



## ONEX CORPORATION

Onex Corporation is a diversified company with annual revenues of approximately \$18 billion, assets of \$13 billion and 105,000 employees worldwide.

We operate through autonomous subsidiaries in a variety of industries, including electronics manufacturing services, healthcare, theatre exhibition, customer management services, automotive products, personal care products and communications infrastructure.

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

## To Our Shareholders

The first three months of 2005 were very active for Onex. We completed two significant acquisitions – the \$225 million purchase of Center for Diagnostic Imaging and the \$1 billion transaction for American Medical Response and EmCare, now held together as Emergency Medical Services.

We recently announced an agreement to acquire Boeing's commercial aircraft manufacturing operations. The acquisition of these operations, valued at approximately \$1.5 billion, will create the largest independent aerostructures manufacturer in the world.

We have also been working to build our existing businesses. Cosmetic Essence, Western Inventory Service and ResCare each recently completed acquisitions. Most of our operating companies are performing well. J.L. French and Radian are in industries that will provide ongoing challenges in 2005. We are confident in the management teams we have in place in our businesses and in their ability to lead the growth of their companies.

Two new initiatives were established during the first quarter to put Onex' cash to work. We formed Onex Real Estate Partners in partnership with Michael Dana and his team. They bring a strong track record of acquiring and adding value to real estate properties in North America. We have committed approximately \$240 million to Onex Real Estate Partners, which will be drawn down as investments are made.

Onex has also formed Onex Public Markets Group to acquire positions in publicly traded companies. Three investment professionals have been hired for the group and we will apply the same high standards of diligence in our investing here as we apply to our acquisition process.

We reported very favourable financial results for the first quarter. Revenues and operating earnings were up due to the inclusion of the new businesses recently acquired and improvements at Celestica. We also reported a very significant profit for the quarter due to the non-cash gain recorded on the closing of the Celestica exchangeable debentures.

As always, our focus remains on building value over the long term and having that value reflected in Onex' share price.

## REVIEW OF SIGNIFICANT EVENTS DURING THE FIRST QUARTER

This section provides a summary of the significant events at Onex and its operating companies during the three months ended March 31, 2005. Readers interested in a descriptive listing of the Onex operating companies and Onex' ownership interest in each can find this information on Onex' website at [www.onex.com](http://www.onex.com).

Revenues and operating earnings in the following discussion have been presented in each operating company's functional currency, as indicated, since currency translations may distort the operating company's actual results. Otherwise, amounts are in Canadian dollars.

### **Onex to acquire Boeing's commercial aircraft manufacturing operations**

In late February 2005, Onex announced that it had signed an agreement to purchase The Boeing Company's commercial aircraft manufacturing operations in Wichita, Kansas and Tulsa and McAlester, Oklahoma in a transaction valued at approximately \$1.5 billion. The transaction consideration is expected to consist of \$1.1 billion in cash and the assumption of certain liabilities. Onex, Onex Partners and certain limited partners intend to invest approximately \$465 million in the equity component of the funding, of which Onex' share will be at least \$127 million.

These operations will be carved out of Boeing and will operate as a new stand-alone company controlled by Onex. This new company will be the largest Tier 1 aerostructures manufacturer in the world and our strategy will include growing the business with Boeing and adding customers from the large commercial, regional, and business jet original equipment manufacturers ("OEMs") and from the military sector. The new company will be amongst the largest suppliers to Boeing and will enter into long-term agreements to supply fuselage sections, struts and nacelles, and wing elements for all of Boeing's existing 737, 747, 767, and 777 platforms, as well as its new 787 aircraft. Onex will institute various cost reductions at closing in order to compete effectively for new business at the purchased facilities.

This transaction is subject to a number of conditions, including regulatory approvals and satisfactory arrangements with employees. Onex expects to close the acquisition during the second quarter of 2005.

### **Onex purchases two U.S. healthcare companies**

In February 2005, Onex completed the acquisition of American Medical Response, Inc. ("AMR") and EmCare, Inc. ("EmCare") in a transaction valued at approximately \$1 billion. The investment in the equity made by Onex and Onex Partners was \$266 million for a 97 percent ownership interest. Onex' portion of the equity was \$100 million for an approximate 36 percent ownership interest. AMR is the largest U.S. provider of ambulance transport services. EmCare is the leading U.S. provider of outsourced services for hospital emergency department physician staffing and management. Onex formed Emergency Medical Services ("EMS") as the parent company of AMR and EmCare.

The two operating companies represent excellent platforms upon which to grow in the emergency medical services industry. Each has a leadership position in its industry segment and enjoys a large and stable customer base. We intend to work with the EMS management team to identify and implement appropriate growth strategies for both businesses. Revenues and operating earnings for the two months since our February 2005 acquisition totalled US\$286 million and US\$18 million, respectively.

### **Onex redeems its Celestica exchangeable debentures**

In February 2005, Onex redeemed its debentures that were exchangeable for Celestica, Inc. ("Celestica") subordinate voting shares and recorded a pre-tax gain of \$560 million. The cash for these exchangeable debentures was received by Onex when it originally entered into these arrangements in 2000. The redemption was undertaken to eliminate Onex'

annual interest expense of approximately \$11 million associated with the debentures. The aggregate principal amount of the debentures was approximately \$729 million and, in accordance with the terms of the debentures, Onex satisfied its obligation through the delivery of approximately 9.2 million Celestica subordinate voting shares. The number of shares was based upon the fixed exchange rates provided for under the terms of the debentures. The exchange was a non-cash transaction except for an early termination premium of approximately \$12 million and accrued interest that was paid in cash.

Onex converted approximately 9.2 million Celestica multiple voting shares into Celestica subordinate voting shares to facilitate the redemption. Onex continues to hold 27.3 million multiple voting shares of Celestica, excluding shares held in connection with the Management Investment Plan (the “MIP”) investment rights and shares pledged under forward sales contracts. Onex’ equity and voting interests in Celestica, excluding shares held in connection with the MIP investment rights and shares pledged under forward sales contracts, are approximately 12 percent and 78 percent, respectively.

### **Steady growth at Celestica**

Celestica, a leading provider of electronics manufacturing services, reported a 7 percent increase in revenues to US\$2.2 billion in the first quarter of 2005 from US\$2.0 billion in the same quarter last year. The revenue growth came from the company’s Asian operations, which increased 20 percent from the prior year due to higher volumes, improved demand and new customers. This increase was partially offset by lower volumes in the Americas and Europe regions and typical seasonality. The company also reported operating earnings of US\$48 million for the three months ended March 31, 2005 compared to operating earnings of US\$9 million in the first quarter of 2004. Higher volumes in Asia, improved operating efficiency, benefits from restructuring activities, benefits from lean manufacturing activities and exited businesses that had lower margins contributed to the growth in operating earnings.

### **Magellan Health launches new product**

In early April 2005, Magellan Health Services, Inc. (“Magellan”), a leading U.S. behavioural health disease management organization, launched a first-of-its-kind obesity management product to help health plans,

employers and other healthcare purchasers address the growing problem of obesity in the United States. The product, known as Condition Care Management: Obesity, supplements Magellan’s suite of disease management products that not only helps the company’s customers to have a positive influence on the health of their members or employees but also addresses the financial risks that payers face from chronic problems such as obesity. This product offers four tiers of intervention: web-based interactive tools; telephonic support with the help of Magellan coaches; referrals to specialized behavioural health practitioners; and a unique bariatric surgery management program.

During the first quarter of 2005, Magellan reported revenues of US\$458 million, up 12 percent from US\$409 million in the same quarter last year. Operating earnings were also up 71 percent to US\$53 million in the first three months of 2005 from US\$31 million in the first quarter of 2004. The improved results were due primarily to a reduction in stock-based compensation expense, which is a non-cash expense, lower administrative costs and strong membership growth.

In early May 2005, Onex announced that it would offer for sale approximately 49 percent of its Magellan shares by means of a secondary offering in the United States. If the offering is completed, Onex would continue to hold approximately 4.3 million Magellan shares, or 12 percent of the outstanding Magellan common stock (10 percent if the underwriters exercise their overallotment option), but would cease to have voting control of Magellan.

### **ResCare completes three acquisitions**

Res-Care, Inc. (“ResCare”), the leading provider of residential, training, educational and support services for special needs youth and persons with disabilities, acquired three tuck-in operations that support the company’s growth strategy. Those operations consist of: a small residential services provider to people with developmental and other disabilities in California; a provider of mental health, group home and adult day care services in Nebraska; and a licensed private home care provider specializing in private duty care in Georgia.

During the first quarter of 2005, ResCare reported revenues of US\$259 million and net earnings of US\$6 million. Onex records its interest in ResCare on an equity accounting basis.

### **Onex completes acquisition of Center for Diagnostic Imaging**

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

CDI operates 32 diagnostic imaging centres in nine markets in the United States, which provide services such as magnetic resonance imaging (“MRI”), computed tomography (“CT”), diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound. This company represents a strong platform on which to grow in a sector experiencing increasing demand from an aging population. The company has state-of-the-art technology and a distinctive productivity and equity-based business model that attracts top-quality clinical staff. During the first quarter of 2005, CDI opened one new diagnostic imaging centre as part of the company’s strategic growth plans.

CDI had a good quarter, with reported revenues of US\$26 million and operating earnings of US\$4 million during the first three months of 2005.

### **ClientLogic completes debt refinancing**

During the first quarter of 2005, ClientLogic Corporation (“ClientLogic”), a leading international business process outsourcing provider in the customer care and fulfillment industry, reported revenues of US\$147 million, up US\$9 million from US\$138 million reported in the first quarter of last year. The revenue growth was from its core customer contact business and from new clients and contracts added in 2004. Operating earnings were US\$4 million during the first quarter of 2005 compared to US\$10 million in the same quarter of 2004. Included in the operating earnings for the first quarter of 2004 was a US\$6 million one-time benefit from the settlement of previously reserved contingent liabilities. Excluding the impact of this one-time benefit, operating earnings for the first three months of 2005 were on par with those of the same period last year.

