares under the Plan at an average cost of \$19.69 per Subordinate Voting Share, creating cash savings of less than \$1 million. In January 2008, Onex issued an additional 2,065 Subordinate Voting Shares under the Plan at an average cost of \$31.85 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 for options issued prior to December 2007 and six years for options issued in December 2007. The price the options are issued at is the market value of the Subordinate Voting Shares on the business day preceding the day of the grant. Vested options are not exercisable unless the average five-day market price of Onex Subordinate Voting Shares is at least 25 percent greater than the exercise price.

At December 31, 2007, Onex had 12,777,500 options outstanding to acquire Subordinate Voting Shares, of which 7,610,700 options were vested and 7,551,700 of those vested options were exercisable. Table 30 provides a detailed reconciliation of the options outstanding at December 31, 2007.

### Change in Stock Options Outstanding

TABLE 30	Number of Options	Weighted Average Exercise Price
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	<b>13,095,100</b>	<b>\$ 16.43</b>
Granted	<b>803,000</b>	<b>\$ 35.16</b>
Exercised or surrendered	<b>(1,090,600)</b>	<b>\$ 10.84</b>
Expired	<b>(30,000)</b>	<b>\$ 21.27</b>
Outstanding at December 31, 2007	<b>12,777,500</b>	<b>\$ 18.07</b>

During 2007, 803,000 options were granted with a weighted average exercise price of \$35.16. Of those granted options, 783,000 were issued in December 2007 with a vesting period of six years, rather than the five years vesting with prior options. In addition, 1,090,600 options were surrendered in 2007 at an average exercise price of \$10.84 for aggregate cash consideration of \$26 million and there were 30,000 options that expired. This compares to 758,000 options exercised or surrendered in 2006 and 110,600 options in 2005. Of the total options exercised, there were no options exercised in 2007 for Subordinate Voting Shares. In 2006, 20,000 options were exercised for Subordinate Voting Shares at a total value of less than \$1 million and no options were exercised for Subordinate Voting Shares in 2005.

### Normal Course Issuer Bids

Onex had Normal Course Issuer Bids (the "Bids") in place during 2007 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 2007, Onex repurchased 3,357,000 Subordinate Voting Shares under the Bids at a total cost of \$113 million. Under similar Bids, Onex repurchased 9,176,300 Subordinate Voting Shares at a total cost of \$203 million during 2006 and 939,200 Subordinate Voting Shares at a total cost of \$18 million in 2005. In January 2008, Onex repurchased an additional 1,375,900 Subordinate Voting Shares at a total cost of \$44 million.

### Accumulated other comprehensive earnings (loss)

Accumulated other comprehensive earnings (loss) represent the accumulated unrealized gains or losses, all net of income taxes, related to certain available-for-sale securities, cash flow hedges and foreign exchange gains or losses on the net investment in self-sustaining operations. At December 31, 2007, accumulated other comprehensive loss was \$409 million compared to \$195 million at the end of 2006. The change in accumulated other comprehensive



loss was from the other comprehensive loss of \$214 million in 2007 primarily from the negative currency translation adjustments of \$202 million as a result of the weakened U.S. dollar. Table 31 provides a breakdown of other comprehensive loss for 2007 compared to 2006.

### Other Comprehensive Loss

TABLE 31	(\$ millions)	2007	2006
Other comprehensive earnings (loss), net of taxes			
	Currency translation adjustments	\$ (202)	\$ (121)
	Change in fair value of derivatives designated as hedges	(22)	-
	Other	10	-
<b>Other comprehensive loss</b>			
		<b>\$ (214)</b>	\$ (121)

## 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.

Table 32 summarizes the major consolidated cash flow components.

### Major Cash Flow Components

TABLE 32	(\$ millions)	2007	2006
	Cash from operating activities	\$ 1,328	\$ 896
	Cash from (used in) financing activities	\$ 1,347	\$ (690)
	Cash used in investing activities	\$ (2,817)	\$ (376)
<b>Consolidated cash from continuing operations</b>			
		<b>\$ 2,462</b>	\$ 2,944

### Cash from operating activities

Cash from operating activities totalled \$1.3 billion in 2007 compared to cash from operating activities of \$896 million in 2006. Table 33 provides the components of cash from operating activities.

### Components of Cash from Operating Activities

TABLE 33	(\$ millions)	2007	2006
	Cash from operations	\$ 1,373	\$ 858
	Increase (decrease) in cash from non-cash working capital items	197	(482)
	Increase (decrease) in warranty reserves and unearned premiums and other liabilities	(242)	520
<b>Cash from operating activities</b>			
		<b>\$ 1,328</b>	\$ 896

Cash from operations excludes changes in non-cash working capital items, warranty reserves and unearned premiums and other liabilities. Cash from operations was up 60 percent to \$1.4 billion in 2007 from \$858 million in 2006 due primarily to the inclusion of cash from operations of acquired businesses in 2007, which included Carestream Health, Tube City IMS and Husky and a full year for The Warranty Group acquired in November 2006. In addition, improved operating results at Spirit AeroSystems and Celestica contributed to the increase in cash from operations in 2007. A detailed discussion of the consolidated operating results can be found under the heading "Consolidated Operating Results" on page 12 of this MD&A.

Non-cash working capital items increased cash by \$197 million in 2007 compared to a decrease to cash of \$482 million in 2006. The increase was due primarily to lower working capital at Celestica driven primarily by lower inventory levels as a result of improved inventory management, partially offset by lower accounts payable balances due to timing of payments. Partially offsetting that was cash spent by Spirit AeroSystems to build up inventory associated with the start-up of Boeing's 787 program and other programs.

More than offsetting the cash increase from non-cash working capital items was a decrease in cash from warranty reserves and unearned premiums and other liabilities of \$242 million in 2007 primarily from lower warranty liability reserves at The Warranty Group. This compares to an increase of \$520 million in 2006.

### Cash from (used in) financing activities

Cash from financing activities was \$1.3 billion in 2007 compared to cash used in financing activities of \$690 million in 2006. Cash from financing activities in 2007 was generated from:

- \$2.0 billion of cash received primarily from the limited partners of the Onex Partners Funds for the acquisitions of Tube City IMS, completed in January 2007, Carestream Health, acquired in April 2007, and Husky, acquired in December 2007 as well as the investments in Hawker Beechcraft and Allison Transmission made in March and August 2007, respectively;
- \$128 million of cash received from new shareholders of Skilled Healthcare who purchased the new common shares issued in that company's initial public offering in May 2007; and
- additional long-term debt at Sitel Worldwide of approximately \$384 million.

Partially offsetting cash from financing activities in 2007 was:

- \$886 million of cash distributed primarily by Onex Partners I to limited partners, other than Onex, from the proceeds received on the sales of shares of Spirit AeroSystems as part of that company's secondary offering and Skilled Healthcare from that company's initial public offering; and
- \$113 million spent by Onex, the parent company, to repurchase its Subordinate Voting Shares under Onex' Normal Course Issuer Bid.

This compares to cash used in financing activities of \$690 million in 2006. Included in cash used in financing activities was:

- cash spent of \$203 million on the repurchase of shares under Onex' Normal Course Issuer Bids; and
- \$961 million of cash paid by Onex Partners I 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 in 2006 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.

### Cash used in investing activities

Cash used in investing activities totalled \$2.8 billion in 2007 compared to cash used of \$376 million in 2006. The increase in cash used in investing activities was due primarily to more cash spent on acquisitions in 2007 compared to 2006.

Acquisitions completed in 2007 accounted for \$1.8 billion of the cash spent in 2007. These acquisitions primarily included:

- \$197 million of cash spent on the January 2007 acquisition of Tube City IMS by Onex and Onex Partners II;
- \$442 million of cash used in the April 2007 purchase of Carestream Health by Onex and Onex Partners II;
- \$521 million of cash used in December 2007 for the acquisition of Husky by Onex, Onex Partners I and Onex Partners II;
- \$435 million of cash used by Sitel Worldwide for its acquisition of and merger with SITEL Corporation in January 2007, as well as three follow-on acquisitions; and
- \$176 million of cash spent for add-on acquisitions completed by Skilled Healthcare and EMSC.

Note 2 to the audited annual consolidated financial statements discloses the amount of cash invested in each acquisition completed during 2007 and 2006. Table 25 provides further details on the acquisitions completed in 2007 and 2006.

In addition, included in other investing activities in 2007 was cash used for Onex' and Onex Partners II's investment in Hawker Beechcraft of \$552 million and Allison Transmission of \$790 million.

Partially offsetting the cash used in acquisitions and investments in 2007 was \$1.3 billion of cash proceeds received by Onex and Onex Partners I on the sale of a portion of their shares in the Spirit AeroSystems and Skilled Healthcare offerings.

Onex' operating companies spent \$633 million on property, plant and equipment during 2007 compared to \$823 million in 2006. Table 34 details property, plant and equipment expenditures by industry segment.

### Property, Plant and Equipment Expenditures

TABLE 34	(\$ millions)	2007	2006
Electronics Manufacturing Services		\$ 67	\$ 215
Aerostructures		268	394
Healthcare		136	111
Financial Services		29	3
Customer Support Services		51	19
Metal Services		55	-
Other <sup>(a)</sup>		27	81
Total		\$ 633	\$ 823

(a) 2007 includes Husky, Cosmetic Essence, Radian, ONCAP, Onex Real Estate and the parent company. 2006 includes Cineplex Entertainment, CEI, Radian, ONCAP, Onex Real Estate and the parent company.

Celestica recorded \$67 million in capital expenditures related primarily to the expansion of its manufacturing capabilities in China, the Czech Republic and Thailand in support of new customer programs.

Spirit AeroSystems reported \$268 million in property, plant and equipment, software and program tooling in 2007 due in large part to the B787 program.

Skilled Healthcare spent \$31 million on capital expenditures related primarily to the construction and development of its facilities.

Sitel Worldwide recorded \$51 million in capital expenditures mainly for new client contracts and the corresponding requirements for additional delivery centre capacity, as well as enhancements to the company's technology infrastructure.

Capital expenditures of Tube City IMS totalled \$55 million in 2007 relating primarily to ongoing equipment needs and new customer sites, new contracted services and productivity improvements, including the expansion of its European operations.

### Consolidated cash resources

At December 31, 2007, consolidated cash with continuing operations was \$2.5 billion compared to \$2.9 billion at December 31, 2006. Onex, the parent company, represented approximately \$0.7 billion of the cash on hand and Celestica had approximately \$1.1 billion of cash at December 31, 2007.

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. In addition to \$0.7 billion of cash at the parent company, Onex also had \$88 million of near-cash items at December 31, 2007. At December 31, 2007, the other limited partners in Onex Partners had remaining commitments to provide \$680 million of funding for future Onex-sponsored acquisitions. These amounts are not included in Onex' consolidated cash. Onex, the parent company, has a conservative cash management policy that limits its cash investments to short-term low-risk money-market products.

## ADDITIONAL USES OF CASH

### Contractual obligations

The following table presents the contractual obligations of Onex' operating companies as at December 31, 2007:

#### 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	<b>\$ 6,478</b>	\$ 176	\$ 509	\$ 1,790	\$ 4,003
Capital and operating leases	<b>1,176</b>	319	334	193	330
Purchase obligations	<b>179</b>	144	31	4	-
Total contractual obligations	<b>\$ 7,833</b>	\$ 639	\$ 874	\$ 1,987	\$ 4,333

A breakdown of long-term debt by industry segment is provided in table 26. In addition, notes 10 and 11 to the audited annual consolidated financial statements provide further disclosure on long-term debt and lease commitments. Our operating companies currently believe they have adequate cash from operations, cash on hand and borrowings available to them to meet anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. There is, however, no assurance that our operating companies will generate sufficient cash flow from operations or that future borrowings will be available to enable them to grow their business, service all indebtedness or make anticipated capital expenditures.

### Commitments

At December 31, 2007, Onex and its operating companies had total commitments of \$557 million (2006 – \$1.8 billion). Commitments by Onex and its operating companies provided in the normal course of business include commitments to corporate investments and letters of credit, letters of guarantee and surety and performance bonds. Approximately \$445 million of the total commitments in 2007 were for contingent liabilities in the form of letters of credit, letters of guarantee, and surety and performance bonds provided by certain operating companies to various third parties, including bank guarantees. These guarantees are without recourse to Onex.

As part of the Carestream Health purchase, the acquisition agreement provided that if Onex and Onex Partners II realize an internal rate of return in excess of 25 percent on their investment, Kodak will receive payment equal to 25 percent of the excess return up to US\$200 million.

## Recent events

### Spirit AeroSystems

In early January 2008, Boeing announced a further three-month schedule shift for the first flight and first delivery of the B787 program, resulting in the initial deliveries being rescheduled to early 2009. This is the second shift in the B787 program from its original May 2008 delivery date. Under Spirit AeroSystems' current contractual agreement with Boeing, the company will not receive payment for the B787 ship sets delivered to Boeing prior to certification and delivery of the aircraft to a customer. Since Boeing currently expects to certify and deliver its first B787 in early 2009, Spirit AeroSystems estimates that the impact on its working capital from the delay in the B787 delivery will be between US\$750 million and US\$1.0 billion. The company is currently in discussions with Boeing regarding the impact of the B787 schedule shifts on its cash flow in 2008. Spirit AeroSystems is also evaluating alternatives for securing additional financing to meet potential liquidity needs.

## ADDITIONAL SOURCES OF CASH

### Private equity funds

Onex has additional sources of cash from its private equity Funds. Private equity Funds provide capital to Onex-sponsored acquisitions that are not related to Onex' operating companies that existed prior to the formation of the Funds and that are not allocated to ONCAP. The Funds provide a substantial pool of committed funds, which enables Onex to be more flexible and timely in responding to investment opportunities.

During 2003, Onex raised its first large-cap Fund, Onex Partners I, with US\$1.655 billion of committed capital, including committed capital from Onex of US\$400 million. Since 2003, Onex Partners I has completed 10 investments or acquisitions with US\$1.5 billion of equity being put to work. While Onex Partners I has concluded its investment period, the Fund still has uncalled committed capital of US\$100 million, which is largely reserved for possible future funding for any of the Onex Partners I's existing businesses.

During 2006, Onex raised its second large-cap Fund, Onex Partners II, a US\$3.45 billion private equity fund, including committed capital from Onex of US\$1.4 billion. During 2007, Onex Partners II completed five investments or acquisitions, investing US\$2.3 billion of equity in those transactions. At December 31, 2007, Onex Partners II had invested approximately 71 percent of its committed capital and had approximately US\$580 million of uncalled committed capital reserved for future Onex-sponsored acquisitions.

In late 2007, Onex began fundraising for its third fund, Onex Partners III, that is expected to close in mid-2008 and will continue to provide capital for Onex-sponsored acquisitions that are not related to previous Onex Partners I or II Funds or ONCAP. Onex Partners III is targeting capital commitments of approximately US\$4.5 billion, with US\$1 billion to be committed by Onex.

In addition, Onex has a mid-cap private equity Fund, ONCAP II, with total committed capital of \$574 million. ONCAP II has completed four acquisitions, putting \$159 million of equity to work. The Fund has uncalled committed third-party capital of \$216 million available for future acquisitions.

Onex controls the General Partner and the Manager of all its private equity Funds. The Onex Partners and ONCAP 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 36 presents the total capital commitments under the Onex Partners and ONCAP Funds, and the available uncalled committed capital at December 31, 2007.

### Private Equity Funds Commitments

As at December 31, 2007		Total Committed Capital	Onex Committed Capital	Available Uncalled Committed Capital (excluding Onex)
TABLE 36	(\$ millions)			
Onex Partners I		US\$ 1,655	US\$ 400	US\$ 100
Onex Partners II		US\$ 3,450	US\$ 1,407	US\$ 580
ONCAP II		\$ 574	\$ 258	\$ 216

### 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 investment requirement under the MIP. For investments completed prior to November 7, 2007, the investment rights to acquire the remaining 5/6ths vest equally over four years with the investment rights vesting

in full if Onex disposes of 90 percent or more of an investment before the fifth year. During 2007, the MIP was amended for investments completed after November 7, 2007. For those investments, the investment rights to acquire the remaining 5/6ths vest equally over six years. Under the MIP and amended MIP, 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 not loaned to the management members by Onex or the operating companies. During 2007, there were investments of \$2 million under the MIP compared to \$2 million in 2006 (these amounts exclude amounts invested under the Onex Partners 1 percent investment requirement). Management members received \$38 million under the MIP related to the realizations Onex achieved primarily on Spirit AeroSystems and Skilled Healthcare in 2007. This compares to \$28 million in realizations under the MIP on the sale of a portion of Spirit AeroSystems in that company's initial public offering in 2006. Notes 1 and 23 to the audited annual consolidated financial statements provide additional details on the MIP.

