

# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

The MD&A is presented in the following sections:

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

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

## OVERVIEW

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

### ONEX BUSINESS OBJECTIVE

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

### ONEX STRATEGIES

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

#### Industry leadership

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

#### Diversification of capital

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

#### Management ownership

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

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

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

### Financially strong parent company

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

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

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

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

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

### Active ownership

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

## INDUSTRY SEGMENTS

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

Industry Segments	Companies
<b>Electronics Manufacturing Services</b>	<b>Celestica Inc.</b> , one of the world's largest electronics manufacturing services companies for original equipment manufacturers ("OEMs").
<b>Aerostructures</b>	<b>Spirit AeroSystems, Inc.</b> , the world's largest Tier 1 aerostructures manufacturer.
<b>Theatre Exhibition</b>	<b>Cineplex Entertainment Limited Partnership</b> , Canada's largest film exhibition company, operating 130 theatres with a total of 1,275 screens under the Cineplex Odeon, Famous Players, Coliseum, Colossus, Galaxy and Silver City brands.
<b>Healthcare</b>	<p><b>Emergency Medical Services Corporation</b>, a leading provider of emergency medical services, operating through American Medical Response, Inc. ("AMR"), a leading U.S. provider of ambulance transport services, and EmCare Holdings Inc. ("EmCare"), a leading U.S. provider of outsourced services for hospital emergency department physician staffing and management.</p> <p><b>Center for Diagnostic Imaging, Inc.</b>, a leading provider of diagnostic and therapeutic radiology services in the United States.</p> <p><b>Skilled Healthcare Group, Inc.</b>, an organization of leading skilled nursing and assisted living facility operators in the United States, specifically in California, Texas, Kansas and Nevada, whose skilled nursing and rehabilitation subsidiaries focus on treating patients requiring a high level of skilled nursing care and comprehensive rehabilitation services.</p> <p><b>Res-Care, Inc.</b>, a leading U.S. provider of residential, training, educational and support services for people with disabilities and special needs.</p>
<b>Customer Management Services</b>	<b>ClientLogic Corporation</b> , a leading business process outsourcer in the contact centre and fulfillment industries; the company provides customer care services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies.
<b>Automotive Products</b>	<b>J.L. French Automotive Castings, Inc.</b> , an independent manufacturer of aluminum die-cast components for North American and European automotive OEMs.
<b>Other Businesses</b> <ul style="list-style-type: none"> <li>• <i>Mid-Cap Opportunities</i></li> <li>• <i>Personal Care Products</i></li> <li>• <i>Communications Infrastructure</i></li> <li>• <i>Real Estate</i></li> <li>• <i>Public Market Investments</i></li> </ul>	<p><b>ONCAP</b>, private equity funds focused on acquiring and building the value of small- and mid-cap North American companies, which currently manages investments in CMC Electronics Inc., Western Inventory Service Ltd., Canadian Securities Registration Systems Ltd. and CSI Global Education Inc. (acquired in January 2006).</p> <p><b>Cosmetic Essence, Inc.</b>, a leading provider of outsourced supply chain management services to the personal care products industry, including formulating, manufacturing, filling, packaging and distribution; the company's products include fragrances, crèmes, lotions and colour cosmetics.</p> <p><b>Radian Communication Services Corporation</b>, a North American wireless communications infrastructure and network services company.</p> <p><b>Onex Real Estate Partners LP</b>, a partnership dedicated to acquiring and improving real estate assets in North America.</p> <p><b>Onex Public Markets Group</b>, a limited partnership focused on investing in securities of publicly-traded North American companies in a variety of industries in order to generate long-term capital appreciation and dividends.</p>

## KEY PERFORMANCE INDICATORS

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

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

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

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

## FINANCIAL REVIEW

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

### Accounting policies and estimates

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

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

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

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

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

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

### Income tax valuation allowance

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

### Contract accounting

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

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

#### **Investment company**

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

#### **Development costs**

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

#### **New accounting policies**

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

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

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

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

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

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

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

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

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

### Sale of InsLogic Corporation

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

### Sale of CGG investment

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

### Purchase of U.S. healthcare companies

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

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

financial statements provides additional information on this acquisition.