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

### **Cineplex Galaxy reports higher revenues**

Onex’ holdings in the theatre exhibition segment include the operations of Cineplex Galaxy Limited Partnership (“CGLP”) and Cineplex Odeon Corporation, which owns a small number of theatres and real property not included in CGLP. These combined operations collectively constitute Cineplex Galaxy.

Cineplex Galaxy, Canada’s second-largest film exhibition company, reported first-quarter revenues of \$78 million, up 1 percent from revenues of \$77 million in the first quarter of 2004. The revenue growth was due primarily to two factors: improved ancillary revenues, such as on-screen advertising, which increased 29 percent over the first quarter of last year; and higher concession revenues, which increased 4 percent from the same period last year. Partially offsetting these factors was lower box-office revenue in the first quarter of 2005 compared to the same quarter of 2004. During the first three months of 2005, CGLP operated 86 theatres compared to 83 theatres in the same period last year.

In late February 2005, Cineplex Galaxy announced the April 2005 launch of its pre-show digital cinema network at its theatres in Toronto and southern Ontario. The network enables the company to project high-quality multimedia presentations of entertainment, advertising and promotional content prior to the beginning of each feature film presentation. The network will enhance the moviegoer’s experience by enabling Cineplex Galaxy to provide the latest news as well as benefit marketers with improved image quality, much larger images and the timely, cost-efficient production of ads.

### **Challenging automotive market for J.L. French Automotive**

North American car and light truck production declined slightly in the first quarter of 2005 from the first three months of 2004 as the Big Three North American manufacturers – Ford, General Motors and DaimlerChrysler – continued to experience lower sales and rising vehicle

inventory levels. J.L. French Automotive Castings, Inc. (“J.L. French Automotive”), a leading manufacturer of aluminum die-cast components for North American and European automotive original equipment manufacturers, was adversely affected by these challenging market conditions during the first quarter of 2005. The company reported revenues of US\$130 million for the first three months of 2005, down US\$17 million from US\$147 million in the same period of 2004; approximately 80 percent of J.L. French Automotive’s production is for specific Ford and General Motors platforms. Lower revenues also affected operating earnings, which declined in the first quarter of 2005 to US\$10 million from US\$17 million in the same quarter of 2004. Management of J.L. French Automotive has been addressing the situation with adjustments to manufacturing levels. The company recently obtained an amendment to certain financial covenants to allow greater financial flexibility going forward. We expect that the balance of the year will continue to be challenging for the company.

### **Commercial Vehicle Group acquires Mayflower Vehicle Systems**

Commercial Vehicle Group, Inc. (“CVG”) is a leading supplier of interior systems, vision safety solutions and other cab-related products to the global commercial vehicle market and other specialized transportation markets. In early February 2005, the company acquired Mayflower Vehicle Systems North American Commercial Vehicle Operations (“MVS”) for cash consideration of US\$107.5 million. This purchase was funded through the cash resources of CVG and third-party borrowings.

MVS is a producer of complete truck cabs for the commercial vehicle sector and provides OEMs with full service engineering and development capabilities. The company’s products include cab frames and assemblies, sleeper boxes and other structural components for major customers such as International, Volvo/Mack and Freightliner. MVS has U.S. operations in Ohio, North Carolina and Michigan. This acquisition makes CVG the only worldwide supplier to offer complete cab systems that integrate interior trim and seats with the cab structure.

### **CEI acquires Hauer Manufacturing**

In April 2005, Cosmetic Essence, Inc. (“CEI”) acquired Hauer Manufacturing, Inc. (“Hauer”) in a transaction

valued at approximately \$20 million. The purchase was funded through CEI’s existing credit facilities. Hauer, headquartered in Douglassville, Pennsylvania, manufactures, packages and distributes household and body care products. The acquisition brings new customers to CEI and enables the company to benefit from the application of Hauer’s modern, high-speed equipment and substantial excess capacity to the production of certain of CEI’s products. Hauer generates annual revenues of more than \$25 million. We are evaluating a number of other acquisition opportunities with CEI’s management.

The first quarter of each year is typically a slower period for cosmetics manufacturers because it follows the fourth quarter holiday season that typically experiences a spike in cosmetics sales. As a result, CEI reported revenues of US\$58 million and a slight operating loss during the first quarter of 2005, which was in line with our expectation given the seasonal nature of this industry.

### **ONCAP to raise a second fund**

ONCAP LP (“ONCAP”), Onex’ group dedicated to acquiring small- and medium-sized companies in North America, initiated plans to raise a second fund following the expiry of the first fund’s commitment period at the end of 2004. The second fund is expected to total \$500 million and Onex will participate for not less than 40 percent of that amount – a significant increase from Onex’ 28 percent position in the first ONCAP fund. During the first quarter of 2005, ONCAP began fundraising for the second fund.

In April 2005, ONCAP’s subsidiary Western Inventory Service Ltd. (“Western”) acquired Washington Inventory Service Ltd. (“Washington”), a provider of inventory counting services to retailers in the United States, Mexico, South America, Europe and Asia, in a transaction valued at approximately \$139 million. Washington also provides merchandising services primarily to consumer products manufacturers in the United States. These two companies were subsequently merged to form WIS International (“WIS”), which is controlled by ONCAP. WIS will have a broad North American infrastructure with a wider product offering including merchandising services, as well as an international service capability.

ONCAP’s operating companies – CMC Electronics Inc. (“CMC Electronics”), Western, Futuremed Health Care Products L.P. (“Futuremed”) and Canadian

Securities Registration Systems, Ltd. (“CSRS”) – reported combined revenues of \$130 million for the first quarter of 2005, an increase of \$38 million from the \$92 million reported during the first quarter of 2004. Operating earnings also grew to \$12 million in the first quarter of 2005 from \$3 million in the same quarter of last year. The increase in first-quarter revenues and operating earnings was due primarily to the inclusion of a full quarter of results for Futuremed, acquired in February 2004, and CSRS, acquired in April 2004.

### **Market conditions remain competitive for Radian**

Radian Communication Services Corporation (“Radian”) reported revenues of \$31 million in the first quarter of 2005, up slightly from those in the same quarter of last year. The company reported an operating loss of \$3 million for the first quarter of 2005, on par with the operating loss reported in the first three months of last year. Continuing price competition, driven primarily by ongoing low levels of capital expenditures by wireless carriers in the United States and Canada, was the most significant factor in the loss. The company believes that the United States market is beginning to show improvement, which the company should benefit from as the year progresses.

### **Partial sale of CGG investment**

In early January 2005, Onex sold approximately 54 percent, or approximately \$55 million principal amount, of its convertible subordinated bonds of Compagnie Générale de Géophysique (“CGG”) after receiving an attractive third-party offer for the bonds. Onex and Onex Partners collectively received total proceeds of \$76 million, of which Onex’ share was approximately \$18 million. As a result of this sale, a pre-tax gain of \$21 million was recorded, of which Onex’ share was \$5 million. This was reported in gains on sales of operating investments in the unaudited interim consolidated statement of earnings for the quarter ended March 31, 2005.

The CGG convertible bonds that Onex and Onex Partners continue to hold bear interest at the rate of 7.75 percent per annum and are convertible by Onex at any time into freely tradeable ordinary shares of CGG at a conversion price of US\$60.70 per share. As at March 31, 2005,

the remaining bonds, on an as-converted basis, represent approximately 650,000 ordinary shares of CGG that had a market value of \$69 million.

### **New opportunities**

Onex has been evaluating new opportunities with alternative asset classes where funds can be put to work to achieve appropriate returns. In early January 2005, Onex established Onex Real Estate Partners LP (“Onex Real Estate Partners”), a fund dedicated to acquiring and improving real estate assets in North America. Onex has initially committed approximately \$240 million to the fund, which will be drawn as acquisitions or investments are completed. The size of Onex Real Estate Partners is also expected to increase over time with the participation of institutional investors.

Onex Real Estate Partners has a dedicated team of seasoned real estate professionals, led by Michael Dana, with over 20 years of experience and a strong track record of success in creating value in the real estate market.

In March 2005, Onex established Onex Public Markets Group (“OPMG”) to invest in public securities. OPMG will be targeting to invest between \$20 million and \$60 million in any one company and will hold a limited number of positions at any one time. The focus will be on equity positions of North American public companies across multiple industries. Three public markets investment professionals have been hired who are dedicated to this effort. During the first quarter of 2005, OPMG invested \$17 million in public securities.

### **Onex sells InsLogic Corporation**

In early January 2005, Onex sold its operating company InsLogic Corporation (“InsLogic”) for net cash proceeds of \$22 million. Onex formed InsLogic in 1999 to provide technology-enabled, private-label insurance brokerage services. During the period of its ownership, Onex invested a total of \$52 million in both equity and debt of the company. Due to the losses Onex had recorded on InsLogic in prior years, the business had a negative carrying value for accounting purposes at the time of the sale. As a result, Onex recorded an accounting gain of \$73 million on the sale. We believe it was the appropriate time to sell InsLogic to a buyer that could facilitate the next stage of growth for the company.



## FINANCIAL REVIEW

This section analyzes the significant changes in Onex' unaudited interim consolidated statements of earnings and unaudited interim consolidated statements of cash flows for the three months ended March 31, 2005 compared to those for the same period ended March 31, 2004, and compares Onex' financial condition at March 31, 2005 to that at December 31, 2004.