### Directors 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 2007, Onex granted 43,550 DSUs to its directors with a cost of \$2 million (2006 – \$1 million) being recorded as stock-based compensation expense. In addition, 16,170 additional DSUs were issued to directors in lieu of directors' fees and cash dividends and 10,940 DSUs were redeemed in 2007 for cash consideration of less than \$1 million. Table 37 reconciles the changes in the DSUs outstanding at December 31, 2007.

### Change in Outstanding Directors Deferred Share Units

TABLE 37	Number of DSUs
Outstanding at December 31, 2005	<b>116,301</b>
Granted	<b>40,000</b>
Additional units issued in lieu of directors' fees and cash dividends	<b>24,833</b>
Redeemed	<b>(4,000)</b>
Outstanding at December 31, 2006	<b>177,134</b>
Granted	<b>43,550</b>
Additional units issued in lieu of directors' fees and cash dividends	<b>16,170</b>
Redeemed	<b>(10,940)</b>
Outstanding at December 31, 2007	<b>225,914</b>

### Management Deferred Share Unit Plan

Effective December 2007, a Management Deferred Share Unit Plan ("MDSU Plan") was established as a further means of encouraging personal and direct economic interest by the Company's senior management in the performance of the Subordinate Voting Shares. Under the MDSU Plan, the members of the Company's senior management team are given the opportunity to designate all or a portion of their annual compensation to acquire MDSUs based on the market value of Onex shares at the time in lieu of cash. MDSUs vest immediately but are redeemable by the participant only after he or she has ceased to be an officer or employee of the Company or an affiliate for a cash payment equal to the then current market price of the Subordinate Voting Shares. To hedge Onex' exposure to changes in the trading price of

Onex shares associated with the MDSU Plan, the Company expects to enter into forward agreements with a counterparty financial institution for all grants under the MDSU Plan. The costs of those arrangements will be borne entirely by participants in the MDSU Plan. MDSUs are redeemable only for cash and no shares or other securities of Onex will be issued on the exercise, redemption or other settlement thereof. Management acquired 202,258 MDSUs having an aggregate value, at the date of grant, of \$6 million in lieu of cash compensation for the Company's 2007 fiscal year. A forward agreement was entered into in February 2008 to hedge Onex' exposure to changes in the value of the MDSUs.

### 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, 2008, the anniversary date of the Fund's first closing. For acquisitions completed during the 12 months ending April 20, 2009, Onex management and directors have committed an additional 2.65 percent. The total amount invested in 2007 by Onex management and directors on acquisitions and investments completed through the Onex Partners Funds was \$104 million (2006 – \$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 2007, Onex received a carried interest of \$46 million on the realized gains of Spirit AeroSystems and Skilled Healthcare. During 2006, Onex received a carried interest of \$49 million on the realized gain of Spirit AeroSystems. Prior amounts of carried interest received were \$11 million. While the carried interest amount was received in cash, it is deferred from inclusion in income for accounting purposes until such time as the potential for repayment of the carried interest is remote. In 2007, Onex recorded as income \$48 million of the carried interest received. The total deferred carried interest that Onex has received but not booked as income at December 31, 2007 was \$58 million. Management of Onex received a carried interest of \$69 million on the realized gains of Spirit AeroSystems and Skilled Healthcare in 2007 and \$74 million on the realized gains 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 during 2007, approximately \$18 million (2006 – \$15 million) of Onex management's realizations under the MIP and carried interest were invested in the purchase of Subordinate Voting Shares.

Members of management and the Board of Directors of Onex can invest limited amounts in partnership with Onex in all acquisitions outside Onex Partners I and II at the same cost as Onex and other outside investors. During 2007, approximately \$13 million in investments were made by Onex management and Onex Board members; this compares to \$13 million in investments made by Onex management and the Onex Board in 2006.

#### **Management fees**

During the investment period of the Onex Partners Funds (up to five years for Onex Partners II), 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. The investment period of Onex Partners I was completed during 2006 and Onex, therefore, earns a 1 percent management fee on Onex Partners I's remaining invested capital, which would be approximately \$7 million based on investments at December 31, 2007. The management fee on Onex Partners I will decline over time as realizations occur.

Management fees earned by Onex on the Onex Partners Funds totalled approximately \$50 million in 2007 (2006 – \$41 million).

During 2007, management fees earned on the ONCAP II Fund totalled approximately \$5 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 may hold the debt of certain operating companies, which amounted to \$138 million at December 31, 2007 compared to \$175 million at December 31, 2006. Approximately \$63 million of the decrease in debt of operating companies in 2007 was related to the conversion of preferred shares held by Onex to common shares of Sitel Worldwide in connection with that company's acquisition of and merger with SITEL Corporation in January 2007. Partially offsetting this decrease was debt purchased by Onex in connection with an ONCAP acquisition in 2007. Note 10 to the audited annual consolidated financial statements provides information on the debt of operating companies held by Onex.



## RECENT ACCOUNTING PRONOUNCEMENTS

### Inventories

In June 2007, the Canadian Institute of Chartered Accountants issued Section 3031, "Inventories", which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory writedowns if economic circumstances have changed to support higher inventory values. The standard is effective for 2008. Commencing in the first quarter of 2008, the Company is required to disclose the amount of inventory recognized in cost of sales each quarter, as well as any inventory writedowns or reversals each quarter. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

### International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS.

## 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' management, including its CEO and CFO, have evaluated the effectiveness of the Company's disclosure controls and procedures as at December 31, 2007 and have concluded that those disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, Onex has concluded, based on its evaluation as of the end of the period covered by this report, that our disclosure controls and procedures were effective in providing reasonable assurance that the objectives of our disclosure control system were met.

### 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 2007, Onex management 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 2007 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.

Several of Onex' operating companies have also completed system conversions or implemented new systems during 2007. We believe that these system changes have not materially affected, and are not reasonably likely to materially affect, Onex' internal control over financial reporting.

## OUTLOOK

We expect that the liquidity contraction in credit markets, which began in mid-2007, will continue during 2008. These conditions are having an impact on the availability of debt financing for new private equity transactions, as lenders are not willing to fund large acquisitions on terms and at levels similar to those that prevailed during the first half of 2007. We expect that new private equity acquisitions will generally have less leverage and include more rigorous debt covenants, essentially returning to the lending conditions that we experienced through the end of 2005.

This is not an unduly challenging development for Onex because we have not been dependent on excessive leverage to complete our acquisitions. Through December 31, 2007, the average net debt/EBITDA multiple for all Onex Partners investments at acquisition was 3.6 times, an average that was well below private equity industry norms and that we do not view as excessive. We believe that by applying a prudent amount of leverage, our operating companies are better able to withstand cyclical downturns or unforeseen events, which ultimately reduces risk for shareholders, investors and other stakeholders. Onex focuses on increasing the intrinsic value of each business over the long term, rather than applying excessive leverage for short- or medium-term gain. We are comfortable with a return to traditional debt covenants as we have completed most acquisition financing in our 24-year history under such terms.

It is possible that the credit markets may also affect certain avenues for Onex to realize on its assets during 2008. In an outright sale, financing for such a transaction will not likely be as readily available to potential buyers as it was in the first half of 2007.

During 2007, Onex completed five major acquisitions and investments while ONCAP completed two additional acquisitions. As we enter 2008, we are continuing to review new opportunities to deploy capital but, given the current debt market conditions, we are seeing a significantly lower level of attractive acquisition opportunities compared to recent years. We are, however, pursuing a number of initiatives that we believe will help us to identify attractive acquisition opportunities. These include:

- **Industry Verticals.** We continue to focus on those industries that we believe provide an opportunity to acquire a platform business upon which to grow. Recent past examples are in healthcare and aerospace manufacturing, where we studied the industry and discovered appropriate opportunities upon which to build. We are currently researching other industries in which we feel there are attractive dynamics for entry and opportunity for growth and value creation.
- **Industry Partnerships.** Onex has a long and successful history of partnering with seasoned executives to find particular acquisitions and grow those businesses. The operating experience of the industry executive combined with Onex' expertise in acquisition analysis and financing creates a powerful partnership that has enabled us to develop and evaluate opportunities more thoroughly and efficiently than we would have been able to do on our own. We currently have three such industry partnerships actively evaluating opportunities.
- **Carve-Out Opportunities.** Onex has demonstrated its expertise in working with major corporations to acquire a significant division or operation within a business and establish it as a strong stand-alone entity. We are willing to invest the time and energy to work through the many complexities of such "carve-outs" to achieve not only the objectives of the seller but also our own goal of creating successful new platforms for growth and value creation. Past examples include purchasing the inflight catering operations of American Airlines, Sky Chefs, and building that business into the world leader; purchasing the Wichita and Tulsa aerostructures manufacturing operations from Boeing and forming Spirit AeroSystems; and more recently purchasing the healthcare division of Eastman Kodak, from which we created Carestream Health. We believe the current environment will enable us to pursue new carve-out opportunities.

We believe that these initiatives, augmented by our team's excellent network of relationships, will enable us to pursue interesting acquisition opportunities during 2008. Overall, however, we expect the pace of acquisitions to be slower in 2008 than what we achieved in 2007.

Our view is that many of the factors affecting the private-equity markets are cyclical in nature. We plan to continue with our strategy to expand our third-party capital under management and, in early 2008, started our fundraising efforts for a third large-cap fund. Onex Partners III LP is targeting capital commitments of US\$4.5 billion, with US\$1 billion to be committed by Onex. If we are successful in raising Onex Partners III, this will increase the amount of management fees Onex earns and the asset base upon which Onex has the opportunity to earn carried interest. We also intend to raise third-party capital for Onex Real Estate Partners and grow Onex Credit Partners' assets under management during 2008.

At the time of this writing, there is no clear consensus about the direction of the U.S. economy in the coming year. Many believe that the economy and the capital markets will continue to be challenged by the after-effects of the subprime mortgage turmoil. Should a recession ultimately take hold during 2008, the operating results for a number of Onex' businesses are likely to be adversely affected. A substantial portion of Onex' consolidated revenues in 2007 were derived from operating companies whose primary markets are in the United States.

Whatever the eventual trajectory of the U.S. economy, we believe it is in the best interest of Onex, its shareholders and its partners for Onex management to remain clearly focused on our long-standing business objective: to create long-term value by acquiring and building industry-leading businesses and by controlling and managing third-party capital. It is our consistent goal that the pursuit of this objective will create value over the long term and that value 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 invests 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.

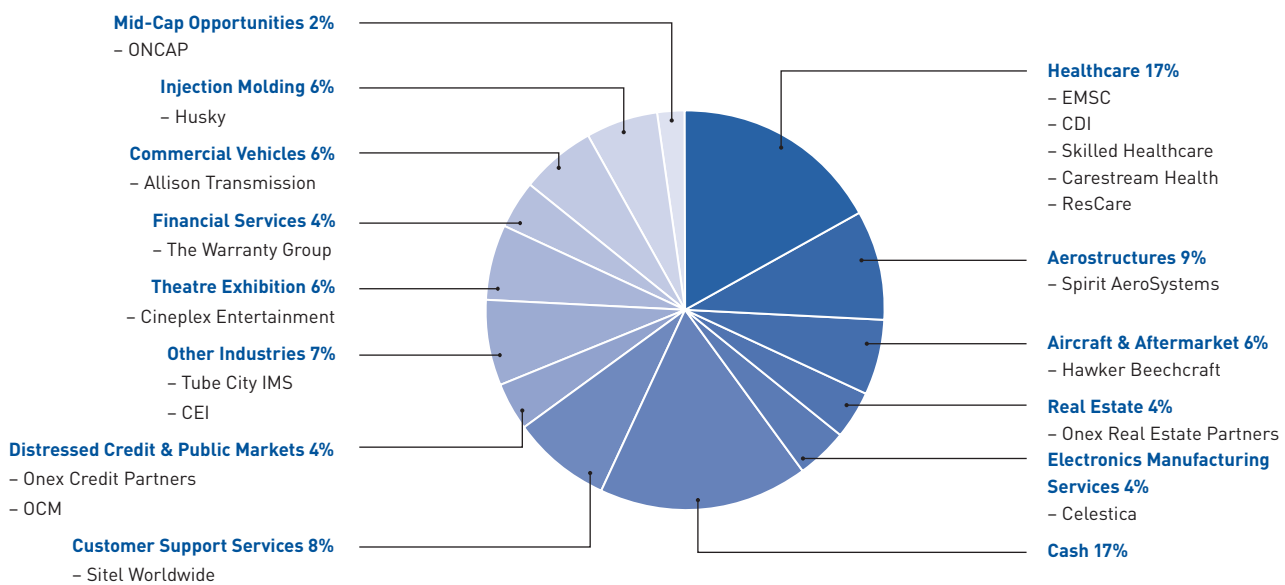
Operating companies are encouraged to reduce risk and/or expand opportunity by diversifying their customer bases, broadening their geographic reach or product and service offerings and improving productivity. In certain instances, we may also encourage an operating company to seek additional equity in 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. As shown on the asset diversification chart that follows, Onex is well diversified among various industries with no single industry representing more than 17 percent of its net asset base and no single business representing more than 10 percent of its net asset base.

### Asset Diversification of Onex



Private investments are valued at cost and publicly traded investments are valued at market as at December 31, 2007.

### Operating liquidity

It is Onex' 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 with paramount duties to act in the best interests of the Onex shareholders, 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, sourced

exclusively on the strength of the acquired companies' financial condition and prospects, is assumed by the acquired company and is without recourse to Onex, the parent company, at closing, 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 through reasonable business cycles 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 its 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 US\$1.655 billion pool of capital raised from Onex and major institutional co-investors. During 2004, 2005, 2006 and 2007, Onex successfully deployed this capital in a variety of attractive businesses with the result that Onex Partners I's investment period was substantially completed in 2006. Onex raised a second fund, Onex Partners II LP, in 2006. Onex Partners II, a US\$3.45 billion pool of capital, completed its first investment in November 2006 and in 2007 made five further investments.

### **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 2007. Approximately 48 percent of consolidated revenues and 57 percent of consolidated assets were in the United States. Approximately 40 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 2007, shareholders' equity reflected a \$202 million decrease in the value of Onex' net equity in its operating companies and equity-accounted investments that operate in U.S. currency.

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

**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. 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 materials 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.

Diesel fuel is a key commodity used in Tube City IMS' operations. The company consumes approximately 10 million gallons of diesel fuel annually. To help mitigate the risk of changes in fuel, Tube City IMS incorporates into substantially all of its contracts pricing escalators based on published prices indices that would generally offset some portion of the fuel price changes.

### **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 attractive add-on acquisitions that may enable the platform company to achieve its goals more quickly and successfully than by focusing solely on the development and/or diversification of its customer base, which is known as organic growth. Growth by acquisition, however, may carry 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 in addition to the risk factors associated with the industry and combined business more generally. Onex works with company management to understand and attempt to 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 agreements 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.

### Other contingencies

Onex and its operating companies are or may become parties to legal claims arising in the ordinary course of business. The operating companies have recorded liability provisions based upon their consideration and analysis of their exposure in respect of such claims. Such provisions are reflected, as appropriate, in Onex' consolidated financial statements. Onex, the parent company, has not currently recorded any further liability provision and we do not believe that the resolution of known claims would reasonably be expected to have a material adverse impact on Onex' consolidated financial position. However, the final outcome with respect to outstanding, pending or future actions cannot be predicted with certainty, and therefore there can be no assurance that their resolution will not have an adverse effect on our consolidated financial position.

