

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis ("MD&A") of the financial condition and results of operations analyzes significant changes in the consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows of Onex Corporation ("Onex"). It should be read in conjunction with the audited annual consolidated financial statements and notes found on pages 56 to 98 of this report. The MD&A and the Onex consolidated financial statements have been prepared to provide information on Onex on a consolidated basis and should not be considered as providing sufficient information to make an investment decision in regard to any particular Onex operating company.

The following MD&A is the responsibility of management and is as of February 13, 2007. The Board of Directors carries out its responsibility for review of this disclosure through its Audit and Corporate Governance Committee, comprised exclusively of independent directors. The Audit and Corporate Governance Committee reviews the disclosure and recommends its approval by the Board of Directors.

The MD&A is presented in the following sections:

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Onex Corporation's financial filings, including its 2006 MD&A, Financial Statements and interim quarterly reports, Annual Information Form and Management Circular, are available on the Company's website at www.onex.com or on the Canadian System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Forward-Looking/Safe Harbour Statements

This MD&A may contain, without limitation, statements concerning possible or assumed future results preceded by, followed by or that include words such as "believes", "expects", "anticipates", "estimates", "intends", "plans" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees of future performance. They involve risks and uncertainties that may cause actual performance or results to be materially different from those anticipated in these forward-looking statements, including without limitation, those discussed on pages 11 through 15 of this MD&A. Onex is under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or other factors. All forward-looking statements attributable to Onex are expressly qualified by these cautionary statements.

ONEX BUSINESS OBJECTIVE AND STRATEGIES

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

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

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

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

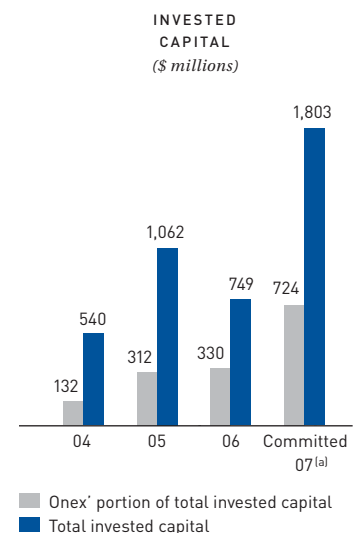
1. Acquire attractive businesses

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

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

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

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



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

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

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

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

Diversification of capital. Onex deliberately diversifies its private equity capital across a variety of companies and industries in order to limit its exposure to a single business or industry. This strategy enables Onex to better weather the ebbs and flows of economic and/or industry business cycles. In addition, Onex established Onex Real Estate Partners ("OREP") in partnership with an experienced and dedicated management team. The objective of the partnership is to acquire and to improve real estate assets in North America. Onex also established Onex Capital Management to invest in securities of publicly traded North American companies in order to generate long-term capital appreciation.

2006 Performance against objective

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

2. Build acquired businesses into industry leaders

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

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

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

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

2006 Performance against objective

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

3. Expand third-party capital

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

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

Earn carried interests. The private equity fund structure recognizes the skills of the Onex professional team in creating and realizing value on behalf of the limited partners. The Funds give Onex the ability to earn a carried interest on the returns of the limited partners based on the performance of the individual Onex Partners Funds. The General Partner earns a carried interest of 20 percent on the realized gains of the third-party limited partners, subject to an 8 percent compound annual preferred return to the limited partners on the entire Fund. Consistent with market practice, Onex, as sponsor of the Onex Partners Funds, is allocated 40 percent of the carried interest, with the balance being allocated to the Onex management team.