### EMSC initial public offering

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

### Acquisition of Skilled Healthcare

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Share repurchases under Onex'

#### Normal Course Issuer Bids

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

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

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

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

## CONSOLIDATED OPERATING RESULTS

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

### Variability of results

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

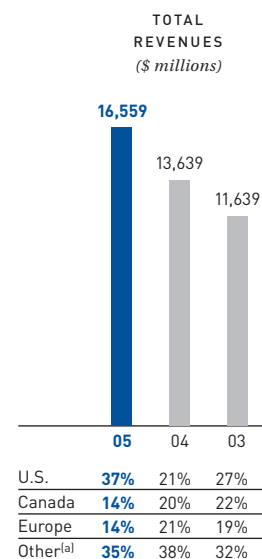
the Canadian dollar; the change in market value of stock-based compensation; and activities at Onex' operating companies. These activities may include the purchase or sale of businesses; fluctuations in customer demand and materials and employee-related costs; changes in the mix of products and services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

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

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

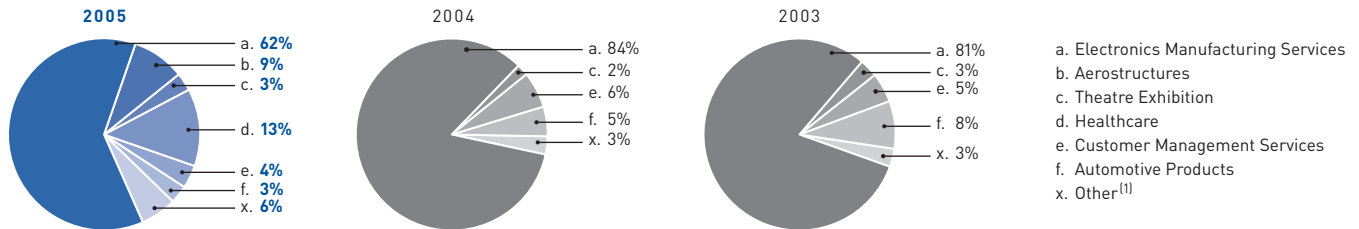
### Consolidated revenues

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



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

Segmented Total Consolidated Revenue Breakdown



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

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

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

Changes in Revenues by Industry Segment

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

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

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

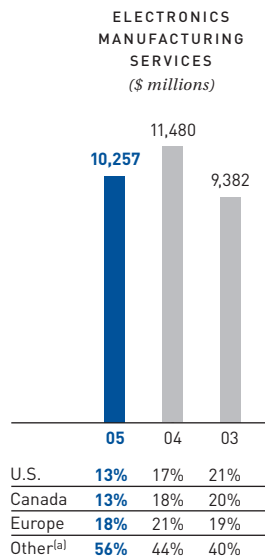
	(\$ millions)	Canadian Dollars			Functional Currency		
		2004	2003	Change (%)	2004	2003	Change (%)
Electronics Manufacturing Services	\$ 11,480	\$ 9,382	22 %	US\$ 8,840	US\$ 6,735	31 %	
Theatre Exhibition	318	296	7 %	C\$ 318	C\$ 296	7 %	
Customer Management Services	730	605	21 %	US\$ 562	US\$ 433	30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

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

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

**Electronics Manufacturing Services**

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



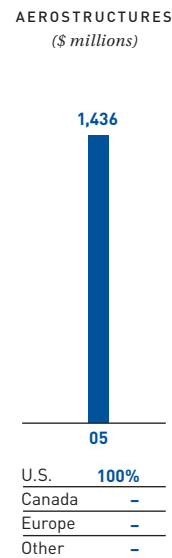
(a) Other includes primarily operations in Central and South America, Asia and Australia.