## 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 at December 31, 2007  
February 27, 2008

[signed]

**Donald W. Lewtas**  
Vice President Finance  
Chief Financial Officer beginning January 1, 2008  
February 27, 2008

# AUDITORS' REPORT

## To the Shareholders of Onex Corporation:

We have audited the consolidated balance sheets of Onex Corporation as at December 31, 2007 and 2006 and the consolidated statements of earnings, shareholders' equity and comprehensive earnings 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, 2007 and 2006 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, Licensed Public Accountants

Toronto, Canada

February 27, 2008

# CONSOLIDATED BALANCE SHEETS

As at December 31 <i>(in millions of dollars)</i>	2007	2006
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 2,462	\$ 2,944
Marketable securities	813	1,129
Accounts receivable	3,463	2,586
Inventories (note 4)	2,539	2,345
Other current assets (note 5)	1,461	1,694
Current assets held by discontinued operations (note 3)	-	139
	<b>10,738</b>	10,837
Property, plant and equipment (note 6)	3,489	2,899
Investments (note 7)	3,203	1,822
Other long-term assets (note 8)	2,634	2,894
Intangible assets (note 9)	2,692	1,036
Goodwill	3,443	2,696
Long-lived assets held by discontinued operations (note 3)	-	394
	<b>\$ 26,199</b>	\$ 22,578
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 4,938	\$ 4,066
Current portion of long-term debt, without recourse to Onex (note 10)	176	43
Current portion of obligations under capital leases, without recourse to Onex (note 11)	104	35
Current portion of warranty reserves and unearned premiums (note 12)	1,544	2,246
Current liabilities held by discontinued operations (note 3)	-	96
	<b>6,762</b>	6,486
Long-term debt of operating companies, without recourse to Onex (note 10)	6,159	3,798
Long-term portion of obligations under capital leases of operating companies, without recourse to Onex (note 11)	26	70
Long-term portion of warranty reserves and unearned premiums (note 12)	2,364	2,623
Other liabilities (note 13)	1,663	1,818
Future income taxes (note 14)	1,373	1,050
Long-term liabilities held by discontinued operations (note 3)	-	324
	<b>18,347</b>	16,169
Non-controlling interests	6,149	4,594
<b>Shareholders' equity</b>	<b>1,703</b>	1,815
	<b>\$ 26,199</b>	\$ 22,578

Commitments and contingencies are reported in notes 11 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>	2007	2006
<b>Revenues</b>	<b>\$ 23,433</b>	\$ 18,620
Cost of sales	<b>(19,186)</b>	(16,161)
Selling, general and administrative expenses	<b>(2,163)</b>	(1,087)
<b>Earnings Before the Undernoted Items</b>	<b>2,084</b>	1,372
Amortization of property, plant and equipment	<b>(535)</b>	(370)
Amortization of intangible assets and deferred charges	<b>(409)</b>	(91)
Interest expense of operating companies (note 16)	<b>(537)</b>	(339)
Interest income	<b>125</b>	122
Earnings (loss) from equity-accounted investments	<b>(44)</b>	25
Foreign exchange gains (loss)	<b>(118)</b>	22
Stock-based compensation (note 17)	<b>(150)</b>	(634)
Other income	<b>6</b>	9
Gains on sales of operating investments, net (note 18)	<b>1,144</b>	1,307
Acquisition, restructuring and other expenses (note 19)	<b>(123)</b>	(292)
Writedown of goodwill and intangible assets	<b>(7)</b>	(10)
Writedown of long-lived assets	<b>(15)</b>	(3)
<b>Earnings before income taxes, non-controlling interests and discontinued operations</b>	<b>1,421</b>	1,118
Provision for income taxes (note 14)	<b>(295)</b>	(24)
Non-controlling interests	<b>(1,017)</b>	(838)
<b>Earnings from continuing operations</b>	<b>109</b>	256
Earnings from discontinued operations (note 3)	<b>119</b>	746
<b>Net Earnings for the Year</b>	<b>\$ 228</b>	\$ 1,002
<b>Net Earnings per Subordinate Voting Share</b> (note 20)		
Basic and Diluted:		
Continuing operations	<b>\$ 0.85</b>	\$ 1.93
Discontinued operations	<b>\$ 0.93</b>	\$ 5.62
Net earnings	<b>\$ 1.78</b>	\$ 7.55

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE EARNINGS

<i>(in millions of dollars except per share data)</i>	Share Capital (note 15)	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Total Shareholders' Equity
<b>Balance – December 31, 2005</b>	\$ 578	\$ 648	\$ (74) <sup>(b)</sup>	\$ 1,152
Dividends declared <sup>(a)</sup>	-	(15)	-	(15)
Purchase and cancellation of shares	(37)	(166)	-	(203)
Currency translation adjustments	-	-	(121)	(121)
Net earnings for the year	-	1,002	-	1,002
<b>Balance – December 31, 2006</b>	<b>541</b>	<b>1,469</b>	<b>(195)<sup>(b)</sup></b>	<b>1,815</b>
Adoption of financial instrument accounting policies (note 1)	-	1	-	1
Dividends declared <sup>(a)</sup>	-	(14)	-	(14)
Purchase and cancellation of shares	(12)	(101)	-	(113)
<b>Comprehensive Earnings (Loss)</b>				
Net earnings for the year	-	228	-	228
Other comprehensive earnings (loss) for the year:				
Currency translation adjustments	-	-	(202)	(202)
Change in fair value of derivatives designated as hedges	-	-	(22)	(22)
Other	-	-	10	10
<b>Balance – December 31, 2007</b>	<b>\$ 529</b>	<b>\$ 1,583</b>	<b>\$ (409)<sup>(c)</sup></b>	<b>\$ 1,703</b>

(a) Dividends declared per Subordinate Voting Share during 2007 totalled \$0.11 (2006 – \$0.11). In 2007, shares issued under the dividend reinvestment plan amounted to less than \$1 (2006 – less than \$1).

(b) Accumulated Other Comprehensive Earnings (Loss) as at December 31, 2006 and 2005 consists of currency translation adjustments. Included in the currency translation adjustments for the year ended December 31, 2006 is negative \$129 relating to the discontinued operations of J.L. French Automotive Castings, Inc.

(c) Accumulated Other Comprehensive Earnings (Loss) as at December 31, 2007 consists of currency translation adjustments of negative \$397, unrealized losses on the effective portion of cash flow hedges of \$20 and unrealized gains on available-for-sale financial assets and other of \$8. Income taxes did not have a significant effect on these items.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 <i>(in millions of dollars)</i>	2007	2006
<b>Operating Activities</b>		
Net earnings for the year	\$ 228	\$ 1,002
Earnings from discontinued operations	(119)	(746)
Items not affecting cash:		
Amortization of property, plant and equipment	535	370
Amortization of intangible assets and deferred charges	409	91
Writedown of goodwill and intangible assets	7	10
Writedown of long-lived assets	15	3
Non-cash component of restructuring (note 19)	5	91
Non-controlling interests	1,017	838
Future income taxes (note 14)	68	72
Stock-based compensation (note 17)	150	438
Loss (earnings) from equity-accounted investments	44	(25)
Foreign exchange loss (gains)	132	(10)
Gains on sales of operating investments, net (note 18)	(1,144)	(1,307)
Other	26	31
	<b>1,373</b>	858
Changes in non-cash working capital items:		
Accounts receivable	(358)	(128)
Inventories	176	(619)
Other current assets	109	7
Accounts payable and accrued liabilities	270	258
Increase (decrease) in cash due to changes in working capital items	197	(482)
Increase (decrease) in warranty reserves and unearned premiums and other liabilities	(242)	520
	<b>1,328</b>	896
<b>Financing Activities</b>		
Issuance of long-term debt	1,927	543
Repayment of long-term debt	(1,643)	(792)
Cash dividends paid	(14)	(15)
Repurchase of share capital	(113)	(203)
Issuance of share capital by operating companies	2,123	822
Distributions by operating companies	(886)	(1,036)
Decrease due to other financing activities	(47)	(9)
	<b>1,347</b>	(690)
<b>Investing Activities</b>		
Acquisition of operating companies, net of cash in acquired companies of \$326 (2006 – \$144) (note 2)	(1,840)	(850)
Purchase of property, plant and equipment	(633)	(823)
Proceeds from sales of operating investments	1,311	1,391
Decrease due to other investing activities	(1,871)	(266)
Cash from discontinued operations	216	172
	<b>(2,817)</b>	(376)
<b>Decrease in Cash for the Year</b>	<b>(142)</b>	(170)
Increase (decrease) in cash due to changes in foreign exchange rates	(351)	10
Cash, beginning of the year – continuing operations	2,944	3,089
Cash, beginning of the year – discontinued operations	11	26
<b>Cash, end of year</b>	<b>2,462</b>	2,955
Short-term investments	-	-
<b>Cash and short-term investments</b>	<b>2,462</b>	2,955
Cash held by discontinued operations (note 3)	-	(11)
<b>Cash and Short-term Investments Held by Continuing Operations</b>	<b>\$ 2,462</b>	\$ 2,944

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions of dollars except per share data)

Onex Corporation and its subsidiaries (the "Company") is a diversified company whose businesses operate autonomously. Throughout these statements, the term "Onex" refers to the parent company. 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 Onex and its subsidiaries, including its controlled operating companies. 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)). 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, 2007		December 31, 2006	
	Onex Ownership	Voting	Onex Ownership	Voting
<i>Investments made through Onex</i>				
Celestica Inc. ("Celestica")	13%	79%	13%	79%
Cineplex Entertainment	23%	(a)	23%	(b)
Sitel Worldwide Corporation ("Sitel Worldwide")	66%	88%	67%	89%
Radian Communication Services Corporation ("Radian")	89%	100%	89%	100%
<i>Investments made through Onex and Onex Partners I</i>				
Cosmetic Essence, Inc. ("CEI")	21%	100%	21%	100%
Center for Diagnostic Imaging, Inc. ("CDI")	19%	100%	19%	100%
Emergency Medical Services Corporation ("EMSC")	29%	97%	29%	97%
Res-Care, Inc. ("ResCare")	6%	(a)	6%	(a)
Spirit AeroSystems, Inc. ("Spirit AeroSystems")	7%	76%	13%	89%
Skilled Healthcare Group, Inc. ("Skilled Healthcare")	9%	90%	21%	100%
<i>Investments made through Onex and Onex Partners II</i>				
Tube City IMS Corporation ("Tube City IMS")	35%	100%	-	-
Hawker Beechcraft Corporation ("Hawker Beechcraft")	20%	(a)	-	-
Carestream Health, Inc. ("Carestream Health")	39%	100%	-	-
Allison Transmission, Inc. ("Allison Transmission")	15%	(a)	-	-
<i>Investments made through Onex, Onex Partners I and Onex Partners II</i>				
The Warranty Group, Inc. ("The Warranty Group")	30%	100%	31%	100%
Husky Injection Molding Systems Ltd. ("Husky")	36%	100%	-	-
<i>Other investments</i>				
ONCAP II L.P.	44%	100%	45%	100%
Onex Real Estate Partners ("Onex Real Estate")	86%	100%	85%	100%

(a) Onex exerts significant influence over these equity-accounted investments through its right to appoint members to the Board of Directors (or Board of Trustees) of the entities.

(b) At December 31, 2006, Onex controlled a sufficient number of units to elect the majority of the board of the general partner of Cineplex Entertainment Limited Partnership ("CELP").

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.

Joint ventures, which are not variable interest entities ("VIEs"), are accounted for using the proportionate consolidation method. The consolidated financial statements include revenues of \$19 (2006 – \$21), net assets of \$48 (2006 – \$54) and net loss before income taxes of \$10 (2006 – earnings of \$63) with respect to joint ventures. The 2006 net earnings before income taxes from joint ventures consists primarily of gains relating to the sale of certain Town and Country Trust ("Town and Country") properties.



## NEW ACCOUNTING POLICIES

### Consolidation

On April 2, 2007, Onex ceased to have voting rights on certain units of Cineplex Entertainment Limited Partnership (“CELP”) held by unitholders other than Onex. As a result, Onex no longer controls a sufficient number of units to elect the majority of the board of the General Partner of CELP and, therefore, Onex ceased consolidating CELP on April 2, 2007. As Onex continues to have significant influence over CELP, beginning in the second quarter of 2007 Onex now accounts for its interest in CELP using equity accounting, with the results included in the other segment in note 27.

### Accounting Changes

In January 2007, the Company adopted the *Canadian Institute of Chartered Accountants Handbook* (“CICA Handbook”) Section 1506, “Accounting Changes”, which requires that voluntary changes in accounting policy be made only if the changes result in financial statements that provide reliable and more relevant information. It also requires prior period errors to be corrected retrospectively. The adoption of this standard did not impact the consolidated financial statements.

### Financial Instruments

The Company adopted *CICA Handbook* Section 3855, “Financial Instruments – Recognition and Measurement”; Section 3865, “Hedges”; Section 1530, “Comprehensive Income”; and Section 3861, “Financial Instruments – Disclosure and Presentation” on January 1, 2007. The adoption of these new accounting standards resulted in changes in the accounting for financial instruments as well as the recognition of certain transition adjustments that have been recorded in opening retained earnings and accumulated other comprehensive income, as described below. The comparative consolidated financial statements have not been restated for the adoption of these standards, except for the presentation of currency translation adjustments. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

#### a) Financial assets and financial liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired and their characteristics. Except in very limited circumstances, the classification is not changed subsequent to initial recognition. Financial assets purchased and sold, where the contract requires the asset to be delivered within an established time frame, are recognized on a trade-date basis.

#### *Held-for-trading*

Financial assets and financial liabilities that are purchased and incurred with the intention of generating profits in the near term are classified as held-for-trading. Other instruments may be designated as held-for-trading on initial recognition. These instruments are accounted for at fair value with the change in the fair value recognized in earnings.

At January 1, 2007, no investments required mandatory classification as held-for-trading. However, certain investments previously recorded at cost were designated as held-for-trading on January 1, 2007. The difference of \$1 between the fair value and the cost was recorded as an increase to retained earnings on January 1, 2007. The tax effect on this transitional amount was not significant.

During 2007, the decrease in the fair value of assets designated as held-for-trading of \$21 was included in other income in the consolidated statement of earnings. The decrease in fair value of assets classified as held-for-trading was primarily due to foreign exchange on certain U.S.-dollar-denominated investments.

#### *Available-for-sale*

Financial assets classified as available-for-sale are carried at fair value with the changes in fair value recorded in other comprehensive earnings. Securities that are classified as available-for-sale and do not have a quoted price in an active market are recorded at cost. Available-for-sale securities are written down to fair value through earnings whenever it is necessary to reflect an other-than-temporary impairment. Gains and losses realized on disposal of available-for-sale securities, which are calculated on an average cost basis, are recognized in earnings.

At January 1, 2007, unrealized losses of \$7 on securities classified as available-for-sale that have a quoted price in an active market were recorded as a decrease to investments. Onex’ share of \$2 was recorded as an opening adjustment to accumulated other comprehensive earnings. The tax effect on this transitional amount was not significant.

#### *Held-to-maturity*

Securities that have fixed or determinable payments and a fixed maturity date, which the Company intends and has the ability to hold to maturity, are classified as held-to-maturity and accounted for at amortized cost using the effective interest rate method. Investments classified as held-to-maturity are written down to fair value through earnings whenever it is necessary to reflect an other-than-temporary impairment.

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

### b) Derivatives and hedge accounting

#### *Hedge accounting*

At the inception of a hedging relationship, the Company documents the relationship between the hedging instrument and the hedged item, its risk management objectives and its strategy for undertaking the hedge. The Company also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the derivatives that are used in the hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

Under the previous standards, derivatives that met the requirements for hedge accounting were generally accounted for on an accrual basis. Under the new standards, all derivatives are recorded at fair value. The method of recognizing fair value gains and losses depends on the nature of the risks being hedged.

Derivatives that are not designated in effective hedging relationships continue to be accounted for at fair value with changes in fair value being included in other income in the consolidated statement of earnings.

When derivatives are designated as hedges, the Company classifies them either as: (i) hedges of the change in fair value of recognized assets or liabilities or firm commitments (fair value hedges); (ii) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecasted transaction (cash flow hedges); or (iii) hedges of net investments in a foreign self-sustaining operation (net investment hedges).

#### *Fair value hedge*

The Company's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the statement of earnings, along with changes in the fair value of the assets, liabilities or group thereof that are attributable to the hedged risk.

#### *Cash flow hedge*

The Company is exposed to variability in future interest cash flows on non-trading assets and liabilities that bear interest at variable rates or are expected to be reinvested in the future.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive earnings. Any gain or loss in fair value relating to the ineffective portion is recognized immediately in the consolidated statement of earnings in other income.

Amounts accumulated in other comprehensive earnings are reclassified in the consolidated statement of earnings in the period in which the hedged item affects income. However, when the forecasted transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive earnings are transferred from other comprehensive earnings and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive earnings at that time remains in other comprehensive earnings until the forecasted transaction is eventually recognized in the statement of income. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive earnings is immediately transferred to the statement of earnings. Upon adoption of the new standards, the Company recorded an increase in assets of \$13 relating to cash flow hedges. Onex' share of \$2 was recorded as an opening adjustment to accumulated other comprehensive earnings. The tax effect on this transitional amount was not significant.

#### *Net investment hedges*

Hedges of net investments in foreign operations are accounted for similar to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive earnings. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of earnings. Gains and losses accumulated in other comprehensive earnings are included in the consolidated statement of earnings upon the reduction or disposal of the investment in the foreign operation. The adoption of the new standards resulted in the reclassification of the foreign currency translation adjustment account to accumulated other comprehensive earnings.

