



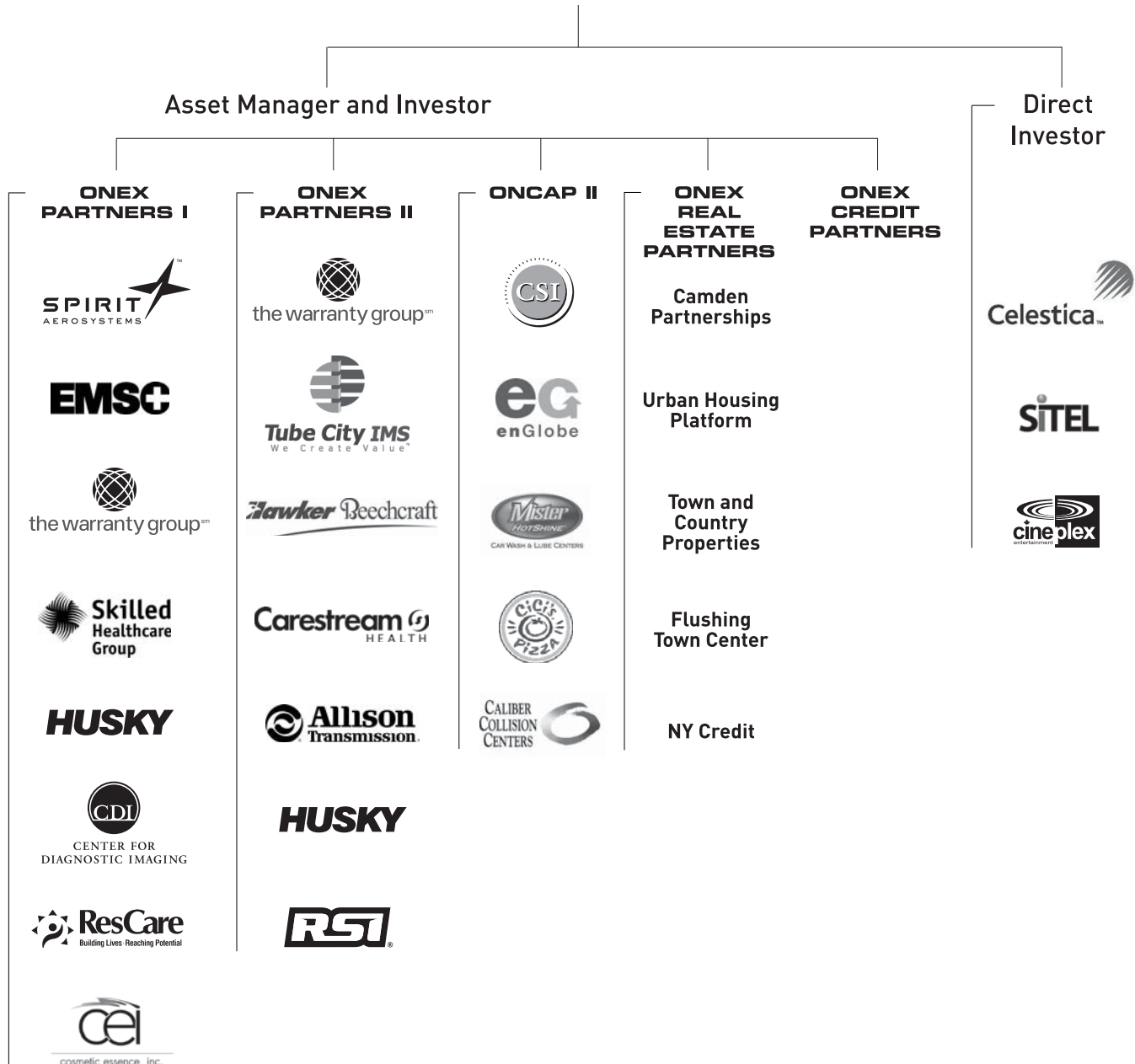
Management's Discussion and Analysis and Financial Statements

December 31, 2008

THE ONEX OPERATING COMPANIES

Onex' businesses generate annual revenues of \$36 billion, have assets of \$45 billion and employ 233,000 people worldwide.

ONEX



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

Table of Contents

| | | | |
|----|--------------------------------------|-----|---|
| 2 | Management's Discussion and Analysis | 111 | Summary of Historical Financial Information |
| 62 | Consolidated Financial Statements | 112 | Shareholder Information |

ONEX CORPORATION

A Leading Private Equity Investor and Asset Manager

Founded in 1984, Onex is one of North America's oldest and most successful private equity investors and asset managers. Onex has completed more than 250 acquisitions valued at approximately \$43 billion. Employing a disciplined, active ownership investment approach in these acquisitions, Onex has generated 3.4 times the capital it has invested and managed, earning a 29 percent compound IRR on realized and publicly traded investments.

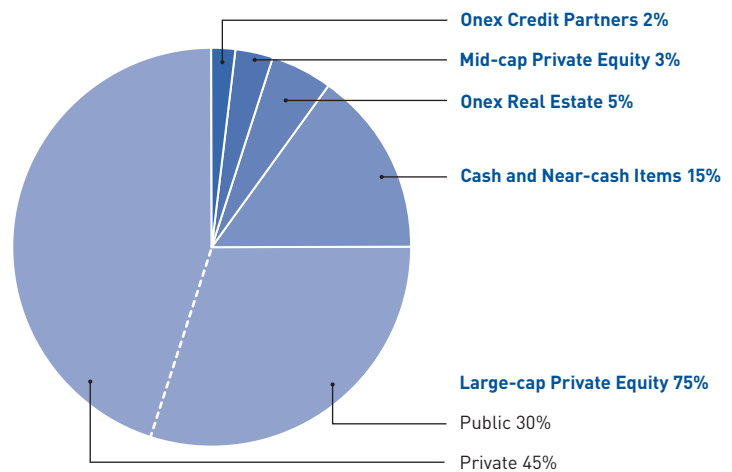
Onex' near \$4 billion of proprietary capital continues to be invested largely through Onex Partners, its large-cap private equity investing operations. Onex has also allocated meaningful amounts of capital to ONCAP (mid-cap private equity), Onex Real Estate Partners and Onex Credit Partners, while always maintaining a financially strong parent company with significant cash on hand.

Onex has approximately US\$7 billion of third-party, fee-earning assets under management in its Onex Partners and ONCAP families of funds, as well as through Onex Credit Partners. These Funds generate a stable and growing stream of annual management fees that more than offsets Onex' overhead. In addition, Onex is entitled to a carried interest on this capital that has the potential to significantly enhance Onex' investment returns.

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

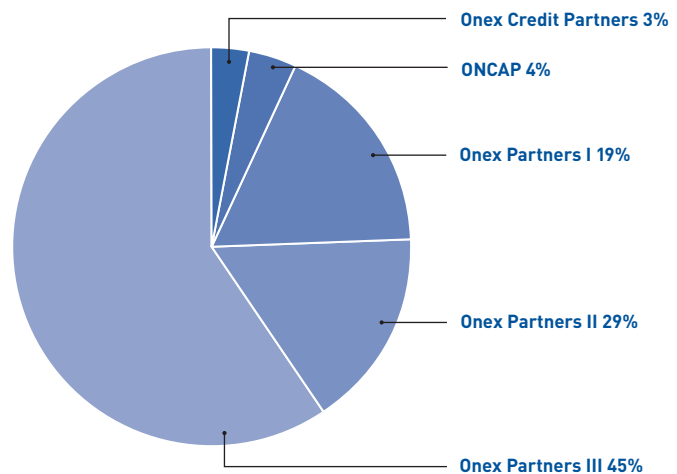
Throughout this report, all amounts are in Canadian dollars unless otherwise indicated.

Onex Invested Capital



Private investments are valued at cost and publicly traded investments are valued at market as at December 31, 2008.

Third-Party Assets Under Management



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following MD&A is the responsibility of management and is as of February 25, 2009. The Board of Directors carries out its responsibility for the review of this disclosure through the Audit and Corporate Governance Committee, comprised exclusively of independent directors. The Audit and Corporate Governance Committee has reviewed the disclosure and recommended its approval by the Board of Directors. The Board of Directors has approved this disclosure.

The MD&A is presented in the following sections:

- 3** Onex Business Objective and Strategies
- 7** Industry Segments
- 10** Financial Review
 - 10** Consolidated Operating Results
 - 34** Fourth-Quarter Results
 - 37** Consolidated Financial Position
 - 44** Liquidity and Capital Resources
 - 52** Transition to International Financial Reporting Standards
 - 53** Disclosure Controls and Procedures and Internal Controls over Financial Reporting
- 54** Outlook
- 55** Risk Management

Onex Corporation's financial filings, including the 2008 MD&A and Financial Statements and interim quarterly reports, Annual Information Form and Management Circular, are available on Onex' 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 than those anticipated in these forward-looking statements. Onex is under no obligation to update forward-looking statements contained herein should material facts change due to new information, future events or other factors. These cautionary statements expressly qualify all forward-looking statements in this MD&A.

ONEX BUSINESS OBJECTIVE AND STRATEGIES

OUR OBJECTIVE: Onex' business objective is to create long-term value for shareholders and partners and to have that value reflected in our share price. The discussion that follows outlines Onex' strategies to achieve this objective and how we performed against those strategies during 2008.

OUR STRATEGY: Private Equity Investing + Asset Management

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

For 25 years, Onex has had a distinctive ownership culture that requires its management team to invest meaningfully in each private equity transaction and to reinvest a portion of its carry distributions in Onex shares. As well, the Onex management team owns approximately 23 percent of Onex' outstanding Subordinate Voting Shares. We believe that our superior track record is a direct result of this strong alignment of interests between Onex, our shareholders, our partners and our management team.

PRIVATE EQUITY INVESTING: Acquire, Build and Grow Value

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

2008 Performance

Acquire attractive businesses

The credit crisis that began in mid-2007 intensified globally during the second half of 2008. Traditional sources of credit, such as bank lending, commercial paper and corporate fixed-income markets, either locked up or became prohibitively expensive. The injection of hundreds of billions of dollars into domestic financial systems by national governments around the world provided a needed capital cushion for the global banking system. Yet, by the end of 2008, only limited progress had been made in stimulating the banking system to commit to renewed lending. The combination of stringent credit terms and fewer participants in the market made financing for new acquisitions very difficult to obtain, which in turn limited private equity investment and realizations.

Despite these challenges, Onex completed two attractive acquisitions during the fourth quarter of 2008:

- Onex Partners II acquired a 50 percent interest in RSI Home Products, Inc., a leading U.S. manufacturer of residential cabinetry, for a total investment of \$338 million; Onex' share was \$133 million. This investment was the first in our building products partnership with Philip Orsino, former CEO of Masonite Corporation.
- ONCAP II, our mid-market private equity fund, completed the acquisition of Caliber Collision Centers, the leading provider of auto collision repair services in the United States, with 66 facilities in Texas and California. The total investment was \$67 million, of which Onex' portion was \$30 million.

During 2008, our gaming partnership with Alex Yemenidjian, former President and CEO of MGM Mirage, was actively seeking attractive investment opportunities in this currently out-of-favour sector.

Build our businesses into industry leaders

Today, most of Onex' operating companies are industry leaders with substantial global operations. However, these businesses are not immune to the current environment and therefore, in 2008, we directed the management of each of our operating companies to position these businesses defensively in anticipation of a significant economic downturn. Given Onex' prudent use of financial leverage, our businesses are, for the most part, conservatively capitalized. At December 31, 2008, all but one were well within their debt covenants and have no meaningful debt maturities prior to 2011. We believe this positions our companies well through this economic contraction to enhance their leadership positions and to enable them to be potential acquirers at an opportune time in the business cycle.

Grow the value of our businesses

As a General Partner, we are required to report the fair value of our businesses to our limited partners. At December 31, 2008, the overall value of our portfolio of private companies in the Onex Partners Funds had declined slightly from the end of 2007, which is a testament to the quality and stability of our businesses. While the fair values of our capital goods producing companies for the most part were reduced, there were positive developments at certain of our businesses during 2008 that reflect value growth:

- In September 2008, Carestream Health paid a dividend distribution to its preferred shareholders of US\$72 million, of which Onex' share was US\$28 million. This was in addition to the US\$94 million Carestream Health used from cash flow to pay down debt;

- In late December 2008, The Warranty Group distributed its second dividend to shareholders in the amount of US\$42 million, of which Onex received US\$13 million; this is in addition to the US\$45 million dividend distributed in 2007, of which Onex' share was US\$14 million; and
- Allison Transmission repurchased approximately US\$139 million of its debt in the market at a discount, which provides value to the equity holders in that business.

While there would be the expectation by some that the value of Onex' private investments through the Onex Partners Funds would have declined further given what transpired in the public markets in 2008, the following factors should be kept in mind:

- The average multiple that Onex paid to acquire businesses during the period 2005 to 2007 was 6.4x EBITDA, which is about three turns below the average purchase multiple in the private equity market over that time; and
- The average leverage applied in our acquisitions over 2005 to 2007 was 3.6x, well below the 5.6x average leverage that prevailed on private equity acquisitions through that time period. In fact, Onex regularly accepted less leverage than was offered.

Our publicly traded companies through the Onex Partners Funds declined in value by 30 percent during 2008. Emergency Medical Services was up nicely in value but this was more than offset by the decline in market value of Spirit AeroSystems. While there was the meaningful decline in value in 2008, our publicly traded companies in the Onex Partners Funds at December 31, 2008 as a group were still over 300 percent of their original cost.

Financial strength

Onex' financial strength comes from both its own capital, as well as its third-party limited partners in the Onex Partners and ONCAP families of Funds.

- Onex: At December 31, 2008, Onex, the parent company, had approximately \$470 million of cash. It has been Onex' policy to maintain a debt-free parent company and not guarantee any of the debt of its operating companies.
- Onex Partners Funds: At the end of December 2008, Onex completed the latest closing for Onex Partners III, its most recent large-cap private equity fund. The Fund had raised US\$3.0 billion of third-party capital at year-end, toward a target of US\$3.5 billion of third-party capital. At year-end, third-party committed and uncalled capital through the Onex Partners Funds totalled US\$3.5 billion for future Onex-sponsored investments.
- ONCAP Funds: ONCAP has third-party committed, uncalled capital available in the ONCAP II Fund of approximately \$156 million at December 31, 2008 for future ONCAP-sponsored investments.

ASSET MANAGEMENT: Manage and Grow Third-Party Capital

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

2008 Performance

Manage third-party capital

- Onex earned US\$65 million in management fees in 2008 from the Onex Partners and ONCAP Funds. In late 2008, Onex began drawing management fees related to capital commitments to Onex Partners III. The current annualized rate of management fees from the Onex Partners and ONCAP families of funds is approximately US\$80 million.
- Onex did not complete any realizations during 2008 and therefore did not receive any carried interest distributions. At December 31, 2008, there was approximately US\$51 million of unrealized carried interest to Onex based on the unrealized gains on public companies held.

Grow third-party capital

In the context of the very challenging fundraising environment during 2008, we were pleased and encouraged by our success in fundraising for our third large-cap private equity fund, Onex Partners III. At December 31, 2008, we had closed approximately US\$3.0 billion of third-party capital commitments, which represents a 50 percent increase in third-party capital from Onex Partners II. We continue to work toward the target of US\$3.5 billion of third-party capital for Onex Partners III; however, the current environment will make this difficult to achieve.

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

2008 Performance

Reflecting the significant declines in global markets and equity values, Onex did not meet this objective in 2008. At December 31, 2008, Onex' Subordinate Voting Shares closed at \$18.19, down 48 percent from their close at the end of 2007.

INDUSTRY SEGMENTS

At December 31, 2008, Onex had seven reportable industry segments. A description of our operating companies by industry segment, and the economic and voting ownership of Onex in those businesses, is presented below.

| Industry Segments | Companies | Onex' Economic/Voting Ownership |
|------------------------------------|--|---------------------------------|
| Electronics Manufacturing Services | Celestica Inc. (TSX/NYSE: CLS), a global provider of electronics manufacturing services (website: www.celestica.com). Onex shares held: 27.3 million | 12% ^(a) /79% |
| Aerostructures | Spirit AeroSystems, Inc. (NYSE: SPR), the world's largest independent designer and manufacturer of aerostructures (website: www.spiritaero.com). Onex shares held: 8.6 million Onex Partners I shares subject to a carried interest: 17.2 million | 6% ^(a) /76% |
| Healthcare | Emergency Medical Services Corporation (NYSE: EMS), the leading provider of emergency medical services in the United States (website: www.emsc.net). Onex shares held: 12.1 million Onex Partners I shares subject to a carried interest: 16.3 million | 29%/97% |
| | Center for Diagnostic Imaging, Inc. , a U.S. provider of diagnostic and therapeutic radiology services (website: www.cdiradiology.com). Total Onex, Onex Partners I and Onex management investment at cost: \$88 million (US\$73 million) Onex portion: \$21 million (US\$17 million) Onex Partners I portion subject to a carried interest: \$64 million (US\$53 million) | 19%/100% |
| | Skilled Healthcare Group, Inc. (NYSE: SKH), an organization of skilled nursing and assisted living facilities operators in the United States (website: www.skilledhealthcaregroup.com). Onex shares held: 3.5 million Onex Partners I shares subject to a carried interest: 10.7 million | 9%/89% |
| | Carestream Health, Inc. , a global provider of medical and dental imaging and healthcare information technology solutions (website: www.carestreamhealth.com). Total Onex, Onex Partners II and Onex management investment at cost: \$521 million (US\$471 million) Onex portion: \$206 million (US\$186 million) Onex Partners II portion subject to a carried interest: \$292 million (US\$266 million) | 39%/100% |
| | Res-Care, Inc. ^(b) (NASDAQ: RSCR), the largest U.S. provider of residential, training, educational and support services for people with disabilities and special needs (website: www.rescare.com). Onex shares held: 2.0 million Onex Partners I shares subject to a carried interest: 6.2 million | 6%/(c) |

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

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

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

| Industry Segments | Companies | Onex' Economic/Voting Ownership |
|---------------------------|--|---------------------------------|
| Financial Services | <p>The Warranty Group, Inc., the world's largest provider of extended warranty contracts (website: www.thewarrantygroup.com).</p> <p>Total Onex, Onex Partners I, Onex Partners II and Onex management investment at cost: \$556 million (US\$488 million) Onex portion: \$175 million (US\$154 million) Onex Partners I portion subject to a carried interest: \$204 million (US\$178 million) Onex Partners II portion subject to a carried interest: \$155 million (US\$137 million)</p> | 29%/100% |
| Customer Support Services | <p>Sitel Worldwide Corporation, a global provider of outsourced customer care services (website: www.sitel.com).</p> <p>Onex investment at cost: \$340 million (US\$251 million)</p> | 66%/88% |
| Metal Services | <p>Tube City IMS Corporation, an outsourced services provider to steel mills (website: www.tubecityims.com).</p> <p>Total Onex, Onex Partners II and Onex management investment at cost: \$249 million (US\$211 million) Onex portion: \$98 million (US\$83 million) Onex Partners II portion subject to a carried interest: \$140 million (US\$119 million)</p> | 35%/100% |
| Other Businesses | | |
| • Theatre Exhibition | <p>Cineplex Entertainment Limited Partnership^(b) (TSX: CGX.UN), Canada's largest film exhibition company (website: www.cineplex.com).</p> <p>Onex units held: 12.8 million</p> | 22% ^(a) /(c) |
| • Aircraft & Aftermarket | <p>Hawker Beechcraft Corporation^(b), the largest privately owned designer and manufacturer of business jet, turboprop, and piston aircraft (website: www.hawkerbeechcraft.com).</p> <p>Total Onex, Onex Partners II and Onex management investment at cost: \$564 million (US\$485 million) Onex portion: \$223 million (US\$191 million) Onex Partners II portion subject to a carried interest: \$319 million (US\$274 million)</p> | 20%/(c) |
| • Commercial Vehicles | <p>Allison Transmission, Inc.^(b), the world leader in the design and manufacture of automatic transmissions for on-highway trucks and buses, off-highway equipment and military vehicles (website: www.allisontransmission.com).</p> <p>Total Onex, Onex Partners II, certain limited partners and Onex management investment at cost: \$805 million (US\$763 million) Onex portion: \$250 million (US\$237 million) Onex Partners II portion subject to a carried interest: \$357 million (US\$339 million)</p> | 15%/(c) |
| • Injection Molding | <p>Husky Injection Molding Systems Ltd., one of the world's largest suppliers of injection molding equipment and services to the PET plastics industry (website: www.husky.ca).</p> <p>Total Onex, Onex Partners I, Onex Partners II and Onex management investment at cost: \$626 million (US\$622 million) Onex portion: \$226 million (US\$225 million) Onex Partners I portion subject to a carried interest: \$97 million (US\$96 million) Onex Partners II portion subject to a carried interest: \$278 million (US\$276 million)</p> | 36%/100% |

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

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

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

| Industry Segments | Companies | Onex' Economic/Voting Ownership |
|----------------------------------|---|--|
| Other Businesses (cont'd) | | |
| • <i>Building Products</i> | <p>RSI Home Products, Inc.^(a), a leading manufacturer of kitchen, bathroom, and home organization cabinetry sold through home centre retailers, independent kitchen and bath dealers and other distributors (website: www.rsiholdingcorp.com).</p> <p>Total Onex, Onex Partners II and Onex management investment at cost: \$338 million (US\$318 million) Onex portion: \$133 million (US\$126 million) Onex Partners II portion subject to a carried interest: \$190 million (US\$179 million)</p> | 20%/50% ^(b) |
| • <i>Personal Care Products</i> | <p>Cosmetic Essence, Inc., an outsourced supply chain management services provider to the personal care products industry (website: www.cosmeticessence.com).</p> <p>Total Onex, Onex Partners I and Onex management investment at cost: \$138 million (US\$115 million) Onex portion: \$32 million (US\$27 million) Onex Partners I portion subject to a carried interest: \$100 million (US\$83 million)</p> | 21%/100% |
| • <i>Mid-cap Opportunities</i> | <p>ONCAP, a private equity fund focused on acquiring and building the value of mid-capitalization companies based in North America (website: www.oncap.com). ONCAP II actively manages investments in CSI Global Education Inc., EnGlobe Corp. (TSX: EG), Mister Car Wash, CiCi's Pizza and Caliber Collision Centers.</p> <p>Total Onex, ONCAP II and Onex management investment at cost: \$264 million Onex portion: \$117 million ONCAP II portion: \$131 million</p> | 44%/100% |
| • <i>Real Estate</i> | <p>Onex Real Estate Partners, a platform dedicated to acquiring and improving real estate assets in North America.</p> <p>Onex investment in Onex Real Estate Partners transactions at cost: \$192 million (US\$179 million)^(c)</p> | 86%/100% |
| • <i>Credit Securities</i> | <p>Onex Credit Partners, a credit investing platform focused on generating attractive risk-adjusted returns through the purchase of undervalued credit securities.</p> <p>Onex investment in Onex Credit Partners' funds at market: \$71 million (US\$58 million)</p> | 50% ^(d) / 50% |

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

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

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

(d) This represents Onex' share of the Onex Credit Partners' platform.