### Accounting policies and estimates

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

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenues and expenses for the period of the unaudited interim consolidated financial statements. Significant accounting policies and methods used in preparation of the financial statements are described in note 1 to the unaudited interim consolidated financial statements and in note 1 to the December 31, 2004 audited annual consolidated financial statements. Onex and its operating companies evaluate their estimates and assumptions on a regular basis, based on historical experience and other relevant factors. Included in Onex' unaudited interim consolidated financial statements are significant estimates used in determining the allowance for doubtful accounts, inventory valuation, income tax valuation allowances, the fair value of reporting units for purposes of goodwill impairment tests, the useful lives and valuation of property, plant and equipment and intangible assets, pension and post-employment benefits, liability for medical claims incurred but not reported ("IBNR"), restructuring costs and other matters. Actual results could differ materially from those estimates and assumptions.

### New accounting policies in 2005

#### Consolidation of variable interest entities

In June 2003, the Canadian Institute of Chartered Accountants issued Accounting Guideline 15 ("AcG-15"), "Consolidation of Variable Interest Entities". Variable interest entities ("VIEs") are entities that have insufficient equity and/or their equity investors lack one or more specified essential characteristics of a controlling financial

interest. This guideline provides specific guidance for determining when an entity is a VIE, and who, if anyone, should consolidate the VIE.

During the first quarter of 2005, the adoption of this new guideline resulted in a VIE of one of Onex' operating companies being consolidated. Previously the VIE had been recorded as a joint venture and had recorded revenues of \$329 million, net earnings of nil, total assets of \$32 million and total liabilities of \$18 million for the year ended December 31, 2004. For the three months ended March 31, 2005, this VIE recorded revenues of \$68 million, net earnings of nil, total assets of \$37 million and total liabilities of \$23 million.

### SIGNIFICANT EVENTS FOR THE PERIOD ENDED MARCH 31, 2005

The following significant events affected Onex' unaudited interim consolidated operating results for the period ended March 31, 2005 and their comparability to results for the same period of 2004.

#### Purchase of Center for Diagnostic Imaging

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

CDI operates 32 diagnostic imaging centres in nine markets in the United States, which provide services such as magnetic resonance imaging ("MRI"), computed tomography ("CT"), diagnostic and therapeutic injection procedures and other procedures such as PET/CT, conventional x-ray, mammography and ultrasound. CDI's

operations have been consolidated and reported in the healthcare segment from the date of acquisition. Note 3 to the unaudited interim consolidated financial statements provides additional information on this acquisition.

### **Acquisition of two U.S. healthcare companies**

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

AMR is the largest U.S. provider of ambulance transport and emergency medical response services. EmCare is the leading provider of outsourced services for hospital emergency department physician staffing and management. Onex formed Emergency Medical Services L.P. ("EMS") as the parent company of AMR and EmCare. EMS' operations have been consolidated and reported in the healthcare segment from the date of acquisition. Note 3 to the unaudited interim consolidated financial statements provides additional information on this acquisition.

### **Onex redeems its Celestica exchangeable debentures**

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

premium of approximately \$12 million that was netted against the recorded gain of these exchangeable debentures, and accrued interest, both of which were paid in cash.

### **Partial sale of CGG investment**

In early January 2005, Onex sold approximately 54 percent, or approximately \$55 million in principal amount, of its convertible subordinated bonds of Compagnie Générale de Géophysique ("CGG") after receiving an attractive third-party offer for the bonds. Onex and Onex Partners received total proceeds of \$76 million, of which Onex' share was approximately \$18 million. As a result of this sale, a pre-tax gain of \$21 million was recorded, of which Onex' share was \$5 million. This was reported in gains on sales of operating investments in the unaudited interim consolidated statement of earnings for the quarter ended March 31, 2005.

### **Sale of InsLogic Corporation**

In early January 2005, Onex sold its operating company InsLogic Corporation ("InsLogic") for net cash proceeds of \$22 million. Onex formed InsLogic in 1999 to provide technology-enabled, private-label insurance brokerage services. During the period of its ownership, Onex had invested a total of \$52 million in both equity and debt of the company. Due to the losses Onex had recorded on InsLogic in prior years, the business had a negative carrying value for accounting purposes at the time of the sale. As a result, Onex recorded an accounting gain of \$73 million on the sale.

## **CONSOLIDATED OPERATING RESULTS**

This section should be read in conjunction with the unaudited interim consolidated statements of earnings for the three months ended March 31, 2005, the corresponding notes and the December 31, 2004 audited annual consolidated financial statements.

### **Variability of results**

Onex' consolidated annual and quarterly operating results may vary substantially from period to period for a number of reasons, including some of the following: acquisitions or dispositions of businesses by Onex, the parent company;

the volatility of the exchange rate between the U.S. dollar and the Canadian dollar; the change in market value of stock-based compensation and derivative instruments; and activities at Onex' operating companies. These activities may include the purchase or sale of businesses; fluctuations in customer demand and materials and employee-related costs; changes in the mix of products and services produced; and charges to restructure operations. The discussion that follows identifies some of the material factors that affected each of Onex' operating segments and Onex' unaudited interim consolidated results for the quarter ended March 31, 2005.

In accordance with required accounting policies, the financial statements for the first quarter of 2004 have been restated from those previously reported for those businesses that were subsequently sold in 2004 or in the first quarter of 2005 and have been accounted for as discontinued. These include the operations of Loews Cineplex Entertainment Corporation ("Loews Cineplex"), Dura Automotive, Inc. ("Dura Automotive"), Armtec Limited ("Armtec") and Cincinnati Electronics ("Cincinnati Electronics"), as well as InsLogic and NovAtel Inc. ("NovAtel"), which were discontinued in 2005.

### Consolidated revenues

Consolidated revenues grew 9 percent, or \$355 million, to \$4.2 billion for the three months ended March 31, 2005 from \$3.9 billion for the same quarter in 2004. Recently completed acquisitions provided a meaningful component of the

revenue growth in the first quarter of 2005. The acquisition of AMR and EmCare in February 2005, now operating under the parent company EMS added \$351 million in revenues. The purchase of CDI, acquired in January 2005, contributed \$32 million of the revenue increase. In addition, the inclusion of the results of Cosmetic Essence, Inc. ("CEI"), acquired in late December 2004, added \$72 million to the revenue for the quarter.

Partially offsetting the first-quarter revenue growth was the exclusion of revenues of Commercial Vehicle Group, Inc. ("CVG"), which amounted to \$113 million in the first quarter of 2004, since that company has been accounted for on an equity basis following CVG's initial public offering in August 2004, at which time Onex ceased to control the company. In addition, J.L. French Automotive Castings, Inc.'s ("J.L. French Automotive") revenues declined \$34 million in the first quarter of 2005 compared to the same quarter last year due to lower production volumes by its North American original equipment manufacturer ("OEM") customers.

A detailed breakdown of revenues by industry segment and the change in revenues from the first quarter of last year is provided in Table 1 below in both the Canadian dollar and the functional currency of the companies. This presentation is made to show the actual change in revenues without the effect of currency translation rate changes. Note 13 to the unaudited interim consolidated financial statements also details revenues by industry segment.

### Revenues by Industry Segment

TABLE 1		<i>(Unaudited) (\$ millions)</i>			Canadian Dollars			Functional Currency		
<i>Three months ended March 31</i>		2005	2004	Revenue increase/ (decrease)	2005	2004	Revenue increase/ (decrease)			
Electronics Manufacturing Services	\$ 2,639	\$ 2,658	\$ (19)	US\$ 2,151	US\$ 2,017	US\$ 134				
Theatre Exhibition	78	77	1	C\$ 78	C\$ 77	C\$ 1				
Healthcare	945	539	406	US\$ 770	US\$ 409	US\$ 361				
Customer Management Services	181	182	(1)	US\$ 147	US\$ 138	US\$ 9				
Automotive Products	160	307	(147)	US\$ 130	US\$ 233	US\$ (103)				
Other <sup>(a)</sup>	233	118	115	C\$ 233	C\$ 118	C\$ 115				
<b>Total</b>	<b>\$ 4,236</b>	<b>\$ 3,881</b>	<b>\$ 355</b>							

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

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

## Consolidated cost of sales

Consolidated cost of sales was up 8 percent to \$3.7 billion in the first quarter of 2005 from \$3.4 billion in the same quarter last year.

Table 2 provides a breakdown of cost of sales by industry segment for the three months ended March 31, 2005 and 2004 in both Canadian dollars and the companies' functional currency, as indicated. We have provided the cost

of sales in the companies' functional currency to exclude the impact of foreign exchange translation on the cost of sales. Note 13 to the unaudited interim consolidated financial statements also provides cost of sales by industry segment in Canadian dollars. Table 3 provides additional details on cost of sales as a percentage of revenues by industry segment for the first quarters of 2005 and 2004.

## Cost of Sales by Industry Segment

TABLE 2	(Unaudited) (\$ millions)	Canadian Dollars			Functional Currency		
		2005	2004	Cost of sales increase/ (decrease)	2005	2004	Cost of sales increase/ (decrease)
<i>Three months ended March 31</i>							
Electronics Manufacturing Services	\$ 2,453	\$ 2,500	\$ (47)	US\$ 1,999	US\$ 1,897	US\$ 102	
Theatre Exhibition	62	61	1	C\$ 62	C\$ 61	C\$ 1	
Healthcare	766	416	350	US\$ 625	US\$ 316	US\$ 309	
Customer Management Services	113	109	4	US\$ 92	US\$ 83	US\$ 9	
Automotive Products	129	242	(113)	US\$ 105	US\$ 184	US\$ (79)	
Other <sup>(a)</sup>	168	75	93	C\$ 168	C\$ 75	C\$ 93	
<b>Total</b>	<b>\$ 3,691</b>	<b>\$ 3,403</b>	<b>\$ 288</b>				

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

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

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

TABLE 3	(Unaudited) Three months ended March 31	2005	2004
Electronics Manufacturing Services		93%	94%
Theatre Exhibition		79%	79%
Healthcare		81%	77%
Customer Management Services		62%	60%
Automotive Products		81%	79%
Other <sup>(a)</sup>		72%	64%
<b>Total</b>		<b>87%</b>	<b>88%</b>

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

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

Celestica's cost of sales increased 5 percent in its functional currency compared to a 7 percent increase in revenues in the first quarter of 2005. The improvement in gross profit of US\$32 million in the quarter was due primarily to

higher volumes in Asia, reduced pricing pressures, cost reductions realized from the company's restructuring initiatives, improved operating efficiency and benefits from lean manufacturing processes and exited businesses; these improvements were partially offset by costs of ramping up new customer programs and transferring programs to different manufacturing locations.