### c) Comprehensive earnings

Comprehensive earnings is composed of the Company's net earnings and other comprehensive earnings. Other comprehensive earnings includes unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the net investment in self-sustaining operations and changes in the fair market value of derivative instruments designated as cash flow hedges or net investment hedges, all net of income taxes. The components of comprehensive earnings are disclosed in the consolidated statement of shareholders' equity and comprehensive earnings.

**d) Financing charges and other transaction costs**

Under the new standards, financing charges and other transaction costs may continue to be capitalized. However, deferred financing charges now must be recorded against the carrying value of the associated debt. As a result of the adoption of this policy, at January 1, 2007, \$81 of deferred financing charges were reclassified from other assets to long-term debt.

**e) Interest rate risk**

The Company is exposed to interest rate price risk primarily through investments held by The Warranty Group, as described in note 7, and certain of its long-term debt subject to fixed rates, as described in note 10. The Company is exposed to interest rate cash flow risk, primarily through short-term investments held by Onex and certain operating companies, as well as certain of its long-term debt subject to floating interest rates. In addition, certain operating companies have hedged a portion or all of their exposure to floating rate interest by entering into interest rate swaps, as described in note 10.

The following table summarizes the adjustments required to adopt the new standards.

As at January 1, 2007	Increase/(Decrease)		Decrease/(Increase)			
	Investments	Other Assets	Long-term Debt	Non-controlling Interest Liability	Retained Earnings <sup>(1)</sup>	Accumulated Other Comprehensive Earnings
Held-for-trading securities	\$ 5	\$ -	\$ -	\$ (4)	\$ (1)	\$ -
Available-for-sale securities	(7)	-	-	5	-	2
Hedges	-	13	-	(11)	-	(2)
Classification of transaction costs	-	(81)	81	-	-	-
<b>Total</b>	<b>\$ (2)</b>	<b>\$ (68)</b>	<b>\$ 81</b>	<b>\$ (10)</b>	<b>\$ (1)</b>	<b>\$ -</b>

(1) Income taxes did not have a significant effect on the adoption of the new standards.

Financial instruments were classified as follows:

	December 31, 2007		December 31, 2006
	Carrying Value	Fair Value <sup>(1)</sup>	Carrying Value <sup>(2)</sup>
Held-for-trading <sup>(3)</sup>	\$ 170	\$ 170	\$ 136
Available-for-sale <sup>(4)</sup>	\$ 2,179	\$ 2,179	\$ 2,297
Held-to-maturity <sup>(5)</sup>	\$ 132	\$ 132	\$ 136

- (1) The fair value of substantially all financial instruments is determined by using prices quoted in an active market.
- (2) December 31, 2006 carrying value represents the carrying amount in the 2006 financial statements of instruments that are now classified as held-for-trading, available-for-sale and held-to-maturity.
- (3) Amounts are included in investments in the consolidated balance sheet. At December 31, 2007, these securities classified as held-for-trading were optionally designated as such.
- (4) Amounts are included in marketable securities, investments and other long-term assets in the consolidated balance sheet.
- (5) Amounts are primarily included in investments in the consolidated balance sheet.

In addition to the above, at December 31, 2007, cash and short-term investments of \$2,462 have been classified as held-for-trading.

Long-term debt has not been designated as held-for-trading and therefore is recorded at amortized cost subsequent to initial recognition.

**Recently issued accounting pronouncements**

*Inventories*

In June 2007, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3031, “Inventories”, which requires inventory to be measured at the lower of cost and net realizable value. The standard provides guidance on the types of costs that can be capitalized and requires the reversal of previous inventory write-downs if economic circumstances have changed to support higher inventory values. The standard is effective for 2008. Commencing in the first quarter of 2008, the Company is required to disclose the amount of inventory recognized in cost of sales each quarter, as well as any inventory writedowns or reversals each quarter. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

*International Financial Reporting Standards*

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (“IFRS”) will be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. The Company is currently evaluating the impact of adopting IFRS.

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

### 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. 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 currency translation adjustments, a component of other comprehensive earnings.

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 and certain inventories in the healthcare segment, inventories 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, 2007, the Company capitalized computer software costs of \$35 (2006 – \$18).

#### 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 held-for-sale. Impairment losses for assets held for use are measured based on fair value, which is measured by discounted cash flows. Held-for-sale assets are carried at the lower of carrying value and expected proceeds less direct costs to sell.

### Other assets

#### *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. Unearned premiums and contract fees subject to retrospective commission agreements totalled \$568 at December 31, 2007 (2006 – \$711).

### 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 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 of up to 25 years. The weighted average period of amortization at December 31, 2007 was approximately 10 years (2006 – eight years).

### Deferred financing charges

Deferred financing charges consists of 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. These deferred financing charges are recorded against the carrying value of the long-term debt, as described in note 10.

### Losses and loss adjustment expenses reserves

Losses and loss adjustment expenses reserves relate to The Warranty Group and represent the estimated ultimate net cost of all reported and unreported losses incurred and unpaid through December 31, 2007. 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.

### Warranty liabilities

Certain operating companies offer warranties on the sale of products or services. A liability is recorded to provide for future warranty costs based on management's best estimate of probable claims under these warranties. The accrual is based on the terms of the warranty, which vary by customer and product or service and historical experience. The appropriateness of the accrual is evaluated at each reporting period.

### 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 pro-rated on service, based on management's best estimates of items, including expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs. Plan assets are valued at fair value for the purposes of calculating expected returns on those assets. Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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

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

Defined contribution plan accounting is applied to multi-employer defined benefit plans, for which the operating companies have insufficient information to apply defined benefit accounting.

The average remaining service period of active employees covered by the significant pension plans is 17 years (2006 – 11 years) and for those active employees covered by the other significant post-retirement benefit plans, the average remaining service period is 18 years (2006 – 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 is 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 revenue, total costs or 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 complete or other contractual milestones are attained.

#### *Healthcare*

Revenue in the healthcare segment consists primarily of EMSC's service revenue related to its healthcare transportation and emergency management service businesses, CDI's patient service revenue, Skilled Healthcare's patient service revenue and Carestream Health's product sales revenue. Service revenue is recognized at the time of service and is recorded net of provisions for contractual discounts and estimated uncompensated care. Revenue from product sales is recognized when the following criteria are met: pervasive evidence of an arrangement exists; delivery has occurred; the sales price is fixed or determinable; and collectibility is reasonably assured.

#### *Financial Services*

Financial services segment revenue consists of revenue on The Warranty Group'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 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, 2007 was \$1,221.

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.

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.

#### *Customer Support Services*

The customer support 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 consolidated statements of earnings as revenue and cost of services, respectively.

#### *Metal Services*

The metal services segment generates revenue primarily through slag processing, metal recovery and metal sales, material handling, scrap management services and scrap preparation, and raw materials procurement.

Revenue from slag processing, metal recovery, and metal sales is derived from the removal of slag from a furnace and processing it to separate metallic material from other slag components. Metallic material is generally returned to the customer and the non-metallic material is generally sold to third parties. The company recognizes revenue from slag processing and metal recovery services when it performs the services and revenue from co-product sales when title and risk of loss pass to the customer.

Revenues from material handling, scrap management services and scrap preparation consists of revenues from receiving, processing, and managing raw material inputs and handling and recording inventory of finished products whereby all of the production is generally completed at the customer's location. Revenues from these sources are recognized at the time the service is performed. The company also has two locations that purchase, process, and sell scrap iron and steel inventory for the company's own account. The company recognizes revenue from scrap sales of material, when title and risk of loss pass to the customer.

Revenue from raw materials procurement represents sales to third parties whereby the company either purchases scrap iron and steel from a supplier and then immediately sells the scrap to a customer, with shipment made directly from the supplier to the third-party customer, or the company earns a contractually determined fee for arranging scrap shipments for a customer directly with a vendor. The company recognizes revenue from raw materials procurement sales when title and risk of loss pass to the customer.

#### *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.

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

### 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 2007, \$172 (2006 – \$130) in research and development costs were expensed and \$143 of development costs (2006 – \$266) 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 five 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 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 by reference to the value of underlying investments, with a corresponding expense recorded in the consolidated statements of earnings.

The third type of plan is the Director 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 Director 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 consolidated statement of earnings.

The fourth type of plan is the Management Deferred Share Unit Plan ("Management DSU Plan"). The Management DSU Plan enables Onex management to apply all or a portion of their annual compensation earned to acquire DSUs based on the market value of Onex shares at the 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 consolidated statement of earnings. To hedge the Company's exposure to changes in the trading price of Onex shares associated with the Management DSU Plan, the Company expects to enter into forward agreements with a counterparty financial institution for all grants under the Management DSU Plan. As such, the change in value of the forward agreements will be recorded to offset the amounts recorded as stock-based compensation under the Management DSU Plan. The costs of those arrangements are borne entirely by participants in the plan. Management DSUs are redeemable only for cash and no shares or other securities of the Corporation will be issued on the exercise, redemption or other settlement thereof.

The fifth 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.

### 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 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.

## 2. CORPORATE INVESTMENTS

During 2007 and 2006 several acquisitions, which were accounted for as purchases, were completed either directly by Onex or through subsidiaries of Onex. Any third-party borrowings in respect of acquisitions are without recourse to Onex.

### 2007 ACQUISITIONS

**a)** In January 2007, the Company completed the acquisition of Tube City IMS, a leading provider of outsourced services to steel mills. Headquartered in Glassport, Pennsylvania, Tube City IMS provides raw materials procurement, scrap and materials management and slag processing services at 69 mill sites throughout the United States, Canada and Europe. The total equity investment of \$257, for a 100% equity ownership interest, was made by Onex, Onex Partners II and management. Onex' net investment in the acquisition was \$92, for an initial 36% equity ownership interest. Onex has effective voting control of Tube City IMS through Onex Partners II.

**b)** In January 2007, ClientLogic Corporation ("ClientLogic") completed the acquisition of SITEL Corporation, a global provider of outsourced customer support services. The total equity investment of \$401 was financed by ClientLogic, without any additional investment by Onex. The new combined entity now operates as Sitel Worldwide. In connection with the transaction, Onex converted \$63 of mandatorily redeemable preferred shares of ClientLogic into common shares of the combined entity. Subsequent to the transaction, Onex had a 70% economic interest and an 89% voting interest in Sitel Worldwide.

In addition, Sitel Worldwide completed three other acquisitions for total consideration of \$71. These acquisitions related to the purchase of the non-controlling interests in three businesses in which Sitel Worldwide had ownership interests.

**c)** In April 2007, the Company completed the acquisition of the Health Group division of Eastman Kodak Company ("Kodak"). The acquired business, which was renamed Carestream Health, is headquartered in Rochester, New York and is a leading global provider of medical imaging and healthcare information technology solutions. The equity investment of \$527, for a 100% equity ownership interest, was made by Onex, Onex Partners II and management. Onex' net investment in the acquisition was \$206 for an initial 39% equity ownership interest. The acquisition agreement provides that if Onex and Onex Partners II realize an internal rate of return in excess of 25% on their investment, Kodak will receive payment equal to 25% of the excess return up to US\$200.

**d)** In April 2007, ONCAP II completed the acquisition of Mister Car Wash Holdings, Inc. ("Mister Car Wash"). Mister Car Wash currently owns and operates 60 full-service and exterior car wash locations in the United States operating under the Mister Car Wash brand. In June 2007, ONCAP II completed the acquisition of CiCi's Holdings, Inc. ("CiCi's Pizza"). CiCi's Pizza is a franchisor of approximately 600 low-cost quick service restaurants in the United States. CiCi's Pizza also operates a captive purchasing and distribution business with three distribution centres in the United States. At acquisition, Onex and ONCAP II had an initial 89% equity ownership in Mister Car Wash and an initial 54% equity ownership in CiCi's Pizza.

During the first quarter of 2007, CSI Global Education Inc. ("CSI") completed the acquisition of The Institute of Canadian Bankers, a division of Thomson Canada Ltd. In addition, subsequent to the ONCAP II transaction, Mister Car Wash purchased additional car wash locations in the United States.

The total consideration of these acquisitions was \$120. Onex, ONCAP II and Onex management's total equity investment in these acquisitions was \$85, of which Onex' share was \$38.

In addition, acquisition financing of \$20 was provided by Onex, ONCAP II and Onex management, of which Onex' share was \$9.

**e)** In July 2007, EMSC completed two acquisitions: MedicWest Ambulance ("MedicWest") and Abbott Ambulance, Inc. ("Abbott Ambulance"). MedicWest is a franchised emergency ambulance transportation service provider based in Las Vegas, Nevada. Abbott Ambulance is the largest private provider of emergency and non-emergency ambulance services in St. Louis, Missouri. The total purchase price of these acquisitions was \$74, which was financed by EMSC.

In addition, EMSC completed three other acquisitions for total consideration of \$5.

**f)** In September 2007, Skilled Healthcare completed the acquisition of 10 nursing facilities and a hospice company located primarily in Albuquerque, New Mexico. The total purchase price of the acquisition was \$56, which was financed by Skilled Healthcare.

In addition, Skilled Healthcare completed three other acquisitions for total consideration of \$41.

**g)** In December 2007, the Company completed the acquisition of Husky, one of the world's largest suppliers of injection molding equipment and services to the plastics industry. Husky has a sales and service network consisting of more than 40 offices worldwide, as well as manufacturing facilities in Canada, the United States, Luxembourg and China. The total equity investment was \$633 for a 100% ownership interest, provided through Onex, Onex Partners I,

## 2. CORPORATE INVESTMENTS (cont'd)

Onex Partners II and management. Onex' net investment in the acquisition was \$226 for an initial 36% equity ownership interest. Onex has effective voting control of Husky through Onex Partners.

**h)** Other includes acquisitions made by CDI, for total consideration of \$3, and by Onex Real Estate, through its partnership with Cronus Capital, for total consideration of \$28.

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 and accounting adjustments could be recorded at that time. The results of operations for all acquired businesses are included in the consolidated statement of earnings of the Company from their respective dates of acquisition.

Details of the 2007 acquisitions are as follows:

	Tube City IMS <sup>(a)</sup>	Sitel Worldwide <sup>(b)</sup>	Carestream Health <sup>(c)</sup>	ONCAP II <sup>(d)</sup>	EMSC <sup>(e)</sup>	Skilled Healthcare <sup>(f)</sup>	Husky <sup>(g)</sup>	Other <sup>(h)</sup>	Total
Cash	\$ 31	\$ 37	\$ 67	\$ 102	\$ -	\$ -	\$ 89	\$ -	\$ 326
Other current assets	230	286	998	28	6	-	529	-	2,077
Intangible assets with limited life	241	95	1,485	29	28	4	339	1	2,222
Intangible assets with indefinite life	-	39	9	164	-	1	28	-	241
Goodwill	341	381	272	250	44	39	158	1	1,486
Property, plant and equipment and other long-term assets	229	122	569	153	6	53	491	90	1,713
	1,072	960	3,400	726	84	97	1,634	92	8,065
Current liabilities	(266)	(242)	(559)	(230)	(4)	-	(456)	-	(1,757)
Long-term liabilities <sup>(1)</sup>	(549)	(246)	(2,314)	(326)	(1)	-	(545)	(61)	(4,042)
	257	472	527	170	79	97	633	31	2,266
Non-controlling interests in net assets	(29)	-	(18)	(50)	-	-	(23)	-	(120)
Increase in net assets acquired	\$ 228	\$ 472	\$ 509	\$ 120	\$ 79	\$ 97	\$ 610	\$ 31	\$ 2,146

(1) Included in long-term liabilities of ONCAP II is \$20 of acquisition financing provided by ONCAP II, of which Onex' share is \$9.

### 2006 ACQUISITIONS

**a)** In January 2006, ONCAP II completed the acquisition of 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., now operating as EnGlobe Corp. ("EnGlobe"). EnGlobe 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 had an initial 90% equity ownership in CSI and, on a converted basis, ONCAP II had an initial 62% equity ownership interest in EnGlobe.

**b)** In March 2006, the acquisition of Town and Country was completed through a joint venture with Onex Real Estate, 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 Onex Real Estate 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. The Warranty Group 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, Onex Partners I, Onex Partners II and management. Onex' net investment was \$179 for an initial 31% equity ownership. Onex has effective voting control of The Warranty Group through Onex Partners.