FINANCIAL REVIEW

This section discusses the significant changes in Onex' consolidated statements of earnings, consolidated balance sheets and consolidated statements of cash flows for the fiscal year ended December 31, 2008 compared to those for the year ended December 31, 2007 and, in selected areas, to those for the year ended December 31, 2006.

CONSOLIDATED OPERATING RESULTS

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

Critical accounting policies and estimates

Onex prepares its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The preparation of these financial statements in conformity with Canadian GAAP requires management of Onex and management of the operating companies to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the consolidated financial statements. Significant accounting policies and methods used in the preparation of the financial statements are described in note 1 to the December 31, 2008 audited annual consolidated financial statements. Onex and its operating companies evaluate their estimates and assumptions on a regular basis based on historical experience and other relevant factors. Included in Onex' consolidated financial statements are estimates used in determining the allowance for doubtful accounts, inventory valuation, the valuation of deferred taxes, intangible assets and goodwill, the useful lives of property, plant and equipment and intangible assets, revenue recognition under contract accounting, pension and post-employment benefits, losses and loss adjustment expenses reserves, restructuring costs and other matters. Actual results could differ materially from those estimates and assumptions.

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

Impairment tests of goodwill, intangible assets and long-lived assets

Goodwill in an accounting context represents the cost of investments in operating companies in excess of the fair value of the net identifiable assets acquired. Essentially all of the goodwill amount that appears on Onex' audited annual consolidated balance sheets at December 31, 2008 and 2007 was recorded by the operating companies. Goodwill is not amortized, but is assessed for impairment at the reporting unit level annually, or sooner if events or changes in circumstances or market conditions indicate that the carrying amount could exceed fair value. The test for goodwill impairment used by our operating companies is to assess the fair value of each reporting unit within an operating company and determine if the goodwill associated with that unit is less than its carrying value. This assessment takes into consideration several factors, including, but not limited to, future cash flows and market conditions. If the fair value is determined to be lower than the carrying value at an individual reporting unit, then goodwill is considered to be impaired and an impairment charge must be recognized. Each operating company has developed its own internal valuation model to determine the fair value. These models are subjective and require management of the particular operating company to exercise judgement in making assumptions about future results, including revenues, operating expenses, capital expenditures and discount rates.

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

There were impairments in goodwill, intangible assets and long-lived assets recorded by certain operating companies in the fourth quarter of 2008. These are reviewed on page 31 and note 21 to the audited annual consolidated financial statements.

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

The aerostructures segment recognizes revenue using the contract method of accounting since a significant portion of Spirit AeroSystems' revenues is under long-term, volume-based contracts, requiring delivery of products over several years. Revenues from each contract are recognized in accordance with the percentage-of-completion method of accounting, using the units-of-delivery method. As a result, contract accounting uses various estimating techniques to project costs to completion and estimates of recoveries asserted against the customer for changes in specifications. These estimates involve assumptions of future events, including the quantity and timing of deliveries and labour performance and rates, as well as projections relative to material and overhead costs. Contract estimates are re-evaluated periodically and changes in estimates are reflected in the current period.

Losses and loss adjustment expenses reserves

The Warranty Group, Inc. ("The Warranty Group") records losses and loss adjustment expenses reserves, which represent the estimated ultimate net cost of all reported and unreported losses on warranty contracts. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency claims reporting patterns of The Warranty Group's third-party administrators. While there is considerable variability inherent in these estimates, management of The Warranty Group believes the reserves for losses and loss adjustment expenses are adequate and appropriate, and it continually reviews and adjusts those

reserves as necessary as experience develops or new information becomes known.

New accounting policies in 2008

Inventories

On January 1, 2008, Onex adopted the *Canadian Institute of Chartered Accountants Handbook* ("CICA Handbook") Section 3031, "Inventories", which provides further guidance on the measurement and disclosure requirements for inventory. The new standard outlines the types of costs that can be capitalized and requires the reversal of previous inventory writedowns if economic conditions have changed to support higher inventory values. Under this standard, Onex is required to disclose quarterly the amount of inventory recognized in cost of sales, as well as any inventory writedowns or reversals. During 2008, Onex expensed \$17.2 billion of inventory in cost of sales. In addition, Onex recorded inventory writedowns of \$113 million, partially offset by inventory provision reversals of \$41 million for a net provision of \$72 million. The adoption of this standard did not materially affect the consolidated financial statements.

Capital disclosures

On January 1, 2008, Onex adopted *CICA Handbook* Section 1535, "Capital Disclosures", which provides guidance for disclosing information about an entity's capital and how it manages its capital. This standard requires the disclosure of an entity's objectives, policies and procedures relating to ongoing capital management. This new disclosure is provided on page 43 of this report in the discussion of management of capital.

Financial instruments presentation and disclosure

On January 1, 2008, Onex adopted *CICA Handbook* Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation". These new standards require the disclosure of information on the significance of financial instruments on the Company's consolidated financial position and performance, the nature and extent of risks arising from financial instruments, and management's objectives, policies and procedures for managing such risks. A discussion of these risks is included in the Risk Management section of this report. In addition, note 1 to the audited annual consolidated financial statements provides these additional disclosures on financial instruments.

Recent accounting pronouncements

Goodwill and intangible assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets", which replaces the existing standard. This revised standard establishes guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. This standard is effective for 2009. Onex is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Variability of results

Onex' audited annual consolidated operating results may vary substantially from year to year for a number of reasons, including some of the following: acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the Canadian dollar and certain foreign currencies, primarily the U.S. dollar; the change in market value of stock-based compensation for both the parent company and its operating companies; changes in the market value of Onex' publicly traded operating companies; and activities at Onex' operating companies. These activities may include the purchase or sale of businesses; fluctuations in customer demand and in materials and employee-related costs; changes in the mix of products and services produced or delivered; impairments in goodwill, intangible assets or long-lived assets; and charges to restructure operations.

U.S. dollar to Canadian dollar exchange rate movement

Since most of Onex' operating companies report in U.S. dollars, the upward or downward movement of the U.S. dollar to Canadian dollar exchange rate for the year compared to last year will affect Onex' reported consolidated results of operations. During 2008, the average U.S. dollar to Canadian dollar exchange rate was 1.0671 Canadian dollars, approximately 1 percent lower compared to 1.0740 Canadian dollars for 2007.

Investments

There was one acquisition of an operating company and one investment completed in 2008. In October 2008, Onex, Onex Partners II and Onex management completed an investment in RSI Home Products, Inc. ("RSI"), a leading U.S. manufacturer of cabinetry for the residential marketplace, for a total investment of \$338 million. Onex' portion of that investment was \$133 million. The investment was in the form of a convertible preferred security, representing a 50 percent economic and voting interest in RSI, subject to a minimum preferred return of 10 percent to Onex upon realization. The investment in RSI is accounted for on an equity basis.

In late October 2008, ONCAP II completed the acquisition of Caliber Collision Centers ("Caliber Collision"), a leading provider of auto collision repair services with 66 collision centres in Texas and Southern California, in a transaction valued at \$207 million. Onex and ONCAP II invested approximately \$67 million of equity in this business. Onex' portion of that investment was \$30 million. Onex and ONCAP II have a controlling ownership interest in Caliber Collision and therefore, the operations of Caliber Collision are consolidated from its acquisition date and reported in Onex' other segment along with other current ONCAP II investments.

There were no dispositions in 2008 by Onex, the parent company.

2008 market environment

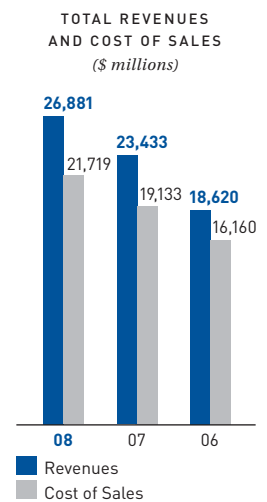
The credit crisis that began in mid-2007 with the collapse of the U.S. subprime market and U.S. mortgage market intensified and spread globally in 2008. The financial markets, in particular the equity markets, experienced a dramatic decline in share prices as investors began to react on fears of more expensive credit, a negative economic outlook and the impact of these factors on businesses. Financing for major acquisitions has become very difficult to obtain. Significant economic uncertainty and the volatile capital markets have had a negative impact on demand for certain of the products and services that our operating companies provide. The discussion that follows identifies material factors that affected Onex' operating segments and audited annual consolidated results for the year ended December 31, 2008.

Consolidated revenues and cost of sales

Revenues were \$26.9 billion in 2008, up 15 percent from \$23.4 billion in 2007 and up 44 percent from \$18.6 billion in 2006. Consolidated cost of sales was \$21.7 billion in 2008, up 14 percent from \$19.1 billion in 2007 and up 34 percent from \$16.2 billion in 2006.

The reported revenues and cost of sales of Onex' U.S.-based operating companies in Canadian dollars may not reflect the true nature of the operating results of those operating companies due to the translation of those amounts and the associated fluctuation of the U.S. dollar to the Canadian dollar exchange rate. Therefore, in table 1 below, revenues and cost of sales by industry segment are presented in Canadian dollars as well as in the functional currency of the companies for the years ended December 31,

2008, 2007 and 2006. The percentage change in revenues and cost of sales in Canadian dollars and in the functional currency of the companies for these periods is also shown. The discussions of revenues and cost of sales by industry segment that follow are in the companies' functional currencies in order to eliminate the impact of foreign currency translation on those revenues and cost of sales.



Changes in Revenues and Cost of Sales by Industry Segment for the Years Ended December 31, 2008 and 2007

| | | Revenues | | | | | |
|------------------------------------|---------------|------------------|-------|------------|---------------------|-------|------------|
| | | Canadian Dollars | | | Functional Currency | | |
| TABLE 1 | (\$ millions) | 2008 | 2007 | Change (%) | 2008 | 2007 | Change (%) |
| Year ended December 31 | | | | | | | |
| Electronics Manufacturing Services | \$ 8,220 | \$ 8,617 | (5)% | US\$ 7,678 | US\$ 8,070 | (5)% | |
| Aerostructures | 3,965 | 4,147 | (4)% | US\$ 3,772 | US\$ 3,861 | (2)% | |
| Healthcare | 6,152 | 4,826 | 27 % | US\$ 5,758 | US\$ 4,573 | 26 % | |
| Financial Services | 1,388 | 1,399 | (1)% | US\$ 1,302 | US\$ 1,304 | - | |
| Customer Support Services | 1,856 | 1,868 | (1)% | US\$ 1,748 | US\$ 1,748 | - | |
| Metal Services | 3,112 | 1,676 | 86 % | US\$ 2,983 | US\$ 1,575 | 89 % | |
| Other ^(a) | 2,188 | 900 | 143 % | C\$ 2,188 | C\$ 900 | 143 % | |
| Total | \$ 26,881 | \$ 23,433 | 15 % | | | | |

| | | Cost of Sales | | | | | |
|------------------------------------|---------------|------------------|-------|------------|---------------------|-------|------------|
| | | Canadian Dollars | | | Functional Currency | | |
| TABLE 1 | (\$ millions) | 2008 | 2007 | Change (%) | 2008 | 2007 | Change (%) |
| Year ended December 31 | | | | | | | |
| Electronics Manufacturing Services | \$ 7,556 | \$ 8,079 | (6)% | US\$ 7,061 | US\$ 7,563 | (7)% | |
| Aerostructures | 3,215 | 3,344 | (4)% | US\$ 3,055 | US\$ 3,112 | (2)% | |
| Healthcare | 4,504 | 3,659 | 23 % | US\$ 4,219 | US\$ 3,455 | 22 % | |
| Financial Services | 665 | 674 | (1)% | US\$ 624 | US\$ 628 | (1)% | |
| Customer Support Services | 1,197 | 1,205 | (1)% | US\$ 1,129 | US\$ 1,128 | - | |
| Metal Services | 2,932 | 1,529 | 92 % | US\$ 2,813 | US\$ 1,437 | 96 % | |
| Other ^(a) | 1,650 | 643 | 157 % | C\$ 1,650 | C\$ 643 | 157 % | |
| Total | \$ 21,719 | \$ 19,133 | 14 % | | | | |

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

(a) 2008 other includes CEI, Husky, Radian, ONCAP II and the parent company. 2007 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Changes in Revenues and Cost of Sales by Industry Segment for the Years Ended December 31, 2007 and 2006

| TABLE 1 | (\$ millions) | Revenues | | | | | |
|------------------------------------|------------------|--------------------|-------------|------------|-------------------------|------------|--|
| | | Canadian Dollars | | | Functional Currency | | |
| Year ended December 31 | 2007 | 2006 | Change (%) | 2007 | 2006 | Change (%) | |
| Electronics Manufacturing Services | \$ 8,617 | \$ 9,982 | (14)% | US\$ 8,070 | US\$ 8,812 | (8)% | |
| Aerostructures | 4,147 | 3,631 | 14 % | US\$ 3,861 | US\$ 3,208 | 20 % | |
| Healthcare | 4,826 | 2,920 | 65 % | US\$ 4,573 | US\$ 2,575 | 78 % | |
| Financial Services | 1,399 | 118 ^(a) | 1,086 % | US\$ 1,304 | US\$ 103 ^(a) | 1,166 % | |
| Customer Support Services | 1,868 | 749 | 149 % | US\$ 1,748 | US\$ 660 | 165 % | |
| Metal Services | 1,676 | - | - | US\$ 1,575 | - | - | |
| Other ^(b) | 900 | 1,220 | (26)% | C\$ 900 | C\$ 1,220 | (26)% | |
| Total | \$ 23,433 | \$ 18,620 | 26 % | | | | |

| | (\$ millions) | Cost of Sales | | | | | |
|------------------------------------|------------------|-------------------|-------------|------------|------------------------|------------|--|
| | | Canadian Dollars | | | Functional Currency | | |
| Year ended December 31 | 2007 | 2006 | Change (%) | 2007 | 2006 | Change (%) | |
| Electronics Manufacturing Services | \$ 8,079 | \$ 9,378 | (14)% | US\$ 7,563 | US\$ 8,277 | (9)% | |
| Aerostructures | 3,344 | 2,919 | 15 % | US\$ 3,112 | US\$ 2,579 | 21 % | |
| Healthcare | 3,659 | 2,423 | 51 % | US\$ 3,455 | US\$ 2,135 | 62 % | |
| Financial Services | 674 | 59 ^(a) | 1,042 % | US\$ 628 | US\$ 51 ^(a) | 1,131 % | |
| Customer Support Services | 1,205 | 453 | 166 % | US\$ 1,128 | US\$ 399 | 183 % | |
| Metal Services | 1,529 | - | - | US\$ 1,437 | - | - | |
| Other ^(b) | 643 | 928 | (31)% | C\$ 643 | C\$ 928 | (31)% | |
| Total | \$ 19,133 | \$ 16,160 | 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) Represents one month of revenues and cost of sales from The Warranty Group's November 2006 acquisition date.

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

Electronics Manufacturing Services

Celestica Inc. ("Celestica") reported a 5 percent decline in revenues in 2008 to US\$7.7 billion compared to US\$8.1 billion in 2007. The revenue decline was due primarily to lower volumes associated with weaker demand in Celestica's servers, enterprise communications and storage end markets, as well as the impact of customer disengagements primarily in the enterprise communications end market. These factors more than offset the increase in revenue from customers in the company's consumer, telecommunications and industrial end markets.

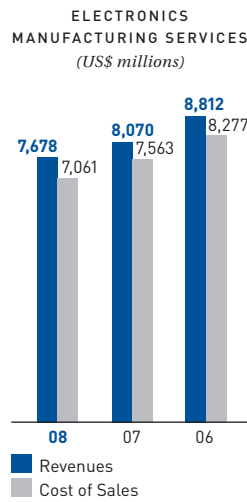
Cost of sales was US\$7.1 billion in 2008, down 7 percent from US\$7.6 billion in 2007. This compares to a 5 percent decline in revenues. Gross profit for 2008 was

US\$617 million, up US\$110 million from last year due primarily to operational improvements in Mexico and Europe. Celestica continued to benefit from cost reductions, restructuring actions, the impact of renegotiating or exiting unprofitable accounts and the streamlining and simplifying of processes throughout the company.

Celestica reported revenues of US\$8.1 billion in 2007, an 8 percent decline from US\$8.8 billion in 2006. Approximately 75 percent of Celestica's revenue decrease resulted from program losses and customer disengagements primarily in the industrial and communications markets. Lower volumes primarily from customers in the communications market also contributed to the year-over-year decline in revenues. Partially offsetting these revenue

declines was a 3 percent increase in revenues over 2006 from new customers, new program wins and stronger end-market demand in the consumer and server markets.

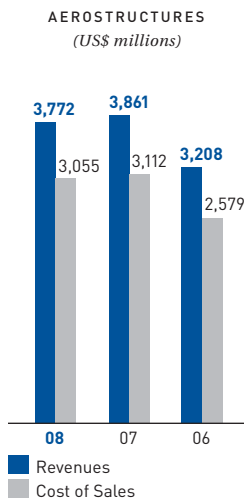
Celestica's cost of sales decreased 9 percent to US\$7.6 billion in 2007 from US\$8.3 billion in 2006. This decline was in line with the 8 percent decline in Celestica's revenues in the company's functional currency. Celestica reported gross profit of US\$507 million in 2007, down 5 percent from US\$535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



Aerostructures

Spirit AeroSystems, Inc. ("Spirit AeroSystems") reported revenues of US\$3.8 billion, down 2 percent, or US\$89 million, from US\$3.9 billion in 2007. The decrease in revenues

was due primarily to the decrease in ship set deliveries to Boeing on its B737, B747, B767, and B777 programs as a result of a strike at Boeing in 2008, which lasted for eight weeks. Partially offsetting this was a change in product mix, volume-based pricing adjustments and an increase in ship set deliveries to Airbus on its A320, A330/A340 and A380 programs. During 2008, Boeing ship set deliveries decreased 7 percent, while ship set deliveries to Airbus increased 5 percent.



Cost of sales declined 2 percent, or US\$57 million, to US\$3.1 billion in 2008 from 2007. This compares to a 2 percent decline in revenues in 2008. Cost of sales as a percentage of revenues in the company's functional currency was 81 percent in both 2008 and 2007.

Spirit AeroSystems' revenues were US\$3.9 billion in 2007, up \$653 million, or 20 percent, from US\$3.2 billion for 2006. Revenues grew at Spirit AeroSystems in 2007 due primarily to a 14 percent increase in shipments to Boeing on its B737, B747, B767 and B777 programs over 2006 and delivery of the first B787 production forward fuselage. In total, Spirit AeroSystems' shipments to Boeing and Airbus increased 27 percent in 2007 over 2006. In addition, Spirit AeroSystems' acquisition of Spirit AeroSystems (Europe) Ltd. in April 2006 contributed \$149 million of Spirit AeroSystems' total revenue growth in 2007.

Cost of sales at Spirit AeroSystems was US\$3.1 billion in 2007, up 21 percent from US\$2.6 billion in 2006. This compares to a 20 percent increase in revenues. Cost of sales as a percentage of revenues was 81 percent in 2007 compared to 80 percent in 2006.

Healthcare

The healthcare segment revenues and cost of sales consist of the operations of Emergency Medical Services Corporation ("EMSC"), Center for Diagnostic Imaging, Inc. ("CDI"), Skilled Healthcare Group, Inc. ("Skilled Healthcare") and Carestream Health, Inc. ("Carestream Health"). In the companies' U.S. dollar functional currency, the healthcare segment reported a 26 percent increase in consolidated revenues to US\$5.8 billion in 2008 from US\$4.6 billion in 2007. Cost of sales had a corresponding 22 percent increase to US\$4.2 billion in 2008 from US\$3.5 billion in 2007.

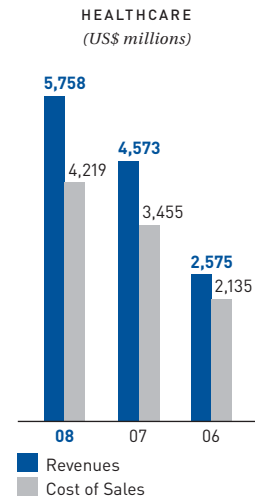


Table 2 provides revenues and cost of sales by operating company in the healthcare segment for the years ended December 31, 2008, 2007 and 2006 in both Canadian dollars and the companies' functional currencies. Res-Care, Inc. ("ResCare") is accounted for on an equity basis and, accordingly, that company's revenues and cost of sales are not consolidated.