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

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

**Aerostructures**

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

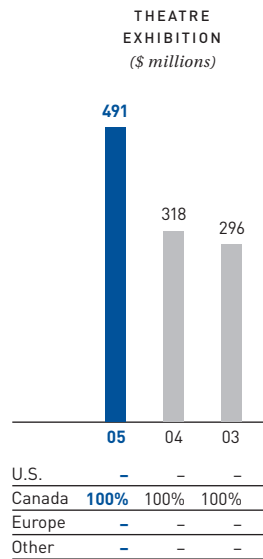


**Theatre Exhibition**

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

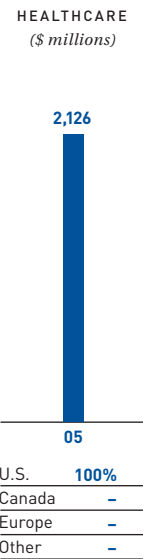
Cineplex reported revenues of \$491 million for 2005 (3 percent of Onex' total consolidated revenues in 2005), up 55 percent from revenues of \$318 million reported in 2004 (2 percent of Onex' total consolidated revenues in 2004). The acquisition of Famous Players in July 2005 accounted for \$183 million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

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



## Healthcare

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



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

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

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

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

**Emergency Medical Services**

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

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

**Center for Diagnostic Imaging**

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

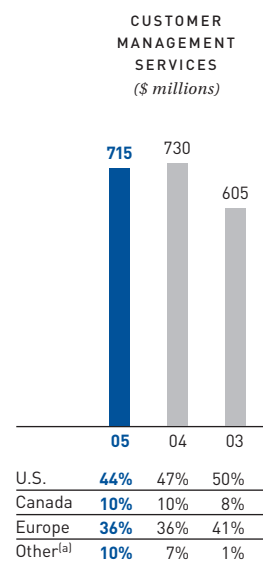
**Skilled Healthcare**

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

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

**Customer Management Services**

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



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

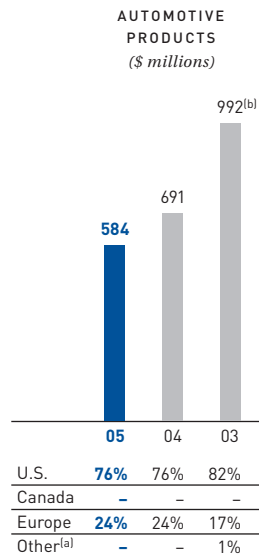
For the year ended December 31, 2004, revenues for ClientLogic grew 21 percent to \$730 million from \$605 million in 2003 (5 percent of Onex' total consolidated revenues in 2003). In the company's local currency and Canadian GAAP, ClientLogic's revenues grew 30 percent to US\$562 million in 2004 from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

## Automotive Products

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

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

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



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

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

## Other Businesses

### Mid-Cap Opportunities

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

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

### Personal Care Products

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

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

### Communications Infrastructure

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

### Public Market Investments

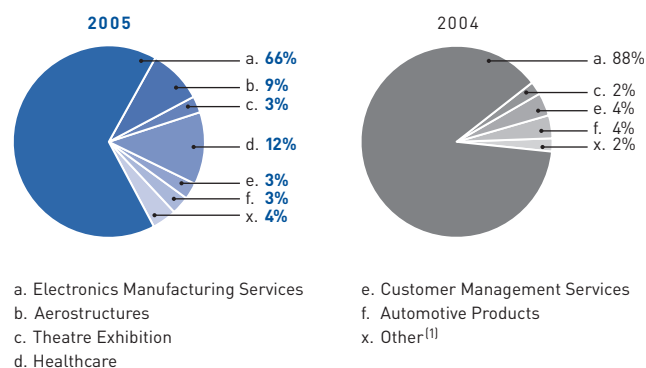
During 2005, Onex formed OPMG LP ("OPMG"), also known as Onex Public Markets Group, to invest in securities of publicly-traded North American companies in a variety of industries with the objective of generating long-term capital appreciation and dividends. Included in the "Other" segment of Onex' consolidated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