The healthcare segment reported cost of sales of US\$625 million in the first quarter of 2005, up US\$309 million compared to US\$316 million in the same quarter last year. The acquisitions of CDI and EMS, completed in January and February 2005, respectively, contributed US\$254 million of the growth in cost of sales for the three months ended March 31, 2005. Cost of sales as a percentage of revenues for the healthcare segment was 81 percent for the three months ended March 31, 2005 compared to 77 percent in the first quarter of 2004. The change in the cost of sales as a percentage of revenues in the first quarter of 2005 was due primarily to the addition of CDI and EMS to the healthcare segment in the first three months of 2005.

ClientLogic Corporation ("ClientLogic") reported cost of sales in its functional currency of US\$92 million in the first quarter of 2005, up US\$9 million from US\$83 million in the first quarter of last year. This compares to a 6 percent increase in revenues in the company's functional currency for the same period. Cost of sales during the first quarter of 2004 benefitted from a one-time US\$6 million settlement of previously reserved contingent liabilities that reduced overall cost of sales in that quarter. ClientLogic's cost of sales as a percentage of revenues increased to 62 percent during the first quarter of 2005 from 60 percent in the same quarter of 2004.

The automotive products segment reported cost of sales of US\$105 million for the three months ended March 31, 2005, which represents the cost of sales of J.L. French Automotive for the quarter. This compares to the US\$184 million reported in the same period last year, which includes US\$68 million of CVG's cost of sales relating to that company's operations in the first quarter of 2004. In August 2004 Onex began to account for CVG on an equity basis following that company's initial public offering. J.L. French Automotive's cost of sales as a percentage of revenues increased to 81 percent in the first quarter of 2005 from 79 percent in the same quarter last year due primarily to higher aluminum prices in the quarter that could not be fully recovered in pricing to customers.

### Operating earnings

We define operating earnings as EBIAT, or earnings before interest expense, amortization of intangibles and deferred charges, acquisition and restructuring expenses, other non-recurring items, income taxes, non-controlling interests and discontinued operations. Table 4 provides a reconciliation of the unaudited interim consolidated statements of earnings to operating earnings for the three months ended March 31, 2005 and 2004.

### Operating Earnings Reconciliation

TABLE 4	<i>(Unaudited) (\$ millions)</i> <i>Three months ended March 31</i>	2005	2004
Earnings before the undernoted items		<b>\$ 274</b>	\$ 219
Amortization of property, plant and equipment		<b>(104)</b>	(99)
Interest and other income		<b>50</b>	6
Equity-accounted investments		<b>4</b>	-
Foreign exchange gains		<b>12</b>	2
Stock-based compensation		<b>(19)</b>	(42)
Operating earnings		<b>217</b>	86
Amortization of intangible assets and deferred charges		<b>(28)</b>	(21)
Interest expense of operating companies		<b>(70)</b>	(53)
Derivative instruments		<b>1</b>	(20)
Gains on sales of operating investments, net		<b>603</b>	90
Acquisition, restructuring and other expenses		<b>(43)</b>	(26)
Writedown of long-lived assets		<b>-</b>	(2)
Earnings before income taxes, non-controlling interests and discontinued operations		<b>\$ 680</b>	\$ 54

Onex uses EBIAT to evaluate each operating company's performance because it eliminates interest charges, which are a function of the operating company's particular financing structure, as well as any unusual or non-recurring charges. Onex' method of determining operating earnings may differ from other companies' methods and, accordingly, EBIAT may not be comparable to measures used by other companies. EBIAT is not a performance measure under Canadian GAAP and should not be considered either in isolation or as a substitute for net earnings (loss) prepared in accordance with Canadian GAAP. Table 5 on the following page provides a detailed breakdown of operating earnings by industry segment and the change in operating earnings for the first quarters of 2005 and 2004.

## Operating Earnings (Loss) by Industry Segment

TABLE 5	<i>(Unaudited) (\$ millions)</i>		2004	Operating earnings increase/ (decrease)
	<i>Three months ended March 31</i>			
	2005			
Electronics Manufacturing Services	\$ 59	\$ 12		\$ 47
Theatre Exhibition	6	6		-
Healthcare	93	40		53
Customer Management Services	5	13		(8)
Automotive Products	14	33		(19)
Other <sup>(a)</sup>	40	(18)		58
Total	\$ 217	\$ 86		\$ 131

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

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

Consolidated operating earnings were \$217 million for the first quarter of 2005, up \$131 million from \$86 million in the same quarter of 2004. The quarter-over-quarter change in operating earnings was due to several factors: the operating earnings growth from the acquisitions of CDI (\$5 million) and EMS (\$22 million), which were acquired in January 2005 and February 2005, respectively; a \$26 million increase in Magellan Health Services, Inc.'s ("Magellan") operating earnings driven primarily by better operating efficiency and careful management of administrative and care costs; a \$47 million improvement in operating earnings at Celestica due to higher volumes and benefits from cost cutting; and a \$23 million lower charge from the revaluation of the stock-based compensation liability discussed below. Partially offsetting these factors was a \$10 million decline in operating earnings at J.L. French Automotive and the inclusion of \$11 million in operating earnings of CVG in the first quarter of 2004.

### Stock-based compensation

During the first quarter of 2005, Onex recorded a \$19 million stock-based compensation expense. Included in the stock-based compensation expense for the first quarter of 2005 was a \$2 million expense recorded by Onex, the parent company, that resulted from the increase in value of Onex' stock options and investment rights from their value at December 31, 2004; \$5 million and \$6 million expenses

recorded by Celestica and Magellan, respectively; and a \$5 million expense recorded by CMC Electronics Inc. ("CMC Electronics").

This compares to a \$42 million stock-based compensation expense recorded in the first quarter of 2004 resulting primarily from a \$21 million expense recorded by Onex, the parent company, as well as a \$5 million expense recorded by Celestica and a \$15 million stock-based compensation expense recorded by Magellan.

### Foreign exchange gains

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

A net foreign exchange gain of \$12 million was recorded in the first quarter of 2005 compared to a gain of \$2 million in the same quarter of 2004 due to the strengthening of the U.S. dollar to 1.2096 Canadian dollars at March 31, 2005 from 1.2020 Canadian dollars at December 31, 2004. Onex, the parent company, recorded \$13 million of the foreign exchange gain during the first quarter of 2005. Note 13 to the unaudited interim consolidated financial statements provides a breakdown of foreign currency gains (loss) by industry segment.

### Interest and other income

Interest and other income increased \$44 million to \$50 million in the first quarter of 2005 compared to \$6 million in the first quarter of last year. Included in the 2005 first-quarter interest and other income was \$27 million of income on non-strategic assets and \$13 million of interest income recorded by Onex, the parent company, as well as \$5 million of interest income recorded by Magellan. Note 13 to the unaudited interim consolidated financial statements provides a breakdown of interest and other income by industry segment.

### Derivative instruments

At March 31, 2005, Onex, the parent company, had a derivative instrument in place – forward sales contracts related to shares of Celestica held by Onex – that was required to be marked-to-market under EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments", since this instrument does not qualify for

hedge accounting. During the first quarter of 2005, Onex recorded a \$1 million benefit to earnings for the change in the market value of these forward sales contracts as a result of the decrease in market value of the underlying Celestica shares since December 31, 2004. This compares to a \$20 million charge to earnings in the first quarter of last year associated with an increase in the value of Celestica shares during that period and relating to both the forward sales contracts and the Celestica exchangeable debentures, which were redeemed in February 2005. While this accounting adjustment was required to be made in accordance with the accounting guideline, it does not have a cash impact on Onex. Onex may settle this derivative instrument with the delivery of Celestica shares it currently holds that are pledged as security for this derivative instrument.

#### **Gains on sales of operating investments, net**

Onex recorded \$603 million in gains on sales of operating investments for the three months ended March 31, 2005 compared to gains of \$90 million in the first quarter of 2004. Included in the 2005 first-quarter gains was a \$560 million pre-tax, non-cash gain recorded by Onex, the parent company, on the redemption of its Celestica exchangeable debentures in February 2005, and a \$21 million gain on the sale of a portion of the CGG convertible bonds in early January 2005, of which Onex' portion of the gain was \$5 million.

Included in the 2004 first-quarter gains was a \$58 million non-cash gain that resulted from Performance Logistics Group Inc.'s ("PLG") issuance of shares for its purchase of Leaseway Auto Carrier Group; this gain comprised a \$22 million non-cash accounting dilution gain and the reversal of \$36 million of losses of PLG previously recognized by Onex that were in excess of other shareholders' equity in PLG. Also included was a \$9 million accounting dilution gain recorded by Onex following the issuance of shares by Celestica for the purchase of Manufacturers' Services Limited ("MSL") in March 2004. Note 6 to the unaudited interim consolidated financial statements details the gains on shares of investments.