Healthcare Revenues and Cost of Sales for the Years Ended December 31, 2008 and 2007

| | | Revenues | | | | | |
|-------------------------------|-----------------|----------------------|-------------|-------------------|---------------------------|-------------|------------|
| TABLE 2 | (\$ millions) | Canadian Dollars | | | Functional Currency | | |
| | | 2008 | 2007 | Change (%) | 2008 | 2007 | Change (%) |
| Year ended December 31 | | | | | | | |
| Emergency Medical Services | \$ 2,574 | \$ 2,262 | 14 % | US\$ 2,410 | US\$ 2,107 | 14 % | |
| Center for Diagnostic Imaging | 144 | 123 | 17 % | US\$ 135 | US\$ 115 | 17 % | |
| Skilled Healthcare | 784 | 678 | 16 % | US\$ 733 | US\$ 635 | 15 % | |
| Carestream Health | 2,650 | 1,763 ^(a) | 50 % | US\$ 2,480 | US\$ 1,716 ^(a) | 45 % | |
| Total | \$ 6,152 | \$ 4,826 | 27 % | US\$ 5,758 | US\$ 4,573 | 26 % | |

| | | Cost of Sales | | | | | |
|-------------------------------|-----------------|----------------------|-------------|-------------------|---------------------------|-------------|------------|
| TABLE 2 | (\$ millions) | Canadian Dollars | | | Functional Currency | | |
| | | 2008 | 2007 | Change (%) | 2008 | 2007 | Change (%) |
| Year ended December 31 | | | | | | | |
| Emergency Medical Services | \$ 2,235 | \$ 1,972 | 13 % | US\$ 2,094 | US\$ 1,838 | 14 % | |
| Center for Diagnostic Imaging | 48 | 39 | 23 % | US\$ 44 | US\$ 36 | 22 % | |
| Skilled Healthcare | 638 | 520 | 23 % | US\$ 597 | US\$ 486 | 23 % | |
| Carestream Health | 1,583 | 1,128 ^(a) | 40 % | US\$ 1,484 | US\$ 1,095 ^(a) | 36 % | |
| Total | \$ 4,504 | \$ 3,659 | 23 % | US\$ 4,219 | US\$ 3,455 | 22 % | |

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

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

Healthcare Revenues and Cost of Sales for the Years Ended December 31, 2007 and 2006

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

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

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

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

Emergency Medical Services (“EMSC”)

During 2008, EMSC's revenues increased US\$303 million, or 14 percent, to US\$2.4 billion from US\$2.1 billion in 2007. EMSC operates its business under two subsidiaries: American Medical Response, Inc. (“AMR”) and EmCare Holdings Inc. (“EmCare”). AMR is the leading provider of ambulance transport services in the United States. During 2008, AMR recorded US\$183 million of EMSC's revenue growth with a significant portion of that resulting from increases in revenue earned from contracts with FEMA (US\$97 million). During the third and early fourth quarter of 2008, AMR dispatched an unprecedented number of ground, rotary and fixed-wing air ambulances, and patient transport vehicles to assist people affected by hurricanes Gustav and Ike in three Gulf Coast states. The balance of the growth in revenue from AMR in 2008 was associated with higher transport revenue (US\$86 million) driven by increased volumes

and rates on existing contracts. EmCare is a provider of hospital-based physician services to more than 400 hospitals throughout the United States. EmCare accounted for US\$120 million of EMSC's revenue growth in 2008 due primarily to 79 net new contracts (US\$65 million) and an increase in patient encounters and revenue per encounter under existing contracts (US\$31 million).

Cost of sales at EMSC was US\$2.1 billion in 2008, up 14 percent from US\$1.8 billion in 2007. Cost of sales as a percentage of revenues in the company's functional currency was 87 percent in both 2008 and 2007.

During 2007, EMSC reported revenues of US\$2.1 billion, up 9 percent from US\$1.9 billion in 2006. AMR accounted for US\$30 million of EMSC's total revenue growth in 2007 due primarily to higher transport revenues from AMR's acquisitions of Abbott Ambulance, based in St. Louis, Missouri and MedicWest Ambulance, based in Las Vegas,

Nevada. EmCare contributed US\$143 million of EMSC's total revenue growth in 2007. Several factors contributed to EmCare's revenue growth: approximately US\$72 million was from net new hospital contracts in 2007 and the inclusion of a full year of revenues from net new hospital contracts in 2006; and approximately US\$71 million was from existing contracts due primarily to an 8 percent increase in revenue per patient encounter from third-party payors.

EMSC reported cost of sales of US\$1.8 billion in 2007 compared to US\$1.7 billion in 2006. The overall increase in EMSC's cost of sales in 2007 was due primarily to higher revenues.

Center for Diagnostic Imaging ("CDI")

CDI operates 51 diagnostic imaging centres in nine states in the United States, providing imaging services such as magnetic resonance imaging ("MRI"), computed tomography ("CT"), diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound. CDI reported a 17 percent, or US\$20 million, increase in revenues to US\$135 million in 2008 from US\$115 million in 2007. Approximately US\$16 million of the revenue growth was from new centres acquired in 2008, and the balance was from higher revenues at existing centres.

Cost of sales at CDI was US\$44 million in 2008, up US\$8 million, or 22 percent, from US\$36 million in 2007. The increase in cost of sales was due primarily to the increase in revenues associated with new centres.

CDI reported revenues of US\$115 million in 2007, up 6 percent from US\$109 million in 2006 due primarily to new centres (US\$2 million) and a 6 percent increase in MRI volumes at existing centres.

Reported cost of sales for CDI was US\$36 million for both 2007 and 2006. Cost of sales was 31 percent of revenues in 2007 compared to 33 percent in 2006. The decline in cost of sales as a percentage of revenues in 2007 was due primarily to a 6 percent increase in revenues in the company's functional currency while cost of sales remained essentially unchanged.

Skilled Healthcare

Skilled Healthcare has two revenue segments: long-term care services and ancillary services. The majority of its revenues are from long-term care services, which include skilled nursing care and integrated rehabilitation therapy services to residents in the company's network of skilled nursing facilities. In addition, the company earns ancillary service revenue by providing related healthcare services, such as rehabilitation therapy services, to third-party facilities and hospice care.

Revenues at Skilled Healthcare were US\$733 million, up 15 percent, or US\$98 million from US\$635 million in 2007. Long-term care services accounted for US\$88 million of the revenue growth due primarily to revenues associated with acquisitions completed in New Mexico in September 2007 and Kansas in April 2008 (US\$64 million), increased reimbursement rates from Medicare, Medicaid and managed care pay sources (US\$21 million), as well as a higher patient acuity mix. Ancillary services increased US\$10 million in 2008 over 2007 due primarily to increased hospice business and rehabilitation therapy services revenue.

Skilled Healthcare's cost of sales was up 23 percent to US\$597 million in 2008 from US\$486 million last year. Long-term care services accounted for US\$68 million of the increase due primarily to the acquisitions (US\$50 million) and increased labour costs (US\$13 million). Labour costs increased due largely to a 5 percent increase in average hourly rates and additional staffing primarily in the nursing area to respond to the increased mix of high-acuity patients. Cost of sales from ancillary services increased US\$16 million in 2008 due primarily to higher revenues.

Skilled Healthcare reported revenues of US\$635 million in 2007, up US\$103 million, or 19 percent, from US\$532 million in 2006. Long-term care services revenues increased US\$87 million, or 19 percent, to US\$557 million in 2007 due primarily to US\$57 million in revenues associated with add-on acquisitions completed in 2006 and 2007 in Missouri and New Mexico and changes to a higher patient acuity mix. Ancillary services increased US\$16 million, or 24 percent, in 2007 compared to 2006.

Cost of sales at Skilled Healthcare totalled US\$486 million in 2007, up US\$82 million from US\$404 million in 2006. Long-term care services cost of sales increased 18 percent, or US\$66 million, in 2007 over 2006 due primarily to higher operating costs per patient day and to the additional operations acquired. Much of the increase in operating costs per patient day at skilled nursing facilities was due to higher labour costs (US\$13 million) resulting from a 6 percent increase in hourly rates, and additional staffing, particularly in the nursing area, for the higher acuity patient mix. Cost of sales from ancillary services increased 28 percent in 2007 compared to 2006 due primarily to higher ancillary revenues from new and existing rehabilitation therapy contracts.

Carestream Health

Carestream Health provides products and services for the capture, processing, viewing, sharing, printing and storing of images and information for medical and dental applications. The company also has a non-destructive testing business, which sells x-ray film and digital radiology products to the non-destructive testing market. Carestream Health's revenues are in five reportable segments: Medical Film and Printing Solutions, Dental, Digital Capture Solutions, Healthcare Information Solutions and Other.

Carestream Health reported a 45 percent, or US\$764 million, increase in revenues to US\$2.5 billion in 2008 compared to US\$1.7 billion for the eight months of results in 2007 following the acquisition in April 2007. Cost of sales reported a similar increase of 36 percent to US\$1.5 billion in 2008 from US\$1.1 billion in 2007. The inclusion of a full 12 months of results in 2008 compared to eight months in 2007 is the primary reason for the increase in the revenues and cost of sales. A breakdown of Carestream Health's 2008 revenues and cost of sales was: US\$1.2 billion of revenues and US\$751 million of cost of sales from the Medical Film and Printing Solutions segment, which provides digital and film products to the medical industry; US\$538 million of revenues and

US\$216 million of cost of sales reported in the Dental segment, which provides film products, digital products and dental practice management software products to the dental industry; US\$475 million of revenues and US\$329 million of cost of sales from the Digital Capture Solutions segment, which provides computed radiology and digital radiology systems and service to the medical and non-destructive testing industry; and US\$188 million of revenues and US\$141 million of cost of sales from the Healthcare Information Solutions segment, which provides solutions that address radiology and cross-enterprise information technology needs of hospitals; and the balance was in the other segment.

Since Carestream Health was acquired in late April 2007, there are no comparative results for 2006. Carestream Health's reported eight months of revenues and cost of sales in 2007 totalled US\$1.7 billion and US\$1.1 billion, respectively. The breakdown of revenues (cost of sales) by operating segment for 2007 is as follows: US\$866 million (US\$570 million) from the Medical Film and Printing Solutions segment; US\$348 million (US\$170 million) from the Dental segment; US\$326 million (US\$228 million) from the Digital Capture Solutions segment; US\$134 million (US\$99 million) from the Healthcare Information Solutions segment; and the balance was in the other segment. Cost of sales as a percentage of revenues was 64 percent in 2007. Cost of sales was higher than normal due primarily to a \$102 million (US\$96 million) one-time charge included in cost of sales in 2007 originating from the step-up in value of inventory on the company's balance sheet at the date of acquisition. Accounting principles for acquisitions require that inventory be stepped up in value to the selling price of the inventory less the direct cost to complete and sell the product. Therefore, when the stepped-up inventory is subsequently sold in the normal course of business, cost of sales is increased for the effect of the inventory step-up with the result that the accounting for these sales will not report the typical profit margins for the company.

Financial Services

The Warranty Group's revenues consist of warranty revenues, insurance premiums and administrative and marketing fees earned on warranties and service contracts for

manufacturers, retailers and distributors of consumer electronics, appliances, homes and autos as well as credit card enhancements and travel and leisure programs through a global organization. The Warranty Group's cost of sales consists primarily of the change in reserves for future warranty and insurance claims, current claims payments, administrative and marketing expenses, deferred acquisition costs and related amortization for warranties and service contracts for manufacturers, retailers and distributors of consumer electronics, appliances, homes and autos as well as credit card enhancements and travel and leisure programs.

For the year ended December 31, 2008, The Warranty Group reported revenue and cost of sales of US\$1.3 billion and US\$624 million, respectively. This compares to US\$1.3 billion and US\$628 million, respectively, in 2007. Approximately US\$1.0 billion of total revenues was from premiums earned on warranty contracts in 2008 and the balance, approximately US\$0.3 billion, in 2008 was from contract fees and other income, which were essentially unchanged from 2007.

During 2007, The Warranty Group reported revenues of US\$1.3 billion compared to US\$103 million for the one month of operations in 2006. The Warranty Group reported cost of sales of US\$628 million in 2007 compared to US\$51 million for the one month of operations in 2006. The financial services segment was a new reportable segment in 2006 following Onex' acquisition of The Warranty Group in late November 2006. The 2007 results represent a full year of operations.

During 2007, The Warranty Group reported revenues of US\$1.3 billion compared to US\$103 million for the one month of operations in 2006. The Warranty Group reported cost of sales of US\$628 million in 2007 compared to US\$51 million for the one month of operations in 2006. The financial services segment was a new reportable segment in 2006 following Onex' acquisition of The Warranty Group in late November 2006. The 2007 results represent a full year of operations.

During 2007, The Warranty Group reported revenues of US\$1.3 billion compared to US\$103 million for the one month of operations in 2006. The Warranty Group reported cost of sales of US\$628 million in 2007 compared to US\$51 million for the one month of operations in 2006. The financial services segment was a new reportable segment in 2006 following Onex' acquisition of The Warranty Group in late November 2006. The 2007 results represent a full year of operations.

During 2007, The Warranty Group reported revenues of US\$1.3 billion compared to US\$103 million for the one month of operations in 2006. The Warranty Group reported cost of sales of US\$628 million in 2007 compared to US\$51 million for the one month of operations in 2006. The financial services segment was a new reportable segment in 2006 following Onex' acquisition of The Warranty Group in late November 2006. The 2007 results represent a full year of operations.

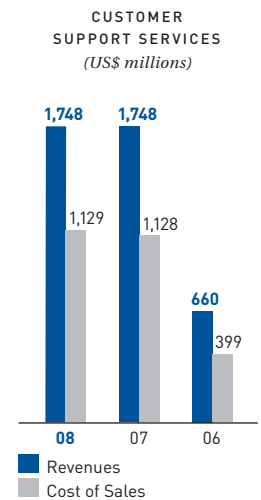
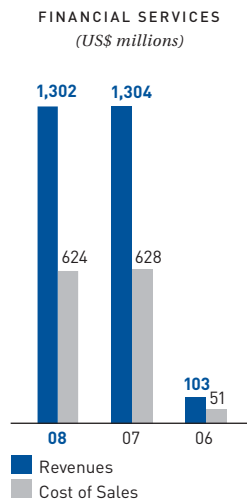
Customer Support Services

Sitel Worldwide Corporation ("Sitel Worldwide") reported revenues of US\$1.7 billion in each of 2008 and 2007. Revenues in 2008 included an additional month of operations related to the late January 2007 acquisition of SITEL Corporation (US\$95 million). Excluding these additional revenues, Sitel Worldwide would have reported a decline in revenues in 2008 due primarily to lower call volumes as existing customers curtailed new product launches and promotional offers in response to the economic downturn. This decline was partially offset by new customer volumes in 2008.

Cost of sales was US\$1.1 billion in 2008, essentially the same as 2007 with a similar decline related to the 2008 inclusion of an additional month of operations related to the late January 2007 acquisition of SITEL Corporation (US\$62 million). Cost of sales as a percentage of revenue was 65 percent for both 2008 and 2007.

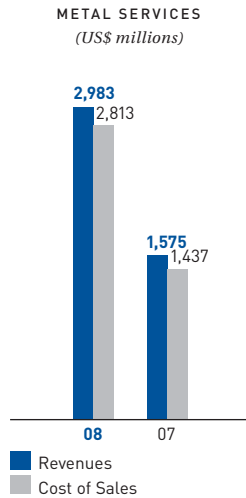
Sitel Worldwide reported revenues of US\$1.7 billion in 2007, up 165 percent from US\$660 million in 2006. The acquisition of SITEL Corporation in January 2007 accounted for the majority of the increase in revenues (US\$1.0 billion) in 2007. In addition, higher volumes from new and existing customers, as well as favourable foreign currency translation from the weakening of the U.S. dollar, boosted Sitel Worldwide's revenues in 2007.

Sitel Worldwide reported cost of sales of US\$1.1 billion in 2007 compared to US\$399 million in 2006. The significant increase in cost of sales was due to the acquisition of and merger with SITEL Corporation in January 2007. Sitel Worldwide's cost of sales as a percentage of revenues was 65 percent in 2007 compared to 60 percent in 2006. The increase in cost of sales as a percentage of revenues was driven by the acquired SITEL Corporation customer contracts carrying a lower margin contribution percentage than legacy ClientLogic customers. There was also the adverse impact of the weaker U.S. dollar on customer contracts billed in U.S. dollars but serviced from off-shore operations.



Metal Services

Tube City IMS has two revenue categories: service revenue and revenue from the sale of materials. Service revenue is generated from scrap management, scrap preparation, raw materials optimization, metal recovery and sales, material handling or product handling, slag or co-product processing and metal recovery services and surface conditioning. Revenue from the sale of materials is mainly generated by the company's raw materials procurement business, but also includes revenue from two locations in Tube City IMS' pre-production materials handling business.



Tube City IMS reported US\$3.0 billion in revenues for 2008 compared to 11 months of revenues of US\$1.6 billion for 2007 following Onex' acquisition of the company in January 2007. The significant increase in revenues in 2008 was primarily driven by the strong North American steel production and demand for raw materials during the first nine months of 2008, which resulted in higher prices for scrap and other materials. However, during the fourth quarter of 2008, Tube City IMS' revenues experienced a significant decline due to the dramatic drop in North American and global steel production that reduced demand for scrap and lowered scrap pricing. Revenue from the sale of materials generated US\$2.6 billion of total revenues in 2008, up 110 percent, or US\$1.4 billion, from US\$1.2 billion in 2007. The increase was due primarily to an 11 percent increase in tonnage sold of raw materials and an increase in underlying scrap prices during the first nine months of 2008. Service revenue totalled US\$387 million in 2008, up 15 percent from US\$338 million in 2007. This was due primarily to the company's acquisition of Hanson Resources Management (US\$12 million), new sites, increased volumes at existing sites and increases in prices that were partially offset by price escalators.

Cost of sales was US\$2.8 billion, up 96 percent, or US\$1.4 billion, from US\$1.4 billion in 2007. Tube City IMS procures scrap metal on behalf of its customers and much of its cost of sales is associated with that activity. Therefore, the increase in the purchase cost of scrap metal increased cost of sales in 2008. The cost of scrap metal is passed on to Tube City IMS' customers and thus drove a similar increase in revenues. In addition, since Onex purchased Tube City IMS in late January 2007, the inclusion of a full year of results in 2008 compared to 11 months in 2007 further augmented revenues and cost of sales in 2008. This was partially offset by the global downturn in the fourth quarter of 2008 that resulted in a significant drop in North American steel production and demand for raw materials.

Tube City IMS was a new reportable segment in 2007. Reported 2007 revenues for Tube City IMS represent 11 months of revenues from the time of its acquisition in January 2007, which totalled US\$1.6 billion. During 2007, service revenue totalled US\$0.4 billion and revenue from raw materials procurement was US\$1.2 billion. The cost of sales for Tube City IMS totalled US\$1.4 billion for the 11-month period following Onex' acquisition of the company.

Other Businesses

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

Table 3 provides revenues and cost of sales by operating company in the other businesses segment for 2008, 2007 and 2006 in both Canadian dollars and the companies' functional currency.

Other Businesses Revenues and Cost of Sales for the Years Ended December 31, 2008 and 2007

| | | Revenues | | | | | |
|-----------------------------------|-----------------|------------------|-------------------|-------------------|---------------------|-------------------|--|
| TABLE 3 (\$ millions) | | Canadian Dollars | | | Functional Currency | | |
| Year ended December 31 | 2008 | 2007 | Change (%) | 2008 | 2007 | Change (%) | |
| CEI | \$ 248 | \$ 266 | (7)% | US\$ 231 | US\$ 249 | (7)% | |
| ONCAP II companies ^(a) | 601 | 396 | 52 % | C\$ 601 | C\$ 396 | 52 % | |
| Husky ^(b) | 1,290 | - | - | US\$ 1,228 | - | - | |
| Other ^(c) | 49 | 238 | (79)% | C\$ 49 | C\$ 238 | (79)% | |
| Total | \$ 2,188 | \$ 900 | 143 % | | | | |

| | | Cost of Sales | | | | | |
|-----------------------------------|-----------------|----------------------|-------------------|-----------------|---------------------|-------------------|--|
| TABLE 3 (\$ millions) | | Canadian Dollars | | | Functional Currency | | |
| Year ended December 31 | 2008 | 2007 | Change (%) | 2008 | 2007 | Change (%) | |
| CEI | \$ 209 | \$ 200 | 5 % | US\$ 192 | US\$ 187 | 3 % | |
| ONCAP II companies ^(a) | 359 | 222 | 62 % | C\$ 359 | C\$ 222 | 62 % | |
| Husky ^(b) | 1,026 | - | - | US\$ 975 | - | - | |
| Other ^(c) | 56 | 221 | (75)% | C\$ 56 | C\$ 221 | (75)% | |
| Total | \$ 1,650 | \$ 643 | 157 % | | | | |

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

- (a) 2008 ONCAP II companies include CSI, EnGlobe, Mister Car Wash, CiCi's Pizza and Caliber Collision. 2007 ONCAP II companies include CSI, EnGlobe, Mister Car Wash and CiCi's Pizza.
- (b) Husky's financial results for the few days from its date of acquisition in mid-December 2007 to December 31, 2007 were not significant to Onex' consolidated results. Accordingly, the company's revenues for those days were not included in Onex' audited annual consolidated statement of earnings for the year ended December 31, 2007.
- (c) 2008 other includes Radian and the parent company. 2007 other includes Cineplex Entertainment (three months of operations consolidated in 2007), Onex Real Estate, Radian and the parent company.

Other Businesses Revenues and Cost of Sales for the Years Ended December 31, 2007 and 2006

| Year ended December 31 | Canadian Dollars | | | Functional Currency | | |
|-----------------------------------|------------------|-----------------|--------------|---------------------|----------|------------|
| | 2007 | 2006 | Change (%) | 2007 | 2006 | Change (%) |
| CEI | \$ 266 | \$ 292 | (9)% | US\$ 249 | US\$ 257 | (3)% |
| ONCAP II companies ^(a) | 396 | 27 | 1,367 % | C\$ 396 | C\$ 27 | 1,367 % |
| Other ^(b) | 238 | 901 | (74)% | C\$ 238 | C\$ 901 | (74) % |
| Total | \$ 900 | \$ 1,220 | (26)% | | | |

| Year ended December 31 | Canadian Dollars | | | Functional Currency | | |
|-----------------------------------|------------------|---------------|--------------|---------------------|----------|------------|
| | 2007 | 2006 | Change (%) | 2007 | 2006 | Change (%) |
| CEI | \$ 200 | \$ 214 | (7)% | US\$ 187 | US\$ 189 | (1)% |
| ONCAP II companies ^(a) | 222 | 2 | 11,000 % | C\$ 222 | C\$ 2 | 11,000 % |
| Other ^(b) | 221 | 712 | (69)% | C\$ 221 | C\$ 712 | (69)% |
| Total | \$ 643 | \$ 928 | (31)% | | | |

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

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

(b) 2007 other includes Cineplex Entertainment (three months of results), Onex Real Estate, Radian and the parent company. 2006 other includes Cineplex Entertainment, Onex Real Estate, Radian and the parent company.