2006 Performance against objective

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

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

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

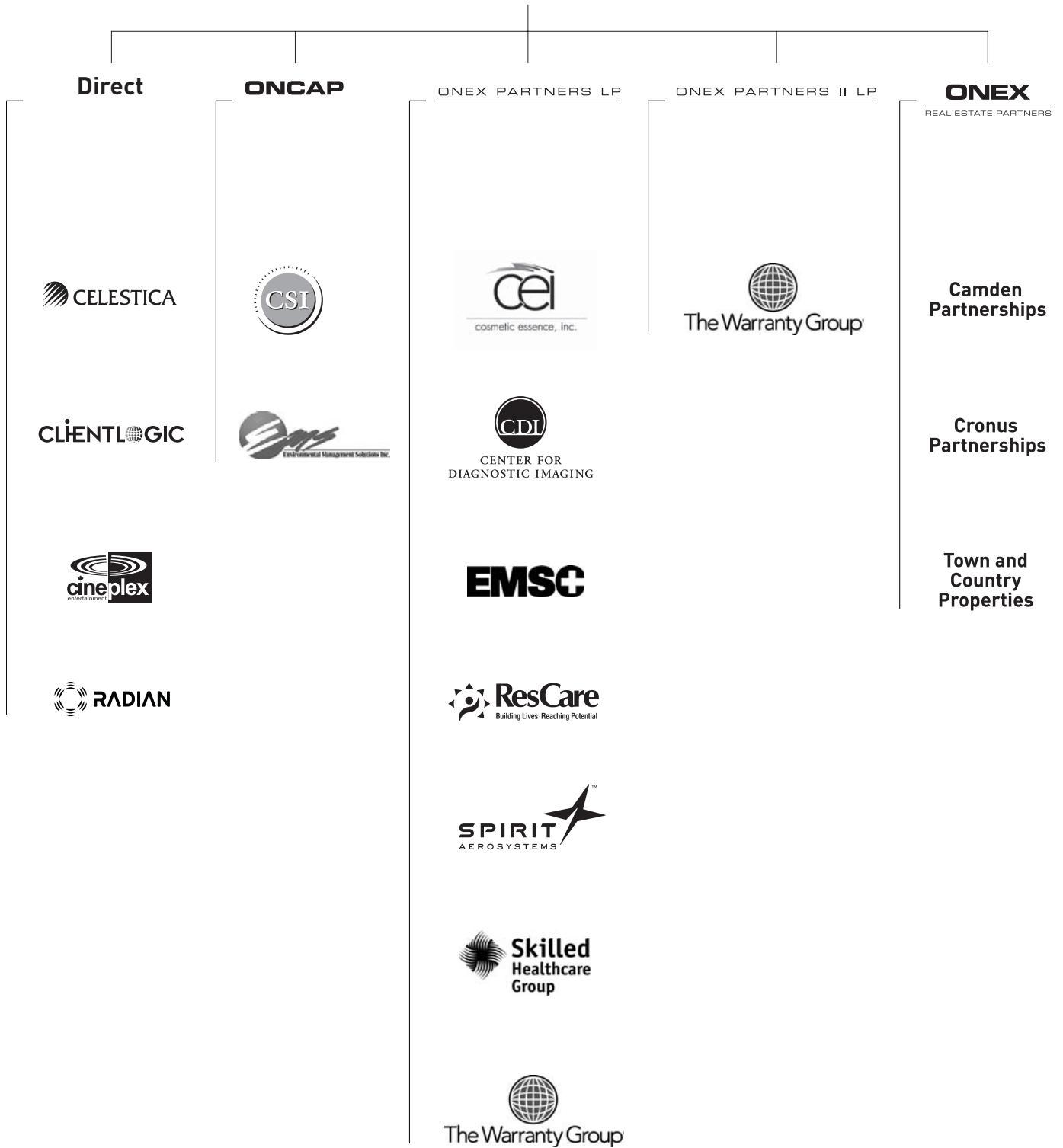
2006 Performance against objective

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

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

THE ONEX OPERATING COMPANIES

ONEX



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

INDUSTRY SEGMENTS

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

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

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

FINANCIAL REVIEW

This section discusses the significant changes in Onex' consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flow for the fiscal year ended December 31, 2006 compared to those for the year ended December 31, 2005 and, in selected areas, to those for the year ended December 31, 2004.

SIGNIFICANT EVENTS IN 2006

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

ONCAP to sell CMC Electronics

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

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

ONCAP to sell WIS International

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

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

Acquisition of The Warranty Group

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

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

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

Spirit AeroSystems completes US\$1.7 billion initial public offering

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

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

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

Onex closes second private equity fund, Onex Partners II LP

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

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

Emergency Medical Services acquires air ambulance services and inpatient services providers

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

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

Cineplex Entertainment secondary unit offering

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

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

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

Spirit AeroSystems acquires BAE Systems' aerostructures business

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

Onex Real Estate acquires Town and Country Trust

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

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

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

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

Skilled Healthcare completes three acquisitions

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

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

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

ONCAP's sale of Canadian Securities Registration Systems

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

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

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

Cineplex Entertainment completes sale of seven theatres

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

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

Accounting gain recorded on J.L. French Automotive

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

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

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

ONCAP II completes two acquisitions

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

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

Sale of Futuremed

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

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

Share repurchases under Onex' Normal Course Issuer Bids

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

CONSOLIDATED OPERATING RESULTS

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

Critical accounting policies and estimates

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

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

Goodwill, intangible assets and long-lived assets impairment tests

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

judgment in making assumptions about future results, including revenues, operating expenses, capital expenditures and discount rates. When an impairment test is undertaken, the underlying assumptions are re-evaluated and could give rise to future impairment charges.

Income tax valuation allowance

An income tax valuation allowance is recorded against future income tax assets when it is more likely than not that some portion or all of the future income tax assets recognized will not be realized prior to their expiration. The reversal of future income tax liabilities, projected future taxable income, the character of income tax assets, tax planning strategies and changes in tax laws are some of the factors taken into consideration when determining the valuation allowance. A change in these factors could affect the estimated valuation allowance and income tax expense. Note 14 to the audited annual consolidated financial statements provides additional disclosure on income taxes.

Contract accounting

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

During 2006, Onex' operating company Spirit AeroSystems recognized revenues under the contract method of accounting, using the units-of-delivery method. The company follows this method of accounting as a significant portion of its revenues are under long-term, volume-based pricing contracts that require delivery of products over several years.

Development costs

Included in deferred charges in Onex' audited annual consolidated balance sheet are capitalized development costs of Spirit AeroSystems primarily associated with that company's product development on Boeing's 787 aircraft. These development costs will be amortized over the anticipated number of production units to which such costs relate.

Losses and loss adjustment expenses reserves

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

Variability of results

Onex' audited consolidated operating results may vary substantially from year to year for a number of reasons, including some of the following: acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the U.S. dollar and the Canadian dollar; the change in market value of stock-based compensation for both the parent company and its operating companies; changes in the market value of Onex' publicly traded operating companies; and activities at Onex' operating companies. These activities may include the purchase or sale of businesses; fluctuations in customer demand and materials and employee-related costs; changes in the mix of products and services produced or delivered; and charges to restructure operations. The discussion that follows identifies some of the material factors that affected Onex' operating segments and Onex' audited annual consolidated results for the year ended December 31, 2006.

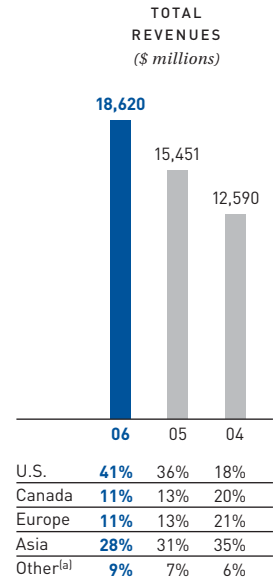
The statement of earnings for the year ended December 31, 2005 has been restated from that previously reported in accordance with required accounting policies for discontinued operations of those businesses that were disposed of or planned to be disposed of in 2006. These include the operations of:

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

Consolidated revenues

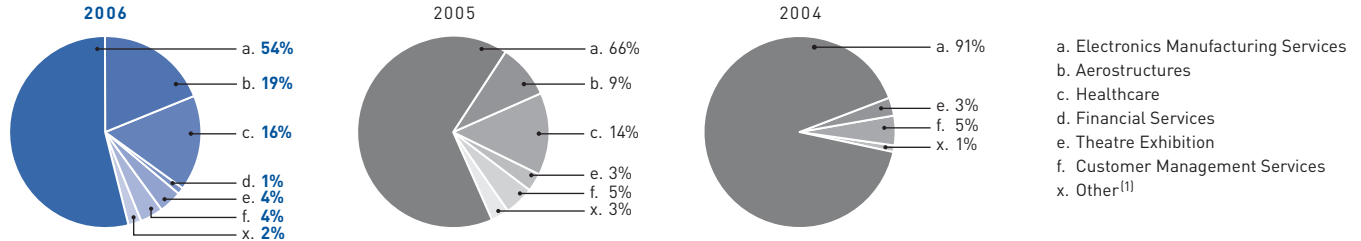
Consolidated revenues were \$18.6 billion, up 21 percent from \$15.5 billion in 2005 and up 23 percent from \$12.6 billion in 2004.

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



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

Segmented Total Consolidated Revenue Breakdown



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

Table 1 presents revenues in Canadian dollars and in the functional currency of the companies in 2006, 2005 and 2004 and the percentage change in revenues for those periods. Onex believes that reporting revenues in the operating companies' functional currencies is useful in

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

Changes in Revenues by Industry Segment

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

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

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

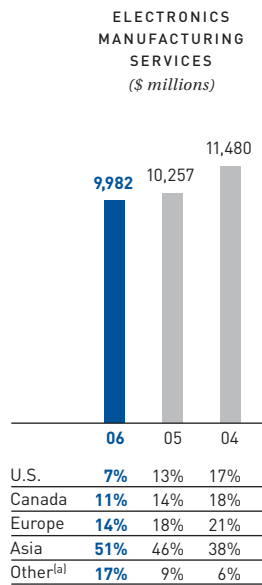
	(\$ millions)	Canadian Dollars			Functional Currency			
		Year ended December 31	2005	2004	Change (%)	2005	2004	Change (%)
		Electronics Manufacturing Services	\$ 10,257	\$ 11,480	(11)%	US\$ 8,471	US\$ 8,840	(4)%
		Aerostructures	1,436	-	-	US\$ 1,208	-	-
		Healthcare	2,126	-	-	US\$ 1,758	-	-
		Theatre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

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

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

Electronics Manufacturing Services

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

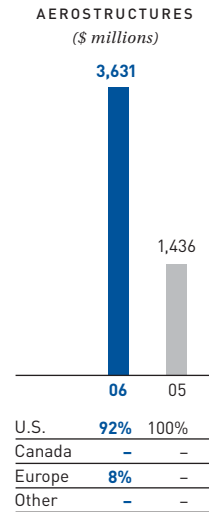


(a) Other includes primarily operations in Central and South America and Australia.

Celestica reported revenues of \$10.3 billion in 2005, an 11 percent decline from \$11.5 billion in 2004 (91 percent of Onex' total consolidated revenues in 2004). In the company's functional currency, Celestica reported revenues of US\$8.5 billion in 2005, down 4 percent from US\$8.8 billion in 2004. Revenues declined 18 percent in the Americas and 17 percent in Europe, while revenues in Asia increased 14 percent. The decline in the Americas and Europe was due primarily to lower volumes and the transfer of programs to lower-cost geographies. Asia benefitted from its expanded manufacturing capabilities, improved demand, new customers and the transfer of programs from higher-cost geographies.

Aerostructures

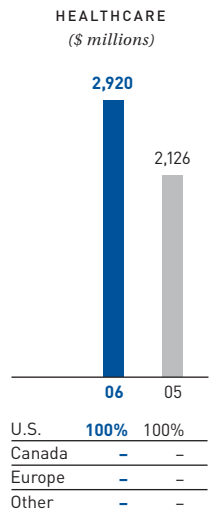
For the year ended December 31, 2006, Spirit AeroSystems reported revenues of \$3.6 billion (19 percent of Onex' total consolidated revenues in 2006) compared to \$1.4 billion for 2005 (9 percent of Onex' total consolidated revenues in 2005). In the company's functional currency, Spirit AeroSystems reported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



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

Healthcare

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



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

Healthcare Revenues

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

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

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

Emergency Medical Services

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

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

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

Center for Diagnostic Imaging

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

Skilled Healthcare

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

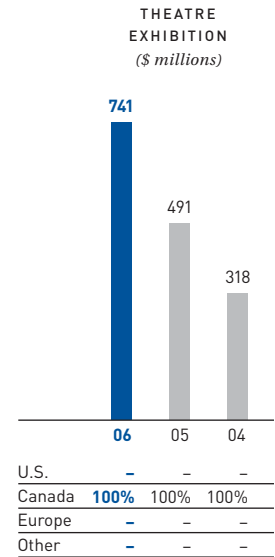
The company’s financial results for the four days from its December 27, 2005 acquisition date to December 31, 2005 were not significant to Onex’ consolidated results and accordingly, Skilled Healthcare’s revenues are not included in the healthcare segment of Onex’ consolidated revenues for the year ended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

Financial Services

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

Theatre Exhibition

The theatre exhibition segment includes the operations of Cineplex Entertainment and Cineplex Odeon Corporation, which owns a small number of theatres and real estate properties not included in Cineplex Entertainment. We refer to Cineplex Entertainment and Cineplex Odeon Corporation collectively as Cineplex. Cineplex generates revenues primarily from box-office and concession sales that are affected by attendance levels and changes in the average per patron admission and concession revenues. Attendance levels are affected by the commercial appeal of the films released and the successful marketing and promotion of those films by the film studios and distributors. Theatres opened or closed and acquisitions or dispositions of theatres in the year will also affect revenues. Cineplex reported revenues of \$741 million for 2006 (4 percent of Onex’ total consolidated revenues in 2006), up 51 percent from revenues of \$491 million reported in 2005 (3 percent of Onex’ total consolidated revenues in 2005). The growth in revenues in 2006 was due primarily to the acquisition of Famous Players in July 2005 (\$219 million), new theatre openings (\$16 million), an increase in box-office and concession revenues per patron (\$10 million), and higher other revenues (\$6 million), partially offset by the impact of disposed theatres (\$1 million).