#### **Acquisition, restructuring and other expenses**

Acquisition, restructuring and other expenses are considered to be costs incurred to realign organizational structures or restructure manufacturing capacity to obtain

operating synergies critical to building the long-term value of Onex' operating companies. During the first quarter of 2005, acquisition, restructuring and other expenses totalled \$43 million, up from \$26 million reported in the same quarter last year. Approximately \$41 million of the expenses recorded in the first quarter of 2005 were incurred by Celestica and related to recently announced restructuring plans; this compares to \$18 million recorded by Celestica in the first quarter of 2004. Many of the costs to implement these plans can only be recorded as they are incurred and thus the costs may be spread over several reporting periods. These latest plans, which include reducing workforce and consolidating facilities, are intended to improve capacity utilization and accelerate margin improvements. Note 7 to the unaudited interim consolidated financial statements details the nature of the acquisition, restructuring and other expenses, such as employee termination costs, facility and exit costs and other charges, by the year in which the activity was initiated. In addition, note 13 to the unaudited interim consolidated financial statements provides a breakdown of acquisition, restructuring and other expenses by industry segment.

#### **Income taxes**

During the first quarter of 2005, the provision for income taxes was \$38 million compared to a provision of \$3 million in the same quarter last year. Included in the 2005 first-quarter provision for income taxes was a \$120 million current income tax expense recorded by Onex, the parent company, relating to the gain on the redemption of its Celestica exchangeable debentures. Offsetting this is an equivalent recovery of income taxes resulting from the application of previous years' loss carryforwards for which a full valuation allowance had previously been provided.

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

In the unaudited interim consolidated statements of earnings, the non-controlling interest amount, which represents the interests of shareholders other than Onex in the net earnings or losses of the operating companies, was \$29 million in earnings of those companies for the first quarter of 2005 (2004 first quarter – net earnings of \$6 million). The change was due primarily to improved earnings at Magellan (\$13 million), the inclusion of EMS' earnings from the date of its acquisition (\$4 million), improved

earnings at Celestica and \$10 million primarily for the interest of other limited partners of Onex Partners in the gain on CGG.

### Earnings from continuing operations

Onex' consolidated earnings from continuing operations were \$613 million (\$4.41 per share) in the first quarter of 2005 compared to consolidated earnings from continuing operations of \$45 million (\$0.31 per share) reported for the first three months of 2004. Table 6 details the net earnings (loss) from continuing operations by industry segment for the three months ended March 31, 2005 and 2004.

### Earnings (Loss) from Continuing Operations

TABLE 6	<i>(Unaudited) (\$ millions)</i> <i>Three months ended March 31</i>	2005	2004
Earnings (loss) before income taxes and non-controlling interests:			
Electronics Manufacturing Services	\$ (6)	\$ (17)	
Theatre Exhibition	4	4	
Healthcare	63	21	
Customer Management Services	(4)	5	
Automotive Products	(4)	4	
Other <sup>(a)</sup>	627 <sup>(b)</sup>	37	
	<b>680</b>	54	
Provision for income taxes	(38)	(3)	
Non-controlling interests of operating companies	(29)	(6)	
Earnings from continuing operations	<b>\$ 613</b>	\$ 45	

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

(b) Includes a \$560 million pre-tax gain on the redemption of Celestica exchangeable debentures.

### Earnings (loss) from discontinued operations

Earnings from discontinued operations in the first quarter of 2005 were \$108 million (\$0.78 per share) compared to an \$8 million (\$0.06 per share) loss from discontinued operations for the first quarter of 2004. During the first quarter of 2005, the operations of InsLogic and CMC Electronics' NovAtel subsidiary were reclassified as discontinued following the sale of InsLogic and a portion of the shares of NovAtel in January 2005. In addition to these operations, included in the first quarter of 2004 loss from discontinued operations were the operations of Loews Cineplex, Dura

Automotive, Armtec and Cincinnati Electronics, which were sold in 2004 and thus recorded as discontinued operations.

Included in the 2005 first-quarter earnings from discontinued operations was a \$73 million gain recorded by Onex on the sale of InsLogic, which comprised net cash proceeds of \$22 million and the reversal of losses of InsLogic previously recognized by Onex, as well as a \$35 million pre-tax gain recorded by CMC Electronics on the sale of a portion of its NovAtel shares. Note 2 to the unaudited interim consolidated financial statements provides additional disclosure on earnings (loss) from discontinued operations.

### Consolidated net earnings

Consolidated net earnings for the first quarter of 2005, including gains on sales of operating investments and earnings (loss) from discontinued operations, were \$721 million (\$5.19 per share) compared to net earnings of \$37 million (\$0.25 per share) for the first quarter of 2004.

For the first quarter ended March 31, 2005, Onex was required for accounting purposes to recognize 100 percent of the losses (earnings) of ClientLogic, J.L. French Automotive and Radian Communication Services Corporation ("Radian") even though Onex does not own 100 percent of these businesses. Prior losses at these companies have eliminated the value contributed by other shareholders in these companies. Thus, for accounting purposes, the other shareholders' portion of these companies' current losses is required to be included in determining Onex' net earnings (loss). For consolidation accounting purposes, the cumulative interests of other shareholders in these companies cannot be recorded at a negative value. The losses of other shareholders included in Onex' unaudited interim consolidated financial statements totalled \$5 million in the first quarter of 2005 compared to losses of \$3 million in the first quarter of 2004. When these companies begin to record earnings, Onex will include 100 percent of any profits in these companies until Onex has recovered the amount of the losses of non-controlling shareholders that were previously booked.

Note 13 to the unaudited interim consolidated financial statements provides a detailed breakdown of earnings (loss) before taxes and non-controlling interests by industry segment for the first quarters ended March 31, 2005 and 2004.

## SUMMARY QUARTERLY INFORMATION

Table 7 summarizes Onex' key consolidated financial information for the last eight quarters.

TABLE 7	(\$ millions except per share amounts)	2005				2004			
		March	Dec.	Sept.	June	March	Dec.	Sept.	June
Revenues		\$ 4,236	\$ 3,916	\$ 3,990	\$ 4,408	\$ 3,881	\$ 3,219	\$ 2,878	\$ 2,877
Earnings (loss) from continuing operations		613	(264)	138	(78)	45	(124)	(282)	(137)
Net earnings (loss)		721	(214)	(281)	(69)	37	152	(287)	(162)
<b>Earnings (loss) per Subordinate Voting Share</b>									
Basic and Diluted:									
Continuing operations		\$ 4.41	\$ (1.90)	\$ 0.99	\$ (0.55)	\$ 0.30	\$ (0.82)	\$ (1.85)	\$ (0.90)
Net earnings (loss)		\$ 5.19	\$ (1.54)	\$ 2.02	\$ (0.49)	\$ 0.25	\$ 1.01	\$ (1.88)	\$ (1.06)

## CONSOLIDATED FINANCIAL POSITION

This section should be read in conjunction with the unaudited interim consolidated balance sheet as at March 31, 2005 and the corresponding notes thereto and the audited annual consolidated balance sheet as at December 31, 2004.

### Consolidated assets

Consolidated assets were \$13.2 billion at March 31, 2005, up from \$11.8 billion at December 31, 2004. A breakdown of assets by industry segment is provided in note 13 to the unaudited interim consolidated financial statements. Consolidated assets increased in the first quarter due primarily to the inclusion of \$159 million and \$1.4 billion of assets from CDI, acquired in January 2005, and EMS, acquired in February 2005, respectively. Note 3 to the unaudited interim consolidated financial statements provides additional details of the acquisitions completed in the first three months of 2005.

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

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

Total long-term debt (consisting of the current portion of long-term debt and long-term debt) was \$3.5 billion at March 31, 2005 compared to \$2.7 billion at December 31, 2004. The change in long-term debt resulted primarily from acquisitions, with the inclusion of \$90 million of debt of CDI and \$745 million of EMS at March 31, 2005.

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

### Other liabilities

Other liabilities declined to \$754 million at March 31, 2005 from \$1.1 billion at December 31, 2004 due primarily to the redemption of the Celestica exchangeable debentures by Onex, the parent company, in the first quarter of 2005. At December 31, 2004, other liabilities included \$549 million with respect to these Celestica exchangeable debentures.

### Non-controlling interests

The non-controlling interests liability on Onex' unaudited interim consolidated balance sheet as at March 31, 2005 primarily represents the ownership interests of shareholders other than Onex in Onex' operating companies. At March 31, 2005, the non-controlling interests balance totalled \$4.0 billion compared to \$3.9 billion at December 31, 2004.

The change in the non-controlling interests balance from December 31, 2004 was due primarily to the inclusion of other shareholders' interests in CDI and EMS, which have been consolidated from January and February 2005, respectively.

### Shareholders' equity

Shareholders' equity increased to \$958 million at March 31, 2005 from \$227 million at December 31, 2004 due primarily to \$721 million of net earnings reported for the first three months of 2005. The unaudited interim consolidated statements of shareholders' equity show the changes to the components of shareholders' equity for the three months ended March 31, 2005 and 2004.

At April 30, 2005, Onex had 139,016,471 Subordinate Voting Shares issued and outstanding. Table 8 shows the change in the number of Subordinate Voting Shares outstanding from December 31, 2004.

### Change in Subordinate Voting Shares Outstanding

TABLE 8	(Unaudited)	
Subordinate Voting Shares outstanding at December 31, 2004		<b>139,015,366</b>
Issue of shares – Dividend Reinvestment Plan		<b>1,105</b>
Subordinate Voting Shares outstanding at April 30, 2005		<b>139,016,471</b>

Onex' Dividend Reinvestment Plan (the "Plan") enables Canadian shareholders to reinvest cash dividends to acquire new Subordinate Voting Shares of Onex at a market-related price at the time of reinvestment. During the four-month period ended April 30, 2005, Onex issued 1,105 Subordinate Voting Shares under the Plan at an average cost of \$19.46 per share.

During the first quarter of 2005, 96,600 options were exercised for cash consideration of \$1 million. At March 31, 2005, there were 13,512,600 options outstanding to acquire Subordinate Voting Shares, of which 2,892,000 options were vested.