CEI

Reported revenues and cost of sales at CEI were US\$231 million and US\$192 million, respectively, in 2008. This compares to US\$249 million and US\$187 million, respectively, in 2007. The decline in revenues in 2008 was due primarily to lower volumes as a result of the weak U.S. consumer and retail environment. Cost of sales as a percentage of revenues was 83 percent in 2008, up from 75 percent in 2007. This increase was due primarily to lower volumes, underutilization of facilities and a revaluation of inventory in light of current economic and market conditions, which more than offset the benefits from the company's cost saving initiatives.

CEI's reported revenues were down 3 percent to US\$249 million in 2007 from US\$257 million in 2006 due primarily to the company's decision to exit its licensed product business, slightly offset by net higher revenues from new and existing customers. CEI reported cost of sales of US\$187 million compared to US\$189 million in 2006. Cost of sales was 75 percent of revenues in 2007 compared to 74 percent in 2006. The increase in CEI's cost of sales percentage was due primarily to a shift in product mix.

ONCAP II companies

ONCAP II's companies – CSI, EnGlobe, Mister Car Wash, CiCi's Pizza and Caliber Collision – reported combined revenues of \$601 million in 2008, up \$205 million from \$396 million reported in 2007 and cost of sales of \$359 million in 2008, up \$137 million from \$222 million in 2007. During 2008, the growth in revenues and cost of sales was from ONCAP II's acquisition of Caliber Collision in late October 2008, as well as the inclusion of a full year of results of Mister Car Wash and CiCi's Pizza, acquired in April and June 2007, respectively.

During 2007, ONCAP II's companies – CSI, EnGlobe, Mister Car Wash and CiCi's Pizza – reported combined revenues of \$396 million, up \$369 million from \$27 million in 2006. The ONCAP II companies reported cost of sales of \$222 million in 2007 compared to \$2 million in 2006. Substantially all of the revenue and cost of sales increase was associated with the acquisitions of Mister Car Wash and CiCi's Pizza completed in 2007, as well as the inclusion of a full year of revenues and cost of sales of EnGlobe.

Husky

Husky is one of the world's largest suppliers of injection molding equipment and services to the plastics industry. Husky reported revenues of US\$1.2 billion and cost of sales of US\$975 million for the year ended December 31, 2008. During 2008, Husky reported strong revenues in Asia Pacific and Latin America but lower revenues in Europe and North America. Included in Husky's cost of sales in 2008 were charges of US\$91 million originating from the step-up in value of inventory on the company's balance sheet at the date of acquisition. Accounting principles for acquisitions require that inventory be stepped up in value to the selling price of the inventory less the direct cost to complete and sell the product. Therefore, when inventory is subsequently sold in the normal course of business, cost of sales is increased for the effect of the inventory step-up with the result that the accounting for these sales will not report the typical profit margins of the company. There are no comparative revenues or cost of sales for 2007 since the company's operating financial results for the few days from its mid-December 2007 acquisition date to December 31, 2007 were not significant to Onex' consolidated results.

Operating earnings

Operating earnings are not a defined measure under Canadian GAAP. The term operating earnings as used here is defined as earnings before interest expense, amortization of intangible assets and deferred charges, and income taxes. As operating earnings are a key measure of performance for our businesses, Onex also excludes from operating earnings accounting measures that do not reflect the actual operating performance of the business, such as earnings (loss) from equity-accounted investments, foreign exchange gains (loss), stock-based compensation recovery (expense), non-recurring items such as acquisition and restructuring charges, other income (expense), gains on sales of operating investments, writedown of goodwill, intangible assets and long-lived assets, as well as non-controlling interests and discontinued operations. Table 4 provides a reconciliation of the audited annual consolidated statements of earnings to operating earnings for the years ended December 31, 2008 and 2007.

Operating Earnings Reconciliation

| TABLE 4 | (\$ millions) | 2008 | 2007 |
|--|---------------|-----------------|----------|
| Earnings before the undernoted items | | \$ 2,418 | \$ 1,916 |
| Amortization of property, plant and equipment | | (624) | (535) |
| Interest income | | 35 | 125 |
| Operating earnings | | \$ 1,829 | \$ 1,506 |
| Amortization of intangible assets and deferred charges | | (366) | (241) |
| Interest expense of operating companies | | (550) | (537) |
| Loss from equity-accounted investments | | (322) | (44) |
| Foreign exchange gains (loss) | | 83 | (118) |
| Stock-based compensation recovery (expense) | | 142 | (150) |
| Other income (expense) | | (12) | 6 |
| Gains on sales of operating investments, net | | 4 | 1,144 |
| Acquisition, restructuring and other expenses | | (220) | (123) |
| Writedown of goodwill, intangible assets and long-lived assets | | (1,649) | (22) |
| Earnings (loss) before income taxes, non-controlling interests and discontinued operations | | \$ (1,061) | \$ 1,421 |

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

Table 5 provides a breakdown of and the change in operating earnings by industry segment in Canadian dollars and in the functional currency of the companies for the years ended December 31, 2008 and 2007.

Operating Earnings (Loss) by Industry Segment

| TABLE 5 | (\$ millions) | Canadian Dollars | | | Functional Currency | | | | | | | | | |
|------------------------------------|---------------|------------------------|------|-----------------|---------------------|---------------|------|-------------|------|-----|------|------|------|------|
| | | Year ended December 31 | 2008 | 2007 | Change (\$) | 2008 | 2007 | Change (\$) | | | | | | |
| Electronics Manufacturing Services | \$ | 309 | \$ | 162 | \$ | 147 | US\$ | 284 | US\$ | 158 | US\$ | 126 | | |
| Aerostructures | | 465 | | 552 | | (87) | | US\$ | 450 | | US\$ | 514 | US\$ | (64) |
| Healthcare | | 732 | | 453 | | 279 | | US\$ | 677 | | US\$ | 432 | US\$ | 245 |
| Financial Services | | 251 | | 234 | | 17 | | US\$ | 231 | | US\$ | 217 | US\$ | 14 |
| Customer Support Services | | 77 | | 97 | | (20) | | US\$ | 72 | | US\$ | 91 | US\$ | (19) |
| Metal Services | | 44 | | 35 | | 9 | | US\$ | 44 | | US\$ | 33 | US\$ | 11 |
| Other ^(a) | | (49) | | (27) | | (22) | | C\$ | (49) | | C\$ | (27) | C\$ | (22) |
| Total | | \$ 1,829 | | \$ 1,506 | | \$ 323 | | | | | | | | |

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

(a) 2008 other includes CEI, Husky, Radian, ONCAP II and the parent company. 2007 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Consolidated operating earnings were \$1.8 billion in 2008, up 21 percent, or \$323 million, from \$1.5 billion in 2007. The growth in operating earnings in 2008 was driven primarily by:

- a \$147 million increase in operating earnings at Celestica resulting primarily from improvements in the company's Mexican and European operations;
- \$217 million of operating earnings growth at Carestream Health included in the healthcare segment. The growth was due primarily to the inclusion of a full year of operating earnings since the company was acquired in April 2007 and lower operating earnings in 2007 due to a one-time \$102 million charge originating from the company's opening balance sheet valuation of inventory at the time of acquisition;
- \$46 million of growth in operating earnings at EMSC reported in the healthcare segment resulting from higher revenues as previously discussed;
- an increase in operating earnings of \$17 million at The Warranty Group in 2008 due primarily to a lower amortization of deferred acquisition costs on its European credit business in 2008; and
- Onex' acquisition of Husky in mid-December 2007, which contributed \$17 million in operating earnings reported in the other segment. Husky's operating earnings in 2008 were reduced by a US\$91 million charge originating from increasing the valuation of inventory on the company's

balance sheet at the time of acquisition. Accounting principles for acquisitions require that inventory at the date of acquisition be stepped up in value to its selling price less the direct costs to complete and sell the product.

Partially offsetting the above operating earnings growth in 2008 were:

- an \$87 million, or US\$64 million in the company's functional currency, decline at Spirit AeroSystems due primarily to lower gross profit from softer sales volume driven by the strike at Boeing, partially offset by lower selling, general and administrative expenses and research and development expenses;
- a decline in operating earnings at Sitel Worldwide of \$20 million, or US\$19 million in the company's functional currency; this decline was due primarily to the impact of the slowdown in the economy on Sitel Worldwide's customers, particularly in the consumer segment. As Sitel Worldwide's customers experienced lower sales, this resulted in reduced call volumes for the company. In addition, the company continues to improve margins by shifting business to lower cost locations through restructuring actions; and
- an \$80 million decline in interest income at Onex, the parent company, included in the other segment. The reduction in interest income was due primarily to lower

cash balances and rates of interest on cash investments, lower returns and losses generated on near-cash investments (\$19 million) and Onex' share of investment losses at Onex Credit Partners (\$19 million). Much of the losses at Onex Credit Partners resulted from the deteriorating credit markets in the second half of 2008.

Amortization of intangible assets and deferred charges

Amortization of intangible assets and deferred charges totalled \$366 million in 2008, up 52 percent, or \$125 million, from \$241 million in 2007. The increase resulted primarily from the inclusion of a full year of amortization of intangible assets of Carestream Health (\$73 million), acquired in April 2007 and Husky (\$55 million), acquired in December 2007. At the time of the acquisition of these businesses, purchase accounting required the allocation of value to customer contracts and other finite-life intangible assets. For accounting purposes, these assets will be amortized over various periods of time. The amortized intangible assets at Carestream Health include developed technology, trademarks and tradenames and customer relationships.

Annually, Onex' operating companies will assess intangible assets for impairment at the reporting unit level, or sooner if events or changes in circumstances or market conditions indicate that the carrying amount could exceed fair value. If the fair value is determined to be lower than the carrying value, then the intangible asset is considered impaired and an impairment charge must be recognized. As a result, any writedowns of intangible assets will result in lower amortization of intangible assets in future periods. Impairment charges recorded on intangible assets in 2008 are discussed in detail on page 31 of this MD&A under writedown of goodwill, intangible assets and long-lived assets.

Interest expense of operating companies

Onex has a policy to structure the acquisition of 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 amount 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 \$550 million in 2008, up \$13 million from \$537 million in 2007. Table 6 details the change in consolidated interest expense from 2007 to 2008.

Change in Interest Expense

TABLE 6 | (\$ millions)

| | |
|--|---------------|
| Reported interest expense for 2007 | \$ 537 |
| Additional interest expense in 2008 due to: | |
| A full year of Husky interest expense | 34 |
| A full year of Carestream Health interest expense | 53 |
| Acquisition of Caliber Collision | 2 |
| Interest expense reductions in 2008 due to: | |
| Lower rates at Skilled Healthcare and repurchase of debt | (8) |
| Lower interest rates on Celestica debt and gain on debt prepayment | (20) |
| Gain on debt prepayment at Sitel Worldwide | (13) |
| Other | (35) |
| Reported interest expense for 2008 | \$ 550 |

The increase in interest expense in 2008 was primarily driven by:

- the acquisition of Husky in mid-December 2007, which added \$34 million in interest expense in 2008;
- Carestream Health, acquired in April 2007, which contributed \$53 million of the interest expense growth due to the inclusion of a full 12 months of that company's interest expense in 2008 compared to eight months in 2007; and
- ONCAP II's acquisition of Caliber Collision in October 2008, which added \$2 million in interest expense.

Partially offsetting the increase in interest expense were:

- a decrease in interest expense at Skilled Healthcare of \$8 million due to lower interest rates on its debt and the redemption of approximately US\$70 million of its 11 percent debt in conjunction with the company's initial public offering in May 2007;
- a \$20 million decline in interest expense at Celestica due primarily to lower interest rates on the company's debt, as well as a \$9 million gain on the prepayment of debt; this gain resulted from Celestica's repurchase of US\$38 million face value of its senior subordinated notes in 2008 at a lower cost than its face value; and

- a \$13 million reduction in interest expense at Sitel Worldwide resulting from a gain on the prepayment of debt; during 2008, Sitel Worldwide repurchased US\$27 million face value of its term loan as required under its amended debt agreement.

Interest income

Consolidated interest income was \$35 million in 2008 compared to \$125 million in 2007. Onex, the parent company, reported \$8 million in interest expense in 2008 compared to \$72 million of interest income in 2007. The \$80 million decline in interest income at Onex, the parent company, was due primarily to lower cash balances held, lower interest rates on cash investments and lower returns and losses generated on near-cash investments (\$19 million). In addition, included in interest income at Onex, the parent company, was Onex' share of investment losses of \$19 million at Onex Credit Partners in 2008.

Earnings (loss) from equity-accounted investments

Earnings (loss) from equity-accounted investments for the year ended December 31, 2008 represent Onex' and/or Onex Partners' portion of the earnings (loss) of Allison Transmission, Inc. ("Allison Transmission"); Cineplex Entertainment; Hawker Beechcraft Corporation ("Hawker Beechcraft"); ResCare; RSI; Cypress Insurance Group ("Cypress"); Onex Real Estate's investments in the Camden properties, Flushing Town Center, Urban Housing Platform, Town and Country and NY Credit; and Onex Credit Partners.

Onex reported a loss on equity-accounted investments of \$322 million in 2008 compared to a loss on equity-accounted investments of \$44 million in 2007. Table 7 details the earnings (loss) from equity-accounted investments by company, as well as Onex' share of these earnings (loss) for 2008 and 2007.

Earnings (Loss) from Equity-accounted Investments

| | 2008 | | 2007 | |
|-------------------------------------|-------------------------|------------------------------------|------------------------------------|------------------------------------|
| | Net earnings (loss) | Onex' share of net earnings (loss) | Net earnings (loss) ^(a) | Onex' share of net earnings (loss) |
| Allison Transmission ^(b) | \$ (198) ^(a) | \$ (63) | \$ (75) | \$ (24) |
| Hawker Beechcraft ^(b) | (80) ^(a) | (32) | (4) | (2) |
| Onex Real Estate | (68) | (61) | (4) | (3) |
| Other ^(c) | 24 | 14 | 39 | 30 |
| Total | \$ (322) | \$ (142) | \$ (44) | \$ 1 |

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

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

(c) Other includes Cineplex Entertainment, Cypress, Onex Credit Partners, ResCare and RSI.

Allison Transmission

Allison Transmission reported a loss of \$198 million in 2008 compared to a loss of \$75 million for the four months of operations in 2007 following the company's acquisition purchase in August 2007. Onex' share of Allison Transmission's loss was \$63 million in 2008 and \$24 million in 2007. A significant portion of the loss reported by Allison Transmission in 2008 was due primarily to the company recording a US\$180 million writedown of intangible assets. The writedown of intangible assets was associated primarily with Allison Transmission's tradename.

Hawker Beechcraft

The investment in Hawker Beechcraft contributed \$80 million of the loss on equity-accounted investments in 2008 compared to a \$4 million loss reported in 2007. Onex' share of Hawker Beechcraft's losses was \$32 million in 2008 and \$2 million in 2007. Most of Hawker Beechcraft's loss in 2008 was from a US\$109 million non-cash charge recorded by the company in 2008 for a reserve against the recoverability of deferred tax assets. In addition, the delayed certification of the Hawker 4000 and the associated increased costs to conform specific early production Hawker 4000 units to final type design, as well as a four-week strike at Hawker Beechcraft in August 2008, contributed to the loss reported in 2008.

Onex Real Estate

Onex Real Estate's investments in the Camden properties, Flushing Town Center, Urban Housing Platform, Town and Country and NY Credit contributed \$68 million of the loss on equity-accounted investments in 2008 compared to a \$4 million loss in 2007. Onex' share of Onex Real Estate's losses was \$61 million in 2008 compared to \$3 million in 2007. Approximately \$42 million of the loss at Onex Real Estate resulted from the writedown of a number of Onex Real Estate investments as a result of the current economic conditions.

Foreign exchange gains (loss)

Foreign exchange gains (loss) reflect the impact of changes in foreign currency exchange rates. A consolidated foreign exchange gain of \$83 million was recorded for the year ended December 31, 2008. This compares to a consolidated net foreign exchange loss of \$118 million in 2007. Table 8 provides a breakdown of and the change in foreign currency gains (loss) by industry segment for the years ended December 31, 2008 and 2007.

Foreign Exchange Gains (Loss) by Industry Segment

| TABLE 8 | (\$ millions) | 2008 | 2007 | Change (\$) |
|---------------------------|---------------|---------|----------|-------------|
| Electronics Manufacturing | | | | |
| Services | | \$ (19) | \$ 3 | \$ (22) |
| Aerostructures | | (6) | (2) | (4) |
| Healthcare | | (9) | 28 | (37) |
| Customer Support Services | | 10 | (1) | 11 |
| Other ^(a) | | 107 | (146) | 253 |
| Total | | \$ 83 | \$ (118) | \$ 201 |

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

(a) 2008 other includes CEI, Husky, Radian, ONCAP II and the parent company.
2007 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Onex, the parent company, recorded a \$105 million foreign exchange gain in 2008, which is included in the other segment in table 8. The increase was due to the increase in value of the U.S. dollar relative to the Canadian dollar. The exchange rate was 1.2180 Canadian dollars at December 31, 2008 compared to 0.9913 Canadian dollars at December 31, 2007. Since Onex, the parent company, holds a significant portion of its cash in U.S. dollars, this exchange rate movement increased the value of the U.S. cash held resulting in the foreign exchange gain in 2008. This compares to a foreign exchange loss of \$132 million reported by Onex, the parent company, in 2007 due primarily to the decline in value of the U.S. dollar relative to the Canadian dollar. During 2007, the U.S. dollar to Canadian dollar exchange rate declined from 1.1654 Canadian dollars at December 31, 2006 to 0.9913 Canadian dollars at December 31, 2007.

Partially offsetting the foreign exchange gains at Onex, the parent company, was a \$19 million foreign exchange loss at Celestica in 2008. Celestica incurred the majority of its exchange loss in the second half of 2008, which more than offset the exchange gains in the first half of 2008. Approximately half of the loss resulted from the precipitous decline in the value of the Brazilian real compared to the U.S. dollar from September through November 2008, and a higher net asset position in the Brazilian real. During the fourth quarter of 2008, the British pound sterling (GBP) weakened considerably against the U.S. dollar. While Celestica no longer has manufacturing operations in the United Kingdom, the company still maintains a pension plan for former employees. Since Celestica has recorded a pension asset in GBP, the weakening of the GBP relative to the U.S. dollar resulted in further foreign exchange losses at Celestica.

The foreign exchange loss of \$9 million recorded in the healthcare segment in 2008 was from Carestream Health primarily as a result of the decline in value of the euro relative to the U.S. dollar.

Stock-based compensation recovery (expense)

During 2008, Onex recorded a consolidated stock-based compensation recovery of \$142 million compared to a \$150 million expense in 2007. Table 9 provides a breakdown of and the change in stock-based compensation by industry segment for the years ended December 31, 2008 and 2007.

Stock-based Compensation Recovery (Expense) by Industry Segment

| TABLE 9 | (\$ millions) | 2008 | 2007 | Change (\$) |
|---------------------------|---------------|---------------|-----------------|---------------|
| Electronics Manufacturing | | | | |
| Services | | \$ (25) | \$ (14) | \$ (11) |
| Aerostructures | | (17) | (36) | 19 |
| Healthcare | | (5) | (3) | (2) |
| Financial Services | | (1) | (3) | 2 |
| Customer Support Services | | - | (2) | 2 |
| Other ^(a) | | 190 | (92) | 282 |
| Total | | \$ 142 | \$ (150) | \$ 292 |

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

(a) 2008 other includes CEI, Husky, Radian, ONCAP II and the parent company.
2007 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Onex, the parent company, recorded a stock-based compensation recovery of \$196 million in 2008 due to the change in its stock-based compensation liability. Approximately \$176 million of the recovery was from the change in the market value of Onex shares in 2008. Onex is required to revalue the liability for stock options based on changes in the market value of Onex shares. The decline in Onex' share price to \$18.19 per share at December 31, 2008 from \$34.99 per share at December 31, 2007 resulted in a downward revaluation of the liability for stock options. This compares to an \$89 million stock-based compensation expense at Onex, the parent company, in 2007 due primarily to the 23 percent increase in the market value of Onex shares that year.

Other income (expense)

During 2008, Onex reported consolidated other expense of \$12 million compared to other income of \$6 million in 2007. During 2008, The Warranty Group recorded \$16 million of this expense as a result of an impairment charge the company took on its holdings in certain long-term bonds included in its investment portfolio.

Gains on sales of operating investments

Consolidated gains on sales of operating investments totalled \$4 million in 2008 compared to \$1.1 billion in 2007. Included in the 2007 gains on sales of operating companies were:

- a \$36 million gain resulting from the investment by certain investors, other than Onex, in the equity of Sitel Worldwide. In years prior to 2007, Onex had to record the losses of non-controlling interests of ClientLogic prior to the acquisition of SITEL Corporation, as the non-controlling interests amount in the company cannot be recorded as a negative amount. While Onex did not receive the cash proceeds, for consolidation reporting purposes, Onex is required to record the amount paid in by the investors in Sitel Worldwide as a gain. Onex will continue to record gains on third-party equity investment in Sitel Worldwide until the losses from non-controlling investors have been recovered;
- \$68 million of gains on shares sold by Onex Partners I and Onex (of which Onex' share was \$13 million) in Skilled Healthcare's initial public offering in May 2007;

- a \$20 million non-cash accounting dilution gain (of which Onex' share was \$5 million) resulting from the new common share issuance in Skilled Healthcare's initial public offering at a value above Onex' net book value per share;
- \$965 million of gains on shares sold by Onex Partners I and Onex (of which Onex' share was \$258 million) in Spirit AeroSystems' secondary public offering in May 2007; and
- \$48 million of carried interest on the realized gains of Skilled Healthcare and Spirit AeroSystems, as discussed earlier. Onex determined that with these realizations, the potential for clawback was remote on a significant portion of the carried interest received. Accordingly, Onex recorded \$48 million of carried interest in gains on sales of operating investments during 2007.

Acquisition, restructuring and other expenses

Acquisition, restructuring and other expenses are considered to be costs incurred by the operating companies to realign organizational structures or restructure manufacturing capacity to obtain operating synergies critical to building the long-term value of those businesses. Acquisition, restructuring and other expenses totalled \$220 million, up \$97 million from \$123 million in 2007. Table 10 provides a breakdown of and the change in acquisition, restructuring and other expenses by operating company for the years ended December 31, 2008 and 2007.

