

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

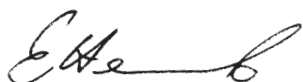
The accompanying consolidated financial statements have been prepared by management, reviewed by the Audit and Corporate Governance Committee and approved by the Board of Directors of the Company. Management is responsible for the information and representations contained in these financial statements.

The Company maintains appropriate processes to ensure that relevant and reliable financial information is produced. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies which management believes are appropriate for the Company are described in note 1 to the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements and overseeing management's performance of its financial reporting responsibilities. An Audit and Corporate Governance Committee of three non-management independent Directors is appointed by the Board.

The Audit and Corporate Governance Committee reviews the consolidated financial statements, adequacy of internal controls, audit process and financial reporting with management and with the external auditors. The Audit and Corporate Governance Committee reports to the Directors prior to the approval of the audited consolidated financial statements for publication.

PricewaterhouseCoopers LLP, the Company's external auditors, who are appointed by the holders of Subordinate Voting Shares, audited the consolidated financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to the shareholders their opinion on the consolidated financial statements. Their report is set out on the following page.



Ewout R. Heersink  
Chief Financial Officer  
February 16, 2006



Donald W. Lewtas  
Vice-President Finance

## AUDITORS' REPORT

### To the Shareholders of Onex Corporation:

We have audited the consolidated balance sheets of Onex Corporation as at December 31, 2005 and 2004 and the consolidated statements of earnings, shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada

February 16, 2006

# CONSOLIDATED BALANCE SHEETS

As at December 31 <i>(in millions of dollars)</i>	2005	2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	\$ 3,115	\$ 2,866
Accounts receivable	2,170	1,577
Inventories (note 5)	1,992	1,437
Other current assets	465	441
Current assets held by discontinued operations (note 2)	18	708
	<b>7,760</b>	7,029
Property, plant and equipment (note 6)	2,690	1,542
Investments and other assets (note 7)	1,279	659
Intangible assets (note 8)	519	271
Goodwill	2,540	1,450
Long-lived assets held by discontinued operations (note 2)	57	858
	<b>\$ 14,845</b>	\$ 11,809
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Bank indebtedness, without recourse to Onex	\$ 1	\$ 13
Accounts payable and accrued liabilities	3,305	2,603
Current portion of long-term debt and obligations under capital leases of operating companies, without recourse to Onex	850	227
Current liabilities held by discontinued operations (note 2)	8	482
	<b>4,164</b>	3,325
Long-term debt of operating companies, without recourse to Onex (note 9)	3,863	1,968
Obligations under capital leases of operating companies, without recourse to Onex (note 10)	77	23
Exchangeable debentures (note 11)	-	156
Other liabilities (note 12)	1,115	1,093
Future income taxes (note 20)	767	691
Long-term liabilities held by discontinued operations (note 2)	64	938
	<b>10,050</b>	8,194
Non-controlling interests	3,643	3,388
<b>Shareholders' equity</b>	<b>1,152</b>	227
	<b>\$ 14,845</b>	\$ 11,809

Commitments and contingencies are reported in notes 10 and 24.

Signed on behalf of the Board of Directors



Director



Director

## CONSOLIDATED STATEMENTS OF EARNINGS

Year ended December 31 <i>(in millions of dollars except per share data)</i>	2005	2004
<b>Revenues</b>	<b>\$ 16,559</b>	\$ 13,639
Cost of sales	<b>(14,524)</b>	(12,449)
Selling, general and administrative expenses	<b>(1,089)</b>	(765)
<b>Earnings Before the Undernoted Items</b>	<b>946</b>	425
Amortization of property, plant and equipment	<b>(409)</b>	(370)
Amortization of intangible assets and deferred charges	<b>(96)</b>	(72)
Interest expense of operating companies (note 14)	<b>(332)</b>	(195)
Interest and other income	<b>145</b>	102
Equity-accounted investments	<b>1</b>	(8)
Foreign exchange loss	<b>(31)</b>	(116)
Stock-based compensation	<b>(50)</b>	(55)
Derivative instruments	<b>4</b>	29
Gains on sales of operating investments, net (note 15)	<b>921</b>	107
Acquisition, restructuring and other expenses (note 16)	<b>(266)</b>	(204)
Debt prepayment (note 17)	<b>(6)</b>	(8)
Writedown of goodwill and intangible assets (note 18)	<b>(3)</b>	(393)
Writedown of long-lived assets (note 19)	<b>(5)</b>	(94)
<b>Earnings (Loss) before income taxes, non-controlling interests and discontinued operations</b>	<b>819</b>	(852)
Provision for income taxes (note 20)	<b>(72)</b>	(278)
Non-controlling interests	<b>5</b>	891
<b>Earnings (Loss) from continuing operations</b>	<b>752</b>	(239)
Earnings from discontinued operations (note 2)	<b>213</b>	274
<b>Net Earnings for the Year</b>	<b>\$ 965</b>	\$ 35
<b>Net Earnings (Loss) per Subordinate Voting Share</b> (note 21)		
Basic and Diluted:		
Continuing operations	<b>\$ 5.41</b>	\$ (1.69)
Discontinued operations	<b>\$ 1.54</b>	\$ 1.94
Net earnings	<b>\$ 6.95</b>	\$ 0.25

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in millions of dollars except per share data)</i>	Share Capital (note 13)	Retained Earnings (Deficit)	Cumulative Translation Adjustment	Total Shareholders' Equity
<b>Balance – December 31, 2003</b>	\$ 618	\$ (195)	\$ (135)	\$ 288
Dividends declared <sup>(a)</sup>	-	(15)	-	(15)
Issue of shares – dividend reinvestment plan	1	-	-	1
Purchase and cancellation of shares	(37)	(113)	-	(150)
Currency translation adjustment	-	-	68	68
Net earnings for the year	-	35	-	35
<b>Balance – December 31, 2004</b>	<b>582</b>	<b>(288)</b>	<b>(67)</b>	<b>227</b>
Dividends declared <sup>(a)</sup>	-	(15)	-	(15)
Issue of shares – dividend reinvestment plan <sup>(b)</sup>	-	-	-	-
Purchase and cancellation of shares	(4)	(14)	-	(18)
Currency translation adjustment	-	-	(7)	(7)
Net earnings for the year	-	965	-	965
<b>Balance – December 31, 2005</b>	<b>\$ 578</b>	<b>\$ 648</b>	<b>\$ (74)</b>	<b>\$ 1,152</b>

(a) Dividends declared per Subordinate Voting Share during 2005 totalled \$0.11 (2004 – \$0.11).

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31 <i>(in millions of dollars)</i>	2005	2004
<b>Operating Activities</b>		
Net earnings (loss) for the year from continuing operations	\$ 752	\$ (239)
Items not affecting cash:		
Amortization of property, plant and equipment	409	370
Amortization of intangible assets and deferred charges	96	72
Writedown of goodwill and intangible assets	3	393
Writedown of long-lived assets	5	94
Non-cash component of restructuring	18	45
Non-controlling interests	(5)	(891)
Future income taxes (note 20)	(14)	244
Stock-based compensation	50	55
Derivative instruments	(4)	(29)
Gains on sales of operating investments, net (note 15)	(921)	(107)
Other	(28)	189
	361	196
Increase in other liabilities	300	49
Changes in non-cash working capital items:		
Accounts receivable	(59)	(325)
Inventories	(54)	68
Other current assets	34	(205)
Accounts payable and accrued liabilities	229	(31)
Increase (decrease) in cash due to changes in working capital items	150	(493)
Discontinued operations	-	384
	811	136
<b>Financing Activities</b>		
Issuance of long-term debt	1,360	2,369
Repayment of long-term debt	(1,041)	(1,511)
Cash dividends paid	(15)	(14)
Repurchase of share capital	(18)	(150)
Issuance of share capital by operating companies	962	464
Distributions by operating companies	(506)	-
Repurchase of share capital by operating companies	(273)	(405)
Increase (decrease) due to other financing activities	94	(42)
Discontinued operations	-	(103)
	563	608
<b>Investing Activities</b>		
Acquisition of operating companies, net of cash in acquired companies of \$263 (2004 - \$35) (note 3)	(1,490)	(301)
Purchase of property, plant and equipment	(550)	(308)
Proceeds from sales of operating investments	405	60
Decrease due to other investing activities	(73)	(132)
Discontinued operations	201	644
	(1,507)	(37)
<b>Increase (Decrease) in Cash and Short-term Investments for the Year</b>	<b>(133)</b>	<b>707</b>
Decrease in cash and short-term investments due to changes in foreign exchange rates	(62)	(197)
Cash and short-term investments - beginning of the year <sup>(a)</sup>	3,310	2,800
<b>Cash and Short-term Investments - End of the Year<sup>(a)</sup></b>	<b>\$ 3,115</b>	<b>\$ 3,310</b>

(a) Includes cash from discontinued operations of \$444 at December 31, 2004 (note 2).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions of dollars except per share data)

Onex Corporation (“Onex” or the “Company”) is a diversified company whose subsidiaries operate as autonomous businesses. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP” or “GAAP”). All amounts are in Canadian dollars unless otherwise noted.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

The consolidated financial statements represent the accounts of the Company and its subsidiaries, including its controlled operating companies. All significant intercompany balances and transactions have been eliminated.

The Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline 15, “Consolidation of Variable Interest Entities”, which was applicable for Onex beginning in January 2005. Variable interest entities (“VIEs”) are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial interest. The guideline provides specific guidance for determining when an entity is a VIE and who, if anyone, should consolidate the VIE.

The adoption of this guideline did not have a material effect on these audited annual consolidated financial statements.

The principal operating companies and the Company’s ownership and voting interests in these entities are as follows:

	December 31, 2005		December 31, 2004	
	Ownership	Voting	Ownership	Voting
Celestica	13%	79%	18%	84%
Cineplex Entertainment <sup>(a)</sup>	27%	100%	31%	100%
ClientLogic	68%	89%	68%	88%
J.L. French Automotive	77%	100%	77%	100%
Radian	90%	100%	89%	100%
Cosmetic Essence	22%	100%	21%	100%
Center for Diagnostic Imaging	20%	100%	-	-
Emergency Medical Services	29%	97%	-	-
Spirit AeroSystems	29%	100%	-	-
Skilled Healthcare	22%	100%	-	-
ONCAP	30%	100%	30%	100%
Magellan	-	-	6%	50%

(a) Voting is with respect to Cineplex Entertainment Limited Partnership.

The ownership percentages are before the effect of any potential dilution relating to the Management Investment Plans (the “MIP”) as described in note 24(e).

The voting interest includes shares that Onex has the right to vote through contractual arrangements or through multiple voting rights attached to particular shares. In certain circumstances, the voting arrangements give Onex the right to elect the majority of the board of directors.

In addition to the above, investments over which Onex exercises significant influence but does not control at December 31, 2005 are accounted for by the equity method and include Res-Care, Inc. (“ResCare”) and Cypress Property & Casualty Insurance Company.

Joint ventures, which are not variable interest entities, are accounted for using the proportionate consolidation method. The consolidated financial statements include revenues of \$8 (2004 – \$6), net assets of \$1 (2004 – nil) and net earnings before income taxes of nil (2004 – nil) with respect to joint ventures.

### SIGNIFICANT ACCOUNTING POLICIES

#### Foreign currency translation

The Company’s operations conducted in foreign currencies, other than those operations that are associated with investment-holding subsidiaries, are considered to be self-sustaining operations. Assets and liabilities of self-sustaining operations conducted in foreign currencies are translated into Canadian dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average exchange rates for the year. Unrealized gains or losses on translation of self-sustaining operations conducted in foreign currencies are shown as a separate component of shareholders’ equity.

The Company, including investment-holding subsidiaries, translates monetary assets and liabilities denominated in foreign currencies at exchange rates in effect at the balance sheet date and non-monetary items at historical rates. Revenues and expenses are translated at average exchange rates for the year. Gains and losses on translation are included in the income statement.

#### Cash and short-term investments

Cash and short-term investments consist of liquid investments such as term deposits, money market instruments and commercial paper carried at cost plus accrued interest, which approximates market value.

#### Inventories

Inventories are recorded at the lower of cost and replacement cost for raw materials, and at the lower of cost and net realizable value for work in progress and finished goods. For inventories in the aerostructures segment, raw materials are stated based on the average cost method. For substantially all other inventories, cost is determined on a first-in, first-out basis.

### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization and provision for impairments, if any. For substantially all property, plant and equipment, amortization is provided for on a straight-line basis over the estimated useful lives of the assets: 18 to 40 years for buildings and up to 20 years for machinery and equipment. The cost of plant and equipment is reduced by applicable investment tax credits more likely than not to be realized.

Leasehold improvements are amortized over the terms of the leases.

Leases that transfer substantially all the risks and benefits of ownership are recorded as capital leases. Buildings and equipment under capital leases are amortized over the shorter of the term of the lease or the estimated useful life of the asset. Amortization of assets under capital leases is on a straight-line basis.

### Costs incurred to develop computer software for internal use

The Company capitalizes the costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation and testing. Costs incurred during the preliminary project stage, along with post-implementation stages of internal use computer software, are expensed as incurred. For the year ended December 31, 2005, the Company capitalized computer software costs of \$31. Amortization has not begun as of December 31, 2005 as the computer software has not been placed in service.

### Impairment of long-lived assets

Property, plant and equipment and intangible assets with limited life are reviewed for impairment whenever events or changes in circumstances suggest that the carrying amount of an asset may not be recoverable. An impairment is recognized when the carrying amount of an asset to be held and used exceeds the projected undiscounted future net cash flows expected from its use and disposal, and is measured as the amount by which the carrying amount of the asset exceeds its fair value.

Assets must be classified as either held for use or available-for-sale. Impairment losses for assets held for use are measured based on fair value, which is measured by discounted cash flows. Available-for-sale assets are carried at the lower of carrying value and expected proceeds less direct costs to sell.