## LIQUIDITY AND CAPITAL RESOURCES

This section should be read in conjunction with the unaudited interim consolidated statements of cash flows for the three months ended March 31, 2005 and related notes.

### Major Cash Flow Components

TABLE 9	(Unaudited) (\$ millions) Three months ended March 31	2005	2004
Cash from operating activities, excluding changes in non-cash net working capital and other liabilities		<b>173</b>	134
Decrease in cash due to changes in working capital items and other liabilities		<b>(78)</b>	(30)
Cash used in financing activities		<b>(58)</b>	(157)
Cash used in investing activities		<b>(273)</b>	(3)
Cash from (used in) discontinued operations		<b>125</b>	(271)
Consolidated cash <sup>(a)</sup>		<b>3,215</b>	2,499

(a) Includes cash from discontinued operations.

### Cash from operating activities

Cash from operating activities, excluding changes in non-cash net working capital and other liabilities, totalled \$173 million in the first quarter of 2005 compared to cash from operating activities of \$134 million reported for the three months ended March 31, 2004. The increase in cash generated from operations related primarily to the inclusion of CDI and EMS for the first three months of 2005. Improved operating results, primarily at Magellan and Celestica, also contributed to the growth in cash generated from operating activities. A detailed discussion of the consolidated operating results can be found under the heading "Consolidated Operating Results" beginning on page 9 of this MD&A.

### Cash used in financing activities

Cash used in financing activities totalled \$58 million in the first quarter of 2005 compared to \$157 million of cash used in financing activities in the same quarter last year. Included in cash used in financing activities was \$225 million of cash used for distributions primarily by CMC Electronics relating to the sales of its Cincinnati

Electronics subsidiary in 2004 and a portion of its NovAtel shares in January 2005, as well as by Onex Partners to limited partners other than Onex on the sale of a portion of its CGG convertible bonds in early January 2005. Partially offsetting these was cash received from the limited partners of Onex Partners for the acquisition of EMS.

### **Cash used in investing activities**

Cash used in investing activities was \$273 million for the first quarter of 2005 compared to \$3 million in the first three months of 2004. The increase in cash used in investing activities was primarily due to acquisitions completed in the first quarter of 2005 – CDI and EMS – that used cash of \$344 million, compared to \$35 million of cash provided from acquisitions in the first quarter of 2004 resulting from the cash balance in Magellan at the time of investment exceeding the cash investment made by Onex and Onex Partners. Partially offsetting this was \$101 million of cash from proceeds on sales of operating investments, which were primarily the proceeds received from the sale of a portion of the CGG convertible bonds held for \$76 million.

### **Cash from (used in) discontinued operations**

Cash from (used in) discontinued operations represents cash received on the sale of businesses adjusted for the opening cash positions of those businesses that have been

discontinued. Cash from discontinued operations for the first quarter of 2005 was \$125 million compared to cash used of \$271 million in the same quarter last year. Included in the cash from discontinued operations in the first quarter of 2005 was \$103 million of proceeds, net of opening cash balances, received from the sale of a portion of its NovAtel shares by CMC Electronics and \$22 million in proceeds received from the sale of InsLogic.

Included in first-quarter 2004 cash used in discontinued operations were the cash positions of those businesses discontinued in 2004, which include Loews Cineplex, Dura Automotive, Armtec and Cincinnati Electronics, as well as InsLogic and NovAtel, which were discontinued in the first quarter of 2005. Note 2 to the unaudited interim consolidated financial statements provides additional information on discontinued operations.

### **Consolidated cash resources**

At March 31, 2005, consolidated cash was \$3.2 billion compared to \$3.3 billion as at December 31, 2004. Onex, the parent company, represented approximately \$1.5 billion of cash on hand, Celestica approximately \$1.2 billion of cash and Magellan approximately \$0.5 billion of cash at March 31, 2005. In addition, Onex, the parent company, had approximately \$0.2 billion of near-cash items at March 31, 2005.

## OUTLOOK

The following provides an update to the Outlook section of Onex' December 31, 2004 report.

### **Western Inventory Service acquires Washington Inventory Service**

In April 2005, ONCAP LP's ("ONCAP") subsidiary Western Inventory Service Ltd. ("Western") acquired Washington Inventory Service Ltd. ("Washington"), a provider of inventory counting services to retailers in the United States, Mexico, South America, Europe and Asia, in a transaction valued at approximately \$139 million. Washington also provides merchandising services primarily to consumer products manufacturers in the United States. These two companies were subsequently merged to form WIS International ("WIS"), which is controlled by ONCAP. WIS will have a broad North American infrastructure with a wider product offering including merchandising services, as well as an international service capability.

### **Acquisition of Boeing commercial aircraft manufacturing operations**

As discussed in the Outlook section of Onex' December 31, 2004 report, the acquisition of The Boeing Company's commercial aircraft manufacturing operations in Wichita,

Kansas and Tulsa and McAlester, Oklahoma is expected to close in the second quarter of 2005. The inclusion of these operations will have a significant impact on Onex' consolidated financial results going forward. Annual revenues are expected to be in excess of US\$2 billion.

### **Onex to sell a portion of its Magellan shares**

In early May 2005, Onex announced that it would offer for sale approximately 49 percent of its Magellan shares by means of a secondary offering in the United States. If the offering is completed, Onex would continue to hold approximately 4.3 million Magellan shares, or 12 percent of the outstanding Magellan common stock (10 percent if the underwriters exercise their overallotment option), but would cease to have voting control of Magellan. Accordingly, if the sale transaction is completed Onex would no longer consolidate the results of operations and balance sheet of Magellan. Therefore, Onex would not record revenues and operating earnings for Magellan but rather record Onex' share of that company's results on an equity accounting basis.

## CONSOLIDATED BALANCE SHEETS

<i>(in millions of dollars)</i>	<i>(Unaudited)</i> As at March 31 <b>2005</b>	As at December 31 2004
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments	<b>\$ 3,215</b>	\$ 3,287
Accounts receivable	<b>2,013</b>	1,655
Inventories	<b>1,509</b>	1,442
Other current assets	<b>656</b>	604
Current assets held by discontinued operations (note 2)	<b>-</b>	41
	<b>7,393</b>	7,029
Property, plant and equipment	<b>1,887</b>	1,705
Investments and other assets	<b>1,011</b>	762
Intangible assets	<b>505</b>	365
Goodwill	<b>2,358</b>	1,938
Long-lived assets held by discontinued operations (note 2)	<b>-</b>	10
	<b>\$ 13,154</b>	\$ 11,809
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Bank indebtedness, without recourse to Onex	<b>\$ 5</b>	\$ 13
Accounts payable and accrued liabilities	<b>3,121</b>	2,975
Current portion of long-term debt and obligations under capital leases of operating companies, without recourse to Onex	<b>332</b>	321
Current liabilities held by discontinued operations (note 2)	<b>-</b>	16
	<b>3,458</b>	3,325
Long-term debt of operating companies, without recourse to Onex (note 4)	<b>3,200</b>	2,363
Obligations under capital leases, without recourse to Onex	<b>46</b>	25
Exchangeable debentures	<b>-</b>	156
Other liabilities	<b>754</b>	1,080
Future income taxes	<b>691</b>	691
Long-term liabilities held by discontinued operations (note 2)	<b>-</b>	68
	<b>8,149</b>	7,708
Non-controlling interests	<b>4,047</b>	3,874
<b>Shareholders' equity</b>	<b>958</b>	227
	<b>\$ 13,154</b>	\$ 11,809

See accompanying notes to unaudited interim consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the 2004 audited annual consolidated financial statements.

The December 31, 2004 balance sheet is taken from the audited annual consolidated financial statements restated for discontinued operations.

## CONSOLIDATED STATEMENTS OF EARNINGS

<i>(Unaudited)</i> <i>(in millions of dollars, except per share data)</i>	Three months ended March 31	
	2005	2004
<b>Revenues</b>	<b>\$ 4,236</b>	\$ 3,881
Cost of sales	<b>(3,691)</b>	(3,403)
Selling, general and administrative expenses	<b>(271)</b>	(259)
<b>Earnings Before the Undernoted Items</b>	<b>\$ 274</b>	\$ 219
Amortization of property, plant and equipment	<b>(104)</b>	(99)
Amortization of intangible assets and deferred charges	<b>(28)</b>	(21)
Interest expense of operating companies	<b>(70)</b>	(53)
Interest and other income	<b>50</b>	6
Equity-accounted investments	<b>4</b>	-
Foreign exchange gains	<b>12</b>	2
Stock-based compensation	<b>(19)</b>	(42)
Derivative instruments	<b>1</b>	(20)
Gains on sales of operating investments, net (note 6)	<b>603</b>	90
Acquisition, restructuring and other expenses (note 7)	<b>(43)</b>	(26)
Writedown of long-lived assets	<b>-</b>	(2)
<b>Earnings before income taxes, non-controlling interests and discontinued operations</b>	<b>680</b>	54
Provision for income taxes	<b>(38)</b>	(3)
Non-controlling interests of operating companies	<b>(29)</b>	(6)
<b>Earnings from continuing operations</b>	<b>613</b>	45
Earnings (loss) from discontinued operations (note 2)	<b>108</b>	(8)
<b>Net Earnings for the Period</b>	<b>\$ 721</b>	\$ 37
<b>Net Earnings (Loss) per Subordinate Voting Share</b> (note 9)		
Basic and Diluted:		
Continuing operations	<b>\$ 4.41</b>	\$ 0.31
Discontinued operations	<b>\$ 0.78</b>	\$ (0.06)
Net earnings	<b>\$ 5.19</b>	\$ 0.25

See accompanying notes to unaudited interim consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the 2004 audited annual consolidated financial statements.