Acquisition, Restructuring and Other Expenses

| TABLE 10 | (\$ millions) | 2008 | 2007 | Change (\$) |
|--------------------|---------------|--------|--------|-------------|
| Carestream Health | | \$ 92 | \$ 43 | \$ 49 |
| Celestica | | 39 | 39 | - |
| Husky | | 22 | - | 22 |
| Sitel Worldwide | | 36 | 5 | 31 |
| Spirit AeroSystems | | - | 12 | (12) |
| Other | | 31 | 24 | 7 |
| Total | | \$ 220 | \$ 123 | \$ 97 |

Celestica reported \$39 million in restructuring expenses in both 2008 and 2007. Celestica identified restructuring initiatives to drive further operational improvements throughout its manufacturing network. These actions include a reduction in workforce and the closure of certain facilities. During the fourth quarter of 2008, as Celestica was finalizing its 2009 plan, it determined that additional restructuring actions would be required throughout its manufacturing network in response to declining customer demand resulting from end-market deterioration and global economic uncertainty. In early 2008, Celestica provided a range of between US\$50 million and US\$75 million of additional restructuring charges to be recorded by the company throughout 2008 and 2009. The company now expects that total restructuring costs will be at the higher end of the range, which Celestica expects to complete and record by the end of 2009. Celestica expects that its overall utilization and operating efficiency should improve as the company completes these restructuring actions.

Carestream Health recorded \$92 million of the total acquisition, restructuring and other expense in 2008, up \$49 million from last year. These charges included \$43 million of non-recurring charges associated with the company's transition to a stand-alone entity, as well as \$49 million of expenses primarily associated with various restructuring programs initiated in 2008 that are primarily focused on information technology, realignments of its sales and service teams and reduction of other corporate functions.

Sitel Worldwide reported \$36 million of restructuring expenses, or \$31 million of the total increase, in 2008. Much of the expenses related to initiatives taken to streamline the company's operations related to the January 2007 acquisition of SITEL Corporation, as well as reactions to the continued softness in certain markets in which it operates.

Husky, acquired in mid-December 2007, accounted for \$22 million of the acquisition, restructuring and other expenses in 2008 due primarily to programs initiated to streamline Husky's operations and optimize its procurement activities.

Writedown of goodwill, intangible assets and long-lived assets

Writedown of goodwill, intangible assets and long-lived assets totalled \$1.6 billion in 2008 compared to \$22 million in 2007. Table 11 provides a breakdown of the writedown of goodwill, intangible assets and long-lived assets by operating company for the years ended December 31, 2008 and 2007.

Writedown of Goodwill, Intangible Assets and Long-lived Assets

| TABLE 11 | (\$ millions) | 2008 | 2007 |
|----------------------|---------------|----------|-------|
| Celestica | | \$ 1,061 | \$ 15 |
| CEI | | 206 | – |
| Carestream Health | | 142 | – |
| Sitel Worldwide | | 129 | – |
| Other ^(a) | | 111 | 7 |
| Total | | \$ 1,649 | \$ 22 |

(a) 2008 other includes EnGlobe, Husky, Tube City IMS and the parent company.
2007 other includes CDI.

Celestica recorded a \$1.1 billion goodwill impairment charge in 2008, which was the company's entire value of goodwill on its balance sheet. The goodwill on Celestica's balance sheet was associated with its Asia reporting unit and was established primarily from an acquisition in 2001. Celestica completed its annual impairment testing during the fourth quarter of 2008. Celestica used a combination of valuation approaches including a market capitalization approach, a multiples approach and discounted cash flow as a first step in determining any impairment in its goodwill. This analysis indicated a potential impairment in its Asia reporting unit, corroborated by a combination of factors, including a significant and sustained decline in Celestica's market capitalization, which was significantly below its book value, and the deteriorating global economic environment, which has resulted in a decline in expected future demand. The company then calculated the

implied fair value of goodwill, determined in a manner similar to the purchase price allocation, and compared the residual amount to the carrying amount of goodwill. Based on that analysis, Celestica concluded that the entire goodwill balance was impaired. The goodwill impairment charge is non-cash in nature and does not affect Celestica's liquidity, cash flows from operating activities, or the company's compliance with debt covenants. In addition, during the fourth quarter Celestica conducted its annual recoverability review of its long-lived assets. This review concluded that there was an impairment of \$11 million in its long-lived assets, primarily associated with its property, plant and equipment in the Americas and Europe. This compares to a \$15 million impairment charge taken in 2007 against property, plant and equipment primarily in Europe.

During the fourth quarter of 2008, CEI performed its annual goodwill impairment test and concluded that goodwill of \$206 million was impaired and should be written off in its entirety. The impairment was driven by a combination of factors including significant end-market deterioration and economic uncertainties impacting expected future demand.

During 2008, Carestream Health performed an analysis of the carrying value of its goodwill compared to its fair value by each reporting unit. It determined that the goodwill in its Molecular Imaging Systems (MIS) business was impaired. As a result, during the fourth quarter of 2008, Carestream Health recorded a \$142 million writedown of goodwill and intangible assets.

Sitel Worldwide reported a \$129 million writedown of goodwill and trademarks in 2008. During the fourth quarter of 2008, Sitel Worldwide completed its annual review of the fair value of its goodwill by reporting unit. Based on its analysis, the company determined that the fair value of goodwill and trademark in its Europe region was less than its carrying value. This goodwill was primarily associated with the purchase of SITEL Corporation in January 2007 and the impairment was due primarily to the shift in customers from Europe to other regions as well as significant reductions in the quoted market price of company peers.

Included in other shown in table 11 are:

- a \$22 million writedown of long-lived assets at Husky due primarily to the decision to shift production between regional units under the company's transformation plan;
- a \$65 million mark-to-market adjustment associated with certain securities purchased by Onex Partners III in the fourth quarter of 2008 in relation to the possible acquisition of a business; and
- ONCAP's operating company, EnGlobe, recorded a \$10 million writedown of goodwill and long-lived assets in 2008. EnGlobe's management performed a comprehensive review of the current performance and the strategic orientation of its business units. This review concluded that there was an impairment in goodwill and intangible assets in the company's organic waste management division, which resulted in the writedown.

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

In the audited annual consolidated statements of earnings, the non-controlling interests amount represents the interests of shareholders other than Onex in the net earnings or losses of Onex' operating companies. During 2008, this amount was a \$1.0 billion share of Onex' operating companies' losses compared to a share of earnings of \$1.0 billion in 2007. Table 12 details the earnings (losses) by industry segment attributable to non-controlling shareholders in our operating companies.

Non-controlling Interests in Earnings (Loss) of Operating Companies by Industry Segment

| TABLE 12 | (\$ millions) | 2008 | 2007 | Change (\$) |
|--|---------------------------|------------|----------|-------------|
| Earnings (loss) of non-controlling interests in: | | | | |
| Electronics Manufacturing | | | | |
| | Services | \$ (791) | \$ (18) | \$ (773) |
| | Aerostructures | 245 | 265 | (20) |
| | Healthcare | (34) | 36 | (70) |
| | Financial Services | 94 | 87 | 7 |
| | Customer Support Services | 1 | 4 | (3) |
| | Metal Services | (5) | (7) | 2 |
| | Other ^(a) | (531) | 650 | (1,181) |
| Total | | \$ (1,021) | \$ 1,017 | \$ (2,038) |

(a) 2008 other includes CEI, Husky, Radian, ONCAP II, Onex Credit Partners and the parent company. 2007 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Celestica, included in the electronics manufacturing segment, reported \$773 million of the change in the non-controlling interests amount. The higher share of losses in 2008 of other shareholders was due primarily to the \$1.1 billion writedown of goodwill, intangible assets and long-lived assets taken by the company as previously discussed.

The healthcare segment reported a \$70 million change in the controlling interests amount in 2008. The change was primarily driven by the non-controlling interests' share of Carestream Health's writedown of goodwill and intangible assets as previously discussed.

Included in the \$531 million loss of the non-controlling interests amount in the other segment in table 12 were:

- the \$45 million non-controlling interests' share of losses at Husky, acquired in mid-December 2007, primarily resulting from the US\$91 million charge taken in the year associated with the acquisition accounting valuation of inventory on the company's opening balance at the date of acquisition;
- the share of the losses at Allison Transmission (\$135 million) and Hawker Beechcraft (\$48 million) of the limited partners of Onex Partners II; and
- the \$185 million share of the reported loss at CEI due primarily to the \$206 million writedown of goodwill and intangible assets as previously discussed.

For the year ended December 31, 2007, the share of earnings of non-controlling interests totalled \$1.0 billion due primarily to \$762 million of gains of other limited partners of Onex Partners I resulting from the sales of shares in the Spirit AeroSystems secondary offering and the Skilled Healthcare initial public offering. In addition, a further \$15 million gain resulted from the portion of other limited partners in the non-cash accounting dilution gain recorded as a result of Skilled Healthcare's new common share issuance at a value per share above the net book value per share.

Earnings (loss) from continuing operations

Onex' consolidated loss from continuing operations was \$292 million (\$2.37 per share) in 2008 compared to earnings of \$109 million (\$0.85 per share) in 2007 and earnings of \$256 million (\$1.93 per share) in 2006. Table 13 details the earnings (loss) from continuing operations by industry segment for 2008, 2007 and 2006.

Earnings (Loss) from Continuing Operations by Industry Segment

| TABLE 13 | (\$ millions) | 2008 | 2007 | 2006 |
|---|---------------|----------|--------|---------|
| Earnings (loss) from continuing operations: | | | | |
| Electronics Manufacturing | | | | |
| Services | | \$ (119) | \$ (3) | \$ (24) |
| Aerostructures | | 17 | 28 | (74) |
| Healthcare | | (62) | (10) | 27 |
| Financial Services | | 40 | 38 | 6 |
| Customer Support Services | | (170) | (19) | 15 |
| Metal Services | | (2) | (4) | - |
| Other ^(a) | | 4 | 79 | 306 |
| Total | | \$ (292) | \$ 109 | \$ 256 |

(a) 2008 other includes Cineplex Entertainment, CEI, Husky, Hawker Beechcraft, Allison Transmission, RSI, Radian, ONCAP II, Onex Real Estate, Onex Credit Partners and the parent company. 2007 other includes Cineplex Entertainment, CEI, Hawker Beechcraft, Allison Transmission, Radian, ONCAP II, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

The losses from continuing operations in the electronics manufacturing services segment, the healthcare segment and customer support services segment in 2008 were primarily driven by the significant writedowns of goodwill, intangible assets and long-lived assets as previously discussed on page 31 of this report.

The earnings reported in the other segment were due primarily to a \$196 million stock-based compensation recovery at Onex, the parent company, as previously discussed. Partially offsetting this was \$142 million of losses from equity-accounted investments as detailed in table 7 on page 27 of this MD&A.

Earnings from discontinued operations

Earnings from discontinued operations were \$9 million (\$0.07 per share) in 2008 compared to \$119 million (\$0.93 per share) in 2007. During 2008, the earnings from discontinued operations related to additional proceeds received in the year related to ONCAP L.P.'s 2007 sales of WIS International and CMC Electronics, Inc. ("CMC Electronics").

For the year ended December 31, 2007, the \$119 million of earnings from discontinued operations were from the sale of WIS International, CMC Electronics and certain Town and Country properties.

Consolidated net earnings (loss)

A consolidated net loss of \$283 million (\$2.30 per share) was reported in 2008 compared to consolidated net earnings of \$228 million (\$1.78 per share) in 2007 and net earnings of \$1.0 billion (\$7.55 per share) in 2006. Table 14 identifies the net earnings (loss) by industry segment.

Consolidated Net Earnings (Loss) by Industry Segment

| TABLE 14 | (\$ millions) | 2008 | 2007 | 2006 |
|--------------------------------------|---------------------------|-----------------|--------|----------|
| Consolidated net earnings (loss) in: | | | | |
| Electronics Manufacturing | | | | |
| | Services | \$ (119) | \$ (3) | \$ (23) |
| | Aerostructures | 17 | 28 | (2) |
| | Healthcare | (62) | (10) | 19 |
| | Financial Services | 40 | 38 | 6 |
| | Customer Support Services | (170) | (19) | 4 |
| | Metal Services | (2) | (4) | - |
| | Other ^(a) | 4 | 79 | 252 |
| | Discontinued operations | 9 | 119 | 746 |
| Total | | | | |
| | | \$ [283] | \$ 228 | \$ 1,002 |

(a) 2008 other includes Cineplex Entertainment, CEI, Husky, Hawker Beechcraft, Allison Transmission, RSI, Radian, ONCAP II, Onex Real Estate, Onex Credit Partners and the parent company. 2007 other includes Cineplex Entertainment, CEI, Hawker Beechcraft, Allison Transmission, Radian, ONCAP II, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Table 15 presents the earnings (loss) per share from continuing operations, discontinued operations and net earnings (loss).

Earnings (Loss) per Subordinate Voting Share

| TABLE 15 | (\$ per share) | 2008 | 2007 | 2006 |
|--------------------|-------------------------|-----------|---------|---------|
| Basic and Diluted: | | | | |
| | Continuing operations | \$ (2.37) | \$ 0.85 | \$ 1.93 |
| | Discontinued operations | \$ 0.07 | \$ 0.93 | \$ 5.62 |
| | Net earnings (loss) | \$ (2.30) | \$ 1.78 | \$ 7.55 |

FOURTH-QUARTER RESULTS

Table 16 presents the statements of earnings (loss) for the fourth quarters ended December 31, 2008 and 2007.

Fourth-Quarter Statements of Earnings (Loss)

| TABLE 16 | (\$ millions) | 2008 | 2007 |
|---|--|-------------------|----------|
| | Revenues | \$ 6,774 | \$ 5,994 |
| | Cost of sales | (5,435) | (4,807) |
| | Selling, general and administrative expenses | (701) | (666) |
| Earnings before the undernoted items | | \$ 638 | \$ 521 |
| | Amortization of property, plant and equipment | (177) | (139) |
| | Interest income (expense) | (6) | 30 |
| Operating earnings | | \$ 455 | \$ 412 |
| | Amortization of intangible assets and deferred charges | (96) | (78) |
| | Interest expense of operating companies | (171) | (137) |
| | Loss from equity-accounted investments | (266) | (26) |
| | Foreign exchange gains | 58 | 3 |
| | Stock-based compensation recovery | 89 | 3 |
| | Other income (expense) | (22) | 9 |
| | Gains on sales of operating investments, net | 4 | - |
| | Acquisition, restructuring and other expenses | (74) | (59) |
| | Writedown of goodwill, intangible assets and long-lived assets | (1,636) | (20) |
| Earnings (loss) before income taxes, non-controlling interests and discontinued operations | | \$ (1,659) | \$ 107 |
| | Provision for income taxes | (25) | (99) |
| | Non-controlling interests | 1,336 | (18) |
| Loss from continuing operations | | \$ (348) | \$ (10) |
| | Earnings from discontinued operations | - | - |
| Loss for the Period | | \$ (348) | \$ (10) |

Fourth-quarter consolidated revenues were \$6.8 billion, up 13 percent, or \$780 million, from the same quarter of 2007.

Operating earnings were \$455 million in the fourth quarter of 2008, up 10 percent from \$412 million in the fourth quarter of 2007. Table 17 provides a breakdown and change in fourth-quarter revenues and operating earnings by industry segment in Canadian dollars and the functional currency of the operating companies.

Fourth-Quarter Revenues and Operating Earnings by Industry Segment

| | | Revenues | | | | | |
|------------------------------------|---------------|------------------|----------|---------------|---------------------|------------|-------------------|
| | | Canadian Dollars | | | Functional Currency | | |
| TABLE 17 | (\$ millions) | 2008 | 2007 | Change (\$) | 2008 | 2007 | Change (\$) |
| Quarter ended December 31 | | | | | | | |
| Electronics Manufacturing Services | | \$ 2,356 | \$ 2,175 | \$ 181 | US\$ 1,935 | US\$ 2,210 | US\$ (275) |
| Aerostructures | | 784 | 963 | (179) | US\$ 646 | US\$ 981 | US\$ (335) |
| Healthcare | | 1,748 | 1,420 | 328 | US\$ 1,441 | US\$ 1,444 | US\$ (3) |
| Financial Services | | 386 | 321 | 65 | US\$ 318 | US\$ 326 | US\$ (8) |
| Customer Support Services | | 483 | 464 | 19 | US\$ 399 | US\$ 473 | US\$ (74) |
| Metal Services | | 475 | 435 | 40 | US\$ 395 | US\$ 443 | US\$ (48) |
| Other ^(a) | | 542 | 216 | 326 | C\$ 542 | C\$ 216 | C\$ 326 |
| Total | | \$ 6,774 | \$ 5,994 | \$ 780 | | | |

| | | Operating Earnings | | | | | |
|------------------------------------|---------------|---------------------------|--------|--------------|---------------------|----------|------------------|
| | | Canadian Dollars | | | Functional Currency | | |
| TABLE 17 | (\$ millions) | 2008 | 2007 | Change (\$) | 2008 | 2007 | Change (\$) |
| Quarter ended December 31 | | | | | | | |
| Electronics Manufacturing Services | | \$ 103 | \$ 63 | \$ 40 | US\$ 83 | US\$ 65 | US\$ 18 |
| Aerostructures | | 49 | 124 | (75) | US\$ 41 | US\$ 126 | US\$ (85) |
| Healthcare | | 241 | 172 | 69 | US\$ 197 | US\$ 174 | US\$ 23 |
| Financial Services | | 92 | 47 | 45 | US\$ 74 | US\$ 48 | US\$ 26 |
| Customer Support Services | | 20 | 30 | (10) | US\$ 16 | US\$ 31 | US\$ (15) |
| Metal Services | | (6) | 5 | (11) | US\$ (5) | US\$ 5 | US\$ (10) |
| Other ^(a) | | (44) | (29) | (15) | C\$ (44) | C\$ (29) | C\$ (15) |
| Total | | \$ 455 | \$ 412 | \$ 43 | | | |

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

(a) 2008 other includes CEI, Husky, Radian, ONCAP II and the parent company. 2007 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

All of the growth in the fourth-quarter revenues was due to the fluctuation of the U.S. dollar to the Canadian dollar exchange rate. During the fourth quarter of 2008, the average U.S. dollar to Canadian dollar exchange rate was 1.2125 Canadian dollars compared to 0.9818 Canadian dollars in the fourth quarter of 2007. Excluding the impact of foreign currency translation, many of Onex' operating companies reported lower revenues quarter-over-quarter due primarily to the economic downturn in the quarter. Celestica reported a US\$275 million decline in revenues during the fourth quarter of 2008 due primarily to a 16 percent decline

in revenues in the company's servers, enterprise communications and storage segments. This was partially offset by higher revenues in the telecommunications and industrial segments resulting from new customer and program wins.

Spirit AeroSystems reported a US\$335 million decline in revenues in the fourth quarter of 2008 over the same quarter of 2007 due to decreased ship set deliveries to Boeing resulting primarily from the eight-week strike at Boeing in the quarter.

The increase in the other segment is due to the inclusion of Husky in 2008.

Consolidated operating earnings grew in the fourth quarter of 2008 compared to 2007 due in part to foreign currency translation as noted in revenues, as well as several other factors:

- a US\$18 million increase in operating earnings at Celestica resulting primarily from improvements in Celestica's Mexican and European operations;
- a US\$23 million increase in the healthcare segment operating earnings driven primarily by higher revenues at EMSC; and
- an increase of US\$26 million in operating earnings at The Warranty Group as a result of lower amortization of deferred acquisition costs on its European credit business in 2008.

Partially offsetting these factors was a US\$85 million decline in operating earnings at Spirit AeroSystems due primarily to lower revenues as previously discussed.

During the fourth quarter of 2008, there was \$1.6 billion of writedowns of goodwill, intangible assets and long-lived assets recorded by Onex' operating companies. Detailed discussions of these writedowns by company are provided on page 31 of this report.

A stock-based compensation recovery of \$89 million was recorded in the fourth quarter of 2008 compared to recovery of \$3 million for the same quarter last year. Onex, the parent company, recorded \$107 million of the stock-based compensation recovery in the fourth quarter of 2008 due primarily to the change in the market value of Onex shares. Onex is required to revalue its stock option liability based on changes in the market value of Onex shares. The decline in Onex' share price to \$18.19 per share at December 31, 2008 from \$27.47 per share at September 30, 2008 resulted in the downward revaluation of the liability for stock options and the recovery in stock-based compensation, respectively.

Foreign exchange gains of \$58 million were recorded in the fourth quarter of 2008 compared to \$3 million in the same quarter last year. Onex, the parent company, recorded \$65 million of these gains due primarily to the revaluation of its U.S. cash held at a higher U.S. dollar exchange rate. During the fourth quarter of 2008, the value of the U.S. dollar relative to the Canadian dollar increased to 1.2180 Canadian dollars at December 31, 2008 compared to 1.0642 Canadian dollars at September 30, 2008.

Fourth-Quarter Major Cash Flow Components

| TABLE 18 | (\$ millions) | 2008 | 2007 |
|--|---------------|-----------------|----------|
| | | \$ 384 | \$ 597 |
| Cash from operating activities | | | |
| | | \$ 20 | \$ 211 |
| Cash from financing activities | | | |
| | | \$ (350) | \$ (532) |
| Cash used in investing activities | | | |
| Consolidated cash and short-term investments – continuing operations | | \$ 2,921 | \$ 2,462 |

Cash from operating activities totalled \$384 million in the fourth quarter of 2008 compared to cash from operating activities of \$597 million in 2007. The decline in cash from operating activities was due primarily to reduced operating results stemming from the economic downturn in the fourth quarter of 2008.

Cash from financing activities was \$20 million in the fourth quarter of 2008 compared to cash from financing activities of \$211 million in 2007. Cash from financing activities in the quarter primarily included:

- cash received of \$37 million from the limited partners of ONCAP II for the acquisition of Caliber Collision; and
- \$76 million of capital called from the limited partners of Onex Partners, which included an additional investment in Tube City IMS.