### Investments and other assets

#### *Investment company*

In 2005, the Company formed OPMG LP (“Onex Public Markets Group” or “OPMG”) to invest in public companies without the intent of obtaining influence over its investees. OPMG is considered an Investment Company under Accounting Guideline 18, “Investment Companies”. As a result, the investments of OPMG are recorded at fair value and are included in investments and other assets in the audited annual consolidated balance sheets. For the year ended December 31, 2005, included in income is \$10 of net realized gains and nil net unrealized gains.

The Company does not control or have significant influence over any of OPMG’s investments.

#### *Deferred charges*

Deferred charges, which primarily represent costs incurred by the operating companies relating to the issuance of debt, are deferred and amortized over the term of the related debt or as the debt is retired, if earlier. Also included in deferred charges are capitalized development costs.

#### *Other long-term investments*

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

### Goodwill and intangible assets

Goodwill represents the cost of investments in operating companies in excess of the fair value of the net identifiable assets acquired. Essentially all of the goodwill and intangible asset amounts that appear on the audited annual consolidated balance sheets were recorded by the operating companies. The recoverability of goodwill and intangible assets with indefinite lives is assessed annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment of goodwill is tested at the reporting unit level by comparing the carrying value of the reporting unit to its fair value. When the carrying value exceeds the fair value, an impairment exists and is measured by comparing the carrying amount of goodwill to its fair value determined in a manner similar to a purchase price allocation. Impairment of indefinite-life intangible assets is determined by comparing their carrying values to their fair values.

Intangible assets, including intellectual property, are recorded at their allocated cost at the date of acquisition of the related operating company. Amortization is provided for intangible assets with limited life, including intellectual property, on a straight-line basis over their estimated useful lives, which range from five to 25 years. The weighted average period of amortization at December 31, 2005 was approximately seven years (2004 – 11 years).

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

### Pension and non-pension post-retirement benefits

The operating companies accrue their obligations under employee benefit plans and related costs, net of plan assets. The costs of defined benefit pensions and other retirement benefits earned by employees are accrued in the period incurred and are actuarially determined using the projected benefit method pro-rated on service, based on management's best estimates of items, including expected plan investment performance, salary escalation, retirement ages of employees and expected healthcare costs. Plan assets are valued at fair value for the purposes of calculating expected returns on those assets. Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

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

The average remaining service period of active employees covered by the significant pension plans is 11 years (2004 – 11 years) and for those active employees covered by the other significant post-retirement benefit plans is 18 years (2004 – 19 years).

### Income taxes

Income taxes are recorded using the asset and liability method of income tax allocation. Under this method, assets and liabilities are recorded for the future income tax consequences attributable to differences between the financial statement carrying values of assets and liabilities and their respective income tax bases. These future income tax assets and liabilities are recorded using substantively enacted income tax rates. The effect of a change in income tax rates on these future income tax assets or liabilities is included in income in the period in which the rate change occurs. Certain of these differences are estimated based on the current tax legislation and the Company's interpretation thereof. The Company records a valuation allowance when it is more likely than not that all of the future tax assets will not be realized prior to their expiration.

### Revenue recognition

Revenues are principally comprised of product sales and service revenues.

Revenue from product sales, primarily in the electronics manufacturing services and automotive products segments, is recognized upon shipment, when title passes to the customer. Companies in the automotive segment enter into agreements to manufacture products for their customers at the beginning of a

given vehicle's production cycle. Once such agreements are entered into by the company, fulfillment of the customers' purchasing requirements is often the obligation of the company for the entire production life of the vehicle, with terms over several years and no provisions to terminate such contracts. In certain instances, the operating company is committed under existing agreements to supply products to its customers at selling prices that are not sufficient to cover all of the costs to manufacture such products. In such situations, the operating company records a liability for the estimated future amount of the losses. Such losses are recognized at the time that the loss is probable and reasonably estimable and are recorded at the minimum amount necessary to fulfill the company's obligation to the customer.

Revenue from product sales in the aerostructures segment is primarily recognized under the contract method of accounting. Revenue and profits are recognized on each contract in accordance with the percentage-of-completion method of accounting, using the units-of-delivery method. The number of units is determined using a multi-year estimate; for the third quarter an annual period was used. The effect of this change in estimate in the fourth quarter was \$25. The contract method of accounting involves the use of various estimating techniques to project costs to completion and includes estimates of recoveries asserted against the customer for changes in specifications. These estimates involve various assumptions and projections relative to the outcome of future events, including the quantity and timing of product deliveries. Also included are assumptions relative to future labour performance and rates, and projections relative to material and overhead costs. These assumptions involve various levels of expected performance improvements.

Contract estimates are re-evaluated periodically and changes in estimates are reflected in the current and future periods. The cumulative catch-up method of accounting is used for revisions in estimates of total revenue, total costs or extent of progress on a contract. A significant portion of revenue in the aerostructures segment is under long-term volume-based pricing contracts, requiring delivery of products over several years.

Depending on the terms under which the operating companies supply product, they may also be responsible for some or all of the repair or replacement costs of defective products. The companies establish reserves for issues that are probable and estimable in amounts management believes are adequate to cover ultimate projected claim costs. The final amounts determined to be due related to these matters could differ significantly from recorded estimates.

In the electronics manufacturing services segment, Celestica has contractual arrangements with certain customers that require the customer to purchase certain inventory that Celestica has acquired to fulfill forecasted manufacturing demand provided by that customer. Celestica accounts for purchased material returns to such customers as reductions in inventory and does not record revenue on these transactions.

Revenue from services is primarily in the customer management services, theatre exhibition and healthcare segments. Service revenue is recognized primarily as services are performed and is net of contractual discounts. For the theatre exhibition segment, revenue is recognized when admission and concession sales occur at the theatres.

#### Research and development

Costs incurred on activities that relate to research and development are expensed as incurred unless development costs meet certain criteria for capitalization. During 2005, \$60 (2004 – \$46) in research and development costs were expensed and \$56 of development costs (2004 – nil) were capitalized. Capitalized development costs related to the aerostructures segment are included in deferred charges, and will be amortized over the anticipated number of production units to which such costs relate.

#### Stock-based compensation

The Company follows guidance in the *Canadian Institute of Chartered Accountants Handbook* (“CICA Handbook”) Section 3870, “Stock-based Compensation and Other Stock-based Payments”, which requires that a fair value-based method of accounting be applied to all stock-based compensation payments.

There are four types of stock-based compensation plans. The first is the Company’s Stock Option Plan (the “Plan”) described in note 13(e), which provides that in certain situations the Company has the right, but not the obligation, to settle any exercisable option under the Plan by the payment of cash to the option holder. The Company has recorded a liability for the potential future settlement of the value of vested options at the balance sheet date by reference to the value of Onex shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares, with the corresponding amount reflected in the audited annual consolidated statements of earnings.

The second type of plan is the MIP, which is described in note 24(e). The MIP provides that exercisable investment rights may be settled by issuance of the underlying shares or, in certain situations, by a cash payment for the value of the investment rights. Under the MIP, once the targets have been achieved for the exercise of investment rights, a liability is recorded for the value of the investment rights under the MIP by reference to the value of underlying investments, with a corresponding compensation expense recorded in the audited annual consolidated statements of earnings, classified as either discontinued operations or gains on sales of operating investments for realized investments.

The third type of plan, which began in 2004, is the Deferred Share Unit Plan. A Deferred Share Unit (“DSU”) entitles the holder to receive, upon redemption, a cash payment equivalent

to the market value of a subordinate voting share at the redemption date. The DSU Plan enables Onex directors to apply directors’ fees earned to acquire DSUs based on the market value of Onex shares at the time. Grants of DSUs may also be made to Onex directors from time to time. The DSUs vest immediately, are redeemable only when the holder retires and must be redeemed within one year following the year of retirement. Additional units are issued for any cash dividends paid on the subordinate voting shares. The Company has recorded a liability for the future settlement of the DSUs at December 31, 2005 by reference to the value of underlying subordinate voting shares at that date. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares, with the corresponding amount reflected in the audited annual consolidated statement of earnings.

The fourth type is employee stock option plans in place for employees at various operating companies, under which, on payment of the exercise price, stock of the particular operating company is issued. The Company records a compensation expense for such options based on the fair value over the vesting period.

#### Earnings per share

Basic earnings per share is based on the weighted average number of Subordinate Voting Shares outstanding during the year. Diluted earnings per share is calculated using the treasury stock method.

#### Hedging relationships

Effective January 1, 2004, the Company adopted Accounting Standards Board Accounting Guideline 13 (“AcG-13”), “Hedging Relationships”, which addresses the identification, designation, documentation and effectiveness of hedging relationships for the purpose of applying hedge accounting. AcG-13 also establishes certain conditions for applying hedge accounting and deals with discontinuance of hedge accounting. The Company also adopted Emerging Issues Committee Abstract 128 (“EIC-128”), “Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments”. This EIC abstract requires that any derivative financial instrument that is not designated as a compliant hedge under AcG-13 be measured at fair value, with changes in fair value recorded in current year income.

Under this pronouncement, the Company’s hedge relationships for its exchangeable debentures and forward sales contracts no longer qualified for hedge accounting and thus, on a prospective basis, the changes in fair values of these instruments from January 1, 2004 have been reflected in the audited annual consolidated statements of earnings under “Derivative instruments”. Previously deferred gains on these instruments, which at January 1, 2004 amounted to \$549 for the exchangeable debentures and \$181 for the forward sales contracts, were deferred until the instruments were settled in June 2005 and February 2005, respectively.

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

### Derivative financial instruments

The Company's operating companies use foreign currency contracts and interest rate swap agreements as derivative financial instruments to manage risks from fluctuations in exchange rates and interest rates. When determined to be compliant hedges under AcG-13, the carrying value of the financial instruments are not adjusted to reflect their current market value. The current market values of these instruments are disclosed in note 22.

The Company and its operating companies formally document relationships between hedging instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and at the end of each quarter, whether the derivatives that are used in hedged transactions are highly effective in offsetting changes in the cash flows of hedged items.

Gains and losses on hedges of firm commitments are included in the cost of the hedged transaction when they occur. Gains and losses on hedges of forecasted transactions are recognized in earnings in the same period and on the same line item as the underlying hedged transaction. Foreign exchange translation gains and losses on forward contracts used to hedge foreign currency-denominated amounts are accrued on the audited annual consolidated balance sheets as current assets or current liabilities and are recognized currently in the audited annual consolidated statements of earnings, offsetting the respective translation gains or losses on the foreign currency-denominated amounts. The forward premium or discount is amortized over the term of the forward contract. Gains

and losses on hedged forecast transactions are recognized in earnings immediately when the hedge is no longer effective or the forecasted transactions are no longer expected.

### Financial instruments – presentation and disclosure

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

### Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management of Onex and its operating companies to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the audited annual consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. This includes the liability for healthcare claims incurred but not yet reported for the Company's healthcare segment. Actual results could differ from such estimates.

### Comparative amounts

Certain amounts presented in the prior year have been reclassified to conform to the presentation adopted in the current year.

## 2. EARNINGS FROM DISCONTINUED OPERATIONS

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

	2005	2004	2005			2004		
	Revenue		Gain, Net of Tax	Onex' Share of Earnings (Loss)	Total	Gain, Net of Tax	Onex' Share of Earnings (Loss)	Total
CMC Electronics <sup>(a)</sup>	\$ -	\$ 129	\$ 45	\$ -	\$ 45	\$ 49	\$ 3	\$ 52
InsLogic <sup>(b)</sup>	-	13	73	-	73	-	(9)	(9)
Magellan <sup>(c)</sup>	744	2,199	22	2	24	-	6	6
Commercial Vehicle Group <sup>(d)</sup>	-	241	68	2	70	69	3	72
Cineplex Entertainment <sup>(e)</sup>	47	38	2	-	2	-	2	2
Futuremed <sup>(f)</sup>	94	78	-	(1)	(1)	-	-	-
Dura Automotive	-	635	-	-	-	1	1	2
Loews Cineplex Group	-	702	-	-	-	135	5	140
Armtec	-	50	-	-	-	9	-	9
	<b>\$ 885</b>	<b>\$ 4,085</b>	<b>\$ 210</b>	<b>\$ 3</b>	<b>\$ 213</b>	<b>\$ 263</b>	<b>\$ 11</b>	<b>\$ 274</b>

a) During 2005, CMC Electronics Inc. (“CMC Electronics”) sold its interest in NovAtel Inc. (“NovAtel”) for net proceeds of \$153. Onex’ accounting gain on the disposition was \$45, before a tax provision of nil. Also included in CMC Electronics’ results from discontinued operations is the December 2004 sale of Cincinnati Electronics.

Under the terms of the MIP, as described in note 24(e), management members, including ONCAP LP (“ONCAP I”) management, participated in the realizations the Company achieved on its sale of CMC Electronics’ Cincinnati Electronics business unit in 2004 and NovAtel in 2005. Amounts accrued to be paid on account of these transactions related to the MIP totalled \$6 and have been deducted from earnings from discontinued operations.

b) In January 2005, the Company sold its interest in InsLogic Corporation (“InsLogic”) for net proceeds of \$22 against a cost of \$52. The accounting gain on the disposition of \$73, before a tax provision of nil, was comprised of the proceeds as well as the reversal of losses of InsLogic previously recognized by the Company. There was no MIP distribution regarding InsLogic as the required performance targets were not achieved.

c) In May and June 2005, Onex and Onex Partners LP (“Onex Partners”) sold 56% of their investment in shares of Magellan Health Services, Inc. (“Magellan”) through a secondary offering of common stock. Proceeds received were \$176, of which Onex’ share was \$47, including \$6 for Onex’ portion of the carried interest. The pre-tax gain was \$83, of which Onex’ share was \$20, before a tax provision of \$5. As a result of these transactions, Onex’ and Onex Partners’ equity ownership in Magellan was reduced to 11% and the Company began recording its remaining investment at cost.