The March 31, 2004 unaudited interim consolidated statement of earnings has been restated for discontinued operations.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(Unaudited)</i> <i>(in millions of dollars, except per share data)</i> <i>Three months ended March 31</i>	Share Capital (note 5)	Retained Earnings	Cumulative Translation Adjustment	Total Shareholders' Equity
<b>Balance – December 31, 2003</b>	\$ 618	\$ (195)	\$ (135)	\$ 288
Dividends declared <sup>(a)</sup>	-	(4)	-	(4)
Issue of shares – dividend reinvestment plan	1	-	-	1
Purchase and cancellation of shares	(15)	(44)	-	(59)
Currency translation adjustment	-	-	1	1
Net earnings for the period	-	37	-	37
<b>Balance – March 31, 2004</b>	<b>\$ 604</b>	<b>\$ (206)</b>	<b>\$ (134)</b>	<b>\$ 264</b>
<b>Balance – December 31, 2004</b>	<b>\$ 582</b>	<b>\$ (288)</b>	<b>\$ (67)</b>	<b>\$ 227</b>
Dividends declared <sup>(a)</sup>	-	(4)	-	(4)
Issue of shares – dividend reinvestment plan	-	-	-	-
Currency translation adjustment	-	-	14	14
Net earnings for the period	-	721	-	721
<b>Balance – March 31, 2005</b>	<b>\$ 582</b>	<b>\$ 429</b>	<b>\$ (53)</b>	<b>\$ 958</b>

(a) Dividends declared per Subordinate Voting Share were \$0.0275 for the three months ended March 31, 2005 and 2004.

See accompanying notes to unaudited interim consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the 2004 audited annual consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Unaudited)</i> <i>(in millions of dollars)</i>	Three months ended March 31	
	2005	2004
<b>Operating Activities</b>		
Net earnings for the period from continuing operations	\$ 613	\$ 45
Items not affecting cash:		
Amortization of property, plant and equipment	104	99
Amortization of intangible assets and deferred charges	28	21
Writedown of long-lived assets	-	2
Non-controlling interests in results of operating companies	29	6
Future income taxes	(1)	(6)
Stock-based compensation	19	42
Derivative instruments	(1)	20
Gains on sales of operating investments, net	(603)	(90)
Other	(15)	(5)
	173	134
Increase [decrease] in other liabilities	(3)	28
Changes in non-cash working capital items:		
Accounts receivable	102	(69)
Inventories	(60)	(123)
Other current assets	17	182
Accounts payable and accrued liabilities	(134)	(48)
Decrease in cash due to changes in working capital items	(75)	(58)
	95	104
<b>Financing Activities</b>		
Issuance of long-term debt	241	327
Repayment of long-term debt	(263)	(475)
Cash dividends paid	(4)	(3)
Repurchase of share capital	-	(59)
Issuance of share capital by operating companies	205	37
Distributions by operating companies	(225)	-
Increase (decrease) in other financing activities	(12)	16
	(58)	(157)
<b>Investing Activities</b>		
Acquisition of operating companies, net of cash in acquired companies of \$33 (2004 - \$309) (note 3)	(344)	35
Purchase of property, plant and equipment	(92)	(107)
Proceeds from sales of operating investments	101	27
Net decrease in investments and other investing activities	62	42
	(273)	(3)
Cash from [used in] discontinued operations (note 2)	125	(271)
<b>Decrease in Cash and Short-term Investments for the Period</b>	<b>(111)</b>	<b>(327)</b>
Increase in cash and short-term investments due to changes in foreign exchange rates	16	26
Cash and short-term investments - beginning of the period*	3,310	2,800
<b>Cash and Short-term Investments - End of the Period</b>	<b>\$ 3,215</b>	<b>\$ 2,499</b>

\*Includes cash from discontinued operations of \$23 at December 31, 2004 (note 2).

See accompanying notes to unaudited interim consolidated financial statements.

These unaudited interim consolidated financial statements should be read in conjunction with the 2004 audited annual consolidated financial statements.

The March 31, 2004 unaudited interim consolidated statement of cash flows has been restated for discontinued operations.

# NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

*(unaudited) (in millions of dollars, except per share data)*

Onex Corporation (“Onex” or the “Company”) is a diversified company, the subsidiaries of which operate as autonomous businesses.

## 1. BASIS OF PREPARATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles (“GAAP”). The disclosures contained in these unaudited interim consolidated financial statements do not include all the requirements of generally accepted accounting principles for annual financial statements. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended December 31, 2004. Certain amounts presented in the comparative prior periods have been reclassified to conform to the presentation adopted in the current year for discontinued operations.

The unaudited interim consolidated financial statements are based on accounting principles consistent with those

used and described in the audited annual consolidated financial statements except as disclosed herein.

In June 2003, the Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline AcG-15, “Consolidation of Variable Interest Entities”. 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.

During the first quarter of 2005, the adoption of this new guideline resulted in a VIE of one of Onex’ operating companies being consolidated. Previously, this entity was accounted for as a joint venture and had recorded revenues of \$329, net earnings of nil, total assets of \$32 and total liabilities of \$18 for the year ended December 31, 2004. For the three months ended March 31, 2005, the variable interest entity recorded revenues of \$68, net earnings of nil, total assets of \$37 and total liabilities of \$23.

## 2. DISCONTINUED OPERATIONS

The following table shows the revenue and the net after-tax results from discontinued operations for the three-month periods ended March 31, 2005 and 2004.

	Revenue		2005			2004		
	2005	2004	Gain, Net of Tax	Onex’ Share of Earnings (Loss)	Total	Gain, Net of Tax	Onex’ Share of Earnings (Loss)	Total
NovAtel <sup>(a)</sup>	\$ -	\$ 13	\$ 35	\$ -	\$ 35	\$ -	\$ (1)	\$ (1)
InsLogic <sup>(b)</sup>	-	4	73	-	73	-	(3)	(3)
Dura Automotive	-	635	-	-	-	-	(4)	(4)
Loews Cineplex Group	-	325	-	-	-	-	(1)	(1)
Cincinnati Electronics	-	22	-	-	-	-	2	2
Armtec	-	13	-	-	-	-	(1)	(1)
	\$ -	\$ 1,012	\$ 108	\$ -	\$ 108	\$ -	\$ (8)	\$ (8)

**a)** In January 2005, CMC Electronics Inc. (“CMC Electronics”) sold a significant portion of its interest in NovAtel Inc. (“NovAtel”) for net proceeds of \$126. Onex’ accounting gain on the disposition was \$35, before a tax provision of nil.

Under the terms of the Management Investment Plans (“MIP”), as described in note 24(e) in the annual audited financial statements, management members, including ONCAP LP (“ONCAP”) management, participated in the realizations the Company achieved on its sale of CMC Electronics’ Cincinnati Electronics (“Cincinnati Electronics”) business unit in 2004 and

NovAtel in 2005. Amounts accrued on account of these transactions related to the MIP amounted to \$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. The accounting gain on the disposition of \$73, before a tax provision of nil, was comprised of proceeds as well as the reversal of losses of InsLogic previously recognized by Onex. There will be no MIP distribution for InsLogic.

The results of operations for the businesses described above have been reclassified in the unaudited interim consolidated statement of earnings and unaudited consolidated statement of cash flows for the three-month period ended March 31, 2004 as discontinued operations. The amounts for discontinued operations included in the December 31, 2004 consolidated balance sheet are as follows:

	InsLogic	CMC	Total
Current assets held by discontinued operations <sup>(a)</sup>	\$ 2	\$ 39	\$ 41
Long-lived assets held by discontinued operations	2	8	10
Current liabilities held by discontinued operations	(5)	(11)	(16)
Long-term liabilities held by discontinued operations	(52)	(16)	(68)
Net assets (liabilities) of discontinued operations	\$ (53)	\$ 20	\$ (33)

(a) Includes cash of \$23.

### 3. CORPORATE INVESTMENTS

During the first three months of 2005 the following acquisitions, which were accounted for as purchases, were completed either directly by Onex or through subsidiaries of Onex. Any third-party borrowings in respect of the acquisitions are without recourse to Onex. The significant acquisitions were:

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 was \$88 for an 84% equity ownership interest provided by Onex and Onex Partners LP ("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 ("AMR") and EmCare Holdings Inc. ("EmCare"). AMR is the largest provider of ambulance transport services in the United States. EmCare is the 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 LP ("EMS"). The total equity investment was \$266 for a 97% equity ownership interest. This was provided 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 AMR and EmCare through Onex Partners.

The purchase prices of the acquisitions 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 operations are included in the unaudited interim consolidated statement of earnings of the Company from their respective dates of acquisition.

Details of the 2005 acquisitions, which were accounted for as purchases, are as follows:

	CDI <sup>(a)</sup>	EMS <sup>(b)</sup>
Cash	\$ 14	\$ 19
Current assets	22	578
Intangible assets with limited life	48	111
Goodwill	103	342
Property, plant and equipment and other long-term assets	60	467
	247	1,517
Current liabilities	(22)	(265)
Long-term liabilities	(120)	(980)
	105	272
Non-controlling interests in net assets	(17)	(6)
Increase in net assets acquired	\$ 88	\$ 266

#### 4. LONG-TERM DEBT OF OPERATING COMPANIES, WITHOUT RECOURSE TO ONEX

The following describes the significant changes to Onex' consolidated long-term debt from the information provided in the December 31, 2004 audited annual consolidated financial statements.

##### a) CDI

The January 2005 acquisition of CDI resulted in additional debt being recorded in the unaudited interim consolidated financial statements. In connection with the acquisition, 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%, collateralized by the assets of CDI. At March 31, 2005, US\$74 was outstanding under the term loan. In addition, the credit agreement provides for up to US\$20 of revolving credit loans. At March 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 outstanding debt under the credit agreement.

##### b) EMS

The February 2005 acquisition of EMS resulted in additional debt being recorded in the unaudited interim consolidated financial statements. In connection with the acquisition, EMS 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 commencing May 2005. 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 March 31, 2005, US\$350 and US\$15 were outstanding under the senior secured term loan and the senior secured revolving credit facility, respectively.