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

### Consolidated cost of sales

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

### Segmented Total Consolidated Cost of Sales Breakdown



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

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

### Cost of Sales by Industry Segment

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

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

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

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

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

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

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

### Electronics Manufacturing Services

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

### Aerostructures

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

### Theatre Exhibition

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

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

### Healthcare

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

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

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

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

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

### Emergency Medical Services

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

### Center for Diagnostic Imaging

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

### Customer Management Services

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

### Automotive Products

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

### Other Businesses

#### Mid-Cap Opportunities

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

#### Personal Care Products

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

#### Communications Infrastructure

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

### Operating earnings

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

## Operating Earnings (Loss) Reconciliation

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

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

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

## Operating Earnings (Loss) by Industry Segment

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

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

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

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

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

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

### Stock-based compensation

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

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

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

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

### Foreign exchange loss

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

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

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

### Interest expense of operating companies

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

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

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

### Change in Interest Expense

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

### Interest and other income

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

### Equity-accounted investments

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

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

### Derivative instruments

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

### Gains on sales of operating investments

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

#### Gains on Sales of Operating Investments

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

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

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

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

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

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

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

### Acquisition, restructuring and other expenses

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

### Acquisition, Restructuring and Other Expenses

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

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

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

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

### Debt prepayment

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

### Writedown of goodwill and intangible assets

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

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

### Writedown of Goodwill and Intangible Assets

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

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

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

### Writedown of long-lived assets

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

### Income taxes

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

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

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

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

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

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

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

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

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

### Earnings (loss) from continuing operations

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

#### Earnings (Loss) from Continuing Operations

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

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

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

### Earnings from discontinued operations

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

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

### Earnings (Loss) from Discontinued Operations

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

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

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

### Consolidated net earnings

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

### Consolidated Net Earnings (Loss)

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

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

### SUMMARY QUARTERLY INFORMATION

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

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

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

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

### Earnings (Loss) per Subordinate Voting Share

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

## Fourth quarter 2005 results

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

### Fourth Quarter Statements of Earnings

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

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

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

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

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

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

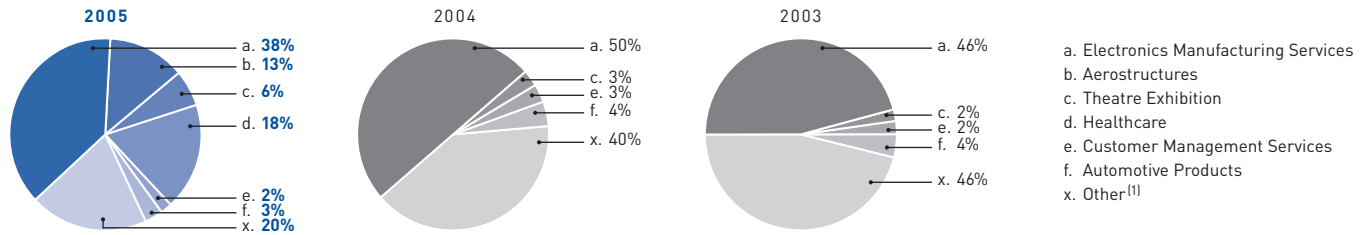
**CONSOLIDATED FINANCIAL POSITION**

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

**Consolidated assets**

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

**Segmented Total Consolidated Assets Breakdown**



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

Much of the growth in consolidated assets resulted from:

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

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

## 2005 Acquisitions

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

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

## 2004 Acquisitions

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

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

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

## 2003 Acquisitions

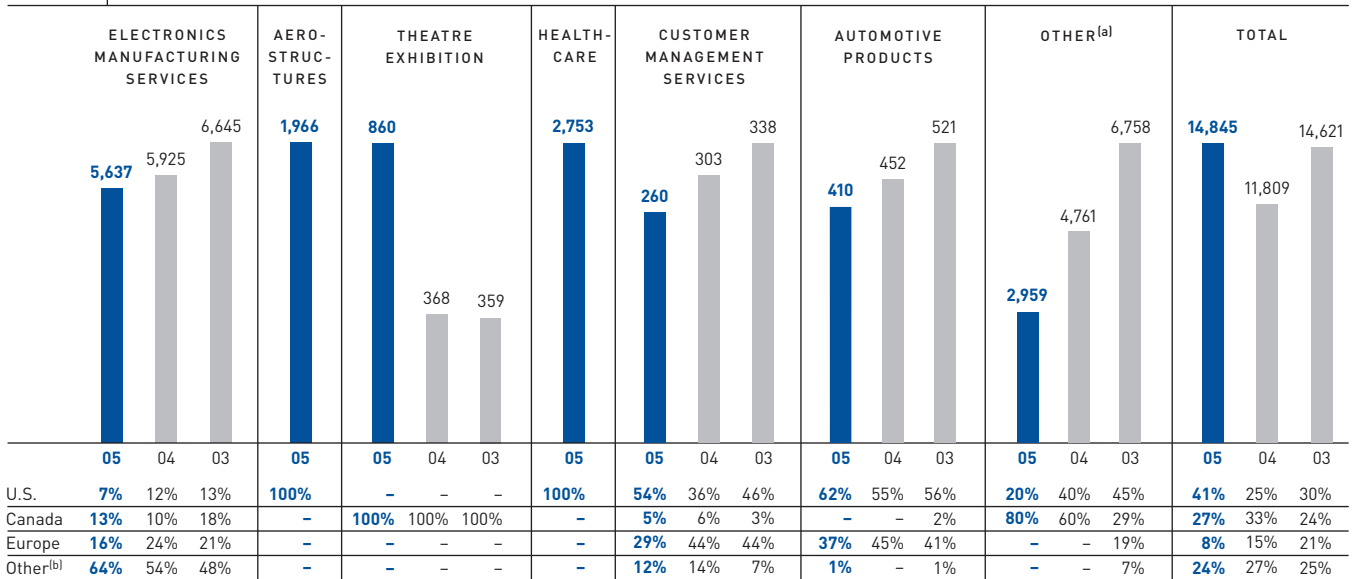
*Operating company and total assets of acquisitions*