In November 2005, Onex and Onex Partners sold their remaining investment in Magellan for proceeds of \$126, of which Onex’ share was \$34, including \$4 for Onex’ portion of the carried interest. The pre-tax gain was \$52, of which Onex’ share was \$10, before a tax provision of \$3.

Amounts paid on account of these transactions related to the MIP totalled \$3 and have been deducted from earnings from discontinued operations. Amounts received on account of these transactions related to the carried interest as described in note 24(d) totalled \$24, of which Onex’ portion was \$10 and management’s portion was \$14.

d) In July 2005, Onex sold its remaining investment in Commercial Vehicle Group, Inc. (“CVG”) as part of a public offering by CVG for net proceeds of \$81. The pre-tax gain was \$79 before a tax provision of \$11. Due to the sale occurring within one year of Onex’ August 2004 initial disposition of CVG shares, CVG’s results of operations have been reclassified as discontinued operations. Amounts paid on account of these transactions related to the MIP, as described in note 24(e), totalled \$7 and have been deducted from earnings from discontinued operations.

e) In July 2005, Cineplex Entertainment Limited Partnership (“Cineplex Entertainment”), formerly known as Cineplex Galaxy Limited Partnership, completed the acquisition of the Famous Players movie exhibition business, as described in note 3. In connection with the acquisition, Cineplex Entertainment entered into a consent agreement with the Commissioner of Competition that required the divestiture of 34 theatres. In addition, Cineplex Entertainment intends to sell the remainder of its Alliance Atlantis brand theatres. The results of operations for those theatres have been reclassified as discontinued operations. During 2005, Cineplex Entertainment sold 29 theatres (including 27 theatres sold pursuant to the consent agreement referred to above) for proceeds of \$86. The pre- and post-tax accounting gain on the disposition was \$15, of which Onex’ share was \$2.

f) In December 2005, Futuremed Healthcare Products L.P. (“Futuremed”), an ONCAP operating company, filed a registration statement with the Ontario Securities Commission for an initial public offering of income trust units. The offering was completed in January 2006 with 92% of ONCAP I’s ownership being sold and the remaining portion sold in February 2006. Through the offering, ONCAP I received net proceeds of \$71, of which Onex’ share was \$23.

The results of operations for the businesses described above have been reclassified in the audited annual consolidated statements of earnings and audited annual consolidated statements of cash flows for the years ended December 31, 2005 and 2004 as discontinued operations. The amounts for operations now discontinued that were included in the December 31, 2005 and December 31, 2004 audited annual consolidated balance sheets are as follows:

As at December 31, 2005	Cineplex Entertainment	Futuremed	Total
Current assets held by discontinued operations	\$ 1	\$ 17	\$ 18
Long-lived assets held by discontinued operations	3	54	57
Current liabilities held by discontinued operations	-	(8)	(8)
Long-term liabilities held by discontinued operations	(3)	(61)	(64)
Net assets of discontinued operations	\$ 1	\$ 2	\$ 3

**2. EARNINGS FROM DISCONTINUED OPERATIONS (cont'd)**

As at December 31, 2004

	InsLogic	CMC Electronics	Magellan	Cineplex Enter- tainment <sup>(a)</sup>	Futuremed	Total
Cash	\$ -	\$ 23	\$ 421	\$ -	\$ -	\$ 444
Accounts receivable	1	11	66	-	12	90
Other current assets	1	5	162	-	6	174
Current assets held by discontinued operations	2	39	649	-	18	708
Property, plant and equipment	2	4	147	15	1	169
Goodwill	-	4	472	-	12	488
Intangibles and other assets	-	-	155	-	46	201
Long-lived assets held by discontinued operations	2	8	774	15	59	858
Accounts payable and accrued liabilities	(5)	(11)	(363)	-	(9)	(388)
Current portion of long-term debt and obligations under capital leases, without recourse to Onex	-	-	(90)	-	(4)	(94)
Current liabilities held by discontinued operations	(5)	(11)	(453)	-	(13)	(482)
Long-term debt and obligations under capital leases	(52)	-	(366)	-	(31)	(449)
Other liabilities	-	-	(3)	-	-	(3)
Non-controlling interests and cumulative translation adjustment	-	(16)	(462)	-	(8)	(486)
Long-term liabilities held by discontinued operations	(52)	(16)	(831)	-	(39)	(938)
Net assets (liabilities) of discontinued operations	\$ (53)	\$ 20	\$ 139	\$ 15	\$ 25	\$ 146

(a) Includes only those theatres that have been or are intended to be divested.

**3. CORPORATE INVESTMENTS**

During 2005 and 2004 several acquisitions were completed either directly by Onex or through subsidiaries of Onex. Any third-party borrowings in respect of acquisitions are without recourse to Onex.

**2005 ACQUISITIONS**

**a)** In January 2005, the Company completed the acquisition of Center for Diagnostic Imaging, Inc. ("CDI"). CDI owns and operates diagnostic imaging centres in nine markets in the United States. The total equity investment of \$88 for an 84% equity ownership interest was made by Onex and Onex Partners. Onex' net investment in this acquisition was \$21 for a 20% equity ownership at the time of acquisition. Onex has effective voting control of CDI through Onex Partners.

**b)** In February 2005, the Company completed the acquisition of American Medical Response, Inc. ("AMR") and EmCare Holdings Inc. ("EmCare"). AMR is a leading provider of ambulance transport services in the United States. EmCare is a leading provider of outsourced hospital emergency department physician staffing and management services in the United States. The combined entity now operates under Emergency Medical Services Corporation ("EMSC"). The total equity investment of \$266 for a 97%

equity ownership interest was made by Onex and Onex Partners. Onex' net investment in this acquisition was \$100 for a 36% equity ownership at the time of acquisition. Onex has effective voting control of EMSC through Onex Partners.

**c)** In April 2005, Cosmetic Essence, Inc. ("CEI") completed the acquisition of Hauer Custom Manufacturing, Inc. ("Hauer"). Hauer is a full-service manufacturer of household products. The total purchase price of the acquisition was \$23, which was financed with \$23 of borrowings, which are without recourse to Onex.

**d)** In June 2005, the Company completed the acquisition of the Wichita-Tulsa Division of The Boeing Company ("Boeing"). The purchase included Boeing's commercial aerostructures manufacturing facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma. The business, now operating as Spirit AeroSystems, Inc. ("Spirit AeroSystems"), has entered into long-term agreements with Boeing to supply components for all of Boeing's existing 737, 747, 767 and 777 platforms, as well as the new 787 platform. Spirit AeroSystems will also seek business from customers other than Boeing. The total equity investment of \$464 for a 100% equity ownership interest was made by Onex and Onex Partners. Onex' net investment in this acquisition was \$134 for a 29% equity ownership at the time of acquisition. Onex has effective voting control of Spirit AeroSystems through Onex Partners.

e) In July 2005, Cineplex Entertainment completed the acquisition of the Famous Players movie exhibition business in a transaction valued at \$473. To provide financing for the acquisition, various debt and equity transactions were entered into, as described in note 9(b). In connection with the acquisition, Onex received 248,447 units as a transaction fee but did not sell or purchase any additional units in the equity offering. As a result, Onex' ownership interest in Cineplex Entertainment was diluted to 27% from 31% and Onex recorded a dilution gain, as described in note 15. Onex will continue to control and consolidate Cineplex Entertainment subsequent to the transaction.

In connection with the acquisition, Cineplex Entertainment entered into a consent agreement with the Commissioner of Competition to divest itself of 34 theatres. Accordingly, the financial results for those theatres have been included in discontinued operations, as described in note 2.

During the fourth quarter of 2005, Cineplex Entertainment entered into a Media Sales Governing Agreement, which allowed for the termination and windup of Famous Players Media Inc. and the acquisition of three Famous Players branded entertainment magazines in a transaction valued at \$1.

f) In December 2005, the Company completed the acquisition of Skilled Healthcare Group, Inc. ("Skilled Healthcare"). Skilled Healthcare operates skilled nursing and assisted living facilities in California, Texas, Kansas and Nevada. The total equity investment of \$243 for a 93% equity ownership was made by Onex and Onex Partners. Onex' share of the investment in this acquisition was \$57 for a 22% equity ownership at the time of acquisition. Onex has effective voting control of Skilled Healthcare through Onex Partners.

g) During 2005, two of ONCAP's operating companies, Western Inventory Service Ltd. ("WIS") and Canadian Securities Registration Systems Ltd. ("CSRS") completed acquisitions. In April 2005, WIS acquired Washington Inventory Service ("Washington"), a leading provider of inventory counting services in the United States. After the acquisition, WIS and Washington merged to form the second largest inventory counting service provider in the world. In May 2005, CSRS acquired Corporate Research and Analysis Centre Ltd., a provider of corporate and legal searches in Canada. The total purchase price of these acquisitions was \$144 and was financed with \$143 of borrowings, which are without recourse to Onex or ONCAP, and \$1 of equity. Onex' net investment in these acquisitions was less than \$1.

h) Other includes acquisitions completed by CDI and Celestica Inc. ("Celestica").

The purchase prices of the acquisitions described above were allocated to the net assets acquired based on their relative fair values at the date of acquisition. In certain circumstances where estimates have been made, the companies are obtaining third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of certain purchase prices. The results of operations for all acquired businesses are included in the audited annual consolidated statement of earnings of the Company from their respective dates of acquisition.

Details of the 2005 acquisitions are as follows:

#### 2005 Acquisitions

	CDI <sup>(a)</sup>	EMSC <sup>(b)</sup>	CEI <sup>(c)</sup>	Spirit AeroSystems <sup>(d)</sup>	Cineplex Entertainment <sup>(e)</sup>	Skilled Healthcare <sup>(f)</sup>	ONCAP <sup>(g)</sup>	Other <sup>(h)</sup>
Cash	\$ 14	\$ 18	\$ -	\$ 168	\$ 20	\$ 43	\$ -	\$ -
Current assets	21	609	4	642	14	73	32	3
Intangible assets with limited life	39	111	1	38	40	3	44	8
Intangible assets with indefinite life	3	1	-	-	33	17	-	-
Goodwill	111	311	-	-	198	451	113	2
Property, plant and equipment and other long-term assets	63	466	20	743	317	345	9	1
	251	1,516	25	1,591	622	932	198	14
Current liabilities	(28)	(304)	(2)	(140)	(87)	(69)	(26)	(4)
Acquisition financing	-	-	(23)	-	(353)	-	(143)	-
Long-term liabilities <sup>(1)</sup>	(117)	(940)	-	(987)	(61)	(602)	(28)	(1)
	106	272	-	464	121	261	1	9
Non-controlling interests in net assets	(18)	(6)	-	-	(113)	(18)	-	-
Interest in net assets acquired	\$ 88	\$ 266	\$ -	\$ 464	\$ 8	\$ 243	\$ 1	\$ 9

(1) Included in liabilities is \$2,268 raised in connection with the original acquisitions.

### 3. CORPORATE INVESTMENTS (cont'd)

#### 2004 ACQUISITIONS

a) In January 2004, the Company completed an investment in Magellan. Headquartered in Connecticut, United States, Magellan is a behavioural managed healthcare organization in the United States. The total equity investment was \$131 for a 24% ownership interest. This was provided through Onex and Onex Partners. Onex' net investment was \$30 for a 6% equity ownership. Onex had effective voting control of Magellan through Onex Partners.

b) In March 2004, Celestica acquired Manufacturers' Services Limited ("MSL"), a full-service global electronics manufacturing and supply chain services company headquartered in the United States. The purchase was financed with the issuance of 14.1 million subordinate voting shares of Celestica, the issuance of options to purchase 2.1 million subordinate voting shares of Celestica, the issuance of warrants to purchase 1.1 million subordinate voting shares of Celestica and \$69 of cash provided by Celestica. The value of the shares was determined based on the average market price of the shares for a reasonable period before and after the date on which the terms of the acquisition were agreed to and announced. In April 2004, Celestica paid approximately \$10 in cash to acquire certain assets located in the Philippines from NEC Corporation.

c) During 2004, ONCAP completed the acquisitions of Futuremed and CSRS. Futuremed, headquartered in Ontario, Canada, is a supplier of medical supplies and equipment to long-term care

facilities. CSRS, headquartered in British Columbia, Canada, is a national provider of *Personal Property Security Act* registration and search services in Canada. The total purchase price of the acquisitions of \$208 was financed with \$133 of borrowings, which are without recourse to Onex or ONCAP, and \$75 of equity. Onex' net investment in these acquisitions was \$17. Onex had indirect voting control of Futuremed and continues to have indirect voting control of CSRS.

d) In December 2004, the Company completed the acquisition of CEI. CEI, headquartered in New Jersey, United States, is a provider of outsourced supply chain management services to the personal care industry. The investment of \$66 in debt and \$72 in equity for a 92% equity ownership at the time of acquisition was provided through Onex and Onex Partners. Onex' net investment in this acquisition was \$16 in debt and \$17 in equity for a 21% equity ownership. Onex has effective voting control of CEI through Onex Partners.

The purchase prices of the acquisitions were allocated to the net assets acquired based on their relative fair values at the dates of acquisition. In certain circumstances where estimates had been made, there were no material adjustments as a result of further refinement of the fair-value allocation of certain purchase prices. The results of operations for all acquired operations are included in the audited annual consolidated statements of earnings of the Company from their respective dates of acquisition.

Details of the 2004 acquisitions, which are all accounted for as purchases, are as follows:

#### 2004 Acquisitions

	Magellan <sup>(a)(1)</sup>	Celestica <sup>(b)</sup>	ONCAP <sup>(c)(1)</sup>	CEI <sup>(d)</sup>
Cash	\$ 282	\$ 27	\$ 4	\$ 6
Current assets	510	373	29	89
Intangible assets with limited life	74	46	32	26
Goodwill	576	298	123	205
Property, plant and equipment and other long-term assets	187	88	60	57
	1,629	832	248	383
Current liabilities	(508)	(296)	(40)	(61)
Acquisition financing	(617)	-	(133)	(66)
Long-term liabilities	(7)	(99)	-	(171)
	497	437	75	85
Non-controlling interests in net assets	(366)	(358)	(21)	(13)
Interest in net assets acquired	\$ 131	\$ 79	\$ 54	\$ 72

(1) Magellan and Futuremed, a subsidiary of ONCAP, were recorded as discontinued operations as at December 31, 2005, as described in note 2.