Partially offsetting this were:

- \$4 million of cash used by Onex, the parent company, on repurchases of 162,683 Subordinate Voting Shares under its Normal Course Issuer Bid;
- \$36 million of cash used by Celestica to repurchase its debt;
- \$26 million of cash used to prepay debt by EMSC; and
- \$39 million of cash distributed in December 2008 primarily by Onex Partners I and Onex Partners II to limited partners, other than Onex, from a dividend paid by The Warranty Group.

Cash used in investing activities was \$350 million in the fourth quarter of 2008 due primarily to \$62 million of cash used in the acquisition of Caliber Collision by ONCAP II and \$338 million of cash used for the investment in RSI by Onex, Onex Partners II and management in October 2008. This compares to \$532 million of cash used in investing activities in the same quarter last year primarily for Onex' acquisition of Husky in mid-December 2007.

SUMMARY QUARTERLY INFORMATION

Table 19 summarizes Onex' key consolidated financial information for the last eight quarters.

| | 2008 | | | | 2007 | | | |
|---|-----------|----------|-----------|----------|-----------|-----------|----------|----------|
| | Dec. | Sept. | June | Mar. | Dec. | Sept. | June | Mar. |
| Revenues | \$ 6,774 | \$ 7,066 | \$ 6,815 | \$ 6,226 | \$ 5,994 | \$ 6,038 | \$ 5,870 | \$ 5,531 |
| Earnings (loss) from continuing operations | \$ (348) | \$ 34 | \$ (18) | \$ 40 | \$ (10) | \$ (76) | \$ 162 | \$ 33 |
| Net earnings (loss) | \$ (348) | \$ 38 | \$ (18) | \$ 45 | \$ (10) | \$ (77) | \$ 166 | \$ 149 |
| Earnings (loss) per Subordinate Voting Share | | | | | | | | |
| Basic and Diluted: | | | | | | | | |
| Continuing operations | \$ (2.85) | \$ 0.26 | \$ (0.14) | \$ 0.32 | \$ (0.08) | \$ (0.59) | \$ 1.26 | \$ 0.26 |
| Net earnings (loss) | \$ (2.85) | \$ 0.30 | \$ (0.14) | \$ 0.36 | \$ (0.08) | \$ (0.60) | \$ 1.29 | \$ 1.16 |

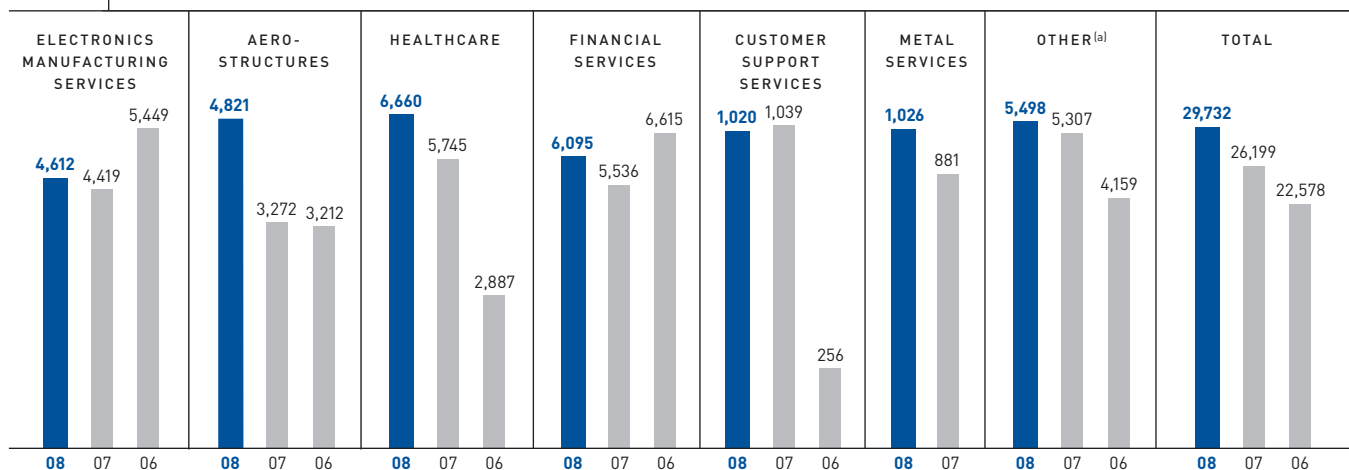
Onex' quarterly consolidated financial results do not follow any specific trends due to the acquisitions or dispositions of businesses by Onex, the parent company; the volatility of the exchange rate between the U.S. dollar and the Canadian dollar; and varying business cycles at Onex' operating companies.

CONSOLIDATED FINANCIAL POSITION

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

Asset Diversification by Industry Segment

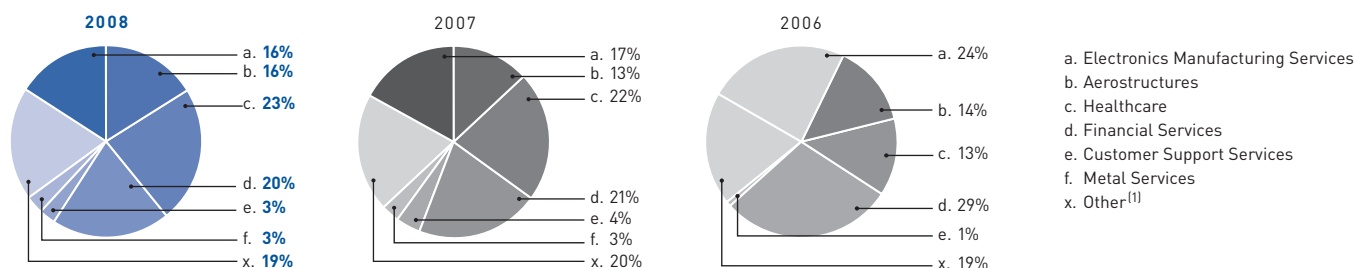
CHART 1 | (\$ millions)



(a) 2008 other includes Husky, CEI, Radian, ONCAP II and the parent company. 2007 other includes Husky, CEI, Radian, ONCAP II, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

The pie charts below show the percentage breakdown of total consolidated assets by industry segment as at December 31, 2008, 2007 and 2006.

Segmented Total Consolidated Assets Breakdown



(1) 2008 other includes Husky, CEI, Radian, ONCAP II and the parent company. 2007 other includes Husky, CEI, Radian, ONCAP II, Onex Real Estate and the parent company. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Goodwill and intangible assets

Consolidated goodwill and intangible assets on Onex' audited annual consolidated balance sheet totalled \$5.7 billion at December 31, 2008 compared to \$6.1 billion at December 31, 2007. The decline in goodwill in 2008 was due primarily to writedowns recorded in 2008 by several of Onex' operating companies as previously discussed on page 31 of this report. This was partially offset by the impact of the strengthening of the U.S. dollar relative to the Canadian dollar at December 31, 2008.

Consolidated long-term debt, without recourse to Onex

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 without recourse to Onex or other Onex operating companies.

The financing arrangements of each operating company typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of

capital, capital spending, making of investments and acquisitions and sales of assets. In addition, certain financial covenants must be met by the operating companies that have outstanding debt. Changes in business conditions relevant to an operating company, including those resulting from changes in financial markets and economic conditions generally, may result in non-compliance with certain covenants by that operating company.

Despite the economic turmoil in 2008, each of Onex' operating companies, with the exception of CEI, closed the year within their covenant requirements. The debt maturities were such that there are no significant amounts that come due prior to 2011. Note 10 to the audited annual consolidated financial statements provides more detailed disclosure of the long-term debt at each of our operating companies.

Total long-term debt (consisting of the current portion of long-term debt and long-term debt) was \$7.7 billion at December 31, 2008 compared to \$6.4 billion at December 31, 2007 and \$3.8 billion at December 31, 2006. Since Onex reports in Canadian dollars, but the majority of its operating companies report in U.S. dollars, all of the increase in total long-term debt was caused by currency translation due to the strengthening of the U.S. dollar

relative to the Canadian dollar. Table 20 summarizes consolidated long-term debt by industry segment in Canadian dollars and the functional currency of the operating companies.

Consolidated Long-term Debt, Without Recourse to Onex

| | | Canadian Dollars | | |
|--|--|------------------|----------|----------|
| TABLE 20 (\$ millions) | | 2008 | 2007 | 2006 |
| Electronics Manufacturing Services | | \$ 892 | \$ 752 | \$ 874 |
| Aerostructures | | 697 | 567 | 687 |
| Healthcare | | 3,367 | 2,835 | 1,177 |
| Financial Services | | 237 | 194 | 233 |
| Customer Support Services | | 796 | 688 | 196 |
| Metal Services | | 519 | 380 | - |
| Other ^(a) | | 1,167 | 960 | 681 |
| | | 7,675 | 6,376 | 3,848 |
| Long-term debt of CEI, reclassified as current | | (138) | - | - |
| Current portion of long-term debt of operating companies | | (394) | (217) | (50) |
| Total | | \$ 7,143 | \$ 6,159 | \$ 3,798 |

| | | Functional Currency | | |
|--|--|---------------------|------------|------------|
| (\$ millions) | | 2008 | 2007 | 2006 |
| Electronics Manufacturing Services | | US\$ 732 | US\$ 759 | US\$ 750 |
| Aerostructures | | US\$ 572 | US\$ 572 | US\$ 589 |
| Healthcare | | US\$ 2,764 | US\$ 2,860 | US\$ 1,010 |
| Financial Services | | US\$ 195 | US\$ 196 | US\$ 200 |
| Customer Support Services | | US\$ 654 | US\$ 694 | US\$ 168 |
| Metal Services | | US\$ 426 | US\$ 383 | - |
| Other ^(a) | | US\$ 958 | US\$ 968 | US\$ 584 |
| | | US\$ 6,301 | US\$ 6,432 | US\$ 3,301 |
| Long-term debt of CEI, reclassified as current | | US\$ (113) | - | - |
| Current portion of long-term debt of operating companies | | US\$ (323) | US\$ (219) | US\$ (43) |
| Total | | US\$ 5,865 | US\$ 6,213 | US\$ 3,258 |

(a) 2008 other includes CEI, Husky, Radian, ONCAP II, Onex Credit Partners and Onex Partners. 2007 other includes CEI, Radian, ONCAP II and Onex Real Estate. 2006 other includes Cineplex Entertainment, CEI, Radian, ONCAP II and Onex Real Estate.

Celestica's long-term debt decline to US\$732 million at December 31, 2008 was due primarily to the company's repurchase of approximately US\$38 million of its senior subordinated notes in 2008 for cash of approximately US\$30 million.

In March 2008, Spirit AeroSystems entered into an amendment of its existing credit agreement. The amendment provided for: (i) an increase in the company's US\$400 million revolving credit facility to US\$650 million; (ii) an increase in the amount of indebtedness that Spirit

AeroSystems can incur to finance the purchase of capital assets from US\$75 million to US\$200 million; (iii) a provision allowing for up to US\$300 million in additional indebtedness outstanding; and (iv) a provision allowing Spirit AeroSystems to make investments in joint ventures not to exceed a total of US\$50 million.

The decline in long-term debt in the healthcare segment was driven primarily by the US\$94 million debt reduction at Carestream Health during 2008.

In December 2008, Sitel Worldwide amended its debt agreement. The amendment included increases to applicable rates and changes to provide increased leeway in the financial covenants through September 2011. Sitel Worldwide repurchased US\$27 million of its term loan, which it funded with the issuance of US\$30 million of mandatorily redeemable Series C preferred shares to Onex and certain other investors. Onex' share was US\$23 million. Sitel Worldwide's amended credit 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. The term loan and revolving credit facility bear interest at a rate of LIBOR plus a margin of up to 5.5 percent or prime plus a margin of 4.5 percent. At December 31, 2008, Sitel Worldwide had US\$587 million and US\$50 million outstanding under its term and revolving credit facility, respectively. In addition, included in Sitel Worldwide's long-term debt is US\$46 million of Series B preferred shares (Onex' share was US\$30 million) and US\$30 million of mandatorily redeemable Series C preferred shares (Onex holds US\$23 million of Series C preferred shares). The Series B and Series C preferred shares accrue annual dividends at a rate of 12 percent and 16 percent, respectively, and are redeemable at the option of the holder on or before July 2014 and May 2014, respectively. Outstanding amounts related to preferred shares at December 31, 2008 include accrued dividends.

During the fourth quarter of 2008, an entity controlled by Onex Partners III had approximately US\$97 million outstanding on a US\$125 million line of credit. The amounts borrowed on this line of credit were used to purchase investment securities pursuant to an acquisition opportunity. The line of credit bears interest at a base rate plus an applicable margin and matures in November 2009.

It is secured by the ability of Onex Partners III to call capital from its limited partners. At December 31, 2008, Onex, the parent company, as a limited partner in Onex Partners III, was committed to fund US\$23 million of the total amount outstanding on the line of credit.

During the fourth quarter of 2008, CEI's long-term debt of US\$113 million was reclassified as current debt on the audited annual consolidated balance sheet as CEI was not in compliance with various covenants of certain debt agreements. This situation arose due to the lower volume of business as CEI's customers were affected by the decline in consumer expenditures. No change has been recorded to the carrying value of the assets of CEI as a result of the non-compliance with debt covenants. As at December 31, 2008, CEI was in discussions with its lenders to achieve a solution that would enable the company to be in compliance with its debt arrangements. The ability of CEI to operate through the decline in the industry is dependent upon achieving a resolution with CEI's lenders. CEI's debt will continue to be classified as current until such time that a resolution is achieved, the outcome of which was unknown at the time of this report. The debt of CEI is without recourse to Onex.

Warranty reserves and unearned premiums

Warranty reserves and unearned premiums represent The Warranty Group's gross warranty and property and casualty reserves, as well as gross warranty unearned premiums. At December 31, 2008, warranty reserves and unearned premiums (consisting of the current and long-term portions) totalled \$4.3 billion compared to \$3.9 billion at December 31, 2007. Gross warranty and property and casualty reserves are approximately \$1.3 billion (2007 – \$1.3 billion) of the total, which represent the estimated future losses on warranty contracts and property and casualty insurance policies. The Warranty Group has ceded 100 percent of the property and casualty reserves component of \$1.1 billion (2007 – \$1.0 billion) to third-party reinsurers, which therefore has created a ceded claims recoverable assets. A subsidiary of Aon Corporation, The Warranty Group's former parent, is the primary reinsurer on approximately 44 percent of the reserves and provides guarantees on all of them as part of the sales agreement with Onex.

The Warranty Group's liability for gross warranty and property and casualty unearned premiums totalled \$2.9 billion (2007 – \$2.7 billion). All of the unearned premiums are warranty business related and represent the portion of the revenue received that has not yet been earned as revenue by The Warranty Group on extended warranty products sold through multiple distribution channels. Typically, there is a time delay between when the warranty contract starts to earn and the contract effective date. The contracts generally commence earning after the original manufacturer's warranty on a product expires. Note 12 to the audited annual consolidated financial statements provides details of the gross warranty and property and casualty reserves for loss and loss adjustment expenses and warranty unearned premiums as at December 31, 2008 and 2007.

Non-controlling interests

The non-controlling interests liability in Onex' audited annual consolidated balance sheet as at December 31, 2008 primarily represents the ownership interests of shareholders, other than Onex, in Onex' consolidated operating companies and equity-accounted investments. At December 31, 2008, the non-controlling interests balance increased to \$6.6 billion compared to \$6.1 billion at December 31, 2007. Table 21 details the change in the non-controlling interests balance from December 31, 2007 to December 31, 2008.

Change in Non-controlling Interests

TABLE 21 | (\$ millions)

| | |
|---|-----------------|
| Non-controlling interests as at December 31, 2007 | \$ 6,149 |
| Non-controlling interests in net loss for 2008: | |
| Operating companies' earnings | (1,021) |
| Investments by shareholders other than Onex in: | |
| Onex Partners II | 314 |
| ONCAP II | 61 |
| Onex' operating companies | 94 |
| Distributions to limited partners of Onex Partners I and II | (131) |
| Other comprehensive earnings | 1,170 |
| Other | (12) |
| Non-controlling interests as at December 31, 2008 | \$ 6,624 |

The increase in the non-controlling interests balance was driven by:

- the 23 percent increase in the value of the U.S. dollar relative to the Canadian dollar, which contributed \$1.4 billion of the increase. The value of the U.S. dollar was 1.2180 Canadian dollars at December 31, 2008 compared to 0.9913 Canadian dollars at December 31, 2007. This amount is included in other comprehensive earnings;
- \$314 million in investments by the limited partners, other than Onex, of Onex Partners II, of which \$205 million was for the investment in RSI; and
- \$61 million in investments by the limited partners of ONCAP II, of which \$37 million was for the acquisition of Caliber Collision.

Partially offsetting these increases were:

- \$1.0 billion of the non-controlling interests' share of operating companies' net losses in 2008 associated primarily with the goodwill and intangible asset write-downs; and
- \$131 million of cash distributed in 2008 primarily to the limited partners, other than Onex, of Onex Partners I and II primarily from dividends paid by The Warranty Group and Carestream Health.

Shareholders' equity

Shareholders' equity totalled \$1.6 billion at December 31, 2008 compared to \$1.7 billion at year-end 2007. Table 22 provides a reconciliation of the change in shareholders' equity from December 31, 2007 to December 31, 2008.

Change in Shareholders' Equity

TABLE 22 | (\$ millions)

| | |
|--|-----------------|
| Shareholders' equity as at December 31, 2007 | \$ 1,703 |
| Regular dividends declared | (14) |
| Shares repurchased and cancelled | (101) |
| Net loss | (283) |
| Other comprehensive earnings for 2008 | 248 |
| Shareholders' equity as at December 31, 2008 | \$ 1,553 |

Onex' audited annual consolidated statements of shareholders' equity and comprehensive earnings also show the changes to the components of shareholders' equity for the years ended December 31, 2008 and 2007.

Shares outstanding

At January 31, 2009, Onex had 122,099,689 Subordinate Voting Shares issued and outstanding. Table 23 shows the change in the number of Subordinate Voting Shares outstanding from December 31, 2007 to January 31, 2009.

Change in Subordinate Voting Shares Outstanding

| | |
|---|--------------------|
| Subordinate Voting Shares outstanding at December 31, 2007 | 125,574,087 |
| Shares repurchased and cancelled under Onex' Normal Course Issuer Bid | (3,481,381) |
| Issue of shares – Dividend Reinvestment Plan | 6,983 |
| Subordinate Voting Shares outstanding at January 31, 2009 | 122,099,689 |

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 2008.

Cash dividends

During 2008, 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 2007 and 2006. 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 2008, Onex issued 6,279 Subordinate Voting Shares under the Plan at an average cost of \$29.48 per Subordinate Voting Share, creating cash savings of less than \$1 million.

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

In January 2009, Onex issued an additional 704 Subordinate Voting Shares under the Plan at an average cost of \$18.21 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 with the exception of the 775,000 remaining options granted in December 2007, which vest over six years. The price of the options issued is at the market value of the Subordinate Voting Shares on the business day preceding the day of the grant. Vested options are not exercisable unless the average five-day market price of Onex Subordinate Voting Shares is at least 25 percent greater than the exercise price at the time of exercise.

At December 31, 2008, Onex had 12,931,450 options outstanding to acquire Subordinate Voting Shares, of which 9,363,717 options were vested, and none of those vested options was exercisable. Table 24 provides information on the activity during 2008 and 2007.

Change in Stock Options Outstanding

| | Number of Options | Weighted Average Exercise Price |
|----------------------------------|-------------------|---------------------------------|
| Outstanding at December 31, 2006 | 13,095,100 | \$ 16.43 |
| Granted | 803,000 | \$ 35.16 |
| Surrendered | (1,090,600) | \$ 10.84 |
| Expired | (30,000) | \$ 21.27 |
| Outstanding at December 31, 2007 | 12,777,500 | \$ 18.07 |
| Granted | 702,500 | \$ 15.95 |
| Surrendered | (538,550) | \$ 14.97 |
| Expired | (10,000) | \$ 34.00 |
| Outstanding at December 31, 2008 | 12,931,450 | \$ 18.07 |

During 2008, 702,500 options were granted with an exercise price of \$15.95 and which vest over five years. In addition, 538,550 options were surrendered in 2008 at a weighted average exercise price of \$14.97 for aggregate cash consideration of \$9 million and 10,000 options expired.

During 2007, 803,000 options were granted at a weighted average exercise price of \$35.16. Furthermore, 1,090,600 options were surrendered in 2007 for total cash paid of \$26 million and 30,000 options expired. In 2006, 435,000 options were granted, 738,000 options were surrendered for cash consideration of \$14 million, 20,000 options were exercised for Subordinate Voting Shares at a total value of less than \$1 million and 16,500 options expired.

Normal Course Issuer Bids

Onex had Normal Course Issuer Bids (the "Bids") in place during 2008 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 2008, Onex repurchased 3,481,381 Subordinate Voting Shares under the Bids at a total cost of \$101 million. Under similar Bids, Onex repurchased 3,357,000 Subordinate Voting Shares at a total cost of \$113 million during 2007 and 9,176,300 Subordinate Voting Shares at a total cost of \$203 million in 2006.

Accumulated other comprehensive earnings (loss)

Accumulated other comprehensive earnings (loss) represent the accumulated unrealized gains or losses, all net of income taxes, related to certain available-for-sale securities, cash flow hedges and foreign exchange gains or losses on the net investment in self-sustaining operations.

At December 31, 2008, accumulated other comprehensive loss was \$161 million compared to an accumulated loss of \$409 million at the end of 2007. The change was from other comprehensive earnings of \$248 million in 2008 primarily from positive currency translation adjustments of \$382 million as a result of the strengthening of the U.S. dollar. This was partially offset by Onex' share of the declines in the fair value of derivatives designated as hedges of \$122 million, primarily at Sitel Worldwide (\$38 million),

Husky (\$30 million) and Hawker Beechcraft (\$25 million). Table 25 provides a breakdown of other comprehensive earnings (loss) for 2008 compared to 2007.