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

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

Asset Diversification by Industry and Geographic Segments

CHART 1 | (\$ millions)



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

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

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

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

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

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

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

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

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

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

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

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

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

(a) Includes CEI, Radian and ONCAP.

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

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

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

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

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

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

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

### Other liabilities

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

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

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

### Non-controlling interests

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

### Change in Non-controlling Interests

TABLE 21 | (\$ millions)

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

### Shareholders' equity

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

### Change in Shareholders' Equity

TABLE 22 | (\$ millions)

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

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

### Shares outstanding

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

### Change in Subordinate Voting Shares Outstanding

TABLE 23 |

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

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

### Cash dividends

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

### Dividend Reinvestment Plan

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

### Stock Option Plan

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

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

### Change in Stock Options Outstanding

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

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

### Deferred Share Unit Plan

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

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

#### Normal Course Issuer Bids

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

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

#### Currency translation adjustment

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

## LIQUIDITY AND CAPITAL RESOURCES

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

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

#### Major Cash Flow Components

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

#### Cash from operating activities

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

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

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

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

### Cash from financing activities

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

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

Partially offsetting these were:

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

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

### Cash used in investing activities

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

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

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

### Property, Plant and Equipment Expenditures

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

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

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

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

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

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

### Consolidated cash resources

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

### Additional uses of cash Commitments

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

#### Commitments

TABLE 27 | (\$ millions)

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

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

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

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

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

### Contractual obligations

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

### Contractual Obligations

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

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

### Additional sources of cash

#### Private equity funds

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

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

#### Related party transactions

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

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

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

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

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

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

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

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

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

#### **Controls and procedures**

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

#### **Other matters**

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

## OUTLOOK

### PARENT COMPANY

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

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

### OPERATING COMPANIES

#### Electronics Manufacturing Services

##### Celestica

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

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

#### Aerostructures

##### Spirit AeroSystems

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

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

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

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

## Theatre Exhibition

### Cineplex Entertainment

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

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

## Healthcare

### Emergency Medical Services

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

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

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

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

### Center for Diagnostic Imaging

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

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

### Skilled Healthcare

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

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

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

#### **ResCare**

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

#### **Customer Management Services**

##### **ClientLogic**

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

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

#### **Automotive Products**

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

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

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

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

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

## Other Businesses

### Mid-Cap Opportunities

#### ONCAP

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

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

### Personal Care Products

#### Cosmetic Essence

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

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

## Communications Infrastructure

### Radian

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

## RISK MANAGEMENT

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

### Managing risk

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

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

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

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

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

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

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

### Business cycles

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

### Operating liquidity

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

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

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

### **Timeliness of investment commitments**

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

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

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

### **Financial and commodity risks**

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

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

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

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

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

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

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

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

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

### **Integration of acquired companies**

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

### **Dependence on government funding**

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

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

### **Significant customers**

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

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

### **Environmental considerations**

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

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

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