The cost of acquisitions made during the year includes restructuring and integration costs of \$15 (2004 – \$25). As at December 31, 2005, accounts payable and accrued liabilities and other long-term

liabilities include \$138 and \$3, respectively (2004 – \$96 and \$2), for these and earlier acquisitions.

#### 4. J.L. FRENCH AUTOMOTIVE

The difficult conditions affecting the North American automotive supply sector have rendered J.L. French Automotive Castings, Inc. ("J.L. French Automotive") unable to meet the financial requirements under certain of its lending agreements. Management of J.L. French Automotive has been working with the senior debt holders and other creditor groups to arrange a restructuring of J.L. French Automotive's debts. In February 2006, J.L. French Automotive filed for protection under Chapter 11 of the Bankruptcy Code in the United States. It is contemplated that Onex will have a minimal to no ownership interest in and will cease to control J.L. French Automotive following the restructuring. The debt of J.L. French Automotive has been recorded as current and Onex does not guarantee any of the debt or liabilities of J.L. French Automotive. No adjustments, other than those described above, have been made to the carrying amount of the assets or liabilities of J.L. French Automotive in the audited annual consolidated balance sheets.

The net book value of the investment in J.L. French Automotive recorded in the audited annual consolidated financial statements as at December 31, 2005 is negative \$607. If Onex' equity ownership in J.L. French Automotive were disposed of or abandoned in its entirety for no value, Onex would recognize an accounting gain of \$607.

The following amounts for J.L. French Automotive are included in the December 31, 2005 and December 31, 2004 consolidated balance sheets:

As at December 31	2005	2004
Cash and short-term investments	\$ 15	\$ 5
Accounts receivable	38	52
Inventories	48	52
Other current assets	21	15
Property, plant and equipment	263	302
Investments and other assets	5	5
Intangible assets	18	20
Accounts payable and accrued liabilities	(71)	(105)
Current debt, without recourse to Onex	(783)	(22)
Obligations under capital leases	(19)	(28)
Long-term debt, without recourse to Onex	-	(698)
Other liabilities	(13)	(10)
Cumulative translation adjustment	(129)	(123)
Net liabilities	\$ (607)	\$ (535)

For statements of earnings information regarding J.L. French Automotive, see note 27, "Information by Industry and Geographic Segment" under the segment "Automotive Products".

#### 5. INVENTORIES

Inventories comprised the following:

As at December 31	2005	2004
Raw materials	\$ 1,033	\$ 939
Work in progress	689	236
Finished goods	270	262
	\$ 1,992	\$ 1,437

#### 6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprised the following:

As at December 31	2005			2004		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Land	\$ 137	\$ -	\$ 137	\$ 104	\$ -	\$ 104
Buildings	1,278	236	1,042	825	236	589
Machinery and equipment	2,888	1,633	1,255	2,143	1,323	820
Construction in progress	256	-	256	29	-	29
	\$ 4,559	\$ 1,869	\$ 2,690	\$ 3,101	\$ 1,559	\$ 1,542

The above amounts include property, plant and equipment under capital leases of \$346 (2004 - \$137) and related accumulated amortization of \$103 (2004 - \$80).

As at December 31, 2005, property, plant and equipment included \$17 (2004 - \$43) of assets held for sale.

## 7. INVESTMENTS AND OTHER ASSETS

Investments and other assets comprised the following:

As at December 31	2005	2004
Investments:		
Private entities – at cost <sup>(a)</sup>	\$ 41	\$ 35
Marketable securities – at cost <sup>(b)</sup>	123	111
Public entities held by OPMG – at market <sup>(c)</sup>	140	–
Equity-accounted investments <sup>(d)</sup>	136	135
Deferred charges	221	99
Derivative instruments (note 22(b))	–	186
Future income taxes (note 20)	235	51
Boeing receivable <sup>(e)</sup>	247	–
Other	136	42
	<b>\$ 1,279</b>	<b>\$ 659</b>

a) The market value of the private entities is not readily determinable with a sufficient degree of precision.

b) The market value of the investments held by the Company as at December 31, 2005 was \$118 and \$149 at December 31, 2004. The December 31, 2004 market value included \$128 for an investment in Compagnie Générale de Géophysique (“CGG”) that was purchased at a cost of \$102 in November 2004. The investment in CGG was sold in 2005.

c) As at December 31, 2005, marketable securities held by OPMG include \$13 of unrealized gains and \$13 of unrealized losses.

d) Included in equity-accounted investments is the investment in ResCare. In June 2004, the Company and Onex Partners completed a \$114 equity investment in ResCare for a 28% effective ownership interest. Onex’ portion of the investment was approximately \$27, representing an initial 7% ownership interest in ResCare. ResCare provides residential, therapeutic, job training and educational support to people with developmental or other disabilities, to youth with special needs and to adults who are experiencing barriers to employment.

e) In connection with the acquisition of Spirit AeroSystems from Boeing, Boeing will make quarterly payments to Spirit AeroSystems beginning in March 2007 through December 2009. The fair value of the receivable was recorded as a long-term asset on the opening balance sheet. The fair value is being accreted to the principal amount over the term of the agreement. The carrying value of the receivable as at December 31, 2005 was \$247.

## 8. INTANGIBLE ASSETS

Intangible assets comprised the following:

As at December 31	2005	2004
Intellectual property with limited life, net of accumulated amortization of \$165 (2004 – \$156)	\$ 47	\$ 53
Intangible assets with limited life, net of accumulated amortization of \$230 (2004 – \$193)	417	194
Intangible assets with indefinite life	55	24
	<b>\$ 519</b>	<b>\$ 271</b>

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

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

**9. LONG-TERM DEBT OF OPERATING COMPANIES, WITHOUT RECOURSE TO ONEX**

Long-term debt of operating companies, without recourse to Onex, is as follows:

As at December 31		2005	2004
<b>Celestica<sup>(a)</sup></b>	7.875% subordinated notes due 2011	\$ 581	\$ 601
	7.625% subordinated notes due 2013	291	-
	Liquid Yield Option™ notes, due 2020	-	149
		<b>872</b>	750
<b>Cineplex Entertainment<sup>(b)</sup></b>	Revolving credit facility and term loans due 2009	244	-
	Revolving credit facility and term loans due 2006	-	126
	Galaxy Entertainment notes due 2028	100	-
	Other	2	3
	<b>346</b>	129	
<b>ClientLogic<sup>(c)</sup></b>	Revolving credit facility due 2005	-	142
	Revolving credit facility and term loans due 2010 and 2012	159	-
	Other, including debt denominated in foreign currencies	99	96
	<b>258</b>	238	
<b>J.L. French Automotive<sup>(d)</sup></b>	Revolving credit facility and term loans due 2011 and 2012	535	490
	Mandatorily redeemable preferred shares	239	209
	11.5% subordinated notes due 2009	33	35
	Other	20	33
	<b>827</b>	767	
<b>Radian<sup>(e)</sup></b>	Revolving credit facility and term loan due 2007	32	31
	Subordinated secured debentures due 2007	16	16
	Other	-	10
	<b>48</b>	57	
<b>Cosmetic Essence<sup>(f)</sup></b>	Revolving credit facility and term loans due 2010 and 2011	155	152
	Subordinated secured notes due 2014	77	72
	<b>232</b>	224	
<b>Center for Diagnostic Imaging<sup>(g)</sup></b>	Revolving credit facility and term loan due 2010	81	-
<b>Emergency Medical Services<sup>(h)</sup></b>	Revolving credit facility and term loan due 2011 and 2012	289	-
	Subordinated secured notes due 2015	291	-
	<b>580</b>	-	
<b>Spirit AeroSystems<sup>(i)</sup></b>	Revolving credit facility and term loan due 2010 and 2011	810	-
	Other	29	-
	<b>839</b>	-	
<b>Skilled Healthcare<sup>(j)</sup></b>	Revolving credit facility and term loan due 2010	301	-
	11.0% subordinated notes due 2014	231	-
	Other	3	-
	<b>535</b>	-	
<b>ONCAP companies<sup>(k)</sup></b>	Term loans due 2006 to 2011	224	166
	Subordinated notes due 2009 and 2010	51	46
	Other	1	1
	<b>276</b>	213	
Less: long-term debt held by the Company		<b>(206)</b>	(204)
Current portion of long-term debt of operating companies		<b>4,688</b>	2,174
		<b>(825)</b>	(206)
Consolidated long-term debt of operating companies, without recourse to Onex		<b>\$ 3,863</b>	\$ 1,968

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

Onex does not guarantee the debt of its operating companies, nor are there any cross-guarantees between operating companies.

The financing arrangements for each operating company typically contain certain restrictive covenants, which may include limitations or prohibitions on additional indebtedness, payment of cash dividends, redemption of capital, capital spending, making of investments and acquisitions and sale of assets. In addition, certain financial covenants must be met by the operating companies which have outstanding debt.

Future changes in business conditions of an operating company may result in non-compliance with certain covenants by the company. No adjustments to the carrying amount or classification of assets or liabilities of any operating company has been made in the audited annual consolidated financial statements with respect to any possible non-compliance.

### a) Celestica

In June 2004, Celestica amended its credit facility to US\$600 and extended the maturity from October 2004 to June 2007. There were no borrowings outstanding under this facility at December 31, 2005. The facility has restrictive covenants relating to debt incurrence and sale of assets and also contains financial covenants that require Celestica to maintain certain financial ratios. Based on the required minimum financial ratios, at December 31, 2005, Celestica was limited to approximately US\$250 of available debt incurrence.

In June 2004, Celestica issued senior subordinated notes due 2011 with an aggregate principal amount of US\$500, and a fixed interest rate of 7.875%. In connection with the 2011 notes offering, Celestica entered into interest rate swap agreements that swap the fixed interest rate on the notes with a variable interest rate based on LIBOR plus a margin. The average interest rate on the notes was 6.4% for 2005 (2004 – 4.9%). The 2011 notes may be redeemed on July 1, 2008 or later at various premiums above face value. A portion of the proceeds was used in the second quarter of 2004 to repurchase Liquid Yield Option™ notes (“LYONs”).

In June 2005, Celestica issued senior subordinated notes due 2013 with an aggregate principal amount of US\$250 and a fixed interest rate of 7.625%. The 2013 notes may be redeemed on July 1, 2009 or later at various premiums above face value. A portion of the proceeds was used in the third quarter of 2005 to repurchase the remaining LYONs.

### b) Cineplex Entertainment

To fund the July 2005 acquisition of Famous Players, Cineplex Entertainment issued indirectly to Cineplex Galaxy Income Fund (“CGIF”) 6,835,000 Class A LP Units for gross proceeds of approximately \$110 and 5,600,000 Class C LP Units for gross proceeds of \$105. CGIF financed the acquisition of the Class A LP Units and

Class C LP Units through the issuance of 6,835,000 units and the issuance of \$105 convertible extendible unsecured subordinated debentures. The above resulted in Onex no longer consolidating CGIF but continuing to consolidate Cineplex Entertainment.

Galaxy Entertainment Inc., a subsidiary of Cineplex Entertainment, has notes outstanding in the amount of \$100, which are due indirectly to CGIF. The notes bear interest at a rate of 14%, are payable monthly with principal due November 2028 and are subordinate to the amended credit facilities described below. As a result of Onex no longer consolidating CGIF, these notes, which were previously eliminated on consolidation, are now reflected as long-term debt.

The new Class C LP Units issued by Cineplex Entertainment are redeemable by CGIF under certain conditions and as such they have characteristics of both debt and equity. As a result, an amount of \$98 is classified as a liability and is included in other liabilities. An amount of \$9 is recorded in non-controlling interest.

In connection with the acquisition, Cineplex Entertainment entered into an amended and restated credit agreement with a syndicate of lenders pursuant to which it has available: (i) a 364-day \$50 extendible senior secured revolving credit facility; (ii) a four-year \$315 senior secured non-revolving term credit facility; and (iii) a four-year \$60 senior secured revolving credit facility. The amended credit facilities bear interest at a floating rate based on the prime business rate, or bankers' acceptance rate, plus an applicable margin. As at December 31, 2005, nil and \$9 were outstanding on the 364-day and four-year revolving facilities and \$235 was outstanding on the term facility.

Effective July 22, 2005, Cineplex Entertainment entered into interest rate swap agreements to pay interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receive a floating rate. The swaps have terms of four years and an aggregate principal amount outstanding of \$200.

### c) ClientLogic

At December 31, 2004, ClientLogic Corporation (“ClientLogic”) had US\$118 outstanding under the terms of a revolving credit facility due in March 2005. In March 2005, ClientLogic entered into a new credit agreement that provides up to US\$157, consisting of a first lien revolving facility of up to US\$30, due 2010, a first lien term facility of up to US\$77 and a second lien term facility of up to US\$50, both due in 2012. At December 31, 2005, amounts outstanding under these facilities were US\$11, US\$77 and US\$50, respectively. The proceeds from this facility were used to repay all amounts owing under the former credit facility. The facilities bear interest at a rate of either LIBOR or the federal funds rate, plus an applicable margin. As a term of this facility, the demand note of US\$38 held by Onex, as described below, was converted to mandatorily redeemable preferred shares. The first lien facility is due March 2012, with quarterly payments required beginning in 2005. The second lien facility is due September 2012, with no principal

payments due until maturity. ClientLogic is also required to pre-pay certain amounts under the first and second lien facilities should ClientLogic initiate specified transactions, including the issuance of equity, sale of certain assets, additional debt issuance or the maturity of certain notes held by a separate party, if not otherwise extended. Borrowings under the credit facility are collateralized by substantially all of ClientLogic's assets.