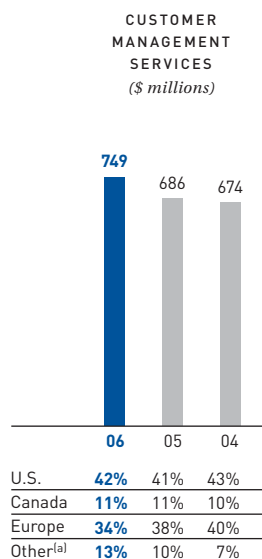


Reported revenues for Cineplex were \$491 million for the year ended December 31, 2005, up \$173 million, or 54 percent from \$318 million in 2004 (3 percent of Onex’ total consolidated revenues in 2004). The acquisition of Famous Players in July 2005 accounted for \$183 million of the total revenue growth and new theatre openings in 2005 provided \$7 million in box-office and concession revenues. Excluding acquisition growth from Famous Players, box-office revenue decreased \$13 million in 2005 as a result of lower attendance and a decline in average box-office revenue per patron.

Customer Management Services

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

For the year ended December 31, 2005, revenues for ClientLogic were up \$12 million to \$686 million from \$674 million in 2004 (5 percent of Onex' total consolidated revenues in 2004). In the company's local currency and under Canadian GAAP, ClientLogic's revenues grew 20 percent to US\$584 million in 2005 from US\$541 million in 2004. Customer contact management revenue grew US\$43 million due to the expansion of business from existing customers of US\$31 million and from new customers of US\$44 million. Partially offsetting this growth was the loss of business from two customers in the fourth quarter of 2004, which provided US\$32 million of revenues in 2004.



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

Other Businesses

Personal Care Products

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

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

During 2005, CEI reported revenues of \$304 million. Excluding foreign currency translation, CEI's revenues totalled US\$253 million in 2005. There are no comparative revenues for 2004 since the company was acquired in December 2004. The company recognized revenues from several new customers and achieved increased revenues from many existing customers in 2005; however, partially offsetting this growth was a reduction in orders from some other existing customers largely as a result of them entering 2005 with excess inventory. In addition, CEI's acquisition of Hauer in April 2005 contributed US\$14 million of the total revenues in 2005. Hauer manufactures, packages and distributes household and consumer products. The acquisition brought new customers to CEI and enabled the company to benefit from the application of Hauer's high-speed equipment and excess capacity that CEI has adapted for the production of certain of its products.

Mid-Cap Opportunities

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

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

Communications Infrastructure

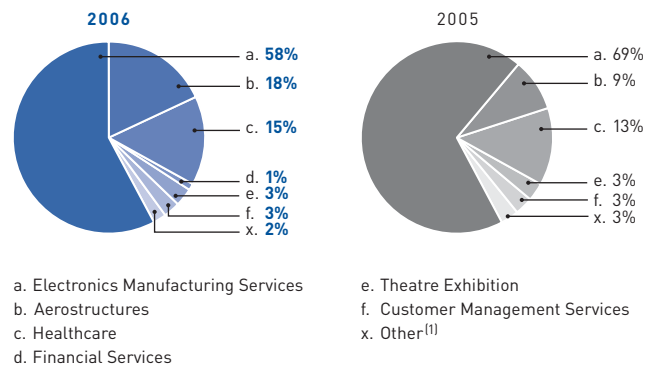
Radian Communication Services Corporation's ("Radian") services include wireless network design, installation, management and optimization, tower engineering and manufacturing and broadcast systems. During 2006, Radian reported revenues of \$132 million (less than 1 percent of Onex' total consolidated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

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

Consolidated cost of sales

Consolidated cost of sales was \$16.2 billion in 2006 compared to \$13.7 billion in 2005. A breakdown of the percentage of total cost of sales by industry segment is provided in the charts below for the years ended December 31, 2006 and 2005.

Segmented Total Consolidated Cost of Sales Breakdown



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

Table 3 provides a detailed breakdown of reported cost of sales by industry segment for 2006 and 2005 and the percentage change in cost of sales from those periods in both Canadian dollars and the functional currencies of the companies. Cost of sales is provided in the companies' functional currencies to eliminate the impact of foreign exchange translation on cost of sales.

Changes in Cost of Sales by Industry Segment

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

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

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

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

Cost of Sales as a Percentage of Revenues by Industry Segment

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

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

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

Electronics Manufacturing Services

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

Healthcare Cost of Sales

Year ended December 31	Canadian Dollars		Functional Currency	
	2006	2005	2006	2005
Emergency Medical Services	\$ 1,923	\$ 1,766	US\$ 1,695	US\$ 1,461
Center for Diagnostic Imaging	40	42	US\$ 36	US\$ 34
Skilled Healthcare	460	– ^(a)	US\$ 404	– ^(a)
Total	\$ 2,423	\$ 1,808	US\$ 2,135	US\$ 1,495

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

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

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

Aerostructures

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

Healthcare

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

Emergency Medical Services

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

Center for Diagnostic Imaging

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

Skilled Healthcare

Skilled Healthcare reported cost of sales of \$460 million, or US\$404 million in the company's functional currency, in 2006. A comparison to 2005 is not available because the company's financial results for the four days from its December 27, 2005 acquisition date to December 31, 2005 were not significant to Onex' consolidated results; accordingly, Skilled Healthcare's cost of sales is not included in the healthcare segment of Onex' consolidated cost of sales for the year ended December 31, 2005.