Other Comprehensive Earnings (Loss)

| TABLE 25 | (\$ millions) | 2008 | 2007 |
|--|---------------|--------|----------|
| Other comprehensive earnings (loss), net of taxes | | | |
| Currency translation adjustments | | \$ 382 | \$ (202) |
| Change in fair value of derivatives designated as hedges | | (122) | (22) |
| Other | | (12) | 10 |
| Other comprehensive earnings (loss) | | \$ 248 | \$ (214) |

Management of capital

Onex considers the capital it manages to be the amounts it has in cash, short-term and near-cash investments, and the investments made by it in the operating companies, Onex Real Estate Partners and Onex Credit Partners. Onex also manages the third-party capital invested in the Onex Partners and ONCAP Funds.

Onex' objectives in managing capital are to:

- preserve a financially strong parent company with appropriate liquidity and no, or a limited amount of, debt so that it has funds available to pursue new acquisitions and growth opportunities, as well as support the building of its existing businesses. Onex does not generally have the ability to draw cash from its operating companies. Accordingly, maintaining adequate liquidity at the parent company is important;
- achieve an appropriate return on capital invested commensurate with the level of risk taken on;
- build the long-term value of its operating companies;
- control the risk associated with capital invested in any particular business or activity. All debt financing is within the operating companies and each company is required to support its own debt. Onex does not guarantee the debt of the operating companies and there are no cross-guarantees of debt between the operating companies; and
- have appropriate levels of committed third-party capital available to invest along with Onex' capital. This enables Onex to respond quickly to opportunities and pursue

acquisitions of businesses it could not achieve using only its own capital. The management of third-party capital also provides management fees to Onex and the ability to enhance Onex' returns by earning a carried interest on the profits of third-party participants.

At December 31, 2008, Onex, the parent company, had approximately \$470 million of cash on hand and approximately \$70 million of near-cash items at market value. The Company is currently liquidating its near-cash items, which are invested in a number of hedge funds. Due to realizations, at the end of January 2009, Onex' investment in the hedge funds was \$37 million and it expects to receive over half of that by the end of October 2009 with the balance into 2010. Onex, the parent company, has a conservative cash management policy that limits its cash investments to short-term high-rated money market instruments. This policy has been effective in maintaining liquidity and preserving principal in all of the money market investments at Onex, the parent company.

At December 31, 2008, Onex had access to US\$3.6 billion of uncalled committed third-party capital for acquisitions through the Onex Partners and ONCAP Funds. This includes approximately US\$3.0 billion of committed third-party capital from several closings of Onex Partners III completed in 2008. Onex anticipates that further third-party capital will be committed to Onex Partners III.

The strategy for risk management of capital has not changed in 2008.

LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the audited annual consolidated statements of cash flows and the corresponding notes thereto. Table 26 summarizes the major consolidated cash flow components.

Major Cash Flow Components

| TABLE 26 | (\$ millions) | 2008 | 2007 |
|--|---------------|------------|------------|
| Cash from operating activities | | \$ 1,339 | \$ 1,184 |
| Cash from financing activities | | \$ 9 | \$ 1,347 |
| Cash used in investing activities | | \$ (1,402) | \$ (2,673) |
| Consolidated cash and short-term investments – continuing operations | | \$ 2,921 | \$ 2,462 |

Cash from operating activities

Cash from operating activities totalled \$1.3 billion in 2008 compared to cash from operating activities of \$1.2 billion in 2007. Table 27 provides a breakdown of cash from operating activities by cash generated from operations and non-cash working capital items, warranty reserves and premiums and other liabilities for the years ended December 31, 2008 and 2007.

Components of Cash from Operating Activities

| TABLE 27 | (\$ millions) | 2008 | 2007 |
|--|---------------|----------|----------|
| Cash generated from operations | | \$ 1,296 | \$ 1,096 |
| Increase in cash from non-cash working capital items, warranty reserves and premiums and other liabilities | | 43 | 88 |
| Cash from operating activities | | \$ 1,339 | \$ 1,184 |

Cash generated from operations excludes changes in non-cash working capital items, warranty reserves and premiums and other liabilities. Cash generated from operations totalled \$1.3 billion in 2008, up 18 percent from \$1.1 billion in 2007. Much of the increase was due to the inclusion of a full year of operations at Carestream Health and improvements at Celestica as discussed in "Operating Earnings" on page 24 of this MD&A.

Non-cash working capital items, warranty reserves and premiums and other liabilities increased cash by \$43 million in 2008 compared to \$88 million in 2007. This lower amount in 2008 was due primarily to the build-up of inventory at Spirit AeroSystems associated with the continued investment in the B787, Gulfstream and other general aviation programs, partially offset by customer advances associated with the 787 program.

Cash from financing activities

Cash from financing activities was \$9 million in 2008 compared to \$1.3 billion in 2007. Included in cash from financing activities were:

- \$314 million of cash received from the limited partners of Onex Partners II, of which \$205 million was for the investment in RSI; and
- \$37 million of cash received from the limited partners of ONCAP II for the acquisition of Caliber Collision.

Offsetting these factors were:

- \$143 million of cash distributed in 2008 primarily by Onex Partners to limited partners, other than Onex, from dividends paid by The Warranty Group in 2008 and 2007 and Carestream Health in 2008;
- \$36 million spent by Celestica on the repurchase of its debt; and
- \$101 million of cash spent by Onex, the parent company, on the repurchase of 3,481,381 Subordinate Voting Shares under the Company's Normal Course Issuer Bid.

Cash used in investing activities

Cash used in investing activities totalled \$1.4 billion in 2008 compared to \$2.7 billion in 2007. Cash used in investing activities included:

- \$209 million of cash spent on acquisitions completed by CDI, EMSC, Sitel Worldwide, Skilled Healthcare, Tube City IMS and ONCAP II;
- \$338 million invested in RSI by Onex, Onex Partners II and management; and
- \$859 million of cash spent on property, plant and equipment primarily by Onex' operating companies (2007 – \$633 million); table 28 details property, plant and equipment expenditures by industry segment.

Property, Plant and Equipment Expenditures by Industry Segment

| TABLE 28 | (\$ millions) | 2008 | 2007 |
|------------------------------------|---------------|--------|--------|
| Electronics Manufacturing Services | | \$ 124 | \$ 67 |
| Aerostructures | | 299 | 268 |
| Healthcare | | 225 | 136 |
| Financial Services | | 21 | 29 |
| Customer Support Services | | 67 | 51 |
| Metal Services | | 73 | 55 |
| Other ^(a) | | 50 | 27 |
| Total | | \$ 859 | \$ 633 |

(a) 2008 other includes CEI, Husky, Radian, ONCAP II, Onex Credit Partners and the parent company. 2007 other includes CEI, Radian, ONCAP II, Onex Real Estate and the parent company.

Celestica spent \$124 million in capital expenditures in 2008 (2007 – \$67 million) primarily to expand manufacturing capabilities in China, Mexico and Europe to support new customer programs.

Spirit AeroSystems invested \$299 million in property, plant and equipment, as well as software and program tooling in 2008, including costs associated with the company's 787 manufacturing equipment and the development of stand-alone information technology systems.

Included in the healthcare segment was \$109 million invested in capital expenditures by Carestream Health. These expenditures were primarily associated with rental capital and information technology. Rental capital expenditures represent leased equipment and the capitalized cost of digital printers that the company provides certain of its customers in exchange for a contract, which obligates the customer to purchase film from Carestream Health.

For the year ended December 31, 2007, acquisitions completed in 2007 accounted for \$1.8 billion of the \$2.7 billion of cash used in investing activities. These acquisitions primarily included Tube City IMS (\$197 million), acquired in January 2007, Carestream Health (\$442 million), purchased in April 2007, Husky (\$521 million), acquired in mid-December 2007, Sitel Worldwide's acquisition of SITEL Corporation, as well as three add-on acquisitions (\$435 million), and add-on acquisitions completed by EMSC and Skilled Healthcare (\$176 million). In addition, included in other investing activities in 2007 was cash used for Onex' and Onex Partners II's investment in Hawker Beechcraft of \$552 million and Allison Transmission of \$790 million.

Consolidated cash resources

At December 31, 2008, consolidated cash with continuing operations was \$2.9 billion, slightly above the level at December 31, 2007. The major components at December 31, 2008 were Onex, the parent company, which represented approximately \$470 million of cash on hand, and Celestica, which had approximately \$1.5 billion of cash. Onex believes that maintaining a strong financial position at the parent company with appropriate liquidity enables the Company to pursue new opportunities to create long-term value and support Onex' existing operating companies. In addition to the \$470 million of cash at the parent company at December 31, 2008, there was approximately \$70 million of near-cash items that are invested in segregated hedge funds.

Onex has provided notice to liquidate these funds and expects to have converted the majority of them to cash by October 2009. These fund investments are classified as

investments on Onex' consolidated balance sheet at December 31, 2008 and are presented at fair value.

ADDITIONAL USES OF CASH

Contractual obligations

The following table presents the contractual obligations of Onex' operating companies as at December 31, 2008:

Contractual Obligations

| TABLE 29 (\$ millions) | Total | Payments Due by Period | | | |
|--|-----------------|------------------------|-----------|-----------|---------------|
| | | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
| Long-term debt, without recourse to Onex | \$ 7,813 | \$ 532 | \$ 1,327 | \$ 4,179 | \$ 1,775 |
| Capital and operating leases | 1,629 | 317 | 454 | 275 | 583 |
| Purchase obligations | 339 | 189 | 79 | 4 | 67 |
| Pension plan obligations ^(a) | 35 | 35 | - | - | - |
| Total contractual obligations | \$ 9,816 | \$ 1,073 | \$ 1,860 | \$ 4,458 | \$ 2,425 |

(a) The pension plan obligations are those of the Onex operating companies with significant defined benefit pension plans.

A breakdown of long-term debt by industry segment is provided in table 20. In addition, notes 10 and 11 to the audited annual consolidated financial statements provide further disclosure on long-term debt and lease commitments. All our operating companies, with the exception of CEI, currently believe they have adequate cash from operations, cash on hand and borrowings available to them to meet anticipated debt service requirements, capital expenditures and working capital needs. As noted earlier, at the time of this report, CEI was in discussions with its lenders to modify the terms of its debt to provide more leeway on its covenants. The outcome of these discussions was unknown at the time of this report. There is, however, no assurance that our operating companies will generate sufficient cash flow from operations or that future borrowings will be available to enable them to grow their businesses, service all indebtedness or make anticipated capital expenditures.

Capital and operating leases

Spirit AeroSystems

In May 2008, Spirit AeroSystems and The North Carolina Global TransPark Authority ("GTPA") entered into an inducement agreement, a construction agency agreement and a lease agreement for the construction and lease of a facility on an approximate 300-acre site in Kinston, North Carolina. Spirit AeroSystems intends to use this facility for a variety of aerospace manufacturing purposes, including the manufacturing and assembly of aerospace parts for various customers. As part of the construction agency agreement, the construction of the facility in North Carolina will be funded initially from a US\$100 million grant awarded to GTPA, with an additional required minimum capital investment of US\$80 million to be funded by Spirit AeroSystems by 2014. GTPA will retain title to the facility and has leased the site to Spirit AeroSystems for an initial term of approximately 22 years. During the lease period, Spirit AeroSystems will make nominal rental payments to GTPA. Spirit AeroSystems is subject to a number of performance criteria under the inducement agreement, of

which failure to meet will result in additional payments to GTPA in future periods. The inducement agreement also requires Spirit AeroSystems to make US\$80 million in capital investments at the leased premises by the end of 2014.

In June 2008, a subsidiary of Spirit AeroSystems in Malaysia entered into a facility agreement for a term loan facility of US\$20 million to be used toward partial financing of plant and equipment, materials, inventory and administrative costs associated with the establishment of an aerospace-related composite component assembly plant in Malaysia.

Commitments

At December 31, 2008, Onex and its operating companies had total commitments of \$666 million (2007 – \$557 million). Commitments by Onex and its operating companies provided in the normal course of business include commitments to corporate investments and letters of credit, letters of guarantee and surety and performance bonds. Approximately \$547 million of the total commitments in 2008 were for contingent liabilities in the form of letters of credit, letters of guarantee, and surety and performance bonds provided by certain operating companies to various third parties, including bank guarantees. These guarantees are without recourse to Onex.

In addition, included in the commitments was \$46 million of capital to be invested in Tube City IMS by Onex and Onex Partners II to fund capital expenditures in support of new contracts that have been signed with steel mills.

As part of the Carestream Health purchase from Kodak in 2007, the acquisition agreement provided that if Onex and Onex Partners II realize an internal rate of return in excess of 25 percent on their investment in Carestream Health, Kodak will receive payment equal to 25 percent of the excess return up to US\$200 million.

Pension plans

Six of Onex' operating companies have defined benefit pension plans, of which the more significant plans are those of Spirit AeroSystems, Carestream Health and Celestica. At December 31, 2008, the defined benefit pension plans of the six Onex operating companies had combined assets of \$1.3 billion against combined obligations of \$1.3 billion, with a net unfunded obligation of \$29 million.

Spirit AeroSystems has several U.S. defined benefit pension plans that were frozen at the date of Onex' acquisition of Spirit AeroSystems, with no future service benefits being earned in these plans. Pension assets are placed in a trust for the purpose of providing liquidity sufficient to pay benefit obligations. Spirit AeroSystems' U.S. defined benefit pension plans remained overfunded by approximately \$73 million at December 31, 2008 despite the volatility and decline in the equity markets in 2008. Therefore, required and discretionary contributions to those plans are not expected in 2009. In addition, Spirit AeroSystems had a U.K. defined benefit pension plan with expected contributions of US\$8 million in 2009.

At December 31, 2008, Celestica's defined benefit pension plans were in a net unfunded position of \$49 million. Celestica's pension funding policy is to contribute amounts sufficient to meet minimum local statutory funding requirements that are based on actuarial calculations. The company may make additional discretionary contributions based on actuarial assessments. Celestica estimates a minimum funding requirement of US\$20 million for its defined benefit pension plans in 2009 based on the most recent actuarial valuations. Continued volatility in the capital markets will impact the future asset values of Celestica's multiple defined benefit pension plans. Therefore, a significant deterioration in the asset values could lead to higher than expected future contributions; however, Celestica does not expect this will have a material adverse impact on its cash flows or liquidity.

Carestream Health's defined benefit pension plans were in an unfunded position of approximately \$40 million at December 31, 2008. The company's pension plans are broadly diversified in equity and debt securities, as well as other investments. Carestream Health expects to contribute approximately US\$1 million in 2009 to its defined benefit pension plans, and it does not believe that future pension contributions will materially impact its liquidity.

Onex, the parent company, has no pension plan and has no obligation to the pension plans of its operating companies.

Recent events

Registration statement filing by EMSC

In late October 2008, EMSC filed a registration statement with the U.S. Securities and Exchange Commission with the intent to sell from time to time up to 10 million Class A common shares. The shares may be sold by the company or selling stockholders, including Onex and Onex Partners I. If shares are sold by EMSC, the company will use the net proceeds for general corporate purposes, which may include working capital, capital expenditures, strategic investments and possible acquisitions.

Cineplex Entertainment

In early January 2009, Onex exchanged a portion of its interest in Cineplex Entertainment for units of Cineplex Galaxy Income Fund ("CGIF") pursuant to the term of an exchange agreement entered into at the time of the initial public offering of CGIF. While the exchange does not affect Onex' economic interest in Cineplex Entertainment, it did convert Onex' holdings into publicly listed CGIF units. Onex has an aggregate 13 million units of CGIF and units of Cineplex Entertainment that are exchangeable for units of CGIF.

ADDITIONAL SOURCES OF CASH

Private equity funds

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

Table 30 provides a summary of Onex' private equity funds, with a breakdown of total committed capital, Onex' share of the committed capital and uncalled committed capital at December 31, 2008 in the funds' functional currency.

Private Equity Funds Commitments

| TABLE 30 | (\$ millions) | Total Committed Capital | Onex Committed Capital | Available Uncalled Committed Capital (Excluding Onex) ^(a) |
|-------------------|---------------|-------------------------|---------------------------------|--|
| | | US\$ 1,655 | US\$ 400 | US\$ 94 |
| Onex Partners I | | | | |
| Onex Partners II | | US\$ 3,450 | US\$ 1,407 | US\$ 306 |
| Onex Partners III | | US\$ 4,000 | US\$ 1,000^(b) | US\$ 3,100 |
| ONCAP II | | C\$ 574 | C\$ 252 | C\$ 156 |

(a) Includes amounts uncalled from Onex management and directors.

(b) Effective July 1, 2009, Onex' commitment will decrease by US\$500 million.

During 2003, Onex raised its first large-cap Fund, Onex Partners I, with US\$1.655 billion of committed capital, including committed capital from Onex of US\$400 million. Since 2003, Onex Partners I has completed 10 investments or acquisitions with US\$1.5 billion of equity being put to work. While Onex Partners I has concluded its investment period, the Fund still has uncalled third-party committed capital of US\$94 million, which is largely reserved for possible future funding for any of Onex Partners I's existing businesses.

During 2006, Onex raised its second large-cap Fund, Onex Partners II, a US\$3.45 billion private equity fund, including committed capital from Onex of US\$1.4 billion. Onex Partners II has completed seven investments or acquisitions, investing US\$2.9 billion of equity in those transactions. At December 31, 2008, Onex Partners II had concluded its investment period but had uncalled third-party committed capital of approximately US\$306 million, which is largely reserved for possible future funding for any of the Onex Partners II's existing businesses.

During 2008, Onex commenced fundraising for its third large-cap private equity fund, Onex Partners III, which will provide capital for new Onex-sponsored acquisitions. By December 31, 2008, third-party capital commitments for this Fund totalled approximately US\$3.0 billion. Onex had initially committed US\$1.0 billion, which could

be either increased or decreased by US\$500 million with six months' notice. On December 31, 2008, Onex notified its limited partners in Onex Partners III that it would be reducing its commitment to the Fund to approximately US\$500 million effective July 1, 2009. Any transaction completed prior to July 1, 2009 will be funded at Onex' original US\$1.0 billion commitment to Onex Partners III. Onex has the right to increase its commitment to future transactions with six months' notice, and anticipates doing so when appropriate. It is expected that Onex Partners III will complete its fundraising in the third quarter of 2009.

Onex' mid-cap private equity Fund, ONCAP II, has total committed capital of \$574 million, of which Onex had committed \$252 million. ONCAP II has completed five acquisitions, putting \$264 million of equity to work. At December 31, 2008, this Fund has uncalled committed third-party capital of \$156 million available for future acquisitions.

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.

The various investment programs are described in detail in the following pages and certain key aspects are summarized in table 31.

Investment Programs

| TABLE 31 | Minimum Stock Price Appreciation/Return Threshold | Vesting | Associated Investment by Management |
|--------------------------------|---|---|---|
| Stock Option Plan | 25% Price Appreciation | 5 years (6 years for 2007) | <ul style="list-style-type: none"> satisfaction of exercise price (market value at grant date) |
| Management Investment Plan | 15% Compounded Return | 6 years (4 years prior to November 2007) | <ul style="list-style-type: none"> personal "at risk" equity investment required 25% of gross proceeds to be reinvested in Subordinate Voting Shares or Management DSUs until 1,000,000 shares or DSUs owned |
| Carried Interest Participation | 8% Compounded Return | 4 years (Onex Partners I) 5 years (Onex Partners II) 6 years (Onex Partners III) | <ul style="list-style-type: none"> corresponds to participation in minimum 1% "at risk" management team equity investment 25% of gross proceeds to be reinvested in Subordinate Voting Shares or Management DSUs until 1,000,000 shares or DSUs owned |
| Management DSU Plan | n/a | Period of employment | <ul style="list-style-type: none"> investment of elected portion of annual compensation in Management DSUs value reflects changes in Onex' share price units not redeemable while employed |
| Director DSU Plan | n/a | Period of directorship | <ul style="list-style-type: none"> investment of elected portion of annual directors' fees in Director DSUs value reflects changes in Onex' share price units not redeemable until retirement |

Management Investment Plan

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

The aggregate investment by management members under the MIP is limited to 9 percent of Onex' interest in each acquisition. The form of the investment is a cash purchase for 1/6th (1.5 percent) of the MIP's share of the aggregate investment and investment rights for the remaining 5/6ths (7.5 percent) of the MIP's share at the same price. Amounts invested under the 1 percent investment requirement in Onex Partners transactions are allocated to meet the 1.5 percent investment requirement under the MIP. For investments completed prior to November 7, 2007, the investment rights to acquire the remaining 5/6ths vest equally over four years with the investment rights vesting in full if Onex disposes of 90 percent or more of an investment before the fifth year. During 2007, the MIP was amended for investments completed after November 7, 2007. For those investments, the investment rights to acquire the remaining 5/6ths vest equally over six years. Under the MIP, the investment rights related to a particular acquisition are exercisable only if Onex earns a minimum 15 percent per annum compound rate of return for that acquisition after giving effect to the investment rights.

The funds required for investments under the MIP are not loaned to the management members by Onex or the operating companies. During 2008, there were investments made of \$2 million under the MIP compared to \$2 million in 2007 (these amounts exclude amounts invested under the Onex Partners' 1 percent investment requirement). Management members received less than \$1 million under the MIP in 2008. This compares to \$38 million in realizations under the MIP primarily related to Spirit AeroSystems and Skilled Healthcare in 2007. Notes 1 and 25 to the audited annual consolidated financial statements provide additional details on the MIP.

Management Deferred Share Unit Plan

Effective December 2007, a Management Deferred Share Unit Plan ("MDSU Plan") was established as a further means of encouraging personal and direct economic interests by the Company's senior management in the performance of the Subordinate Voting Shares. Under the MDSU Plan, the members of the Company's senior management team are given the opportunity to designate all or a portion of their annual compensation to acquire MDSUs based on the market value of Onex shares at the time in lieu of cash. MDSUs vest immediately but are redeemable by the participant only after he or she has ceased to be an officer or employee of the Company or an affiliate for a cash payment equal to the then current market price of Subordinate Voting Shares. To hedge Onex' exposure to changes in the trading price of Onex shares associated with the MDSU Plan, the Company enters into forward agreements with a counterparty financial institution for all grants under the MDSU Plan. The costs of those arrangements are borne entirely by participants in the MDSU Plan. MDSUs are redeemable only for cash and no shares or other securities of Onex will be issued on the exercise, redemption or other settlement thereof. In early 2008, 202,259 MDSUs were issued to management having an aggregate value, at the date of grant, of \$6 million in lieu of cash compensation for the Company's 2007 fiscal year. In early 2009, 68,601 MDSUs were issued to management, having an aggregate value, at the date of grant, of \$1 million in lieu of cash compensation for the Company's 2008 fiscal year. Forward agreements were entered into to hedge Onex' exposure to changes in the value of the MDSUs.