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

Details of the 2006 acquisitions are as follows:

	ONCAP II <sup>(a)</sup>	Town and Country <sup>(b)</sup>	Spirit AeroSystems <sup>(c)</sup>	The Warranty Group <sup>(d)</sup>	Other <sup>(e)</sup>	Total
Cash	\$ 18	\$ 9	\$ -	\$ 116	\$ 1	\$ 144
Marketable securities	-	-	-	1,219	-	1,219
Other current assets	53	2	125	1,511	13	1,704
Intangible assets with limited life	39	7	35	615	11	707
Intangible assets with indefinite life	26	-	-	21	-	47
Goodwill	40	-	12	373	41	466
Property, plant and equipment and other long-term assets	38	799	116	2,714	50	3,717
	214	817	288	6,569	116	8,004
Current liabilities	(59)	(13)	(79)	(2,827)	(3)	(2,981)
Long-term liabilities <sup>(1)</sup>	(101)	(688)	(38)	(3,164)	(8)	(3,999)
	54	116	171	578	105	1,024
Non-controlling interests in net assets	(37)	(16)	-	(10)	-	(63)
Interest in net assets acquired	\$ 17	\$ 100	\$ 171	\$ 568	\$ 105	\$ 961

(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.

The cost of acquisitions made during the year includes restructuring and integration costs of \$62 (2006 – nil). As at December 31, 2007, accounts payable and accrued liabilities and other long-term liabilities

include \$32 and \$3, respectively (2006 – \$2 and nil) 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.

	2007		2006		2007			2006		
	Revenue		Gain (Loss), Net of Tax	Onex' Share of Earnings (Loss)	Total	Gain (Loss), Net of Tax	Onex' Share of Earnings (Loss)	Total		
WIS International <sup>(a)</sup>	\$ -	\$ 288	\$ 41	\$ -	\$ 41	\$ -	\$ 7	\$ 7		
CMC Electronics <sup>(b)</sup>	33	197	76	-	76	-	7	7		
Town and Country	1	46	4	(2)	2	45	(15)	30		
Futuremed	-	-	-	-	-	19	-	19		
J.L. French Automotive	-	-	-	-	-	615	-	615		
CSRS	-	-	-	-	-	21	-	21		
Cineplex Entertainment	-	8	-	-	-	-	-	-		
Sitel Worldwide warehouse	-	22	-	-	-	(2)	(3)	(5)		
Sky Chefs	-	-	-	-	-	50	-	50		
InsLogic	-	-	-	-	-	2	-	2		
	<b>\$ 34</b>	<b>\$ 561</b>	<b>\$ 121</b>	<b>\$ (2)</b>	<b>\$ 119</b>	<b>\$ 750</b>	<b>\$ (4)</b>	<b>\$ 746</b>		

a) In January 2007, ONCAP I sold its interest in its operating company, WIS International, for net proceeds of \$222, of which Onex' share was \$80. Onex' gain on the transaction was \$52, before a tax provision of \$11. Amounts held in escrow of US\$9 (of which Onex' share is US\$3) have been excluded from the gain.

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 WIS International. Amounts paid on account of these transactions related to the MIP totalled \$4 and have been deducted from the gain included in earnings from discontinued operations.

In addition, management of ONCAP I received \$16 as its carried interest from investors other than Onex.

b) In March 2007, ONCAP I sold its interest in its operating company, CMC Electronics, Inc. ("CMC Electronics"). Onex' net proceeds, which include proceeds from its direct investment in CMC Electronics, were \$145. Onex' gain on the transaction was \$90, before a tax provision of \$14. Onex' share of amounts held in escrow is \$11 and has been excluded from the gain.

Under the terms of the MIP, management members participated in the realizations the Company achieved on the sale of CMC Electronics. Amounts paid on account of these transactions related to the MIP totalled \$10 and have been deducted from the gain included in earnings from discontinued operations.

In addition, management of ONCAP I received \$12 as its carried interest from investors other than Onex.

The results of operations for the businesses described above have been reclassified in the consolidated statements of earnings and consolidated statements of cash flows for the years ended

December 31, 2007 and 2006 as discontinued operations. The amounts for discontinued operations that are included in the December 31, 2006 consolidated balance sheet are as follows:

As at December 31, 2006

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

#### 4. INVENTORIES

Inventories comprised the following:

As at December 31	2007	2006
Raw materials	\$ 835	\$ 1,044
Work in progress	1,124	868
Finished goods	580	433
	<b>\$ 2,539</b>	\$ 2,345

#### 5. OTHER CURRENT ASSETS

Other current assets comprised the following:

As at December 31	2007	2006
Current portion of ceded claims recoverable held by The Warranty Group (note 12)	\$ 355	\$ 600
Current portion of prepaid premiums of The Warranty Group	244	395
Current portion of deferred costs of The Warranty Group (note 8)	140	-
Current deferred income taxes (note 14)	228	224
Other	494	475
	<b>\$ 1,461</b>	\$ 1,694

## 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following:

As at December 31	2007			2006		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 235	\$ -	\$ 235	\$ 187	\$ -	\$ 187
Buildings	1,433	225	1,208	1,345	267	1,078
Machinery and equipment	3,273	1,495	1,778	2,837	1,496	1,341
Construction in progress	268	-	268	293	-	293
	<b>\$ 5,209</b>	<b>\$ 1,720</b>	<b>\$ 3,489</b>	<b>\$ 4,662</b>	<b>\$ 1,763</b>	<b>\$ 2,899</b>

The above amounts include property, plant and equipment under capital leases of \$175 (2006 – \$180) and related accumulated amortization of \$64 (2006 – \$90).

As at December 31, 2007, property, plant and equipment included \$39 (2006 – \$7) of assets held for sale.

## 7. INVESTMENTS

Investments comprised the following:

As at December 31	2007	2006
Equity-accounted investment in Hawker Beechcraft <sup>(a)</sup>	\$ 460	\$ -
Equity-accounted investment in Allison Transmission <sup>(b)</sup>	658	-
Equity-accounted investment in ResCare <sup>(c)</sup>	110	117
Other equity-accounted investments <sup>(d)</sup>	216	55
EMSC insurance collateral <sup>(e)</sup>	161	211
Long-term investments held by The Warranty Group <sup>(f)</sup>	1,366	1,170
Other	232	269
	<b>\$ 3,203</b>	<b>\$ 1,822</b>

**a)** In March 2007, the Company, together with GS Capital Partners, an affiliate of The Goldman Sachs Group, Inc., acquired Raytheon Aircraft Company, the business aviation division of Raytheon Company. The acquired business now operates as Hawker Beechcraft. Hawker Beechcraft, headquartered in Wichita, Kansas, is a leading manufacturer of business jet, turboprop 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 for a small number of foreign governments. The equity investment of US\$1,040 was split equally between the Company and GS Capital Partners. The Company's investment of \$605 was made by Onex, Onex Partners II and management. Onex' net investment in the acquisition was \$238, for an initial 20% equity ownership interest. As a result of Onex' significant influence over Hawker Beechcraft, the investment is accounted for using the equity-accounting method. In accordance with equity accounting, the carrying value of this U.S. dollar investment has been adjusted to account for the change in the foreign exchange rate since its acquisition.

**b)** In August 2007, the Company, together with The Carlyle Group, completed the acquisition of Allison Transmission, a division of General Motors Corporation. Allison Transmission, headquartered in Speedway, Indiana, designs and manufactures automatic transmissions for on-highway trucks and buses, off-highway equipment and military vehicles worldwide. The equity investment of US\$1,525 was split equally between the Company and The Carlyle Group. The Company's investment of \$805 was made by Onex, Onex Partners II, certain limited partners and management. Onex' net investment in the acquisition was \$250 for an initial 16% equity ownership interest. As a result of Onex' significant influence over Allison Transmission, the investment is accounted for using the equity-accounting method. In accordance with equity accounting, the carrying value of this U.S. dollar investment has been adjusted to account for the change in the foreign exchange rate since its acquisition.

**c)** In June 2004, the Company and Onex Partners made an initial \$114 equity investment in ResCare for an initial 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 \$110 (2006 – \$117). ResCare is included in the healthcare segment in note 27. In accordance with equity accounting, the carrying value of this U.S. dollar investment has been adjusted to account for the change in the foreign exchange rate since its acquisition.

**d)** Other equity-accounted investments include investments in Cineplex Entertainment, Cypress Insurance Group ("Cypress"), Onex Credit Partners and certain real estate partnerships.

**e)** EMSC insurance collateral consists primarily of government and investment grade securities and cash deposits with third parties and supports its insurance program and reserves.

f) The table below presents the amortized cost and fair value of all investments in fixed maturity securities held by The Warranty Group.

As at December 31	2007		2006	
	Amortized Cost <sup>(1)</sup>	Fair Value <sup>(2)</sup>	Amortized Cost <sup>(1)</sup>	Fair Value
U.S. government and agencies	\$ 77	\$ 80	\$ 314	\$ 313
States and political subdivisions	132	133	40	40
Foreign governments	328	343	514	510
Corporate bonds	698	708	673	671
Mortgage-backed securities	195	196	79	79
Other	99	100	34	34
	\$ 1,529	\$ 1,560	\$ 1,654	\$ 1,647
Current portion <sup>(3)</sup>	(190)	(194)	(484)	(484)
Long-term portion	\$ 1,339	\$ 1,366	\$ 1,170	\$ 1,163

(1) Amortized cost represents cost plus accrued interest and accrued discount or premium, if applicable.

(2) Upon adoption of the new financial instruments standards on January 1, 2007, as described in note 1, Onex records its available-for-sale investments at fair value.

(3) 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 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 the 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 an in-depth analysis of individual securities.

The amortized cost and fair value of fixed-maturity securities owned by The Warranty Group at December 31, 2007, by contractual maturity, are shown below:

	Amortized Cost	Fair Value
Years to maturity:		
One or less	\$ 190	\$ 194
After one through five	777	800
After five through ten	247	250
After ten	21	20
Mortgage-backed securities	195	196
Other	99	100
	\$ 1,529	\$ 1,560

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, 2007, fixed-maturity securities with a carrying value of \$57 (2006 – \$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 LONG-TERM ASSETS

Other long-term assets comprised the following:

As at December 31	2007	2006
Deferred development charges	\$ 377	\$ 329
Future income taxes (note 14)	413	459
Boeing receivable <sup>a)</sup>	98	223
Deferred pension	264	241
Long-term portion of ceded claims recoverable held by The Warranty Group (note 12)	718	874
Long-term portion of prepaid premiums of The Warranty Group	397	476
Long-term portion of deferred costs of The Warranty Group <sup>b)</sup>	151	29
Other	216	263
	<b>\$ 2,634</b>	<b>\$ 2,894</b>

a) In connection with the acquisition of Spirit AeroSystems from Boeing, Boeing makes 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, 2007 was \$207 (2006 – \$273), of which the current portion of \$109 is included in accounts receivable.

b) Deferred costs of The Warranty Group consist of certain costs of acquiring warranty and credit business including commissions, underwriting, and sales expenses that vary with, and are primarily related to, the production of new business. These charges are deferred and amortized as the related premiums and contract fees are earned.

## 9. INTANGIBLE ASSETS

Intangible assets comprised the following:

As at December 31	2007	2006
Intellectual property with limited life, net of accumulated amortization of \$138 (2006 – \$152)	\$ 432	\$ 6
Intangible assets with limited life, net of accumulated amortization of \$385 (2006 – \$266)	1,980	925
Intangible assets with indefinite life	280	105
	<b>\$ 2,692</b>	<b>\$ 1,036</b>

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

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



10. 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		2007	2006
<b>Celestica<sup>(a)</sup></b>	7.875% subordinated notes due 2011	\$ 510	\$ 583
	7.625% subordinated notes due 2013	251	291
		761	874
<b>Spirit AeroSystems<sup>(b)</sup></b>	Revolving credit facility and term loan due 2010 and 2013	579	687
<b>Emergency Medical Services<sup>(c)</sup></b>	Revolving credit facility and term loan due 2012	222	264
	Subordinated secured notes due 2015	248	291
	Other	3	2
		473	557
<b>Carestream Health<sup>(d)</sup></b>	Senior secured first lien term loan due 2013	1,472	-
	Senior secured second lien term loan due 2013	436	-
	Other	2	-
		1,910	-
<b>Skilled Healthcare<sup>(e)</sup></b>	Revolving credit facility and term loan due 2010 and 2012	319	308
	11.0% subordinated notes due 2014	128	232
	Other	4	3
		451	543
<b>Center for Diagnostic Imaging<sup>(f)</sup></b>	Revolving credit facility and term loan due 2010	62	77
	Other	1	-
		63	77
<b>The Warranty Group<sup>(g)</sup></b>	Term loan due 2012	196	233
<b>Sitel Worldwide<sup>(h)</sup></b>	Revolving credit facility and term loans due 2013 and 2014	693	-
	Revolving credit facility and term loan, repaid	-	154
	Other	2	103
		695	257
<b>Tube City IMS<sup>(i)</sup></b>	Senior secured term loan due 2014	162	-
	Senior subordinated notes due 2015	223	-
		385	-
<b>Husky<sup>(j)</sup></b>	Revolving credit facility and term loan due 2012	406	-
<b>Cosmetic Essence<sup>(k)</sup></b>	Revolving credit facility and term loans due 2013 and 2014	102	-
	Revolving credit facility and term loans, repaid	-	140
	Subordinated secured notes due 2014	79	85
		181	225
<b>Radian<sup>(l)</sup></b>	Revolving credit facility and term loan due 2008	29	36
	Subordinated secured debentures due 2008	20	19
		49	55
<b>Cineplex Entertainment<sup>(m)</sup></b>	Notes, revolving credit facility, term loans and other	-	350
<b>ONCAP II companies<sup>(n)</sup></b>	Revolving credit facility and term loans due 2011 to 2014	267	57
	Subordinated notes due 2012	51	21
	Other	2	-
		320	78
<b>Onex Real Estate companies<sup>(o)</sup></b>	Notes payable due 2009	85	72
	Other	62	8
		147	80
Less: long-term debt held by the Company		(138)	(175)
Long-term debt, December 31		6,478	3,841
Less: deferred charges <sup>(p)</sup>		(143)	-
		6,335	3,841
Current portion of long-term debt of operating companies		(176)	(43)
Consolidated long-term debt of operating companies, without recourse to Onex		\$ 6,159	\$ 3,798

## 10. 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 has been made in the consolidated financial statements with respect to any possible non-compliance.

### a) Celestica

Celestica has a secured, revolving credit facility for US\$300 that matures in April 2009. There were no borrowings outstanding under this facility at December 31, 2007. 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, 2007, Celestica was limited to approximately US\$240 of available debt incurrence. Celestica also has uncommitted bank overdraft facilities available for operating requirements that total US\$50 at December 31, 2007.

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 8.3% for 2007 (2006 – 8.2%). The 2011 notes may be redeemed on July 1, 2008 or later at various premiums above face value. Included in long-term debt is the change in the fair value of the debt obligation attributable to movement in the benchmark interest rates, which resulted in a loss of US\$18 for 2007.

Celestica's senior subordinated notes due 2013 have 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) 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, 2007, US\$584 and nil (2006 – US\$590 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 one to three 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.

### c) 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, 2007, US\$224 and nil (2006 – US\$226 and nil) were outstanding under the senior secured term loan and the senior secured revolving credit facility, respectively.

In December 2007, EMSC entered into an interest rate swap agreement. The agreement, which matures in 2009, swaps the variable rate with a fixed rate of 4.3% on US\$200 of the company's variable rate debt.

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

**d) Carestream Health**

In April 2007 Carestream Health entered into senior secured first and second lien term loans with an aggregate principal amount of US\$1,510 and US\$440, respectively. Additionally, as part of the first lien term loan, Carestream Health obtained a senior revolving credit facility with available funds of up to US\$150. The first and second lien term loans bear interest at LIBOR plus a margin of 2.00% and 5.25%, respectively, or at a base rate plus a margin of 1.00% and 4.25%, respectively. In connection with the term loans, Carestream Health entered into seven interest rate swap agreements that swap the variable rate for a fixed rate ranging from 4.00% to 5.02%. The agreements, with notional amounts totalling US\$1,450, expire in 2009 and 2010.

The first lien term loan matures in April 2013, with quarterly instalment payments of US\$25 that commenced in December 2007. The second lien term loan matures in October 2013, with the entire balance due upon maturity. The revolving credit facility, with nil outstanding at December 31, 2007, matures in April 2013.

Substantially all of Carestream Health's assets are pledged as collateral under the term loans.

**e) Skilled Healthcare**

In December 2005, Skilled Healthcare issued unsecured senior subordinated notes in the amount of US\$200 due in 2014. In June 2007, using proceeds from its May 2007 initial public offering, Skilled Healthcare redeemed US\$70 of the notes. 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, 2007, US\$129 (2006 – US\$199) was outstanding under the notes.