Financial Services

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

Theatre Exhibition

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

Customer Management Services

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

Other Businesses

Personal Care Products

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

Mid-Cap Opportunities

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

Communications Infrastructure

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

Operating earnings

Operating earnings is defined as EBIAT, or earnings before interest expense, amortization of intangible assets and deferred charges and income taxes. As Onex' objective is to achieve an operating earnings measurement of our businesses, the Company also excludes foreign exchange gain (loss), stock-based compensation charges, non-recurring items such as acquisition and restructuring charges, as well as non-controlling interests and discontinued operations. Table 6 provides a reconciliation of the audited annual consolidated statements of earnings to operating earnings for the years ended December 31, 2006 and 2005.

Operating Earnings Reconciliation

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

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

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

Operating Earnings by Industry Segment

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

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

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

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

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

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

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

Stock-based compensation

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

Stock-based Compensation Expense (Income) by Industry Segment

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

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

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

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

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

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

Foreign exchange gain (loss)

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

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

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

Interest and other income

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

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

Partially offsetting the above factors were:

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

Interest expense of operating companies

Onex has a policy to structure each of its operating companies with sufficient equity in the company to enable it to self-finance a significant portion of its acquisition cost with a prudent level of debt. The level of debt assumed is commensurate with the operating company's available cash flow, including consideration of funds required to pursue growth opportunities. It is the responsibility of the acquired operating company to service its own debt obligations.

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

Change in Interest Expense

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

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

Equity-accounted investments

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

Gains on sales of operating investments

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

Gains on Sales of Operating Investments

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

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

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

Acquisition, restructuring and other expenses

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

Acquisition, Restructuring and Other Expenses

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

Celestica incurred approximately \$240 million of these expenses in 2006 compared to \$193 million in 2005. Many of the costs were recorded in connection with Celestica's restructuring plans, which were spread over several reporting periods. These plans, which include reducing workforce and consolidating facilities, are intended to improve capacity utilization and accelerate margin improvements. Included in Celestica's 2006 acquisition, restructuring and other expenses was a \$69 million charge associated with the sale of its manufacturing facilities in Italy. Note 19 to the audited annual consolidated financial statements details the nature of the acquisition, restructuring and other expenses, such as employee termination costs, facility and exit costs and other charges, by the year in which the activity was initiated.

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

Income taxes

During 2006, the consolidated provision for income taxes was \$24 million compared to a provision of \$70 million in 2005. Spirit AeroSystems accounted for much of the provision for income taxes in 2006. Included in the 2005 income tax provision was a \$158 million current income tax expense recorded by Onex, the parent company, relating to the gain on the early settlement of its Celestica exchangeable debentures and the Celestica forward sales agreements. Offsetting this was a recovery of income taxes resulting from the application of previous years' loss carry-forwards for which a full valuation allowance had previously been provided. Note 14 to the audited annual

consolidated financial statements provides a reconciliation of the statutory income tax rates to the Company's effective tax rate and also provides an analysis of the future income tax assets and liabilities.

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

In the audited annual consolidated statements of earnings, the non-controlling interests amounts represent the interests of shareholders other than Onex in the net earnings or losses of Onex' operating companies. During 2006, the non-controlling interests amount in Onex' operating companies' net earnings was \$830 million compared to a \$3 million interest in net losses in 2005. Table 12 details the losses (earnings) by industry segment attributable to non-controlling shareholders in our operating companies.

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

TABLE 12	(\$ millions)	2006	2005
Electronics Manufacturing Services		\$ 153	\$ 53
Aerostructures		(99)	15
Healthcare		(45)	(44)
Financial Services		(15)	-
Theatre Exhibition		(6)	(16)
Customer Management Services		(6)	(1)
Other ^(a)		103	76
Minority interest of gains on sales of operating investments		(915)	(80)
Total		\$ (830)	\$ 3

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

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

Earnings (loss) from continuing operations

Onex' consolidated earnings from continuing operations, including gains on sales of operating investments, was \$256 million (\$1.93 per share) in 2006 compared to earnings from continuing operations of \$827 million (\$5.95 per share) reported in 2005 and a loss of \$248 million (\$1.75 per share) reported in 2004. Table 13 details the earnings (loss) from continuing operations by industry segment before income taxes and non-controlling interests.

Earnings (Loss) from Continuing Operations

TABLE 13	(\$ millions)	2006	2005	2004
Earnings (loss) before income taxes and non-controlling interests:				
Electronics Manufacturing Services		\$ (160)	\$ (39)	\$ (752)
Aerostructures		(22)	(1)	-
Healthcare		105	47	-
Financial Services		32	-	-
Theatre Exhibition		1	(11)	28
Customer Management Services		23	(7)	(4)
Other ^(a)		(176)	(16)	(174)
Gains on sales of operating investments		1,307	921 ^(b)	108
		1,110	894	(794)
Provision for income taxes		(24)	(70)	(295)
Non-controlling interests of operating companies		(830)	3	841
Earnings (loss) from continuing operations		\$ 256	\$ 827	\$ (248)

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

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

Earnings from discontinued operations

Earnings from discontinued operations were \$746 million (\$5.62 per share) in 2006 compared to earnings from discontinued operations of \$138 million (\$1.00 per share) in 2005.

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

Earnings (Loss) from Discontinued Operations

TABLE 14 | (\$ millions)

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

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

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

Consolidated net earnings

Consolidated net earnings in 2006 were \$1,002 million compared to \$965 million in 2005 and \$35 million in 2004. Table 15 identifies the net earnings (loss) by industry segment as well as the contribution from net after-tax gains on sales of operating investments and discontinued operations.

Consolidated Net Earnings (Loss)

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

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

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

Earnings (Loss) per Subordinate Voting Share

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

FOURTH-QUARTER RESULTS

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

Fourth-Quarter Statements of Earnings

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

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

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

Fourth-Quarter Revenues and Operating Earnings by Industry Segment

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

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

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

Fourth-quarter revenues rose primarily due to:

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

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

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

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

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

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

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

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

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

SUMMARY QUARTERLY INFORMATION

Table 19 summarizes Onex' key consolidated financial information for the last eight quarters. The summarized results presented in this table may differ from those results previously reported in 2006 and 2005 as a result of operations that have been discontinued and reclassified as discussed above.