The Onex Partners Funds

The structure of the Onex Partners Funds requires Onex management to invest a minimum of 1 percent in all acquisitions. This structure applies to Onex Partners I, II and III. Onex Partners I completed its investment period in 2006. For Onex Partners II and III, Onex management and directors have committed to invest an additional 3 percent and 2 percent, respectively, of the total capital invested by those Funds at December 31, 2008.

The total amount invested in 2008 by Onex management and directors on acquisitions and investments completed through the Onex Partners Funds was US\$14 million (2007 – US\$97 million).

Carried interest

The General Partners of the Onex Partners Funds, which are controlled by Onex, are entitled to a carried interest of 20 percent on the realized gains of third-party limited partners in each Fund, subject to an 8 percent compound annual preferred return to those limited partners on all amounts contributed in each particular Fund. Onex, as sponsor of the Onex Partners Funds, is entitled to 40 percent of the carried interest and the Onex management team is entitled to 60 percent. Under the terms of the partnership agreements, Onex may receive carried interest as realizations occur. The ultimate amount of carried interest earned will be based on the overall performance of each of Onex Partners I, II and III, independently, and includes typical catch-up and clawback provisions.

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 in Onex Subordinate Voting Shares and/or Management DSUs until they individually hold at least 1,000,000 Onex Subordinate Voting Shares and/or Management DSUs. Under this program, during 2008 Onex management invested approximately \$2 million (2007 – \$18 million) in the purchase of Subordinate Voting Shares.

Members of management and the Board of Directors of Onex can invest limited amounts in partnership with Onex in all acquisitions outside the Onex Partners Funds at the same cost as Onex and other outside investors. During 2008, approximately \$11 million in investments (2007 – \$13 million) were made by Onex management and Onex Board members.

Director 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 2008, Onex granted 45,000 DSUs to its directors at a cost of approximately \$2 million (2007 – 43,550 DSUs at a cost of approximately \$2 million) recorded as stock-based compensation expense. In addition, 26,443 additional DSUs (2007 – 16,170 DSUs) were issued to directors in lieu of directors' fees and cash dividends and no DSUs were redeemed in 2008 (2007 – 10,940 DSUs) for cash consideration. Table 32 reconciles the changes in the DSUs outstanding at December 31, 2008 from December 31, 2006.

Change in Outstanding Director DSUs

| TABLE 32 | Number of DSUs | Weighted Average Price |
|--|----------------|------------------------|
| Outstanding at December 31, 2006 | 177,134 | |
| Granted | 43,550 | \$ 39.24 |
| Additional units issued in lieu of compensation and cash dividends | 16,170 | \$ 34.85 |
| Redeemed | (10,940) | \$ 36.16 |
| Outstanding at December 31, 2007 | 225,914 | |
| Granted | 45,000 | \$ 32.54 |
| Additional units issued in lieu of compensation and cash dividends | 26,443 | \$ 24.30 |
| Outstanding at December 31, 2008 | 297,357 | |

Management fees

Onex receives management fees from Onex Partners I, II and III.

Onex Partners I completed its investment period in 2006, and for the remainder of the life of this Fund, Onex will receive a 1 percent annual management fee based on invested capital.

During the investment period of Onex Partners II, Onex received a management fee of 2 percent on the committed capital of the Fund provided by third-party investors. Thereafter, a 1 percent management fee is payable based on the invested capital. Toward the end of 2008, the initial fee period for Onex Partners II was concluded when Onex began to receive a management fee from Onex Partners III. Onex, therefore, earns a 1 percent management fee on Onex Partners II's invested capital, which is approximately \$17 million based on invested capital at December 31, 2008. The management fee on Onex Partners I and II will decline over time as realizations occur.

Onex is now entitled to a management fee of 1.75 percent on the committed capital of the third-party limited partners of Onex Partners III. This management fee will be earned during the investment period of Onex Partners III for a period of up to five years. Thereafter, a 1 percent management fee is payable to Onex based on invested capital.

Management fees earned by Onex on the Onex Partners and ONCAP Funds totalled approximately US\$65 million in 2008 (2007 – US\$52 million).

Debt of operating companies

Onex does not guarantee the debt on behalf of its operating companies, nor are there any cross-guarantees between operating companies. Onex may hold the debt as part of its investment in certain operating companies, which amounted to \$268 million at December 31, 2008 compared to \$138 million at December 31, 2007. Approximately \$65 million of the increase in the debt of operating companies was related to Onex' purchase of Sitel Worldwide's mandatorily redeemable Series B and C preferred shares issued in 2008. Note 10 to the audited annual consolidated financial statements provides information on the debt of operating companies held by Onex.

TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") would be required for Canadian publicly accountable enterprises for years beginning on or after January 1, 2011. Onex is working to adopt IFRS as the basis for preparing its consolidated financial statements effective January 1, 2011. For the first quarter ended March 31, 2011, Onex is expected to issue its financial results prepared on an IFRS basis with comparative data on an IFRS basis.

In order to meet the new IFRS reporting, Onex, the parent company, developed a transition plan during 2008. Since IFRS requires that certain policies be consistently applied across all Onex operating companies, the transition plan includes establishing global accounting policies for all its operating companies to assist with their IFRS transition. By early December 2008, the global accounting policies to be adopted under IFRS had been determined and communicated to the operating companies.

The transition to IFRS will be costly and difficult as it will be in addition to the U.S. GAAP reporting required for Onex' U.S.-based operating companies since it is being applied in advance of the United States adopting IFRS. In addition, there are significant projects underway for proposed changes to IFRS in the period from 2010 to when the United States is proposing to adopt IFRS in 2014 to 2015. This will result in Canadian companies having to modify their IFRS policies for those changes after the initial adoption of IFRS for 2011.

Over the course of the next 12 months, Onex, the parent company, has established a timeline of deliverables from the operating companies to transition to IFRS. It should be noted that each operating company is responsible for developing its own IFRS transition plan and most are only at the very initial stages of this. In addition, as part of the implementation phase of IFRS, Onex, the parent company, is evaluating its information technology infrastructure. We are currently not at a point to determine the impact of IFRS on Onex' consolidated financial results.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators 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 and are effective in providing 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.

Under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the design of the Company's disclosure controls and procedures as at December 31, 2008 and have concluded that those disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. Due to inherent limitations in all such systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures are effective in providing reasonable, not absolute, assurance that the objectives of our disclosure control system have been met.

Internal controls over financial reporting

National 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 and are effective in providing 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 2008, Onex management evaluated the Company's internal controls over financial reporting to ensure that they have been designed and are effective in providing 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 quarter of 2008 that, in the view of Onex management, have materially affected or 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 and effectiveness 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 is reasonably likely to materially affect Onex' internal control over financial reporting.

Under the supervision of and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the internal controls over financial reporting as at December 31, 2008 and have concluded that those internal controls were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

OUTLOOK

It is widely accepted that the tumultuous economic environment that shocked the world in 2008 will continue to have a significant impact on 2009. Global equity markets continue to suffer after facing some of the largest losses in history and, despite efforts by central banks to stabilize the global financial system, lending has not yet resumed in any substantial manner.

The period 2005 to 2007 were years of significant acquisition activity fuelled in part by credit that was abundant and inexpensive. We were also active during this period but remained true to our conservative investment philosophy of 25 years, despite the availability of this appealing debt. We regularly accepted less financial leverage than was offered, resulting in much lower debt/EBITDA multiples for our businesses – 3.6x on average compared to 5.6x for the private equity industry during this period. As well, we maintained purchase price discipline, with a 6.4x average purchase price multiple (total enterprise value/EBITDA) relative to the private equity industry average of 9.3x through that period. With these basic investing principles, we have built a portfolio of industry-leading businesses that we believe has long-term value creation potential.

What does this mean for Onex in 2009?

This year will certainly be a trying time for businesses globally and none of our operating companies will be immune. In preparation for this very challenging period, we directed all of our businesses last year to focus even more acutely on cost reductions and the deferral of unnecessary capital spending. We are encouraged by the overall strength of our operating companies and believe that they are, for the most part, conservatively capitalized and should be well positioned to survive the downturn and hopefully grow as industries consolidate.

We also expect the upcoming markets to yield new opportunities particularly attractive to value investors like Onex – namely distressed-for-control and corporate carve-out situations. Onex has proven to be very successful with these types of acquisitions, which have historically been larger investments. We also recognize that transactions will require greater amounts of equity until the debt markets recover, which, when they do, will likely be with very different terms.

Fortunately, during one of the most difficult fundraising markets, we raised US\$3.0 billion of third-party capital for our third large-cap private equity fund and will continue to work toward our original US\$3.5 billion third-party capital target in 2009. Currently, Onex has approximately US\$3.6 billion of total uncalled capital available through the Onex Partners and ONCAP Funds to fund future investment opportunities. In addition, as we have done throughout our 25-year history, we will continue to invest alongside our partners in each transaction.

Realizations on our businesses will be at a much slower pace than in the period of 2005 to 2007. The public equity markets need to be more receptive to initial public offerings and there has to be greater access to financing on the part of purchasers for realization activity to resume in a meaningful way.

We believe that our success in building industry leaders and our record of capital preservation and superior returns over 25 years – a gross IRR of 29 percent and a multiple of 3.4x invested capital – are direct results of the alignment of interests between Onex, its investors and its management team. Our fundamental investing and ownership philosophies have served us well through many cycles and, once again, we look forward to enjoying the benefits of a recovery when it comes.

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. The Onex Partners and ONCAP Funds streamline Onex' process of sourcing and drawing on commitments from such equity partners.

An acquired company is not burdened with more debt than it can likely sustain, but rather is structured so that it has the financial and operating leeway to maximize

long-term growth in value. Finally, Onex invests in financial partnership with management. This strategy not only gives Onex the benefit of experienced managers but also is designed to ensure that an operating company is run entrepreneurially for the benefit of all shareholders.

Onex maintains an active involvement in its operating companies in the areas of strategic planning, financial structures and negotiations and acquisitions. In the early stages of ownership, Onex may provide resources for business and strategic planning and financial reporting while an operating company builds these capabilities in-house.

In almost all cases, Onex ensures there is oversight of its investment through representation on the acquired company's board of directors. Onex does not get involved in the day-to-day operations of acquired companies.

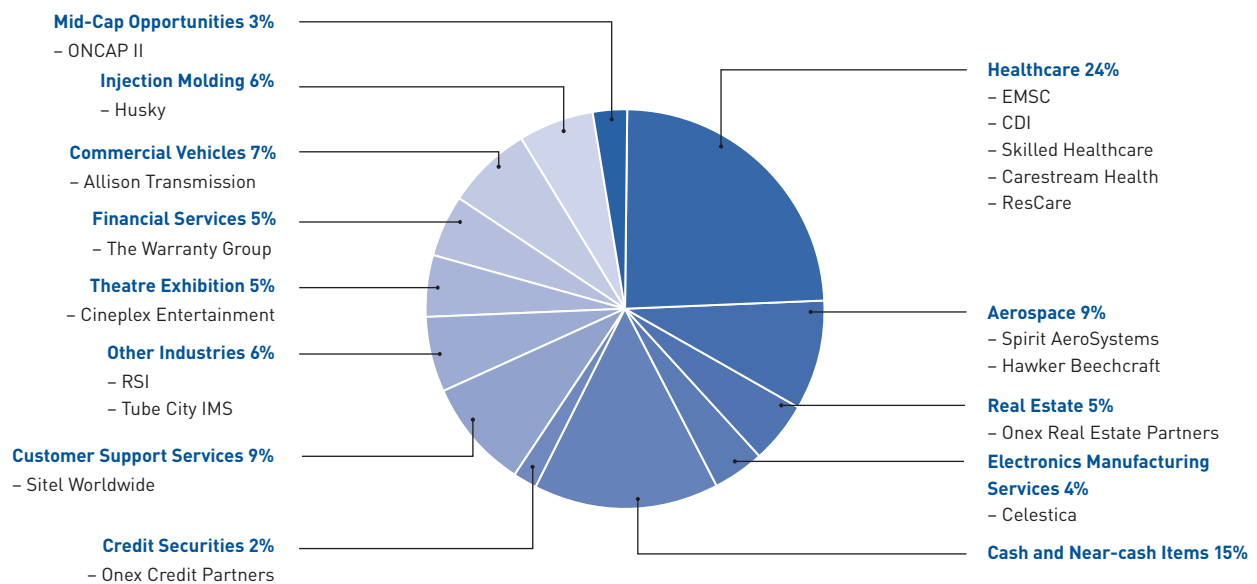
Operating companies are encouraged to reduce risk and/or expand opportunity by diversifying their customer bases, broadening their geographic reach or product and service offerings and improving productivity. In certain instances, we may also encourage an operating company to seek additional equity in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

Business cycles

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

industry leaders with extensive international operations reduces the financial impact of downturns in specific regions. As shown on the industry diversification chart that follows, Onex is well diversified among various industries, with no single industry representing more than 24 percent of its net asset base and no single business representing more than 16 percent of its net asset base.

Industry Diversification of Onex



Private investments are valued at cost and publicly traded investments are valued at market as at December 31, 2008.

Operating liquidity

It is Onex' view that one of the most important things Onex can do to control risk is to maintain a strong parent company with an appropriate level of liquidity. Onex needs to be in a position to support its operating companies when, and if, it is appropriate and reasonable for Onex, as an equity owner with paramount duties to act in the best interests of Onex shareholders, to do so. Main-

taining liquidity is important because Onex, as a holding company, generally does not have guaranteed sources of meaningful cash flow. The approximately US\$80 million in annualized management fees that Onex expects to earn in 2009 as the general partner of the Onex family of private equity funds will be used to offset the costs of running the parent company.

In completing acquisitions, it is generally Onex' policy to finance a large portion of the purchase price with debt provided by third-party lenders. This debt, sourced exclusively on the strength of the acquired companies' financial condition and prospects, is assumed by the acquired company at closing and is without recourse to Onex, the parent company, or to 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 that maximizes the risk/reward equation for both shareholders and the acquired company. In other words, it allows the acquired company not only to manage its debt through reasonable business cycles but also to have sufficient financial latitude for the business to vigorously pursue its growth objectives.

Over the period from 2005 to 2007, Onex' current large-scale operating companies were purchased at an average purchase price multiple of 6.4x EBITDA, which was notably less than the industry average of more than 9.3x EBITDA in the same period. Over the same timeframe, the leverage Onex applied to its acquisitions was 3.6x while the industry average was 5.6x. This shows that Onex overall paid less for businesses and applied less leverage than the industry norm.

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

Timeliness of investment commitments

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

In order to improve the efficiency of Onex' internal processes on both auction and exclusive acquisition processes, and so reduce the risk of missing out on high-quality acquisition opportunities, during 2003 we created Onex Partners LP ("Onex Partners I"), a US\$1.655 billion pool of capital raised from Onex and major institutional co-investors. The investment period for Onex Partners I was substantially completed in 2006. Onex raised a second fund, Onex Partners II LP ("Onex Partners II"), in 2006, a US\$3.45 billion pool of capital. Onex determined that Onex Partners II was effectively fully invested in December 2008. In April 2008, Onex began fundraising for Onex Partners III LP ("Onex Partners III"). At year-end, US\$3.0 billion in third-party capital commitments were in place, with a targeted final closing of US\$3.5 billion during 2009.

Financial risks

In the normal course of business, Onex and its operating companies may face a variety of risks related to financial management. In dealing with these risks, it is a matter of Company policy that neither Onex nor its operating companies engages in speculative derivatives trading or other speculative activities.

Default on known credit As previously noted, it is generally Onex' policy to finance a large portion of an acquisition's purchase price with third-party debt. During the term of such loans, lenders typically require that the acquired company meet ongoing tests of financial performance as defined by the terms of the lending agreement, such as ratios of total debt to operating income ("EBITDA") and the ratio of EBITDA to interest costs. It is Onex' practice not to burden acquired companies with levels of debt that might put at risk their ability to generate sufficient levels of profitability or cash flow to service their debts – and so meet their related debt covenants – or which might hamper their flexibility to grow.

At year-end, all of Onex' operating companies, with one exception, had leeway in their banking covenants and so were not at any reasonable risk of defaulting on their credit agreements. Cosmetic Essence, Inc. ("CEI") was in breach of its covenants due to the significant deterioration of its consumer-focused markets in the current economic downturn. CEI represents 8 percent of the capital invested during Onex Partners I's investment period and \$32 million of Onex' capital. CEI is in discussions with its lenders with the intention of modifying its lending covenants, the outcome of which was unknown at the time of this report.

Financing risk The severe tightening of global credit markets since the fourth quarter of 2007 has made new loans, even for creditworthy businesses, extremely difficult or expensive to obtain. This represents a risk to the ongoing viability of many otherwise healthy businesses whose loans or operating lines of credit are up for renewal in the short term. None of Onex' operating companies has any significant refinancing requirements until 2011, by which time Onex believes that the credit markets will have resumed more normal levels of liquidity and cost. The major portion of Onex' operating companies' refinancing will take place in 2013 and 2014.

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 or entering into interest rate swap agreements or financial contracts to control the level of interest rate fluctuation on variable rate debt. During 2008, approximately 70 percent (2007 – 63 percent) of Onex' operating companies' long-term debt had a fixed interest rate or the interest rate was effectively fixed by interest rate swap contracts.

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.

Onex, the parent company, has some exposure to interest rate changes primarily through its cash and short-term investments, which are held in short-term deposits and commercial paper. A 1 percent increase (1 percent decrease) in the interest rate, assuming no significant changes in cash balance at the parent company, would result in a \$5 million increase (\$5 million decrease) in annual interest income. In addition, The Warranty Group, which holds substantially all of its investments in interest-bearing securities, would also have some exposure to interest rate changes. A 0.25 percent increase in the interest rate would decrease the fair value of the investments held by The Warranty Group by \$12 million, with a corresponding decrease in other comprehensive earnings. However, as the investments are reinvested, a 0.25 percent increase in the interest rate would increase the annual interest income recorded by The Warranty Group by \$6 million.

Currency fluctuations The majority of the activities of Onex' operating companies were conducted outside Canada during 2008. Approximately 49 percent of consolidated revenues and 54 percent of consolidated assets were in the United States. Approximately 41 percent of consoli-

dated 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 2008, shareholders' equity reflected a \$382 million increase in the value of Onex' net equity in its operating companies and equity-accounted investments that operate in U.S. currency.

Onex holds a substantial amount of cash and marketable securities in U.S.-dollar-denominated securities. The portion of securities held in U.S. dollars is based on Onex' view of funds it will require for future investments in the United States. Onex does not speculate on the direction of exchange rates between the Canadian dollar and the U.S. dollar when determining the balance of cash and marketable securities to hold in each currency, nor does it use foreign exchange contracts to protect itself against translation loss. A 5 percent strengthening (5 percent weakening) of the Canadian dollar relative to the U.S. dollar at December 31, 2008 would result in a \$16 million decrease (\$16 million increase) in net earnings of Onex, the parent company. In addition, there are two Onex operating companies, Celestica and Husky, that have significant exposure to the U.S. dollar/Canadian dollar foreign currency exchange rate. Other comprehensive earnings at Celestica would increase US\$11 million (decrease US\$10 million) with a 5 percent strengthening (5 percent weakening) of the Canadian dollar relative to the U.S. dollar at December 31, 2008. A 5 percent strengthening (5 percent weakening) of the Canadian dollar relative to the U.S. dollar at December 31, 2008 would result in a US\$23 million increase (US\$23 million decrease) in other comprehensive earnings of Husky.

Capital commitment risk The limited partners in the Onex Partners family of funds comprise a relatively small group of high-quality, primarily institutional, investors. To date, each of these investors has met their commitments on called capital, and Onex has received no indications that any investors will be unable to meet their capital commitments in the future. While Onex' experience with its limited partners suggests that commitments will be honoured, the severity of the current economic downturn provides the concern that a limited partner may not be able to meet its entire commitment over the life of the Fund.

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 price risk

Certain Onex operating companies are vulnerable to price fluctuations in major commodities. Individual operating companies may use financial instruments to offset the impact of anticipated changes in commodity prices related to the conduct of their businesses.

Aluminum, titanium and raw materials such as carbon fibres used to manufacture composites represent the principal raw materials used in Spirit AeroSystems' manufacturing operations. Spirit AeroSystems has entered into long-term supply contracts with its key suppliers of raw materials, which limits the company's exposure to rising raw materials prices. Most of the raw materials purchased are based on a fixed pricing or at reduced rates through Boeing's or Airbus' high-volume purchase contracts.

Diesel fuel is a key commodity used in Tube City IMS' operations. The company consumes approximately 11 million gallons of diesel fuel annually. To help mitigate the risk of price fluctuations in fuel, Tube City IMS incorporates into substantially all of its contracts pricing escalators based on published prices indices that would generally offset some portion of the fuel price changes.

Integration of acquired companies

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

Dependence on government funding

Since 2005, Onex has acquired businesses, or interests in businesses, in various segments of the U.S. healthcare industry. Certain of 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 practical 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 relies on two major customers, Boeing and Airbus. The table in note 24 to the audited annual consolidated financial statements provides information on the concentration of business the operating companies have with major customers.

In 2007, Onex, Onex Partners II and certain limited partners together with The Carlyle Group completed the acquisition of Allison Transmission from General Motors Corporation ("GM"). Onex, Onex Partners II and certain limited partners own 49 percent of Allison Transmission. Onex' share of the investment is accounted for by the equity method. At December 31, 2008, Allison Transmission had significant long-term receivables from GM. These receivables relate to agreements with GM to share future estimated costs between the two companies. These costs included employee post-retirement healthcare obligations and a long-term special coverage program for select customers. Cash flows for these two items are expected to be spread over a number of years. The recoverability of these receivables would be in question if GM was unable to continue as a going concern. No provision has been recorded by Allison Transmission at December 31, 2008 for a loss on these receivables.

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 at each of these companies are ultimately responsible for ensuring compliance with these policies. They are required to report annually to their company's board of directors and to Onex regarding compliance.

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

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

Other contingencies

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