Skilled Healthcare's first lien credit agreement consists of a US\$260 term loan and a US\$100 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 2010. The term loan bears interest at the prime rate plus a margin of 1.75% or LIBOR plus a margin of 2.25%. The revolving loan bears interest at the prime rate plus a margin of 1.75% or LIBOR plus a margin of 2.75%. The margin can be reduced to as low as 1.0% and 2.0%, respectively, depending on the company's leverage ratio. At December 31, 2007, US\$254 and US\$68 (2006 – US\$256 and US\$9) 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. In October 2007, Skilled Healthcare entered into an interest rate swap agreement with a notional amount of US\$100. Under the interest rate swap agreement, the company will pay a fixed rate of 4.38% in exchange for receiving a floating rate based on LIBOR.

**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 currently bear interest at LIBOR plus a margin of 3.5% and are secured by the assets of CDI. At December 31, 2007, US\$62 and nil (2006 – US\$66 and nil) were outstanding under the term loan and revolving credit loans, respectively.

CDI has entered into interest rate swap agreements that effectively fix the interest rate on borrowings under the credit agreement. The interest rate swap agreements have notional amounts of US\$50 and US\$45 and expire in 2008 and 2010, respectively.

**g) The Warranty Group**

In November 2006, The Warranty Group 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 The Warranty Group'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 2012. At December 31, 2007, US\$198 and nil (2006 – US\$200 and nil) were outstanding on the term loan and revolving and swing loans, respectively.

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

**h) Sitel Worldwide**

In January 2007, in connection with ClientLogic's acquisition of SITEL Corporation as described in note 2, Sitel Worldwide closed a new credit facility consisting of a US\$675 term loan, with quarterly instalments of US\$2 and maturing in January 2014, and a US\$85 revolving credit facility maturing in January 2013. The term loan and revolving credit facility bear interest at a rate of LIBOR plus a margin of up to 2.75%. Borrowings under the facility are secured by substantially all of Sitel Worldwide's assets.

Sitel Worldwide is required under the terms of the facility to maintain certain financial ratio covenants. The facility also contains certain additional requirements, including limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of stock, capital spending, investments, acquisitions and asset sales.

The proceeds from the facility were used to repay the previous credit facility and fund the acquisition of SITEL Corporation. In April 2007, Sitel Worldwide repaid US\$16 of its term loan from a portion of the proceeds from the April 2007 share issue, as described in note 18(a). As a result, the quarterly repayments of US\$2 will now begin in September 2009.

At December 31, 2007, US\$667 and US\$32 were outstanding under the term and revolving credit facility, respectively.

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

Included in other long-term debt at December 31, 2006 are mandatorily redeemable preferred shares held by Onex of up to US\$53. In connection with the acquisition of SITEL Corporation in January 2007, these mandatorily redeemable preferred shares were converted to common shares of Sitel Worldwide. Also included in other long-term debt at December 31, 2006 are US\$31 of loan notes denominated in pounds sterling. The notes were repaid in January 2007 in connection with the SITEL Corporation acquisition.

### i) Tube City IMS

In January 2007 Tube City IMS entered into a senior secured asset-based revolving credit facility with an aggregate principal amount of up to US\$165, a senior secured term loan credit facility with an aggregate principal amount of US\$165 and a senior secured synthetic letter of credit facility of US\$20. The credit facilities bear interest at a base rate plus a margin of up to 2.50%.

The senior secured asset-based revolving facility is available through to January 2013. The maximum availability under the revolving facility is based on specified percentages of eligible accounts receivable and inventory. As at December 31, 2007, US\$10 was outstanding under the revolving facility. The obligations under the senior secured asset-based lending facility are secured on a first-priority lien basis by Tube City IMS' accounts receivable, inventory and cash proceeds therefrom and on a second-priority lien basis by substantially all of Tube City IMS' other property and assets, subject to certain exceptions and permitted liens.

The senior secured term loan facility and senior secured synthetic letter of credit facility are repayable quarterly, with annual payments of US\$2, and mature in January 2014. The facilities require Tube City IMS to prepay outstanding amounts under certain conditions. At December 31, 2007, US\$164 was outstanding under the term loan and there were US\$18 of letters of credit outstanding relating to the synthetic letter of credit facility. The obligations under the senior secured term loan facility and senior secured synthetic letter of credit facility are secured on a first-priority lien basis by all of Tube City IMS' property and assets (other than accounts receivable and inventory and cash proceeds therefrom) and on a second-priority lien basis on all of Tube City IMS' accounts receivable and inventory and cash proceeds therefrom, subject to certain exceptions and permitted liens.

In connection with the senior secured term loan credit facility, Tube City IMS entered into rate swap agreements that swap the variable rate for a fixed rate of 5.03%. The agreements have total notional amounts of US\$120, decreasing to US\$75 in 2009 and expiring in 2010.

In addition, Tube City IMS issued US\$225 of unsecured senior subordinated notes. The notes bear interest at a rate of 9.75% and mature in February 2015. The notes are redeemable at the option of the company at various premiums above face value, beginning in 2011.

### j) Husky

In December 2007, Husky entered into a US\$520, committed, secured credit agreement comprised of a US\$410 term loan and a US\$110 revolving credit facility. Borrowings under the credit agreement bear interest at LIBOR plus a margin that ranges from 3.00% to 3.25% as determined by a consolidated leverage ratio. The term loan has mandatory, quarterly, principal repayments of US\$4 in 2008, US\$12 in 2009 and US\$21 in 2010 and 2011 with US\$36 and the outstanding principal balance due in 2012. Additionally, 50% of excess cash flows (as defined in the credit agreement), if any, must be used to prepay the loan, annually. In January 2008, Husky entered into interest rate swap agreements that effectively fix the interest rate on a portion of the borrowings under the credit agreement. The agreements hedge more than half of the interest rate risk over the term of the loan.

The revolving credit facility is available to Husky and its key subsidiaries in Canada and Luxembourg. At acquisition, there were US\$7 in letters of credit issued under the credit facility, leaving US\$103 in available borrowing capacity. The revolving credit facility matures in December 2012.

The credit agreement has restrictions on new debt incurrence, the sale of assets, capital expenditures, and the maintenance of certain financial ratios. Substantially all of Husky's assets are pledged as collateral under the credit agreement.

### k) Cosmetic Essence

In March 2007, CEI completed a refinancing of its credit agreement. The new credit agreement consists of a term loan of US\$122 and a revolving line of credit with maximum borrowings of US\$35. The term loan is repayable with quarterly payments of principal and interest with the balance of US\$114 due on maturity in March 2014. The revolving line of credit matures in March 2013. At December 31, 2007, US\$100 and US\$2 were outstanding on the term loan and revolving line of credit, respectively.

Interest on the term loan is based, at the option of CEI, upon either LIBOR plus a margin of 2.25% or a base rate plus a margin of up to 1.25%. Interest on the revolving line of credit is based, at the option of CEI, upon either LIBOR plus a margin of 2.75% or a base rate plus a margin of up to 1.75%. Substantially all of CEI's assets are pledged as collateral for the borrowings.

The proceeds from the new credit agreement were used by CEI to repay the first lien term loan and second lien term loan of CEI's previous credit agreement.

CEI has entered into two interest rate swap agreements that effectively fixes the interest rate on borrowings under the credit agreement. The notional amount covered under the first

swap agreement was US\$54 at December 31, 2007, and declines annually until expiry in 2009. The notional amount covered under the second agreement was US\$43 at December 31, 2007 and expires in 2010.

CEI also has a promissory note outstanding in the amount of US\$80 (2006 – US\$72), of which US\$73 (2006 – US\$66) 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.

#### l) Radian

Radian's credit agreement has a revolving credit facility of \$20 and a term loan of \$12. 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 of up to 2.25%. The outstanding borrowings at December 31, 2007 on the revolving credit facility and term loan were \$17 and \$12 (2006 – \$22 and \$14), respectively. The weighted average interest rate for borrowings under the credit agreement was 8.5% in 2007 (2006 – 8.5%). 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.

#### m) Cineplex Entertainment

Beginning April 2, 2007, the Company uses the equity-accounting method for its investment in Cineplex Entertainment, as described in note 1. As a result, Cineplex Entertainment's assets and liabilities, including long-term debt, are no longer included in the Company's consolidated balance sheet.

#### n) ONCAP II companies

ONCAP II's investee companies consist of EnGlobe, CSI, CiCi's Pizza and Mister Car Wash. Each has debt that is included in the Company's consolidated financial statements. There are separate arrangements for each of the investee companies with no cross-guarantees between the companies or by Onex.

Under the terms of credit agreements, combined term borrowings of \$247 are outstanding and combined revolving credit facilities of \$20 are outstanding. The available facilities bear interest at various rates based on a base floating rate plus a margin. During 2007, interest rates ranged from 6.6% to 10.5% on borrowings under the revolving credit and term facilities. The term loans have quarterly repayments and are due between 2011 to 2014. The companies also have subordinated notes of \$51, due in 2012, that bear interest at rates ranging from 13% to 15%, of which the Company owns approximately \$46.

The senior debt is generally secured by substantially all of the assets of the respective company.

#### o) Onex Real Estate companies

Long-term debt held by Onex Real Estate companies consists of notes payable of US\$86, due 2009, relating to Town and Country and other long-term debt of US\$63, due between 2008 and 2019 relating to Onex Real Estate partnerships with Cronus Capital.

#### p) Deferred charges

As a result of the adoption of new accounting policies, as described in note 1, beginning in January 2007 deferred financing charges have been reclassified and recorded net against long-term debt. At December 31, 2006, deferred financing charges of \$81 are included in other long-term assets.

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

2008	\$ 176
2009	232
2010	277
2011	672
2012	1,118
Thereafter	4,003
	\$ 6,478

## 11. LEASE COMMITMENTS

The future minimum lease payments are as follows:

	Capital Leases	Operating Leases
For the year:		
2008	\$ 105	\$ 214
2009	15	174
2010	7	138
2011	3	107
2012	1	82
Thereafter	3	327
Total future minimum lease payments	\$ 134	\$ 1,042
Less: imputed interest	(4)	
Balance of obligations under capital leases, without recourse to Onex	130	
Less: current portion	(104)	
Long-term obligations under capital leases, without recourse to Onex	\$ 26	

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

In January 2008, Mister Car Wash amended capital leases of certain properties such that these leases will be classified as operating leases. The properties had a net book value of \$78 at December 31, 2007.

## 12. WARRANTY RESERVES AND UNEARNED PREMIUMS

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

### Reserves

The following table provides a reconciliation of The Warranty Group's beginning and ending reserves for losses and loss adjustment expenses ("LAE"), net of ceded claims recoverable for the year ended December 31, 2007:

	Property and Casualty <sup>(a)</sup>	Warranty <sup>(b)</sup>	Total Reserves
Current portion of reserves, December 31, 2006	\$ 571	\$ 223	\$ 794
Long-term portion of reserves, December 31, 2006	874	-	874
Gross reserve for losses and LAE, December 31, 2006 <sup>(2)</sup>	\$ 1,445	\$ 223	\$ 1,668
Less current portion of ceded claims recoverable <sup>(1)</sup> (note 5)	(571)	(29)	(600)
Less long-term portion of ceded claims recoverable <sup>(1)</sup> (note 8)	(874)	-	(874)
Net reserve for losses and LAE, December 31, 2006	-	194	194
Benefits to policy holders incurred, net of reinsured amounts	\$ -	\$ 609	\$ 609
Payments for benefits to policy holders, net of reinsured amounts	-	(597)	(597)
Other, including decrease due to changes in foreign exchange rates	-	(25)	(25)
Net reserve for losses and LAE, December 31, 2007	\$ -	\$ 181	\$ 181
Add current portion of ceded claims recoverable <sup>(1)</sup> (note 5)	320	35	355
Add long-term portion of ceded claims recoverable <sup>(1)</sup> (note 8)	718	-	718
Gross reserve for losses and LAE, December 31, 2007 <sup>(2)</sup>	1,038	216	1,254
Current portion of reserves, December 31, 2007	(320)	(216)	(536)
Long-term portion of reserves, December 31, 2007	\$ 718	\$ -	\$ 718

(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, 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 acquisition of The Warranty Group. 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. A subsidiary of Aon Corporation, the former parent of The Warranty Group, is the primary reinsurer on approximately 37% of the reserves and provides guarantees on all of the reserves as part of the sales agreement with Onex.

b) Warranty reserves represent future losses on warranty policies written by The Warranty Group. 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.

	2007	2006
Unearned premiums	\$ 2,654	\$ 3,201
Current portion of unearned premiums	(1,008)	(1,452)
Long-term portion of unearned premiums	\$ 1,646	\$ 1,749

### 13. OTHER LIABILITIES

Other liabilities comprised the following:

As at December 31	2007	2006
Reserves <sup>(a)</sup>	\$ 167	\$ 207
Boeing advance <sup>(b)</sup>	625	685
Deferred revenue and other deferred items	231	349
Convertible debentures <sup>(c)</sup>	-	100
Pension and non-pension post-retirement benefits (note 24)	178	137
Stock-based compensation	243	211
Other <sup>(d)</sup>	219	129
	\$ 1,663	\$ 1,818

a) Reserves consist primarily of US\$145 (2006 – US\$150) established by EMSC for automobile, workers compensation, general liability and professional liability. This includes the use of an off-shore captive insurance program.

### 14. INCOME TAXES

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

Year ended December 31	2007	2006
Income tax provision at statutory rates	\$ (513)	\$ (401)
Increase (decrease) related to:		
Increase in valuation allowance	(164)	(49)
Amortization of non-deductible items	(3)	(5)
Income tax rate differential of operating investments	93	56
Non-taxable gains	217	409
Other, including permanent differences	75	(34)
Provision for income taxes	\$ (295)	\$ (24)
Classified as:		
Current	\$ (227)	\$ 48
Future	(68)	(72)
Provision for income taxes	\$ (295)	\$ (24)

b) Pursuant to the 787 aircraft long-term supply agreement, Boeing made advance payments to Spirit AeroSystems. As at December 31, 2007, US\$700 (2006 – US\$600) in such advance payments had been made and will be settled against future sales of Spirit AeroSystems' 787 aircraft units to Boeing, of which US\$68 of the payments has been recorded as a current liability.

c) Convertible debentures for 2006 relate to the operations of Cineplex Entertainment. Cineplex Entertainment is now equity-accounted, as described in note 1.

d) Other includes the long-term portion of acquisition and restructuring accruals, amounts for liabilities arising from indemnifications, mark-to-market valuations of hedge contracts and warranty provisions.

14. INCOME TAXES (cont'd)

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

As at December 31	2007	2006
Future income tax assets: <sup>(1)</sup>		
Net operating losses carried forward	\$ 830	\$ 939
Net capital losses carried forward	47	1
Accounting provisions not currently deductible	444	311
Property, plant and equipment, intangible and other assets	168	135
Share issue costs of operating investments	-	2
Acquisition and integration costs	30	172
Pension and non-pension post-retirement benefits	(29)	(27)
Deferred revenue	98	166
Scientific research and development	9	-
Other	50	85
Less valuation allowance <sup>(2)</sup>	(1,006)	(1,101)
	<b>641</b>	<b>683</b>
Future income tax liabilities: <sup>(1)</sup>		
Property, plant and equipment, intangible and other assets	(632)	(267)
Pension and non-pension post-retirement benefits	(31)	(14)
Gains on sales of operating investments	(689)	(678)
Other	(111)	(101)
	<b>(1,463)</b>	<b>(1,060)</b>
Future income tax liabilities, net	<b>\$ (822)</b>	<b>\$ (377)</b>
Classified as:		
Current asset – other current assets	\$ 228	\$ 224
Long-term asset – other long-term assets	413	459
Current liability – accounts payable and accrued liabilities	(90)	(10)
Long-term liability – future income taxes	(1,373)	(1,050)
Future income tax liabilities, net	<b>\$ (822)</b>	<b>\$ (377)</b>

(1) Income tax assets and liabilities relating to the same tax jurisdiction have been recorded on a gross basis in the consolidated balance sheets.

(2) 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 and Sitel Worldwide. 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, 2007, Onex and its investment-holding companies have nil tax-loss carryforwards.

At December 31, 2007, certain operating companies in Canada and the United States had tax-loss carryforwards available to reduce future income taxes of those companies in the amount

of \$3,198, of which \$1,019 had no expiry, \$676 were available to reduce future taxes between 2008 and 2012, inclusive, and \$1,503 were available with expiration dates of 2013 through 2027.

Cash taxes paid during the year amounted to \$194 (2006 – taxes recovered of \$53).