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

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

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

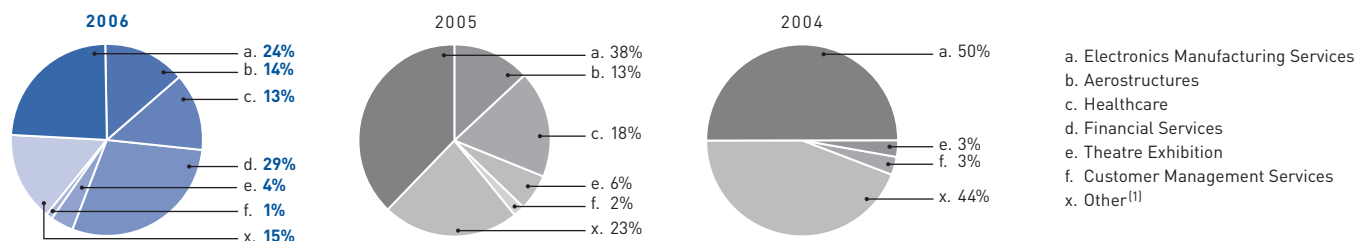
CONSOLIDATED FINANCIAL POSITION

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

Consolidated assets

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

Segmented Total Consolidated Assets Breakdown



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

Consolidated assets grew in 2006 due primarily to:

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

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

2006 Acquisitions

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

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

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

2005 Acquisitions

Operating company and total assets at time of acquisition

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

2004 Acquisitions

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

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

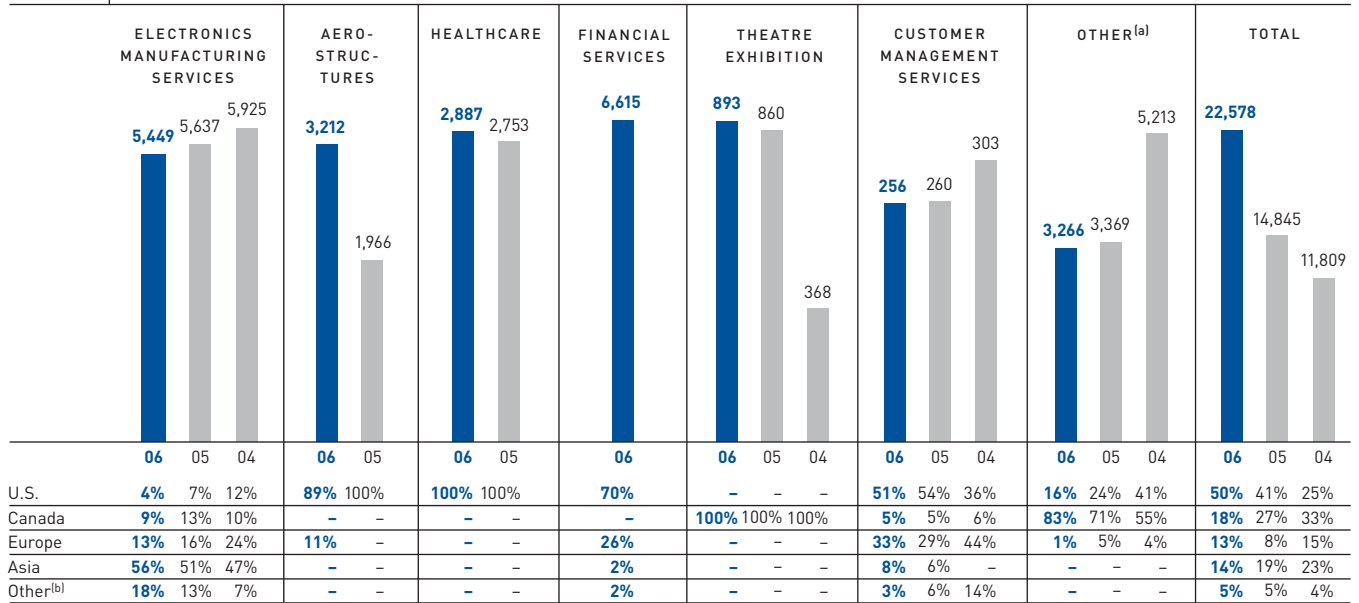
(1) These investments were recorded as discontinued operations as at December 31, 2005.

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

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

Asset Diversification by Industry and Geographic Segments

CHART 1 | (\$ millions)



(a) Includes Radian, ONCAP, CEI, Onex Real Estate and parent company. Includes discontinued operations of \$531 million, \$1,114 million and \$2,596 million for 2006, 2005 and 2004, respectively.

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

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

- \$198 million of investments made by Onex Capital Management, an Onex company established in 2005 to invest in North American public securities; and
- Onex and Onex Partners' \$114 million investment in ResCare (Onex' portion was \$27 million, representing a 6 percent ownership interest). ResCare is a leading provider of residential, training and educational support services for people with disabilities and special needs.

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

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

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

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

Warranty reserves and unearned premiums

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

Consolidated long-term debt, without recourse to Onex

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

Total long-term debt (consisting of the current portion of long-term debt and long-term debt) was \$3.8 billion at December 31, 2006, \$3.7 billion at December 31, 2005 and \$1.3 billion at December 31, 2004. Table 21 summarizes consolidated long-term debt by industry segment.

Consolidated Long-term Debt, Without Recourse to Onex

(Net of amounts held by Onex)

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

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

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

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

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

Other liabilities

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

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

Non-controlling interests

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

Change in Non-controlling Interests

TABLE 22 | (\$ millions)

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

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

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

Shareholders' equity

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

Change in Shareholders' Equity

TABLE 23 | (\$ millions)

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

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

Shares outstanding

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

Change in Subordinate Voting Shares Outstanding

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

Onex also has 100,000 Multiple Voting Shares outstanding, which have a nominal paid-in value, and 176,078 Series 1 Senior Preferred Shares, which have no paid-in amount reflected in Onex' audited annual consolidated financial statements. Note 15 to the audited annual consolidated financial statements provides additional information on Onex' share capital. There was no change in the Multiple Voting Shares and Series 1 Senior Preferred Shares outstanding during 2006.