At December 31, 2005 ClientLogic had US\$59 (2004 – US\$52) in other debt instruments with varying terms. Included in this amount are mandatorily redeemable preferred shares held by Onex of US\$51, which were converted from a demand note of US\$38 in 2005.

ClientLogic has US\$25 (2004 – US\$27) of loan notes outstanding denominated in pounds sterling which bear interest at 6.5% and are repayable in June 2008. Interest compounds and is added to the notes. The amount of accrued interest at December 31, 2005 was US\$5 (2004 – US\$5).

ClientLogic has entered into an interest rate swap agreement that effectively fixes the interest rate on US\$70 of borrowings under the credit facility. The interest rate swap agreement expires in 2006.

#### **d) J.L. French Automotive**

As described in note 4, J.L. French Automotive filed for bankruptcy protection in February 2006. As a result, as at December 31, 2005, the debt of J.L. French Automotive is classified as current as the company has not met its requirements under its lending agreements. The debt of J.L. French Automotive is without recourse to Onex.

In August 2004, J.L. French Automotive completed a series of refinancing transactions. As part of the refinancing, the company's former Class P shareholders surrendered their outstanding shares in exchange for Class A non-voting shares. The Class P shares were previously shown as liability in these audited annual consolidated financial statements. This contribution to the equity of the company by the non-controlling interests has been reflected in 2004 as an income item representing the funding of the non-controlling interest of past losses. The recovery of losses of other shareholders of J.L. French Automotive recorded in 2004 totalled \$43 and is included in non-controlling interests in the audited annual consolidated financial statements. Also issued was US\$164 of mandatorily redeemable preferred stock, US\$38 of which was purchased by the Company.

In connection with the 2004 refinancing, J.L. French Automotive entered into new senior secured credit facilities, which provide for total borrowings of US\$465. Under their original terms, the facilities were due in 2011 and 2012. At December 31, 2005, US\$67 (2004 – US\$13) was drawn on the revolving facility, US\$223 (2004 – US\$225) was outstanding on the first lien term loan and US\$170 (2004 – US\$170) was outstanding on the second lien term loan.

Interest on the senior secured credit facilities, depending on the type and amount of the borrowings under these facilities, can range from prime rate plus 3.5% to 6.0% per annum, the LIBOR rate plus 4.5% or the Eurocurrency rate plus 7.0% per annum. Interest payments are due quarterly.

Borrowings under the credit facilities are secured and guaranteed by a first priority lien on substantially all of J.L. French Automotive's assets, including a pledge of all of the capital stock of each of the company's directly owned domestic subsidiaries and 65% of the capital stock of directly owned foreign subsidiaries. An element of the credit facilities is secured and guaranteed by a second priority lien on substantially all of J.L. French Automotive's assets.

Also outstanding at December 31, 2005 was US\$29 (2004 – US\$29) of subordinate notes originally due 2009.

#### **e) Radian**

Radian's credit agreement has a revolving credit facility of \$20 and a term loan of \$15. Borrowings under the credit agreement are due in June 2007. Both the revolving credit facility and term loan bear interest at short-term borrowing rates plus a margin. The outstanding borrowings at December 31, 2005 on the revolving credit facility and term loan were \$17 and \$15 (2004 – \$16 and \$15), respectively. The weighted average interest rate for borrowings under the credit agreement was 7.0% in 2005 (2004 – 6.9%). Borrowings under the credit agreement are collateralized by substantially all of the assets of Radian.

In October 2003, Radian issued \$15 in subordinated secured convertible debentures to Onex. The debentures are convertible at any time at the option of the holder or at Radian's option, under certain circumstances, into Class A multiple voting shares of Radian. The debentures bear interest at a rate of 7% per annum and mature in 2007.

#### **f) Cosmetic Essence**

In December 2004, CEI entered into credit agreements with certain financial institutions which provide for a revolving line of credit with maximum borrowings of US\$25, maturing in 2010; a first lien term loan with borrowings of US\$99; and a second lien term loan with borrowings of US\$34. The first lien term loan is repayable through quarterly instalments of principal and interest to be made through December 2010. The second lien term loan pays interest only until its maturity in December 2011. At December 31, 2005, CEI had US\$133 (2004 – US\$129) outstanding under the agreements.

Interest on the borrowings is based, at the option of CEI, upon either a LIBOR rate or a base rate plus an interest rate margin. Substantially all of CEI's assets are pledged as collateral for the borrowings.

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

CEI also has a promissory note outstanding in the amount of US\$66 (2004 – US\$60), of which US\$61 (2004 – US\$55) is held by the Company. The note is due in 2014, with interest of 9.55% per year, payable in additional notes due in 2014.

### g) Center for Diagnostic Imaging

In January 2005, a US\$95 credit agreement was executed by CDI. This agreement consists of a US\$75 term loan with principal payments due through 2010 and interest at LIBOR plus 3.5%, secured by the assets of CDI. At December 31, 2005, US\$69 was outstanding under the term loan. In addition, the credit agreement provides for up to US\$20 of revolving credit loans. At December 31, 2005, there were no funds outstanding under the revolving line. Future borrowings against this revolving line bear interest at LIBOR plus 2.5% to 3.5%, depending on CDI's leverage ratio.

### h) Emergency Medical Services

In February 2005, EMSC issued US\$250 of senior subordinated notes and executed a US\$450 credit agreement. The senior subordinated notes have a fixed interest rate of 10%, payable semi-annually, and mature in February 2015.

The credit agreement consists of a US\$350 senior secured term loan and a US\$100 senior secured revolving credit facility. The senior secured term loan matures in February 2012 and requires quarterly principal repayments. The revolving facility requires the principal to be repaid at maturity in February 2011. Interest is determined by reference to a leverage ratio and can range from prime plus 1.0% to 2.0% and LIBOR plus 2.0% to 3.0%. As at December 31, 2005, US\$248 and nil were outstanding under the senior secured term loan and the senior secured revolving credit facility, respectively.

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

### i) Spirit AeroSystems

In June 2005, Spirit AeroSystems executed a US\$875 credit agreement that consists of a US\$700 senior secured term loan and a US\$175 senior secured revolving credit facility. The senior secured term loan requires quarterly principal instalments of US\$2, with the balance due in four equal quarterly instalments of US\$165 in 2011. The revolving facility requires the principal to be repaid at maturity in June 2010. As at December 31, 2005, US\$697 and nil were outstanding under the term loan and revolving facility, respectively.

The borrowings under the agreement bear interest based on LIBOR or a base rate plus an interest rate margin of up to 2.75%, payable quarterly. In connection with the term loan, Spirit AeroSystems entered into interest rate swap agreements on

US\$500 of the term loan. The agreements, which range from three to five years, swap the floating interest rate with a fixed interest rate that ranges between 4.2% and 4.4%.

Substantially all of Spirit AeroSystems' assets are pledged as collateral under the credit agreement.

In connection with the acquisition, the seller, Boeing, has provided Spirit AeroSystems with a line of credit of up to US\$150. The line of credit bears interest at a rate of LIBOR plus 6.0% and is subordinate to the borrowings under the credit agreement. The line may be drawn upon any time up to December 31, 2008 and any such borrowings would mature in June 2013. As at December 31, 2005, no amounts were outstanding under this line of credit.

### j) Skilled Healthcare

In December 2005, Skilled Healthcare issued unsecured senior subordinated notes in the amount of US\$200 due in 2014. The notes bear interest at a rate of 11.0% per annum and are redeemable at the option of the company at various premiums above face value beginning in 2009. At December 31, 2005, US\$199 was outstanding under the notes.

Skilled Healthcare's first lien credit agreement consists of a US\$260 term loan and a US\$75 revolving loan. The term loan is due in 2010, with annual principal instalments of 1% of the balance. Both the term loan and the revolving loan bear interest at the prime rate or LIBOR, plus a margin. At December 31, 2005, US\$259 and nil were outstanding under the term loan and revolving loan, respectively. The first lien credit agreement is secured by the real property of Skilled Healthcare.

### k) ONCAP companies

ONCAP's investee companies include CMC Electronics, WIS, and CSRS. Each has debt that is included in Onex' audited annual consolidated financial statements. There are separate arrangements for each of the investee companies with no cross-guarantees between the companies or by Onex.

Under the terms of credit agreements, combined revolving credit facilities of \$24 and term borrowings of \$250 are available. The available facilities bear interest at various rates based on prime, U.S. base or LIBOR plus a margin. During 2005, interest rates ranged from 4.6% to 10.7% (2004 – 3.9% to 8.2%) on borrowings under the revolving credit and term facilities. Quarterly repayments of a portion of the term loans commenced in June 2002, while the remainder of the credit facilities are repayable between 2009 and 2011. Borrowings under these credit facilities at December 31, 2005 were \$224 (2004 – \$166). The companies also have subordinated notes of \$51 (2004 – \$46), due in 2009 and 2010, that bear interest ranging from 16% to 18% (2004 – 16% to 18%), of which the Company owns approximately \$25 (2004 – \$22).

One of the companies has entered into an interest rate swap agreement that effectively fixes the floating rate on \$60 (2004 – \$23) of variable rate loans over periods ranging from three to five years.

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

2006	\$ 825
2007	90
2008	254
2009	289
2010	333
Thereafter	2,897
	\$ 4,688

**10. LEASE COMMITMENTS**

The future minimum lease payments are as follows:

	Capital Leases	Operating Leases
For the year:		
2006	\$ 29	\$ 255
2007	22	219
2008	16	194
2009	14	170
2010	6	157
Thereafter	44	1,177
Total future minimum lease payments	\$ 131	\$ 2,172
Less: imputed interest	(29)	
Balance of obligations under capital leases, without recourse to Onex	102	
Less: current portion	(25)	
Long-term obligations under capital leases, without recourse to Onex	\$ 77	

Essentially all of the lease commitments relate to the operating companies.

**11. EXCHANGEABLE DEBENTURES**

In 2000 Onex issued 25-year debentures exchangeable for subordinate voting shares of Celestica. The debentures had an aggregate principal amount of \$729, average interest rate of 1.6% and an average exchange rate on the principal amount of 12.64 shares per thousand dollars. In February 2005, Onex redeemed all of the outstanding exchangeable debentures through the delivery of 9,214,320 Celestica subordinate voting shares. As a result of the redemption, Onex recorded a gain, as described in note 15.

The debentures were exchangeable, at the request of the holder, into a fixed number of subordinate voting shares of Celestica or, at the option of the Company, it could deliver the cash equivalent based on the market price of the shares at the time of exchange, or a combination of shares and cash. The debentures were redeemable at any time by the Company. Upon redemption Onex could, at its option, repay the principal amount by delivering Celestica subordinate voting shares based on the fixed exchange rate or pay the cash equivalent, or a combination of shares and cash.

The market value and deferred amount of the exchangeable debentures were as follows:

As at December 31	2004
Carrying amount (cost)	\$ 729
Deferred amount, included in other liabilities (note 12)	(549)
Change in fair value	(24)
Market value	\$ 156

The market value of the exchangeable debentures at December 31, 2004 was based on the market price, as at the balance sheet date, of the underlying subordinate voting shares of Celestica. The deferred amount represents previously deferred gains, prior to adoption of AcG-13.

Interest expense related to the exchangeable debentures amounted to \$1 (2004 – \$11) and was netted against interest and other income.

## 12. OTHER LIABILITIES

Other liabilities comprised the following:

As at December 31	2005	2004
Reserves <sup>(a)</sup>	\$ 210	\$ 1
Deferred revenue and other deferred items	159	36
Boeing advance <sup>(b)</sup>	233	-
Convertible debentures (note 9(b))	98	-
Pension and non-pension post-retirement benefits (note 25)	220	117
Stock-based compensation	53	58
Exchangeable debentures (note 11)	-	549
Derivative instruments (note 22(b))	-	181
Other <sup>(c)</sup>	142	151
	<b>\$ 1,115</b>	<b>\$ 1,093</b>

**a)** Reserves consist primarily of US\$144 established by EMSC for automobile, workers compensation, general liability and professional liability. This includes the use of an offshore captive insurance program.

**b)** Pursuant to the 787 long-term supply agreement, Boeing will make advance payments to Spirit AeroSystems. As at December 31, 2005, US\$200 in such advance payments had been made and will be settled against future sales of Spirit AeroSystems' 787 units to Boeing.

**c)** Other includes acquisition and restructuring accruals as well as amounts for anticipated liabilities arising from indemnifications.

## 13. SHARE CAPITAL

**a)** The authorized share capital of the Company consists of:

*i)* 100,000 Multiple Voting Shares, which entitle their holders to elect 60% of the Company's Directors and carry such number of votes in the aggregate as represents 60% of the aggregate votes attached to all shares of the Company carrying voting rights. The Multiple Voting Shares have no entitlement to a distribution on winding-up or dissolution other than the payment of their nominal paid-up value.

*ii)* An unlimited number of Subordinate Voting Shares, which carry one vote per share and as a class are entitled to 40% of the aggregate votes attached to all shares of the Company carrying voting rights; to elect 40% of the Directors; and to appoint the auditors. These shares are entitled, subject to the prior rights of other classes, to distributions of the residual assets on winding-up and to any declared but unpaid cash dividends. The shares are entitled to receive cash dividends, dividends in kind and stock dividends as and when declared by the Board of Directors.

The Multiple Voting Shares and Subordinate Voting Shares are subject to provisions whereby, if an event of change occurs (such as Mr. Schwartz, Chairman and CEO, ceasing to hold, directly or indirectly, more than 5,000,000 Subordinate Voting Shares or related events), the Multiple Voting Shares will thereupon be entitled to elect only 20% of the Directors and otherwise will cease to have any general voting rights. The Subordinate Voting Shares would then carry 100% of the general voting rights and be entitled to elect 80% of the Directors.