## 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 2007, under the Dividend Reinvestment Plan, the Company issued 3,952 (2006 – 4,404) Subordinate Voting Shares at a total value of less than \$1 (2006 – less than \$1). In 2007, no Subordinate Voting Shares were issued upon the exercise of stock options. In 2006, 20,000 Subordinate Voting Shares were issued upon the exercise of stock options at a value of less than \$1.

Onex renewed its Normal Course Issuer Bid in April 2007 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 million shares.

The Company repurchased and cancelled under Normal Course Issuer Bids 3,357,000 (2006 – 9,176,300) of its Subordinate Voting Shares at a cash cost of \$113 during 2007 (2006 – \$203). The excess of the purchase cost of these shares over the average paid-in amount was \$101 (2006 – \$166), which was charged to retained earnings. After these purchases, at December 31, 2007, the Company had the capacity under the current Normal Course Issuer Bid to purchase approximately 6.6 million shares.

c) At December 31, 2007, the issued and outstanding share capital consisted of 100,000 (2006 – 100,000) Multiple Voting Shares, 125,574,087 (2006 – 128,927,135) Subordinate Voting Shares and 176,078 (2006 – 176,078) Series 1 Senior Preferred Shares. The Series 1 Senior Preferred Shares have no paid-in amount reflected in these consolidated financial statements and the Multiple Voting Shares have nominal paid-in value.

d) The Company has a Director Deferred Share Unit Plan ("Director DSU Plan") as described in note 1. At December 31, 2007, there were 225,914 (2006 – 177,134) units outstanding for which \$3 (2006 – \$2) has been recorded as compensation expense during the year.

Details of DSUs outstanding under the Director DSU Plan are as follows:

	Number of DSUs
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	<b>177,134</b>
Granted	<b>43,550</b>
Additional units issued in lieu of directors' fees and cash dividends	<b>16,170</b>
Redeemed	<b>(10,940)</b>
Outstanding at December 31, 2007	<b>225,914</b>

At December 31, 2007, there were no DSUs outstanding under the Management Deferred Share Unit Plan, as described in note 1.

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

15. SHARE CAPITAL (cont'd)

business days exceeds the exercise price of the options or the share appreciation rights by at least 25% (the "hurdle price"). At December 31, 2007, 15,612,000 (2006 – 15,612,000) Subordinate Voting Shares were reserved for issuance under the Plan, against which options representing 12,777,500 (2006 – 13,095,100) 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.

Options vest at a rate of 20% per year from the date of grant, with the exception of the 783,000 options issued December 7, 2007, which vest at a rate of 16.7% per year. When an option is exercised, the employee has the right to request that the Company repurchase the option for an amount equal to the difference between the fair value of the stock under the option and its exercise price. Upon receipt of such request, the Company has the right to settle its obligation to the employee by the payment of cash, the issuance of shares or a combination of cash and shares.

Details of options outstanding are as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at December 31, 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	<b>13,095,100</b>	<b>\$ 16.43</b>
Granted	<b>803,000</b>	<b>\$ 35.16</b>
Surrendered	<b>(1,090,600)</b>	<b>\$ 10.84</b>
Expired	<b>(30,000)</b>	<b>\$ 21.27</b>
Outstanding at December 31, 2007	<b>12,777,500</b>	<b>\$ 18.07</b>

During 2007, the total cash consideration paid on options surrendered was \$26 (2006 – \$14). 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.

Options outstanding at December 31, 2007 consisted of the following:

Number of Outstanding Options	Exercise Price	Number of Exercisable Options	Hurdle Price	Remaining Life (years)
40,200	\$ 7.30	40,200	\$ 9.13	0.1
143,000	\$ 8.62	143,000	\$ 10.78	0.3
432,700	\$ 20.23	432,700	\$ 25.29	2.0
610,500	\$ 20.50	610,500	\$ 25.63	4.5
625,000	\$ 14.90	500,000	\$ 18.63	5.1
7,260,000	\$ 15.87	4,356,000	\$ 19.84	6.2
2,441,100	\$ 18.18	1,442,300	\$ 22.73	6.9
135,000	\$ 19.25	27,000	\$ 24.07	8.1
287,000	\$ 29.22	-	\$ 36.53	8.9
20,000	\$ 33.40	-	\$ 41.75	9.3
783,000	\$ 35.20	-	\$ 44.00	9.9
12,777,500		7,551,700		

**16. INTEREST EXPENSE OF OPERATING COMPANIES**

Year ended December 31	2007	2006
Interest on long-term debt of operating companies	\$ 503	\$ 317
Interest on obligations under capital leases of operating companies	6	8
Other interest of operating companies	28	14
Interest expense of operating companies	\$ 537	\$ 339

Cash interest paid during the year amounted to \$461 (2006 – \$319).

**17. STOCK-BASED COMPENSATION**

Year ended December 31	2007	2006
Parent company <sup>(a)</sup>	\$ 89	\$ 169
Spirit AeroSystems <sup>(b)</sup>	36	438
Celestica	14	23
Other	11	4
	\$ 150	\$ 634

a) Parent company includes \$94 (2006 – \$113) relating to Onex' stock option plan, as described in note 15(e). The 2006 expense includes \$49 from MIP units relating to the November 2006 Spirit AeroSystems initial public offering.

b) 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 settled in shares in March 2007.

**18. GAINS ON SALES OF OPERATING INVESTMENTS, NET**

During 2007 and 2006, 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	2007	2006
Gains on:		
Gain on issue of shares by Sitel Worldwide <sup>(a)</sup>	\$ 36	\$ -
Sale of shares of Skilled Healthcare <sup>(b)</sup>	68	-
Dilution gain on issue of shares by Skilled Healthcare <sup>(c)</sup>	20	-
May 2007 sale of shares of Spirit AeroSystems <sup>(d)</sup>	965	-
Carried interest <sup>(e)</sup>	48	-
November 2006 sale of shares of Spirit AeroSystems <sup>(f)</sup>	-	1,146
Dilution gain on November 2006 issue of shares by Spirit AeroSystems <sup>(g)</sup>	-	100
Sale of units of Cineplex Entertainment <sup>(h)</sup>	-	25
Dilution gain on June 2006 issue of units by Cineplex Entertainment <sup>(i)</sup>	-	12
Other, net	7	24
	\$ 1,144	\$ 1,307

a) In April 2007, non-Onex investors provided US\$33 of additional capital in the new combined entity, Sitel Worldwide, as described in note 2. As a result of Onex having recorded losses in excess of its investment in the predecessor company, ClientLogic, prior to the acquisition, Onex is required to record these proceeds as an accounting gain. As a result of this transaction, Onex' economic ownership was reduced to 66% from 70% and Onex' voting interest was reduced to 88% from 89%. Onex did not receive any of the proceeds on the issuance of the Sitel Worldwide shares.

b) In May 2007, Skilled Healthcare completed an initial public offering of common stock. As part of the offering, Onex and Onex Partners I sold 10.6 million shares, of which Onex' portion was 2.5 million shares. Net proceeds of \$166 were received by Onex and Onex Partners I, resulting in a pre-tax gain of \$68. Onex' share of the net proceeds and pre-tax gain was \$39 and \$13, respectively. Onex recorded a tax provision of \$3 on the gain.

Additional amounts received on account of the transactions related to the carried interest totalled \$10, of which Onex' portion was \$4 and management's portion was \$6. As a result of this transaction, Onex recorded a portion of its carried interest as income, as described in note 18(e).

No amounts were paid on account of this transaction related to the MIP as the required performance targets have not been met at this time.

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

c) In May 2007, as part of Skilled Healthcare's initial public offering, Skilled Healthcare issued 8.3 million new common shares. As a result of the dilution of the Company's ownership interest in Skilled Healthcare from the issuance, a non-cash dilution gain of \$20 was recorded, of which Onex' share was \$5. This reflects Onex' share of the increase in book value of the net assets of Skilled Healthcare due to the issue of additional shares at a value above book value.

As a result of the dilutive transaction above and Onex' sale of shares as described in note 18(b), Onex' economic ownership in Skilled Healthcare was reduced to 9% from 21% and Onex' voting interest was reduced to 90% from 100%. Onex continues to control and consolidate Skilled Healthcare.

d) In May 2007, Spirit AeroSystems completed a secondary offering of common stock. As part of the offering, Onex, Onex Partners I and certain limited partners sold 31.8 million shares, of which Onex' share was 9.2 million shares. Net proceeds of \$1,107 were received by Onex, Onex Partners I and certain limited partners, resulting in a pre-tax gain of \$965. Onex' share of the net proceeds and pre-tax gain was \$319 and \$258, respectively. Onex recorded a tax provision of \$52 on the gain.

As a result of this transaction, Onex' economic ownership in Spirit AeroSystems was reduced to 7% from 13% and Onex' voting interest was reduced to 76% from 90%. Onex continues to control and consolidate Spirit AeroSystems.

Amounts paid on account of the MIP totalled \$24 and have been deducted from the gain. Additional amounts received on account of the transactions related to the carried interest totalled \$105, of which Onex' portion was \$42 and management's portion was \$63. As a result of this transaction, Onex recorded a portion of its carried interest into income, as described in note 18(e).

e) As described in note 23(d), Onex defers gains associated with the carried interest until such time as the potential for repayment of amounts received is remote. Upon receiving the proceeds from the sale of Spirit AeroSystems and Skilled Healthcare in May 2007, a significant portion of the carried interest received has a remote possibility for repayment. As a result, \$48 of carried interest was recognized as income in the second quarter. At December 31, 2007, \$58 of carried interest continues to be deferred.

f) 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 were 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 was deferred from inclusion in income.

g) 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.

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

h) 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 at a price computed with reference to the secondary offering. This forward agreement was settled in April 2007. Onex received net proceeds of \$28 from these transactions 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 were deducted from the gain.

i) 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(h), Onex' economic ownership was reduced to 23% from 27%.

## 19. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES

Year ended December 31	2007	2006
Celestica <sup>(1)</sup>	\$ 39	\$ 240
Spirit AeroSystems	12	31
Carestream Health	43	-
Other	29	21
	\$ 123	\$ 292

(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 Costs and Other	Non-cash Charges	Total
<b>Years Prior to 2006</b>					
Total estimated expected costs	\$ 772	\$ 195	\$ 72	\$ 434	\$ 1,473 <sup>(a)</sup>
Cumulative costs expensed to date	721	192	70	427	1,410 <sup>(b)</sup>
Expense for the year ended					
December 31, 2007	22	9	14	5	50
Reconciliation of accrued liability					
Closing balance – December 31, 2006	\$ 62	\$ 50	\$ 11		\$ 123
Cash payments	(66)	(14)	(13)		(93)
Charges	22	9	14		45
Other adjustments	(9)	(7)	(2)		(18)
Closing balance – December 31, 2007	\$ 9	\$ 38	\$ 10		\$ 57

(a) Includes Celestica \$1,438.

(b) Includes Celestica \$1,375.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Costs and Other	Non-cash Charges	Total
<b>Initiated in 2006</b>					
Total estimated expected costs	\$ 11	\$ -	\$ 3	\$ -	\$ 14
Cumulative costs expensed to date	11	-	3	-	14
Expense for the year ended					
December 31, 2007	-	-	1	-	1
Reconciliation of accrued liability					
Closing balance – December 31, 2006	\$ 8	\$ -	\$ 1		\$ 9
Cash payments	(8)	-	(1)		(9)
Charges	-	-	1		1
Closing balance – December 31, 2007	\$ -	\$ -	\$ 1		\$ 1

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

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Costs and Other	Non-cash Charges	Total
<b>Initiated in 2007</b>					
Total estimated expected costs	\$ 22	\$ 6	\$ 62	\$ -	\$ 90 <sup>(a)</sup>
Cumulative costs expensed to date	17	3	52	-	72 <sup>(b)</sup>
Expense for the year ended December 31, 2007	17	3	52	-	72
Reconciliation of accrued liability					
Cash payments	\$ (7)	\$ (1)	\$ (50)		\$ (58)
Charges	17	3	52		72
Closing balance – December 31, 2007	\$ 10	\$ 2	\$ 2		\$ 14

(a) Includes Carestream Health \$52.

(b) Includes Carestream Health \$43.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Costs and Other	Non-cash Charges	Total
<b>Total</b>					
Total estimated expected costs	\$ 805	\$ 201	\$ 137	\$ 434	\$ 1,577
Cumulative costs expensed to date	749	195	125	427	1,496
Expense for the year ended December 31, 2007	39	12	67	5	123
Reconciliation of accrued liability					
Closing balance – December 31, 2006	\$ 70	\$ 50	\$ 12		\$ 132
Cash payments	(81)	(15)	(64)		(160)
Charges	39	12	67		118
Other adjustments	(9)	(7)	(2)		(18)
Closing balance – December 31, 2007	\$ 19	\$ 40	\$ 13		\$ 72

**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	2007	2006
Weighted average number of shares <i>(in millions)</i> :		
Basic	128	133
Diluted	128	133

## 21. FINANCIAL INSTRUMENTS

### Fair values of financial instruments

The estimated fair values of financial instruments as at December 31, 2007 and 2006 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 due to the short maturity of these 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	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Long-term debt <sup>(i)</sup>	\$ 6,478	\$ 6,346	\$ 3,841	\$ 3,889
Foreign currency contracts	\$ (7)	\$ (7)	\$ 4	\$ 3
Interest rate swap agreements	\$ (24)	\$ (24)	\$ -	\$ (14)

(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.

Year ended December 31	2007		2006	
	Number of Significant Customers	Percentage of Revenues	Number of Significant Customers	Percentage of Revenues
CDI	1	16%	1	12%
CEI	3	45%	3	48%
Celestica	2	21%	2	20%
Sitel Worldwide	-	-	1	15%
EMSC	1	25%	1	26%
Radian	2	27%	1	11%
Skilled Healthcare	2	68%	2	68%
Spirit AeroSystems	2	98%	1	91%
Tube City IMS	2	37%	-	-

Accounts receivable from the above significant customers at December 31, 2007 totalled \$741 (2006 – \$758).

### 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, 2007, the amounts potentially payable in respect of these guarantees totalled \$445. Certain operating companies have guarantees with respect to employee share purchase loans that amounted to less than \$1 at December 31, 2007. These guarantees are without recourse to Onex.

The Company, which includes the operating companies, has commitments in the total amount of approximately \$112 with respect to corporate investments, including commitments 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 with respect to real estate operating leases, which are disclosed in note 11.

The aggregate capital commitments as at December 31, 2007 amounted to \$179.

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, 2007, approximately US\$1,477 has been invested of the total approximately US\$1,655 of capital committed. Onex has funded US\$347 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 investments by Onex management and directors in 2007 was \$5 (2006 – \$11).

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 until such time as the potential for repayment of amounts received is remote. For the year ended December 31, 2007, \$46 (2006 – \$49) has been received by Onex as carried interest while management received \$69 (2006 – \$74) with respect to the carried interest. At December 31, 2007, the total amount of carried interest that has been deferred from income was \$58 (2006 – \$60). As described in note 18(e), a portion of the carried interest was recognized in income during the year.



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, 2007, approximately US\$2,537 has been invested of the total approximately US\$3,450 of capital committed. Onex has funded US\$1,003 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, 2007, management and directors had committed 4%. The total amount invested in Onex Partners II investments by Onex management and directors in 2007 was \$99 (2006 – \$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 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 the potential for repayment of amounts received is remote. As at December 31, 2007, no amount has been received as carried interest related to Onex Partners II.

f) Under the terms of the MIP, 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  $\frac{5}{6}$ th (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. For investments made prior to November 7, 2007, the investment rights to acquire the remaining  $\frac{5}{6}$ ths vest equally over four years with the investment rights vesting in full if the Company disposes of 90% or more of an investment before the fifth year.

The MIP was amended in 2007. For investments made subsequent to November 7, 2007, the vesting period for the investment rights to acquire the remaining  $\frac{5}{6}$ ths increased from four to six years, with the investment rights vesting in full if the company disposes of all of an investment before the seventh year. Under the MIP and the amended MIP, 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 2007 was \$2 (2006 – \$2). Investment rights exercisable at the same price for 7.5% (2006 – 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 \$38 in 2007 (2006 – \$28).

g) Members of management and the Board of Directors of the Company invested \$13 in 2007 (2006 – \$13) in Onex' investments made outside of Onex Partners 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 2007, Onex management reinvested \$18 million (2006 – \$15) 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, 2007 was \$11 (2006 – \$11).

## 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 2007 for defined contribution pension plans were \$120 (2006 – \$89).

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 valuations of these pension plans for funding purposes was December 2005 to October 2007, and the next required valuations will be as of January 2008 and December 2008.

In 2007, 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 \$164 (2006 – \$122). Included in the total was \$33 (2006 – \$18) contributed to multi-employer plans.