Cash dividends

During 2006, Onex declared dividends of \$0.11 per Subordinate Voting Share, which were paid quarterly at a rate of \$0.0275 per Subordinate Voting Share. The dividends are payable on or about January 31, April 30, July 31 and October 31 of each year. The dividend rate remained unchanged from that of 2005 and 2004. Total payments for dividends have decreased with the repurchase of Subordinate Voting Shares under the Normal Course Issuer Bids as discussed on page 43.

Dividend Reinvestment Plan

Onex' Dividend Reinvestment Plan (the "Plan") enables Canadian shareholders to reinvest cash dividends to acquire new Subordinate Voting Shares of Onex at a market-related price at the time of reinvestment. During 2006, Onex issued 4,404 Subordinate Voting Shares under the Plan at an average cost of \$22.12 per Subordinate Voting Share, creating cash savings of less than \$1 million. During 2005, 2,865 Subordinate Voting Shares were issued under the Plan at an average cost of \$19.69 per Subordinate Voting Share, creating cash savings of less than \$1 million. During 2004, Onex issued 72,166 Subordinate Voting Shares under the Plan at an average cost of \$15.08 per Subordinate Voting Share, creating cash savings of approximately \$1 million. In January 2007, Onex issued an additional 904 Subordinate Voting Shares under the Plan at an average cost of \$28.36 per Subordinate Voting Share.

Stock Option Plan

Onex, the parent company, has a Stock Option Plan in place that provides for options and/or share appreciation rights to be granted to Onex directors, officers and employees for the acquisition of Subordinate Voting Shares of the Company for a term not exceeding 10 years. The options vest equally over five years. The exercise price of the options is not less than the market value of the Subordinate Voting Shares on the business day preceding the day of the grant. The options are not exercisable unless the average five-day market price of Onex Subordinate Voting Shares is 25 percent greater than the exercise price.

At December 31, 2006, Onex had 13,095,100 options outstanding to acquire Subordinate Voting Shares, of which 6,409,700 options were vested and all of those vested options were exercisable. Table 25 provides a detailed reconciliation of the options outstanding at December 31, 2006.

Change in Stock Options Outstanding

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

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

Deferred Share Unit Plan

Onex, the parent company, established a Deferred Share Unit Plan ("DSU Plan") in 2004, which allows Onex directors to apply directors' fees to acquire Deferred Share Units ("DSUs") based on the market value of Onex shares at the time. Grants of DSUs may also be made to Onex directors from time to time. Holders of DSUs are entitled to receive, for each DSU upon redemption, a cash payment equivalent to the market value of a Subordinate Voting Share at the redemption date. The DSUs vest immediately, are only

redeemable once the holder retires from the board of directors and must be redeemed by the end of the year following the year of retirement. Additional units are issued equivalent to the value of any cash dividends that would have been paid on the Subordinate Voting Shares. Onex, the parent company, has recorded a liability for the future settlement of DSUs at the balance sheet date by reference to the value of underlying shares at that date. The liability is adjusted up or down for the change in the market value of the underlying Subordinate Voting Shares, with the corresponding amount reflected in the consolidated statements of earnings. During 2006, Onex issued 40,000 DSUs to its directors (2005 – 45,000) with a cost of \$2 million (2005 – \$1 million) being recorded as stock-based compensation expense. At December 31, 2006, Onex had 177,134 DSUs outstanding.

Normal Course Issuer Bids

Onex had Normal Course Issuer Bids (the "Bids") in place during 2006 that enable it to repurchase up to 10 percent of its public float of Subordinate Voting Shares during the period of the relevant Bid. Onex believes that it is advantageous to Onex and its shareholders to continue to repurchase Onex' Subordinate Voting Shares from time to time when the Subordinate Voting Shares are trading at prices that reflect a significant discount to their intrinsic value. During 2006, Onex repurchased 9,176,300 Subordinate Voting Shares under the Bids at a total cost of \$203 million. Under similar Bids, Onex repurchased 939,200 Subordinate Voting Shares at a total cost of \$18 million during 2005 and 9,143,100 Subordinate Voting Shares at a total cost of \$150 million in 2004.

Currency translation adjustment

The currency translation component decreased shareholders' equity by \$121 million in 2006 compared to a decline of \$7 million in 2005. Changes in the currency translation adjustment primarily represent the cumulative effect of changes in foreign currency rates on the value of Onex' ownership in U.S.-based operating companies from their respective acquisition dates. During 2006, the decline in the currency translation adjustment was due primarily to the elimination of J.L. French Automotive.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Major Cash Flow Components

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

Cash from operating activities

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

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

Cash from (used in) financing activities

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

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

Partially offsetting the cash used in financing activities were:

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

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

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

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

Cash used in investing activities

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

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

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

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

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

Property, Plant and Equipment Expenditures

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

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

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

Consolidated cash resources

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

ADDITIONAL USES OF CASH

Commitments

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

Commitments

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

Corporate investments

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

Pending or recent transactions

Acquisition of Tube City IMS Corporation

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

Investment in Qantas Airways Limited

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

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

Acquisition of Raytheon Aircraft Company

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

Acquisition of the Health Group of Kodak

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

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

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

ClientLogic Acquisition of SITEL Corporation

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

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

Capital expenditures

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

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

Contingent liabilities in the form of letters of credit, letters of guarantee, and surety and performance bonds are provided by certain operating companies to various third parties and include certain bank guarantees. As at December 31, 2006, the commitments with respect to these guarantees collectively totalled \$459 million. These guarantees are without recourse to Onex. In addition, certain operating companies have also made guarantees with respect to employee share purchase loans.