*iii)* An unlimited number of Senior and Junior Preferred Shares issuable in series. The Directors are empowered to fix the rights to be attached to each series. There is no consolidated paid-in value for these shares.

**b)** During 2005, under the Dividend Reinvestment Plan, the Company issued 2,865 (2004 – 72,166) Subordinate Voting Shares at a total value of less than \$1 (2004 – \$1). In 2005, no Subordinate Voting Shares were issued upon the exercise of stock options. In 2004, 71,000 Subordinate Voting Shares were issued upon the exercise of stock options of the Company at a value of less than \$1.

The Company repurchased and cancelled under Normal Course Issuer Bids 939,200 (2004 – 9,143,100) of its Subordinate Voting Shares at a cash cost of \$18 during 2005 (2004 – \$150). The excess of the purchase cost of these shares over the average paid-in amount was \$14 (2004 – \$113), which was charged to retained earnings.

Onex renewed its Normal Course Issuer Bid in April 2005 for one year, permitting the Company to purchase on the Toronto Stock Exchange up to 10% of the public float of its Subordinate Voting Shares. The 10% limit represents approximately 11 million shares.

**c)** At December 31, 2005 the issued and outstanding share capital consisted of 100,000 (2004 – 100,000) Multiple Voting Shares, 138,079,031 (2004 – 139,015,366) Subordinate Voting Shares and 176,078 (2004 – 176,078) Series 1 Senior Preferred Shares. The Series 1 Senior Preferred Shares have no paid-in amount reflected in these consolidated financial statements and the Multiple Voting Shares have nominal paid-in value.

**d)** The Company has a Deferred Share Unit Plan as described in note 1. At December 31, 2005, there were 116,301 (2004 – 40,000) units outstanding, for which \$1 (2004 – \$1) has been recorded as compensation expense.

**e)** The Company has a Stock Option Plan (the "Plan") under which options and/or share appreciation rights for a term not exceeding 10 years may be granted to Directors, officers and employees for the acquisition of Subordinate Voting Shares of the Company at a price not less than the market value of the shares on the business

day preceding the day of the grant. Under the Plan, no options or share appreciation rights may be exercised unless the average market price of the Subordinate Voting Shares for the five prior business days exceeds the exercise price of the options or the share appreciation rights by at least 25% (the “exercisable price”). At December 31, 2005, 15,632,000 (2004 – 15,632,000) Subordinate Voting Shares were reserved for issuance under the Plan, against which options representing 13,434,600 (2004 – 13,961,700) shares were outstanding. The Plan provides that the number of options issued to certain individuals in aggregate may not exceed 10% of the shares outstanding at the time the options are issued.

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

Details of options outstanding are as follows:

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

During 2005, the total cash consideration paid on options surrendered was \$1 (2004 – \$71). This amount represents the difference between the market value of the Subordinate Voting Shares at the time of surrender and the exercise price, both as determined under the Plan.

In January 2006, the Company issued 140,000 options at an exercise price of \$19.25 per share.

Options outstanding at December 31, 2005 consisted of the following:

Number of Options Outstanding	Exercise Price	Number of Options Exercisable	Exercisable Price	Remaining Life (years)
568,000	\$ 7.30	568,000	\$ 9.13	2.1
1,171,600	\$ 8.62	1,171,600	\$ 10.78	2.3
624,000	\$ 20.23	-	\$ 25.29	4.0
655,000	\$ 20.50	-	\$ 25.63	6.5
625,000	\$ 14.90	250,000	\$ 18.63	7.1
7,260,000	\$ 15.87	-	\$ 19.84	8.2
2,531,000	\$ 18.18	-	\$ 22.73	8.9
13,434,600		1,989,600		

#### 14. INTEREST EXPENSE OF OPERATING COMPANIES

Year ended December 31	2005	2004
Interest on long-term debt of operating companies	\$ 311	\$ 168
Interest on obligations under capital leases of operating companies	6	2
Other interest of operating companies	15	25
Interest expense of operating companies	\$ 332	\$ 195

Cash interest paid during the year amounted to \$221 (2004 – \$180).

#### 15. GAINS ON SALES OF OPERATING COMPANIES, NET

During 2005 and 2004, Onex completed a number of unrelated transactions by selling all or a portion of its ownership interests in certain companies. The major transactions and the resulting pre-tax gains are summarized and described as follows:

Year ended December 31	2005	2004
Gains on:		
Close of exchangeable debentures on Celestica shares <sup>(a)</sup>	\$ 560	\$ -
Close of forward sales agreements on Celestica shares <sup>(b)</sup>	191	-
Sale of CGG convertible bonds <sup>(c)</sup>	41	-
Issue of units by Cineplex Entertainment <sup>(d)</sup>	53	-
Issue of shares by EMSC <sup>(e)</sup>	40	-
Performance Logistics Group <sup>(f)</sup>	-	58
Issue of shares by Celestica <sup>(g)</sup>	-	9
Sale of Tower Automotive <sup>(h)</sup>	-	6
Other, net <sup>(i)</sup>	36	34
	\$ 921	\$ 107

a) In February 2005, the Company redeemed all of its outstanding exchangeable debentures and satisfied the debenture obligation through the delivery of 9,214,320 Celestica subordinate voting shares. In connection with the delivery, the Company converted approximately 9,214,320 of the Celestica multiple voting shares it held into Celestica subordinate voting shares. As a result of the redemption, the Company's equity ownership in Celestica was reduced to 14% from 18%; however, the Company continued to have voting control over Celestica. The Company recognized a gain of \$560 on the redemption, which consists of a previously deferred gain of \$549 and the difference between book value and market value at the time of redemption. The cash for these exchangeable debentures was received by the Company when it originally entered into these arrangements in 2000.

b) In June 2005, the Company settled all of its outstanding forward sales agreements through the delivery of approximately 1.8 million Celestica subordinate voting shares, for which it received proceeds of \$222. In connection with the delivery, the Company converted approximately 0.2 million of the Celestica multiple voting shares it held into Celestica subordinate voting shares. As a result of the settlement, the Company's equity ownership in Celestica was reduced to 13% from 14%; however, the Company continues to have voting control of Celestica. The Company recognized a gain of \$191 on the redemption, which consists of a previously deferred gain of \$181 and the difference between book value and market value at the time of settlement. The forward sales agreements were originally entered into in 2000.

c) During 2005, through three separate transactions, Onex and Onex Partners sold their investment in bonds of CGG for proceeds of \$145, of which Onex' share was \$34. Onex' share of the pre-tax gain was \$9.

Amounts paid on account of these transactions related to the MIP, as described in note 24(e), totalled \$1, and have been deducted from the gain.

Amounts related to the carried interest, as described in note 24(d), totalled \$4, of which Onex' portion was deferred.

d) In July 2005, in connection with Cineplex Entertainment's acquisition of Famous Players, Cineplex Entertainment issued additional units to provide a portion of the financing. Onex' ownership interest was diluted from 31% to 27% as a result of the issuance of additional units by Cineplex Entertainment to unitholders other than Onex. As a result of the dilution of the Company's investment in Cineplex Entertainment, a non-cash dilution gain of \$53 was recorded, of which Onex' share was \$30. This reflects Onex' share of the increase in the book value of the net assets of Cineplex Entertainment due to the issue of additional units. Onex did not sell or purchase any additional units in the unit offering.

e) In December 2005, EMSC completed a US\$113 initial public offering of common stock (NYSE: EMS). The offering resulted in EMSC receiving net proceeds of approximately US\$102, which were used to reduce outstanding indebtedness and for general corporate purposes. Onex did not receive any proceeds from the transaction. As a result of the offering, Onex' economic ownership in EMSC decreased from 36% to 29%. As part of the transaction, Onex converted its shares held into Multiple Voting shares and its voting interest decreased from 100% to 97%.

As a result of the dilution of the Company's economic interest, a non-cash dilution gain of \$40 was recorded, of which Onex' share was \$15. This reflects Onex' share of the excess of the proceeds from the offering over minority interests' share of the net assets.

f) In March 2004, Performance Logistics Group, Inc. ("PLG") acquired Leaseway Auto Carrier Group, a subsidiary of Penske Truck Leasing Co., L.P. Onex did not sell or purchase any shares of PLG in this offering and Onex' ownership in PLG was diluted from a controlling 50% interest to a non-controlling 26% interest as a result of the additional shares issued. Since Onex ceased to control PLG after the issuance of the additional PLG shares, the investment was no longer consolidated but was accounted for using the equity method. As a result of the dilution of Onex' investment in PLG, in 2004 Onex recorded a non-cash gain of \$58, reflecting the net liabilities of PLG, which are now accounted for under the equity method. This gain is comprised of a non-cash dilution gain of \$22 and the reversal of \$36 of losses of PLG previously recognized by Onex that were in excess of the other shareholders' equity in PLG.

g) In March 2004, Celestica acquired MSL and issued approximately 14.1 million Celestica subordinate voting shares as part of the consideration paid. Onex recorded a dilution gain of \$9 as a result of the reduction in Onex' ownership through the share issuance. Onex' ownership after the dilution was 18% and it retained voting control of Celestica.

h) In February 2004, Onex completed the sale of its remaining interest in Tower Automotive, Inc. for net cash proceeds of \$8.

i) Included in 2005 was a gain of \$32 (2004 – \$23) from the interest in Ripplewood, a U.S.-based acquisition fund.

## 16. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES

Year ended December 31	2005	2004
Celestica	\$ 193	\$ 184
Spirit AeroSystems	42	-
ClientLogic	9	5
J.L. French Automotive	8	7
Other	14	8
	\$ 266	\$ 204

Costs incurred relate to the restructuring activities, implementation of business processes, infrastructure and information systems for operations acquired.

The operating companies record restructuring charges relating to employee terminations, contractual lease obligations and other exit costs when the liability is incurred. The recognition of these charges requires management to make certain judgments regarding the nature, timing and amounts associated with the planned restructuring activities, including estimating sublease income and the net recovery from equipment to be disposed of. At the end of each reporting period, the operating companies evaluate the appropriateness of the remaining accrued balances.

In January 2005, Celestica announced plans to further improve capacity utilization and accelerate margin improvements. These restructuring actions will include facility closures and a reduction in workforce, primarily targeting our higher-cost geographies where end-market demand has not recovered to the levels management requires to achieve sustainable profitability.

The tables below provide a summary of restructuring activities undertaken by the operating companies detailing the components of the charges and movement in accrued liabilities. This summary is presented by the year in which the restructuring activities were initiated.

Years prior to 2004	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 338	\$ 160	\$ 37	\$ 339	\$ 874 <sup>(a)</sup>
Cumulative costs expensed to date	338	160	37	339	874 <sup>(a)</sup>
Expense (recovery) for the year ended December 31, 2005	(6)	6	1	-	1
Reconciliation of accrued liability					
Closing balance – December 31, 2004	20	48	3		71
Cash payments	(3)	(14)	(2)		(19)
Charges	(6)	6	1		1
Other adjustments	-	(2)	-		(2)
Closing balance – December 31, 2005	\$ 11	\$ 38	\$ 2		\$ 51

(a) Includes Celestica \$847, J.L. French Automotive \$18, ClientLogic \$5 and Radian \$4.

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

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Initiated in 2004</b>					
Total estimated expected costs	\$ 139	\$ 13	\$ 13	\$ 49	\$ 214 <sup>(a)</sup>
Cumulative costs expensed to date	138	13	13	49	213 <sup>(b)</sup>
Expense for the year ended					
December 31, 2005	18	2	3	9	32
Reconciliation of accrued liability					
Closing balance – December 31, 2004	25	6	8		39
Cash payments	(37)	(2)	(6)		(45)
Charges	18	2	3		23
Other adjustments	(2)	(1)	(1)		(4)
Closing balance – December 31, 2005	\$ 4	\$ 5	\$ 4		\$ 13

(a) Includes Celestica \$197, J.L. French Automotive \$7, ClientLogic \$3, Radian \$4 and CMC \$3.

(b) Includes Celestica \$197, J.L. French Automotive \$7, ClientLogic \$3, Radian \$4 and CMC \$2.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Initiated in 2005</b>					
Total estimated expected costs	\$ 255	\$ 26	\$ 62	\$ 13	\$ 356 <sup>(a)</sup>
Cumulative costs expensed to date	150	19	55	9	233 <sup>(b)</sup>
Expense for the year ended					
December 31, 2005	150	19	55	9	233
Reconciliation of accrued liability					
Cash payments	(95)	(1)	(39)		(135)
Charges	150	19	55		224
Closing balance – December 31, 2005	\$ 55	\$ 18	\$ 16		\$ 89

(a) Includes Celestica \$287, Spirit AeroSystems \$43, ClientLogic \$8, Radian \$7, WIS \$5, EMSC \$2, CMC \$1 and Other \$3.

(b) Includes Celestica \$167, Spirit AeroSystems \$43, ClientLogic \$8, Radian \$4, WIS \$5, EMSC \$2, CMC \$1 and Other \$3.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Total</b>					
Total estimated expected costs	\$ 732	\$ 199	\$ 112	\$ 401	\$ 1,444
Cumulative costs expensed to date	626	192	105	397	1,320
Expense for the year ended					
December 31, 2005	162	27	59	18	266
Reconciliation of accrued liability					
Closing balance – December 31, 2004	45	54	11		110
Cash payments	(135)	(17)	(47)		(199)
Charges	162	27	59		248
Other adjustments	(2)	(3)	(1)		(6)
Closing balance – December 31, 2005	\$ 70	\$ 61	\$ 22		\$ 153

**17. DEBT PREPAYMENT**

Year ended December 31	2005	2004
Cineplex Entertainment	\$ 4	\$ -
J.L. French Automotive	-	5
Celestica	-	2
Other	2	1
	\$ 6	\$ 8

**18. WRITEDOWN OF GOODWILL AND INTANGIBLE ASSETS**

Year ended December 31	2005	2004
Celestica <sup>(a)</sup>	\$ 1	\$ 388
ClientLogic <sup>(b)</sup>	2	5
	\$ 3	\$ 393

a) During the fourth quarter, Celestica performed its annual impairment tests of goodwill and intangible assets and determined that writedowns of nil (2004 – \$351) in goodwill and \$1 (2004 – \$37) in other intangibles was required. The majority of the writedowns in 2004 were due to restructuring plans and the continued transfer of major customer programs from higher-cost

to lower-cost geographies whereby these actions reduced the forecasted revenue and net cash flows for many facilities.

b) In 2005, ClientLogic performed its annual impairment tests of goodwill and intangible assets and determined that a writedown of \$2 was required as a result of its early termination of the technology infrastructure services agreement with British Telecom. In 2004, the impairment tests resulted in a writedown of \$5 in intangible assets due to the loss of certain client contracts.