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	
	2007	2006	2007	2006	2007	2006
Accrued benefit obligations:						
Opening benefit obligations	\$ 910	\$ 160	\$ 418	\$ 976	\$ 120	\$ 135
Current service cost	4	3	15	11	6	7
Interest cost	49	46	20	17	7	6
Contributions by plan participants	-	-	1	1	-	-
Benefits paid	(13)	(13)	(15)	(15)	(4)	(7)
Actuarial (gain) loss in year	(108)	38	(25)	15	(1)	(2)
Foreign currency exchange rate changes	(103)	4	(42)	43	(9)	1
Acquisitions	36	15	67	22	10	2
Divestitures and other	-	-	(35)	-	-	-
Plan amendments	-	-	-	1	-	-
Settlements/curtailments	-	2	(2)	(2)	(1)	(24)
Reclassification of plans	14	651	(14)	(651)	-	-
Other	-	4	2	-	-	2
Closing benefit obligations	\$ 789	\$ 910	\$ 390	\$ 418	\$ 128	\$ 120
Plan assets:						
Opening plan assets	\$ 1,166	\$ 169	\$ 294	\$ 885	\$ -	\$ -
Actual return on plan assets	71	125	15	21	-	-
Contributions by employer	7	10	30	31	4	7
Contributions by plan participants	-	-	1	1	-	-
Benefits paid	(13)	(13)	(15)	(15)	(4)	(7)
Foreign currency exchange rate changes	(149)	5	(34)	31	-	-
Acquisitions	36	208	35	-	-	-
Divestitures	-	-	(33)	-	-	-
Settlements/curtailments	-	-	(1)	-	-	-
Reclassification of plans	13	659	(13)	(659)	-	-
Other	(2)	3	-	(1)	-	-
Closing plan assets	\$ 1,129	\$ 1,166	\$ 279	\$ 294	\$ -	\$ -

Asset category	Percentage of Plan Assets	
	2007	2006
Equity securities	51%	59%
Debt securities	41%	34%
Real estate	4%	3%
Other	4%	4%
	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:

	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2007	2006	2007	2006	2007	2006
As at December 31						
Deferred benefit amount:						
Plan assets, at fair value	\$ 1,129	\$ 1,166	\$ 279	\$ 294	\$ -	\$ -
Accrued benefit obligation	(789)	(910)	(390)	(418)	(128)	(120)
Plan surplus (deficit):	\$ 340	\$ 256	\$ (111)	\$ (124)	\$ (128)	\$ (120)
Unrecognized transitional obligation and past service costs	(4)	(5)	-	1	(10)	(11)
Unrecognized actuarial net (gain) loss	(98)	(32)	70	110	27	29
Reclassification of plans	26	22	(26)	(22)	-	-
Deferred benefit amount – asset (liability)	\$ 264	\$ 241	\$ (67)	\$ (35)	\$ (111)	\$ (102)

The deferred benefit asset is included in the Company's consolidated balance sheets under "Other assets". The deferred benefit liabilities are included in the Company's consolidated balance sheets under "Other liabilities".

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

	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2007	2006	2007	2006	2007	2006
Year ended December 31						
Net periodic costs:						
Current service cost	\$ 4	\$ 3	\$ 15	\$ 11	\$ 6	\$ 7
Interest cost	49	46	20	17	7	6
Actual return on plan assets	(71)	(125)	(15)	(21)	-	-
Difference between expected return and actual return on plan assets for period	(15)	46	(1)	6	-	-
Actuarial (gain) loss	-	38	4	15	1	(2)
Difference between actuarial (gain) loss recognized for period and actual actuarial (gain) loss on the accrued benefit obligation for period	1	(35)	-	(9)	-	3
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)	(1)
Other	-	-	-	1	(1)	1
Net periodic costs (income)	\$ (32)	\$ (26)	\$ 23	\$ 20	\$ 11	\$ 15

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

The following assumptions were used to account for the plans:

Year ended December 31	2007	Pension Benefits		Non-Pension Post-Retirement Benefits	
		2006	2007	2006	2007
Accrued benefit obligation					
Weighted average discount rate	<b>4.56%–6.60%</b>	4.47%–5.75%	<b>5.00%–6.40%</b>	5.25%–5.60%	
Weighted average rate of compensation increase	<b>0.00%–4.80%</b>	0.00%–4.00%	<b>0.00%–3.40%</b>	0.00%–3.58%	
Benefit cost					
Weighted average discount rate	<b>4.56%–6.00%</b>	4.47%–6.00%	<b>5.00%–6.00%</b>	5.25%–5.75%	
Weighted average expected long-term rate of return on plan assets	<b>4.97%–8.50%</b>	5.00%–8.25%	n/a	n/a	
Weighted average rate of compensation increase	<b>0.00%–4.80%</b>	0.00%–4.00%	<b>0.00%–3.60%</b>	0.00%–3.50%	
Assumed healthcare cost trend rates			<b>2007</b>		2006
Initial healthcare cost rate			<b>3.50%–13.00%</b>		3.50%–14.00%
Cost trend rate declines to			<b>3.50%–5.00%</b>		3.50%–5.00%
Year that the rate reaches the rate it is assumed to remain at			<b>Between 2008 and 2015</b>		Between 2007 and 2015

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	2007	1% Increase		1% Decrease	
		2006	2007	2006	2007
Effect on total of service and interest cost components	<b>\$ 2</b>	\$ 2	<b>\$ (1)</b>	\$ (1)	
Effect on the post-retirement benefit obligation	<b>\$ 21</b>	\$ 17	<b>\$ (17)</b>	\$ (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 \$273 as at December 31, 2007. The Company has a maximum exposure to loss of \$66, which includes the carrying value of \$18.

**26. SUBSEQUENT EVENTS**

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, if completed, may be significant to the consolidated financial position of Onex.

## 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 2007 (2006 – six): electronics manufacturing services; aerostructures; healthcare; financial services; customer support services; metal 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; Carestream Health, a leading global provider of medical imaging and healthcare information technology solutions; CDI, which owns and operates diagnostic imaging centres in the United States; Skilled Healthcare, which operates skilled nursing and assisted living facilities in the United States; and ResCare, a leading U.S. provider of residential training,

education and support services for people with disabilities and special needs. The financial services segment consists of The Warranty Group, 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 customer support services segment consists of Sitel Worldwide, which provides services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies. The metal services segment consists of Tube City IMS, a leading provider of outsourced services to steel mills. Other includes Husky, one of the world's largest suppliers of injection molding equipment and services to the plastics industry; Allison Transmission, a leading designer and manufacturer of automatic transmissions for on-highway trucks and buses, off-highway equipment and military vehicles worldwide; Hawker Beechcraft, a leading manufacturer of business jet, turboprop and piston aircraft; Cineplex Entertainment, Canada's largest film exhibition company; as well as Radian, CEI, Onex Real Estate Partners, ONCAP II and the parent company. The operations of ResCare, Allison Transmission, Hawker Beechcraft and Cineplex Entertainment are accounted for using the equity-accounting method, as described in note 1.

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

## 2007 Industry Segments

	Electronics Manufacturing Services	Aero- structures	Healthcare	Financial Services	Customer Support Services	Metal Services	Other	Consolidated Total
Revenues	\$ 8,617	\$ 4,147	\$ 4,826	\$ 1,399	\$ 1,868	\$ 1,676	\$ 900	\$ 23,433
Cost of sales	(8,079)	(3,344)	(3,659)	(727)	(1,205)	(1,529)	(643)	(19,186)
Selling, general and administrative expenses	(278)	(193)	(561)	(260)	(516)	(49)	(306)	(2,163)
Earnings (loss) before the undernoted items	260	610	606	412	147	98	(49)	2,084
Amortization of property, plant and equipment	(114)	(89)	(160)	(10)	(52)	(63)	(47)	(535)
Amortization of intangible assets and deferred charges	(23)	(5)	(152)	(186)	(15)	(12)	(16)	(409)
Interest expense of operating companies	(73)	(39)	(239)	(14)	(65)	(41)	(66)	(537)
Interest income	16	31	7	-	2	-	69	125
Earnings (loss) from equity-accounted investments	-	-	14	-	-	-	(58)	(44)
Foreign exchange gains (loss)	3	(2)	28	-	(1)	-	(146)	(118)
Stock-based compensation	(14)	(36)	(3)	(3)	(2)	-	(92)	(150)
Other income (loss)	-	11	6	(2)	2	-	(11)	6
Gains on sales of operating investments, net	-	-	-	-	-	-	1,144	1,144
Acquisition, restructuring and other expenses	(39)	(12)	(45)	(5)	(5)	-	(17)	(123)
Writedown of goodwill and intangible assets	-	-	(7)	-	-	-	-	(7)
Writedown of long-lived assets	(15)	-	-	-	-	-	-	(15)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ 1	\$ 469	\$ 55	\$ 192	\$ 11	\$ (18)	\$ 711	\$ 1,421
Provision for income taxes								(295)
Non-controlling interests								(1,017)
Earnings from continuing operations								\$ 109
Earnings from discontinued operations								119
Net earnings								\$ 228
Total assets	\$ 4,419	\$ 3,272	\$ 5,745	\$ 5,536	\$ 1,039	\$ 881	\$ 5,307	\$ 26,199
Long-term debt <sup>(a)</sup>	\$ 752	\$ 567	\$ 2,835	\$ 194	\$ 680	\$ 370	\$ 937	\$ 6,335
Property, plant and equipment additions	\$ 67	\$ 268	\$ 136	\$ 29	\$ 51	\$ 55	\$ 27	\$ 633
Goodwill additions	\$ -	\$ -	\$ 356	\$ -	\$ 381	\$ 341	\$ 408	\$ 1,486
Goodwill	\$ 831	\$ 4	\$ 1,097	\$ 341	\$ 307	\$ 289	\$ 574	\$ 3,443

(a) Long-term debt includes current portion, excludes capital leases and is net of deferred charges.

## 2006 Industry Segments

	Electronics Manufacturing Services	Aero- structures	Healthcare	Financial Services	Customer Support Services	Other	Consolidated Total
Revenues	\$ 9,982	\$ 3,631	\$ 2,920	\$ 118	\$ 749	\$ 1,220	\$ 18,620
Cost of sales	(9,378)	(2,919)	(2,423)	(60)	(453)	(928)	(16,161)
Selling, general and administrative expenses	(291)	(194)	(158)	(25)	(212)	(207)	(1,087)
Earnings before the undernoted items	313	518	339	33	84	85	1,372
Amortization of property, plant and equipment	(117)	(49)	(93)	-	(31)	(80)	(370)
Amortization of intangible assets and deferred charges	(30)	(7)	(23)	(11)	(1)	(19)	(91)
Interest expense of operating companies	(76)	(54)	(113)	(1)	(30)	(65)	(339)
Interest income	5	32	4	10	1	70	122
Earnings from equity-accounted investments	-	-	13	-	-	12	25
Foreign exchange gains	10	-	-	-	1	11	22
Stock-based compensation	(23)	(438)	(3)	-	1	(171)	(634)
Other income (loss)	-	7	1	1	1	(1)	9
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)	\$ 113	\$ 32	\$ 23	\$ 1,132	\$ 1,118
Provision for income taxes							(24)
Non-controlling interests in operating companies							(838)
Earnings from continuing operations							\$ 256
Earnings from discontinued operations							746
Net earnings							\$ 1,002
Total assets <sup>(a)</sup>	\$ 5,449	\$ 3,212	\$ 2,887	\$ 6,615	\$ 256	\$ 4,159	\$ 22,578
Long-term debt <sup>(b)</sup>	\$ 874	\$ 687	\$ 1,177	\$ 233	\$ 196	\$ 674	\$ 3,841
Property, plant and equipment additions	\$ 215	\$ 394	\$ 111	\$ 3	\$ 19	\$ 81	\$ 823
Goodwill additions	\$ -	\$ 12	\$ 40	\$ 373	\$ -	\$ 41	\$ 466
Goodwill	\$ 984	\$ 7	\$ 901	\$ 380	\$ -	\$ 424	\$ 2,696

(a) Customer Support 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

	2007					2006						
	Canada	U.S.	Europe	Asia and Oceania	Other	Total	Canada	U.S.	Europe	Asia and Oceania	Other	Total
Revenue	\$ 1,619	\$ 11,235	\$ 3,607	\$ 5,358	\$ 1,614	\$ 23,433	\$ 2,010	\$ 7,716	\$ 1,958	\$ 5,208	\$ 1,728	\$ 18,620
Property, plant and equipment	\$ 337	\$ 2,301	\$ 459	\$ 325	\$ 67	\$ 3,489	\$ 633	\$ 1,593	\$ 262	\$ 316	\$ 95	\$ 2,899
Intangible assets	\$ 434	\$ 1,638	\$ 458	\$ 118	\$ 44	\$ 2,692	\$ 118	\$ 568	\$ 284	\$ 37	\$ 29	\$ 1,036
Goodwill	\$ 191	\$ 1,853	\$ 441	\$ 930	\$ 28	\$ 3,443	\$ 219	\$ 1,361	\$ 105	\$ 1,003	\$ 8	\$ 2,696

Revenues are attributed to geographic areas based on the destinations of the products and/or services.

Other consists primarily of operations in Central and South America, and Mexico. 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>	2007	2006	2005	2004	2003
Revenues	\$ 23,433	\$ 18,620	\$ 15,451	\$ 12,590	\$ 10,609
Cost of sales	(19,186)	(16,161)	(13,732)	(11,671)	(9,669)
Selling, general and administrative expenses	(2,163)	(1,087)	(913)	(643)	(672)
Earnings before the undernoted items	\$ 2,084	\$ 1,372	\$ 806	\$ 276	\$ 268
Amortization of property, plant and equipment	(535)	(370)	(333)	(294)	(317)
Amortization of intangible assets and deferred charges	(409)	(91)	(81)	(63)	(84)
Interest expense of operating companies	(537)	(339)	(229)	(84)	(58)
Interest income	125	122	72	25	80
Earnings (loss) from equity-accounted investments	(44)	25	5	(5)	-
Foreign exchange gains (loss)	(118)	22	(35)	(130)	(116)
Stock-based compensation	(150)	(634)	(44)	(55)	14
Other income	6	9	76	105	-
Gains on sales of operating investments, net	1,144	1,307	921	108	129
Acquisition, restructuring and other expenses	(123)	(292)	(252)	(195)	(147)
Writedown of goodwill and intangible assets	(7)	(10)	(3)	(393)	(188)
Writedown of long-lived assets	(15)	(3)	(5)	(86)	(78)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	1,421	1,118	898	(791)	(497)
Provision for income taxes	(295)	(24)	(70)	(295)	(53)
Non-controlling interests	(1,017)	(838)	(1)	838	269
Earnings (loss) from continuing operations	109	256	827	(248)	(281)
Earnings (loss) from discontinued operations <sup>(a)</sup>	119	746	138	283	(51)
Net earnings (loss) for the year	\$ 228	\$ 1,002	\$ 965	\$ 35	\$ (332)
Total assets	\$ 26,199	\$ 22,578	\$ 14,845	\$ 11,809	\$ 14,621
Shareholders' equity	\$ 1,703	\$ 1,815	\$ 1,152	\$ 227	\$ 293
Dividends declared per Subordinate Voting Share	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11	\$ 0.11
Earnings (loss) per Subordinate Voting Share:					
Continuing operations	\$ 0.85	\$ 1.93	\$ 5.95	\$ (1.75)	\$ (1.83)
Net earnings (loss)	\$ 1.78	\$ 7.55	\$ 6.95	\$ 0.25	\$ (2.16)
Fully diluted	\$ 1.78	\$ 7.55	\$ 6.95	\$ 0.25	\$ (2.16)

[a] The earnings from discontinued operations for 2003 include the sale of Lantic Sugar/Rogers Sugar and MAGNATRAX. The earnings from discontinued operations from 2003 to 2004 include the sale of Dura Automotive, Loews Cineplex Group and InsLogic. The earnings from discontinued operations from 2003 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 2003 to 2006 include the disposition of J.L. French Automotive, the discontinued operations of Cineplex Entertainment and the discontinued operations of Sitel Worldwide. The earnings from discontinued operations from 2003 to 2007 include 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 2003 to 2006 have been restated to classify the results of the above entities as discontinued operations.

## Year-end closing share price

As at December 31	2007	2006	2005	2004	2003
The Toronto Stock Exchange	\$ 34.99	\$ 28.35	\$ 18.92	\$ 19.75	\$ 14.69

# 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, 2007 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 Relations Contact

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 8, 2008 at 10:00 a.m. (Eastern Daylight Time) at Scotiabank Paramount Toronto Theatre 259 Richmond Street West Toronto, Ontario.

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