Contractual obligations

Table 29 presents the aggregate amount of future cash outflows for contractual obligations as at December 31, 2006 for the Onex operating companies.

Contractual Obligations

	Total	Payments Due by Period			
		Less than 1 year	1–3 years	4–5 years	After 5 years
Long-term debt, without recourse to Onex	\$ 3,841	\$ 43	\$ 481	\$ 569	\$ 2,748
Capital and operating leases	2,209	292	440	332	1,145
Purchase obligations	181	172	9	–	–
Total contractual obligations	\$ 6,231	\$ 507	\$ 930	\$ 901	\$ 3,893

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

Underfunded post-retirement benefit plans

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

ADDITIONAL SOURCES OF CASH

Private equity funds

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

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

Onex controls the General Partner and the Manager of all its private equity Funds. The Onex Partners Funds have a diverse group of investors, including public and private pension funds, banks, insurance companies and endowment funds from the United States, Canada, Europe and Asia. Table 30 presents the total capital commitments under the Onex Partners and ONCAP Funds, and the available uncalled committed capital at December 31, 2006.

Private Equity Funds Commitments

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

Related party transactions

Related party transactions are primarily investments by the management of Onex and of the operating companies in the equity of the operating companies acquired.

Management Investment Plan

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

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

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

The Onex Partners Funds

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

Carried interest

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

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

Investment in Onex shares and acquisitions

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

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

Members of management and the Board of Directors of Onex can invest limited amounts in partnership with Onex in all acquisitions outside of Onex Partners I and II at the same cost as Onex and other outside investors. During 2006, approximately \$13 million in investments were made by Onex management and Onex board members; this compares to \$21 million in investments made by management and the Onex board in 2005.

Management fees

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

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

Debt of operating companies

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

RECENT ACCOUNTING PRONOUNCEMENTS

Financial instruments, hedges and comprehensive income

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

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

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

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

Internal controls over financial reporting

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

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

OUTLOOK

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

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

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

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

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

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

RISK MANAGEMENT

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

Managing risk

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

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

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

Onex maintains an active involvement in its operating companies in the areas of strategic planning, financial structures and negotiations and acquisitions. In the early stages of ownership, Onex may provide resources for business and strategic planning and financial reporting, while an operating company builds these capabilities in-house. In almost all cases, Onex ensures there is oversight of its investment through representation on the acquired company's board of directors. Onex does not get involved in the day-to-day operations of acquired companies.

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

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

Business cycles

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

Operating liquidity

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

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

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

Timeliness of investment commitments

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

In order to improve the efficiency of Onex' internal processes on both auction and exclusive acquisition processes, and so reduce the risk of missing out on high-quality acquisition opportunities, during 2003 we created Onex Partners LP ("Onex Partners I"), a \$1.9 billion pool of capital raised from Onex and major institutional co-investors. During 2004, 2005 and 2006, we successfully deployed this capital in a variety of attractive businesses with the result that Onex Partners I's investment period was completed in 2006. Onex raised a second fund, Onex Partners II LP, in 2006. Onex Partners II, a \$4.0 billion pool of capital, completed its first investment in November 2006.

Financial and commodity risks

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

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

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

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

Currency fluctuations The majority of the activities of Onex' operating companies were conducted outside Canada during 2006. As discussed, approximately 41 percent of consolidated revenues and 50 percent of consolidated assets were in the United States. Approximately 48 percent of consolidated revenues were from outside North America; however, a substantial portion of that business is actually based on U.S. currency. This makes the value of the Canadian dollar relative to the U.S. dollar the primary currency relationship affecting Onex' operating results. Onex' operating companies may use currency derivatives in the normal course of business to hedge against adverse fluctuations in key operating currencies but, as noted above, speculative activity is not permitted.

Onex' results are reported in Canadian dollars, and fluctuations in the value of the Canadian dollar relative to other currencies can have an impact on Onex' reported results and consolidated financial position. During 2006, shareholders' equity reflected a \$121 million decrease in the value of Onex' net equity in those operating companies that operate in U.S. currency, as well as the elimination of J.L. French Automotive.

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

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

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

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

Integration of acquired companies

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

Dependence on government funding

Since 2005, Onex has acquired businesses, or interests in businesses, in various segments of the U.S. healthcare industry. The revenues of these companies are partially dependent on funding from federal, state and local government agencies, especially those responsible for U.S. federal Medicare and state Medicaid funding. Budgetary pressures, as well as economic, industry, political and other factors, could influence governments to not increase and, in some cases, to decrease appropriations for the services offered by Onex operating subsidiaries, which could reduce their revenues materially. Future revenues may be affected by changes in rate-setting structures, methodologies or interpretations that may be proposed or are under consideration. While each of Onex' operating companies in the U.S. healthcare industry is subject to reimbursement risk directly related to its particular business segment, it is unlikely that all of these companies would be affected by the same event, or to the same extent, simultaneously. Ongoing pressure on government appropriations is a normal aspect of business for these companies, and all seek to minimize the effect of possible funding reductions through productivity improvements and other initiatives.

Significant customers

Onex has acquired major operating companies and divisions of large companies. As part of these purchases, the acquired company has often continued to supply its former owner through long-term supply arrangements. It has been Onex' policy to encourage its operating companies to quickly diversify their customer bases to the extent practicable in order to manage the risk associated with serving a single major customer.

Certain Onex operating companies have major customers that represent more than 10 percent of annual revenues. Spirit AeroSystems primarily relied on one major customer, Boeing, at the time of its acquisition by Onex. The table in note 22 to the audited annual consolidated financial statements provides information on the concentration of business the operating companies have with major customers.

Environmental considerations

Onex has an environmental protection policy that has been adopted by its operating companies; many of these operating companies have also adopted supplemental policies appropriate to these industries or businesses. Senior officers of each of these companies are ultimately responsible for ensuring compliance with these policies. They are required to report annually to their company's board of directors and to Onex regarding compliance.

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

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