**19. WRITEDOWN OF LONG-LIVED ASSETS**

Year ended December 31	2005	2004
Celestica <sup>(a)</sup>	\$ 1	\$ 84
J.L. French Automotive <sup>(b)</sup>	-	8
Other	4	2
	\$ 5	\$ 94

a) In 2005, Celestica recorded an impairment of \$1 (2004 – \$84) against property, plant and equipment.

b) In 2004, J.L. French Automotive implemented restructuring plans for its U.K. operations which resulted in an impairment of \$8 against property, plant and equipment.

**20. INCOME TAXES**

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

Year ended December 31	2005	2004
Income tax recovery (provision) at statutory rates	\$ (295)	\$ 308
Increase (decrease) related to:		
Decrease (increase) in valuation allowance <sup>(1)</sup>	70	(435)
Amortization of non-deductible items	(1)	(126)
Income tax rate differential of operating investments	75	(48)
Non-taxable accounting gains	185	32
Other, including permanent differences	(106)	(9)
Provision for income taxes	\$ (72)	\$ (278)
Classified as:		
Current	\$ (86)	\$ (34)
Future	14	(244)
Provision for income taxes	\$ (72)	\$ (278)

(1) During the fourth quarter of 2004, the valuation allowance increased, in large part due to Celestica establishing a valuation allowance of \$302 related to future income tax assets previously recorded in respect of net operating loss carryforwards and certain other deductible temporary differences from its U.S. and European operations.

**20. INCOME TAXES (cont'd)**

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

As at December 31	2005	2004
Future income tax assets:		
Net operating losses carried forward	\$ 986	\$ 1,031
Net capital losses carried forward	-	45
Accounting provisions not currently deductible	250	172
Scientific research deductions and credits	-	9
Property, plant and equipment, intangible and other assets	97	117
Share issue costs of operating investments	4	16
Acquisition and integration costs	89	91
Pension and non-pension post-retirement benefits	5	11
Other	28	4
Less: valuation allowance	(1,172)	(1,428)
	<b>287</b>	<b>68</b>
Future income tax liabilities:		
Property, plant and equipment, intangible and other assets	(106)	(52)
Pension and non-pension post-retirement benefits	(22)	(20)
Gains on sales of operating investments	(639)	(617)
Other	-	(2)
	<b>(767)</b>	<b>(691)</b>
Future income tax liabilities, net	<b>\$ (480)</b>	<b>\$ (623)</b>
Classified as:		
Current asset	\$ 52	\$ 17
Long-term asset	235	51
Long-term liability	(767)	(691)
Future income tax liabilities, net	<b>\$ (480)</b>	<b>\$ (623)</b>

The Company and its investment-holding companies have tax-loss carryforwards of \$267 available to reduce future income taxes to the year 2014.

At December 31, 2005, certain operating companies in Canada and the United States had tax-loss carryforwards available to reduce future income taxes of those companies in the amount of \$3,010, of which \$592 had no expiry, \$846 were available to reduce future taxes between 2006 and 2010, inclusive, and \$1,572 were available with expiration dates of 2011 through 2025.

Cash taxes paid during the year amounted to \$114 (2004 – \$30).

## 21. NET EARNINGS PER SUBORDINATE VOTING SHARE

The weighted average number of Subordinate Voting Shares for the purpose of the earnings per share calculations is as follows:

Year ended December 31	2005	2004
Weighted average number of shares <i>(in millions)</i> :		
Basic	139	142
Diluted	139	142

## 22. FINANCIAL INSTRUMENTS

### a) Fair values of financial instruments

The estimated fair values of financial instruments as at December 31, 2005 and 2004 are based on relevant market prices and information available at those dates. The carrying values of cash and short-term investments, accounts receivable, accounts payable and accrued liabilities approximate the fair values of these financial instruments. Financial instruments with carrying values different from their fair values that have not been disclosed elsewhere in these consolidated financial statements include the following:

As at December 31	2005		2004	
	Carrying Amount	Fair Value/ (Unwind Costs)	Carrying Amount	Fair Value/ (Unwind Costs)
Financial liabilities:				
Long-term debt <sup>(i)</sup>	\$ 3,863	\$ 3,873	\$ 1,968	\$ 1,968
Foreign currency contracts	\$ -	\$ (7)	\$ -	\$ (44)
Interest rate swap agreements	\$ -	\$ 14	\$ -	\$ (25)

(i) The fair value of long-term debt is based on quoted market prices for the financial instruments and for others of similar rating and risk. Certain components of long-term debt primarily comprise term loans and other credit facilities with interest and repayment terms that are not significantly different from current market rates. Accordingly, the carrying values approximate estimated fair values.

### b) Forward sales agreements

In 2000, the Company entered into the following forward sales agreements relating to subordinate voting shares of Celestica. In June 2005, the Company settled the forward sales agreements and recorded a gain, as described in note 15. As at December 31, 2004, the fair value of the forward sales agreements was included in investments and other assets (note 7). Changes in market value of the forward contracts up to the date of settlement have been recorded in the audited annual consolidated statement of earnings under "Derivative instruments".

Inception Date	Maturity Date	Number of Celestica Shares	Reference Price per Share	December 31, 2004 Fair Value
August 2000	August 2025	472,840	\$ 111.24	\$ 44
November 2000	November 2025	1,284,627	\$ 128.47	\$ 142

The reference price approximated the market value of a Celestica subordinate voting share at the time the forward sales agreements were entered into. The reference prices under the contracts have increased over time.

The fair value represents the difference between the reference price under the contract and the market price of a Celestica share as at December 31, 2004 for the number of shares under the contract.

### 23. SIGNIFICANT CUSTOMERS OF OPERATING COMPANIES AND CONCENTRATION OF CREDIT RISK

A number of operating companies, by the nature of their businesses, individually serve major customers that account for a large portion of their revenues. For each of these operating companies, the table below shows the number of significant customers and the percentage of revenues they represent.

Year ended December 31	2005		2004	
	Number of Significant Customers	Percentage of Revenues	Number of Significant Customers	Percentage of Revenues
Celestica	2	26%	2	26%
ClientLogic	1	22%	1	22%
J.L. French Automotive	2	82%	2	83%
Radian	1	10%	1	13%
CEI	3	49%	3	59%
CDI	1	12%	-	-
EMSC	2	73%	-	-
Spirit AeroSystems	1	99%	-	-

Accounts receivable from the above significant customers at December 31, 2005 and 2004 totalled \$860 and \$236, respectively.

### 24. COMMITMENTS, CONTINGENCIES AND RELATED PARTY TRANSACTIONS

a) Contingent liabilities in the form of letters of credit, letters of guarantee and surety and performance bonds are provided by certain operating companies to various third parties and include certain bank guarantees. At December 31, 2005, the amounts payable in respect of these guarantees totalled \$153. Certain operating companies have guarantees with respect to employee share purchase loans that amounted to \$2 at December 31, 2005. These guarantees are without recourse to Onex.

The Company has commitments in the total amount of approximately \$440 in respect of corporate investments, including the commitments to Onex Real Estate Partners LP and ONCAP II as indicated in note 26.

The Company and its operating companies have also provided certain indemnifications, including those related to businesses that have been sold. The maximum amounts from many of these indemnifications cannot be reasonably estimated at this time. However, in certain circumstances, the Company and its operating companies have recourse against other parties to mitigate the risk of loss from these indemnifications.

The Company and its operating companies have commitments in respect of real estate operating leases, which are disclosed in note 10. The aggregate capital commitments as at December 31, 2005 amounted to \$246.

b) The Company and its operating companies may become parties to legal claims, product liability and warranty claims arising in the ordinary course of business. Certain operating companies, as conditions of acquisition agreements, have agreed to accept certain pre-acquisition liability claims against the acquired companies. The operating companies have recorded liability provisions for the estimated amounts that may become payable for such claims to the extent that they are not covered by insurance or recoverable from other parties. It is management's opinion that the resolution of known claims should not have a material adverse impact on the consolidated financial position of Onex. However, there can be no assurance that unforeseen circumstances will not result in significant costs.

c) The operating companies are subject to laws and regulations concerning the environment and to the risk of environmental liability inherent in activities relating to their past and present operations. As conditions of acquisition agreements, certain operating companies have agreed to accept certain pre-acquisition liability claims on the acquired companies after obtaining indemnification from prior owners.

The Company and its operating companies also have insurance to cover costs incurred for certain environmental matters. Although the effect on operating results and liquidity, if any, cannot be reasonably estimated, management of Onex and the operating companies believe, based on current information, that these environmental matters should not have a material adverse effect on the Company's consolidated financial condition.

**d)** In February 2004, Onex completed the closing of Onex Partners with funding commitments totalling approximately \$2,100. Onex Partners is to provide committed capital for future Onex-sponsored acquisitions not related to Onex' operating companies at December 31, 2003 or to ONCAP. As at December 31, 2005, approximately \$1,400 has been invested of the total approximately \$2,100 of capital committed. Onex has funded \$316 of its \$480 commitment. Onex controls the General Partner and Manager of Onex Partners. Onex management has committed, as a group, to invest a minimum of 1% of Onex Partners, which may be adjusted annually up to a maximum of 4%. As at December 31, 2005, management and directors had committed 4%. The total amount invested in Onex Partners investments by Onex management and directors for the year ended December 31, 2005 was \$30.

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

The returns to Onex Partners investors other than Onex and Onex management are based upon all investments made through Onex Partners, with the result that initial carried interests achieved by Onex on gains could be recovered from Onex if subsequent Onex Partners investments do not exceed the overall target return level of 8%. Consistent with market practice, Onex, as sponsor of Onex Partners, will be allocated 40% of the carried interest with 60% allocated to the management. Onex defers all gains associated with the carried interest until such time as Onex Partners is closed. For the year ended December 31, 2005, \$11 has been received by Onex as carried interest and deferred while management received \$17 with respect to the carried interest.

**e)** Under the terms of the MIP approved in June 1996, management members of the Company invest in all of the operating entities acquired by the Company.

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

Under the terms of the MIP, the total amount paid by management members for the interest in the investments in 2005 was \$4 (2004 – \$2). Investment rights exercisable at the same price for 7.5% (2004 – 7.5%) of the Company's interest in acquisitions were issued at the same time. Realizations under the MIP including the value of units distributed were \$11 in 2005 and \$35 in 2004.

**f)** Members of management and the Board of Directors of the Company invested \$21 in 2005 (2004 – \$9) in Onex' acquisitions at the same cost as Onex and other outside investors. Those investments by management and the Board are subject to voting control by Onex.

**g)** Certain operating companies have made loans to certain directors or officers of the individual operating companies primarily for the purpose of acquiring shares in those operating companies. The total value of the loans outstanding as at December 31, 2005 was \$12.

**h)** Onex and its operating companies are subject to tax audits by local taxing authorities. In connection with ongoing tax audits relating to Celestica, taxing authorities have asserted that Celestica's United States subsidiaries owe a significant amount of tax, interest and penalties arising from inter-company transactions all within Celestica's various operations. Celestica's management has evaluated the assessment and believes they have substantial defences to the asserted deficiencies and have adequately accrued for any likely potential losses. However, there can be no assurance as to the final resolution of these asserted deficiencies and any resulting proceedings, and if these audits and proceedings were determined adversely to Celestica the amounts Celestica may be required to pay could be material.

**25. PENSION AND NON-PENSION POST-RETIREMENT BENEFITS**

The operating companies have a number of defined benefit and defined contribution plans providing pension, other retirement and post-employment benefits to certain of their employees. The non-pension post-retirement benefits include retirement and termination benefits, health, dental and group life.

The total costs during 2005 for defined contribution pension plans were \$61 (2004 – \$30).

The Company measures its accrued benefit obligations and the fair value of the plan assets for accounting purposes at or around December 31 of each year for the largest plans. The most recent actuarial valuation of these pension plans for funding purposes was as of June 2005 and December 2005, and the next required valuation will be as of January 2006.

In 2005, total cash payments for employee future benefits, consisting of cash contributed by the operating companies to their funded pension plans, cash payments directly to beneficiaries for their unfunded other benefit plans and cash contributed to their defined contribution plans, were \$79 (2004 – \$63).

For the defined benefit pension plans and non-pension post-retirement plans, the estimated present value of accrued benefit obligations and the estimated market value of the net assets available to provide these benefits were as follows:

As at December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004	2005	2004
Accrued benefit obligations:						
Opening benefit obligations	\$ 131	\$ 144	\$ 476	\$ 637	\$ 105	\$ 164
Current service cost	2	1	9	13	10	15
Interest cost	8	8	46	25	6	5
Contributions by plan participants	-	-	1	2	1	-
Benefits paid	(11)	(9)	(26)	(18)	(11)	(18)
Actuarial (gain) loss in year	21	10	(12)	24	17	5
Foreign currency exchange rate changes	1	(2)	(48)	(3)	(4)	(2)
Acquisitions during the year	1	-	734	1	38	-
Discontinued operations	-	(3)	-	(215)	-	(48)
Plan amendments	-	-	3	-	(13)	-
Settlements/curtailments	-	2	(3)	(12)	-	(17)
Settlement benefits	-	-	2	-	-	-
Reclassification of plans	7	(20)	(7)	20	-	-
Other	-	-	-	2	-	1
Closing benefit obligations	\$ 160	\$ 131	\$ 1,175	\$ 476	\$ 149	\$ 105
Plan assets:						
Opening plan assets	\$ 147	\$ 152	\$ 350	\$ 459	\$ -	\$ -
Actual return on plan assets	17	14	87	28	-	-
Contributions by employer	5	4	29	31	10	18
Contributions by plan participants	-	-	1	2	1	-
Benefits paid	(11)	(9)	(26)	(18)	(11)	(18)
Foreign currency exchange rate changes	2	(3)	(40)	-	-	-
Acquisitions during the year	1	-	653	1	-	-
Discontinued operations	-	(8)	-	(144)	-	-
Settlement/termination payments	-	-	-	(12)	-	-
Reclassification of plans	8	(3)	(8)	3	-	-
Closing plan assets	\$ 169	\$ 147	\$ 1,046	\$ 350	\$ -	\$ -

Asset category	Percentage of Plan Assets	
	2005	2004
Equity securities	58%	50%
Debt securities	39%	45%
Real estate	-	2%
Other	3%	3%
	100%	100%

Equity securities do not include direct investments in the shares of the Company or its subsidiaries but may be invested indirectly as a result of the inclusion of the Company's and its subsidiaries' shares in certain market investment funds.

The funded status of the plans of the operating subsidiary companies was as follows:

As at December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004	2005	2004
Deferred benefit amount:						
Plan assets, at fair value	\$ 169	\$ 147	\$ 1,046	\$ 350	\$ -	\$ -
Accrued benefit obligation	(160)	(131)	(1,175)	(476)	(149)	(105)
Plan surplus (deficit):	\$ 9	\$ 16	\$ (129)	\$ (126)	\$ (149)	\$ (105)
Unamortized past service costs	-	-	(1)	(5)	(12)	-
Unamortized net gain or loss	45	31	55	125	32	16
Other unrecognized amounts	-	-	(5)	-	-	-
Reclassification of plans	11	22	(11)	(22)	-	-
Deferred benefit amount – asset (liability)	\$ 65	\$ 69	\$ (91)	\$ (28)	\$ (129)	\$ (89)

The deferred benefit asset is included in the Company's balance sheet under "Investments and other assets". The deferred benefit liabilities are included in the Company's audited annual consolidated balance sheets under "Other liabilities".

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

Year ended December 31	Pension Plans in which Assets Exceed Accumulated Benefits		Pension Plans in which Accumulated Benefits Exceed Assets		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004	2005	2004
Net periodic costs:						
Current service cost	\$ 2	\$ 1	\$ 9	\$ 13	\$ 10	\$ 15
Interest cost	8	8	46	25	6	5
Actual return on plan assets	(17)	(14)	(87)	(28)	-	-
Difference between expected return and actual return on plan assets for period	7	4	28	5	-	-
Actuarial (gain) loss	21	10	(12)	24	17	5
Difference between actuarial loss (gain) recognized for period and actual actuarial loss (gain) on the accrued benefit obligation for period	(19)	(9)	25	(18)	(20)	(5)
Plan amendments (curtailment/settlement (gain) loss)	-	2	2	(12)	-	(17)
Difference between amortization of past service costs for period and actual plan amendments for period	-	-	(2)	8	-	8
Settlement benefits	-	-	2	6	-	-
Net periodic costs	\$ 2	\$ 2	\$ 11	\$ 23	\$ 13	\$ 11

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

The following assumptions were used to account for the plans:

Year ended December 31	Pension Benefits		Non-Pension Post-Retirement Benefits	
	2005	2004	2005	2004
Accrued benefit obligation				
Weighted average discount rate	<b>4.23%–6.00%</b>	5.20%–6.50%	<b>5.25%–5.75%</b>	5.75%–6.10%
Weighted average rate of compensation increase	<b>0.00%–4.80%</b>	0.00%–3.75%	<b>0.00%–3.50%</b>	4.00%
Benefit cost				
Weighted average discount rate	<b>4.23%–6.25%</b>	5.20%–6.50%	<b>5.25%–6.10%</b>	6.40%
Weighted average expected long-term rate of return on plan assets	<b>5.00%–9.25%</b>	6.40%–8.00%	n/a	n/a
Weighted average rate of compensation increase	<b>0.00%–4.80%</b>	0.00%–4.80%	<b>0.00%–4.00%</b>	4.00%
Assumed healthcare cost trend rates			<b>2005</b>	2004
Initial healthcare cost rate			<b>8.00%–10.00%</b>	6.60%–10.00%
Cost trend rate declines to			<b>3.25%–5.00%</b>	3.25%–5.00%
Year that the rate reaches the rate it is assumed to remain at			<b>Between 2008 and 2011</b>	Between 2008 and 2011

Assumed healthcare cost trend rates have a significant effect on the amounts reported for post-retirement medical benefit plans. A 1% change in the assumed healthcare cost trend rate would have the following effects:

Year ended December 31	1% Increase		1% Decrease	
	2005	2004	2005	2004
Effect on total of service and interest cost components	<b>\$ 2</b>	\$ 3	<b>\$ (1)</b>	\$ (2)
Effect on the post-retirement benefit obligation	<b>\$ 18</b>	\$ 14	<b>\$ (15)</b>	\$ (11)

In 2004 curtailments and plan settlement gains and losses were incurred by Celestica due to facilities rationalization. These gains and losses are included in restructuring charges in note 16.

## 26. SUBSEQUENT EVENTS

Onex and certain operating companies have entered into agreements to acquire or make investments in other businesses. These transactions are subject to a number of conditions, many of which are beyond the control of Onex or the operating companies. The effect of these planned transactions, in addition to those described below, if completed, may be significant to the consolidated financial position of Onex.

In late 2005, ONCAP completed its first closing of capital commitments for its second fund, ONCAP II LP ("ONCAP II"). It is planned that ONCAP II will have total committed capital of approximately \$500, of which Onex' portion would be approximately half. The investment parameters and objectives remain essentially unchanged from those of the first fund. In January 2006, ONCAP II acquired CSI Global Education Inc., Canada's leader in financial services education, for an equity investment of \$25, of which Onex' initial share was \$14.

In late January 2006, Spirit AeroSystems agreed to acquire BAE Systems' aerostructures business with operations in Scotland and England in a transaction valued at \$162. BAE Systems' aerostructures business produces wing and other structural components, primarily for Airbus airplanes. Spirit AeroSystems will finance the entire acquisition, which is expected to close in the first quarter of 2006.

## 27. INFORMATION BY INDUSTRY AND GEOGRAPHIC SEGMENT

Onex' reportable segments operate through autonomous companies and strategic partnerships. Each reportable segment offers different products and services and is managed separately.

The Company had seven reportable segments in 2005 and five in 2004: electronics manufacturing services; aerostructures; healthcare; theatre exhibition; customer management services; automotive products; and other. The electronics manufacturing services segment consists of Celestica, which provides manufacturing services for electronics original equipment manufacturers ("OEMs"). The aerostructures segment consists of Spirit AeroSystems, which manufactures aerostructures. The healthcare segment consists of EMSC, a leading provider of ambulance transport services and outsourced hospital emergency department physician staffing and management services in the United States; CDI, which owns and operates diagnostic imaging centres in the United States; and Skilled Healthcare, which operates skilled nursing and assisted living facilities in United States. The theatre exhibition segment consists of Cineplex Odeon, and Cineplex Entertainment. The customer management services segment consists of ClientLogic, which provides services for telecommunications, consumer goods, retail, technology, transportation, finance and utility companies. The automotive products segment consists of J.L. French Automotive, a leading manufacturer of high-pressure aluminum die-cast parts. Other includes Radian, CEI, Onex Real Estate, OPMG, ONCAP, ONCAP II and the parent company.

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

2005 Industry segments

	Electronics Manufacturing Services	Aero- structures	Healthcare	Theatre Exhibition	Customer Management Services	Automotive Products	Other	Consolidated Total
Revenues	\$ 10,257	\$ 1,436	\$ 2,126	\$ 491	\$ 715	\$ 584	\$ 950	\$ 16,559
Cost of sales	(9,537)	(1,232)	(1,808)	(392)	(444)	(484)	(627)	(14,524)
Selling, general and administrative expenses	(313)	(123)	(111)	(28)	(205)	(22)	(287)	(1,089)
Earnings before the undernoted items	407	81	207	71	66	78	36	946
Amortization of property, plant and equipment	(146)	(19)	(72)	(41)	(37)	(55)	(39)	(409)
Amortization of intangible assets and deferred charges	(34)	(2)	(19)	(3)	(12)	-	(26)	(96)
Interest expense of operating companies	(68)	(28)	(66)	(25)	(22)	(83)	(40)	(332)
Interest and other income	24	20	2	3	4	-	92	145
Equity-accounted investments	-	-	1	-	-	-	-	1
Foreign exchange gains (loss)	1	-	-	-	(2)	-	(30)	(31)
Stock-based compensation	(28)	(11)	(2)	(8)	-	-	(1)	(50)
Derivative instruments	-	-	-	-	-	-	4	4
Gains on sales of operating investments, net	-	-	-	-	-	-	921	921
Acquisition, restructuring and other expenses	(193)	(42)	(2)	-	(9)	(8)	(12)	(266)
Debt prepayment	-	-	(2)	(4)	-	-	-	(6)
Writedown of goodwill and intangible assets	(1)	-	-	-	(2)	-	-	(3)
Writedown of long-lived assets	(1)	-	-	(4)	-	-	-	(5)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (39)	\$ (1)	\$ 47	\$ (11)	\$ (14)	\$ (68)	\$ 905	\$ 819
Provision for income taxes								(72)
Non-controlling interests in operating companies								5
Earnings from continuing operations								\$ 752
Earnings from discontinued operations								213
Net earnings								\$ 965
Total assets <sup>(a)</sup>	\$ 5,637	\$ 1,966	\$ 2,753	\$ 860	\$ 260	\$ 410	\$ 2,959	\$ 14,845
Long-term debt <sup>(b)</sup>	\$ 872	\$ 839	\$ 1,196	\$ 346	\$ 206	\$ 783	\$ 446	\$ 4,688
Property, plant and equipment additions	\$ 185	\$ 169	\$ 82	\$ 33	\$ 18	\$ 43	\$ 20	\$ 550
Goodwill additions	\$ 2	\$ -	\$ 873	\$ 198	\$ -	\$ -	\$ 113	\$ 1,186

(a) Theatre exhibition and other include discontinued operations as described in note 2.

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

## 2004 Industry segments

	Electronics Manufacturing Services	Theatre Exhibition	Customer Management Services	Automotive Products	Other	Consolidated Total
Revenues	\$ 11,480	\$ 318	\$ 730	\$ 691	\$ 420	\$ 13,639
Cost of sales	(10,913)	(241)	(458)	(551)	(286)	(12,449)
Selling, general and administrative expenses	(358)	(18)	(196)	(18)	(175)	(765)
Earnings (loss) before the undernoted items	209	59	76	122	(41)	425
Amortization of property, plant and equipment	(223)	(24)	(41)	(59)	(23)	(370)
Amortization of intangible assets and deferred charges	(45)	-	(15)	-	(12)	(72)
Interest expense of operating companies	(56)	(8)	(19)	(95)	(17)	(195)
Interest and other income	49	1	7	-	45	102
Equity-accounted investments	-	-	-	-	(8)	(8)
Foreign exchange gains (loss)	(8)	-	3	3	(114)	(116)
Stock-based compensation	(20)	-	(1)	-	(34)	(55)
Derivative instruments	-	-	-	-	29	29
Gains on sales of operating investments, net	-	-	-	-	107	107
Acquisition, restructuring and other expenses	(184)	-	(5)	(7)	(8)	(204)
Debt prepayment	(2)	-	-	(5)	(1)	(8)
Writedown of goodwill and intangible assets	(388)	-	(5)	-	-	(393)
Writedown of long-lived assets	(84)	-	(2)	(8)	-	(94)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (752)	\$ 28	\$ (2)	\$ (49)	\$ (77)	\$ (852)
Provision for income taxes						(278)
Non-controlling interests of operating companies						891
Loss from continuing operations						\$ (239)
Earnings from discontinued operations						274
Net earnings						\$ 35
Total assets <sup>(a)</sup>	\$ 5,925	\$ 368	\$ 303	\$ 452	\$ 4,761	\$ 11,809
Long-term debt <sup>(b)</sup>	\$ 750	\$ 129	\$ 192	\$ 721	\$ 382	\$ 2,174
Property, plant and equipment additions	\$ 180	\$ 23	\$ 43	\$ 52	\$ 10	\$ 308
Goodwill additions	\$ 298	\$ -	\$ -	\$ -	\$ 267	\$ 565

(a) Theatre exhibition and other include discontinued operations described in note 2.

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

## Geographic segments

	2005					2004				
	Canada	U.S.	Europe	Other	Total	Canada	U.S.	Europe	Other	Total
Revenue	\$ 2,370	\$ 6,163	\$ 2,219	\$ 5,807	\$ 16,559	\$ 2,793	\$ 2,855	\$ 2,838	\$ 5,153	\$ 13,639
Property, plant and equipment	\$ 639	\$ 1,441	\$ 277	\$ 333	\$ 2,690	\$ 496	\$ 349	\$ 343	\$ 354	\$ 1,542
Intangible assets	\$ 186	\$ 305	\$ 5	\$ 23	\$ 519	\$ 67	\$ 143	\$ 24	\$ 37	\$ 271
Goodwill	\$ 399	\$ 1,187	\$ -	\$ 954	\$ 2,540	\$ 178	\$ 223	\$ -	\$ 1,049	\$ 1,450

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

Other includes primarily operations in Mexico, Central and South America, as well as Asia and Australia. Significant customers of operating companies are discussed in note 23.