#### 5. SHARE CAPITAL

As at March 31, 2005, Onex' issued and outstanding share capital consisted of 139,015,924 (2004 – 144,349,749) Subordinate Voting Shares, 100,000 Multiple Voting Shares and 176,078 Series 1 Senior Preferred Shares.

During the first three months of 2005, under the Dividend Reinvestment Plan, the Company issued 558 (2004 – 61,849) Subordinate Voting Shares at a total value of less than \$1 (2004 – \$1). During the first quarter of 2005, the total cash consideration paid on 96,600 (2004 – 7,800,000) options surrendered was \$1 (2004 – \$65). 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 Onex' Stock Option Plan as described in note 12 to the audited annual consolidated financial statements.

During the first quarter of 2004, 7,260,000 options to acquire Subordinate Voting Shares were issued under the Company's Stock Option Plan with an exercise price of \$15.87, which was the market price of the shares at the time of the issuance of the options. At March 31, 2005, the Company had 13,512,600 (2004 – 11,706,100) options outstanding to acquire Subordinate Voting Shares.

The Company repurchased and cancelled under a Normal Course Issuer Bid during the first three months of 2005 nil (2004 – 3,727,400) of its Subordinate Voting Shares at a cost of nil (2004 – \$59).

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 percent of the public float of its Subordinate Voting Shares. The 10 percent limit represents approximately 11 million shares.

## 6. GAINS ON SALES OF OPERATING INVESTMENTS, NET

The major transactions and the resulting pre-tax gains are summarized and described as follows:

<i>Three months ended March 31</i>	<b>2005</b>	2004
Gains on:		
Celestica exchangeable debentures <sup>(a)</sup>	<b>\$ 560</b>	\$ -
CGG <sup>(b)</sup>	<b>21</b>	-
Performance Logistics Group <sup>(c)</sup>	<b>-</b>	58
Issue of shares by Celestica <sup>(d)</sup>	<b>-</b>	9
Sale of Tower Automotive <sup>(e)</sup>	<b>-</b>	6
Other, net	<b>22</b>	17
	<b>\$ 603</b>	\$ 90

a) In February 2005, the Company redeemed all of the outstanding exchangeable debentures and satisfied the debenture obligation through the delivery of approximately 9.2 million Celestica subordinate voting shares. In connection with the delivery, the Company converted approximately 9.2 million 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 continues to control Celestica. The Company recognized a gain of \$560 on the redemption, which consists of a previously deferred gain of \$549 (as described in note 10 to the 2004 audited annual financial statements) and the difference between book value and market value since December 31, 2004. The cash for these exchangeable debentures was received by the Company when it originally entered into these arrangements in 2000.

b) In January 2005, Onex and Onex Partners sold 54% of their investment in bonds of Compagnie Générale de Géophysique ("CGG") for proceeds of \$76, of which Onex' share was \$18. Onex' share of the net gain was \$5.

c) In March 2004, Performance Logistics Group ("PLG") acquired Leaseway Auto Carrier Group ("Leaseway"), a subsidiary of Penske Truck Leasing Co., L.P. ("Penske") by issuing 131,167 common shares. Onex did not sell or purchase any shares of PLG in this offering and Onex' ownership interest in PLG was diluted from a controlling 50% interest to a non-controlling 26% interest as a result of the additional shares issued. Since the Company ceased to control PLG after the issuance of the additional PLG shares, the investment was no longer consolidated but accounted for using the equity method. As a result of the dilution of Onex' investment in PLG, the Company recorded a non-cash gain of \$58. This gain was comprised of a non-cash dilution gain of \$22 and also included the reversal of \$36 of losses of PLG previously recognized by Onex which were in excess of the other shareholders' equity in PLG.

d) In March 2004, Celestica, Inc. ("Celestica") acquired Manufacturers' Services Limited ("MSL") by issuing approximately 14.1 million Celestica subordinate voting shares. 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 approximately 18% and it retained voting control of Celestica.

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

## 7. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES

Restructuring charges are typically to provide for the costs of facility consolidations and workforce reductions. Restructuring expenses incurred in the three-month period ended March 31 are set out in the table below:

<i>Three months ended March 31</i>	<b>2005</b>	2004
Celestica	<b>\$ 41</b>	\$ 18
Magellan	<b>-</b>	3
ClientLogic	<b>1</b>	1
Other	<b>1</b>	4
	<b>\$ 43</b>	\$ 26

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The table below provides 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 first initiated.

	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
<b>Years prior to 2004</b>					
Total estimated expected costs	\$ 359	\$ 164	\$ 40	\$ 359	\$ 922 <sup>(a)</sup>
Cumulative costs expensed to date	359	164	40	359	922 <sup>(b)</sup>
Expense (recovery) for the period ended					
March 31, 2005	(6)	2	-	3	(1)
Reconciliation of accrued liability					
Closing balance – December 31, 2004	21	50	3		74
Cash payments	(3)	(4)	-		(7)
Charges	(6)	2	-		(4)
Closing balance – March 31, 2005	\$ 12	\$ 48	\$ 3		\$ 63

(a) Includes Celestica \$887, J.L. French Automotive \$15, ClientLogic \$10, Magellan \$6 and Radian \$4.

(b) Includes Celestica \$887, J.L. French Automotive \$15, ClientLogic \$10, Magellan \$6 and Radian \$4.

	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	\$ 130	\$ 11	\$ 12	\$ 40	\$ 193 <sup>(a)</sup>
Cumulative costs expensed to date	130	11	12	40	193 <sup>(b)</sup>
Expense (recovery) for the period ended					
March 31, 2005	4	-	-	(2)	2
Reconciliation of accrued liability					
Closing balance – December 31, 2004	11	6	10		27
Cash payments	(17)	(1)	(2)		(20)
Charges	4	-	-		4
Other adjustments	1	-	-		1
Closing balance – March 31, 2005	\$ (1)	\$ 5	\$ 8		\$ 12

(a) Includes Celestica \$183, ClientLogic \$3, Radian \$4 and CMC Electronics \$3.

(b) Includes Celestica \$183, ClientLogic \$3, Radian \$4 and CMC Electronics \$3.

<b>Initiated in 2005</b>	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 211	\$ 45	\$ 3	\$ 54	\$ 313 <sup>(a)</sup>
Cumulative costs expensed to date	39	-	3	-	42 <sup>(b)</sup>
Expense for the period ended					
March 31, 2005	39	-	3	-	42
Reconciliation of accrued liability					
Cash payments	(4)	-	-		(4)
Charges	39	-	3		42
Closing balance – March 31, 2005	\$ 35	\$ -	\$ 3		\$ 38

(a) Includes Celestica \$311, ClientLogic \$1 and CMC Electronics \$1.

(b) Includes Celestica \$41 and ClientLogic \$1.

<b>Total</b>	Employee Termination Costs	Lease and Other Contractual Obligations	Facility Exit Cost and Other	Non-cash Charge	Total
Total estimated expected costs	\$ 700	\$ 220	\$ 55	\$ 453	\$ 1,428
Cumulative costs expensed to date	528	175	55	399	1,157
Expense for the period ended					
March 31, 2005	37	2	3	1	43
Reconciliation of accrued liability					
Closing balance – December 31, 2004	32	56	13		101
Cash payments	(24)	(5)	(2)		(31)
Charges	37	2	3		42
Other adjustments	1	-	-		1
Closing balance – March 31, 2005	\$ 46	\$ 53	\$ 14		\$ 113

## 8. PENSION

The following pension expense has been recorded related to defined benefit pension plans at certain of the operating companies:

<i>Three months ended March 31</i>	<b>2005</b>	2004
Defined benefit expense	<b>\$ 5</b>	\$ 6

## 9. EARNINGS PER SHARE

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

<i>Three months ended March 31</i>	<b>2005</b>	2004
Weighted average number of shares outstanding		
Basic	<b>139,015,740</b>	146,885,700
Diluted	<b>139,015,740</b>	146,885,700

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

Paid during the period:

<i>Three months ended March 31</i>	<b>2005</b>	2004
Interest	<b>\$ 42</b>	\$ 47
Taxes	<b>\$ 13</b>	\$ 12

**11. COMMITMENTS AND GUARANTEES**

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 March 31, 2005 the amounts payable in respect of these guarantees totalled \$174. Certain operating companies have guarantees with respect to employee share purchase loans that amounted to \$3 at March 31, 2005. These guarantees are without recourse to Onex.

The Company has commitments in the total amount of approximately \$127 in respect of corporate investments, including those discussed in note 12.

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.

Onex and its operating companies have aggregate capital commitments of \$67 as at March 31, 2005.

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

In February 2005, the Company entered into an agreement to acquire the Wichita/Tulsa Division of The Boeing Company in a transaction valued at approximately \$1.5 billion. The purchase will include Boeing's commercial airplane manufacturing facilities in Wichita, Kansas and Tulsa and McAlester, Oklahoma. The business will operate under a new company that will enter into a long-term agreement with Boeing to supply components for all of Boeing's existing 737, 747, 767 and 777 platforms, as well as the new 787 platform. The Division currently employs approximately 9,000 people and represented approximately \$2.5 billion in annual costs in 2004. The new company will also seek new business from customers in addition to Boeing. The equity investment is expected to be approximately \$465 million made through Onex Partners and certain of its limited partners, including Onex. Onex' share is expected to be at least \$127 million. Closing of the transaction is subject to the satisfactory completion of a number of conditions and is expected to be completed in the second quarter of 2005.

In April 2005, Western Inventory Service Ltd. ("WIS") acquired Washington Inventory Service Ltd. ("Washington") in a transaction valued at approximately \$139. Funding for this transaction was provided through debt facilities of the new combined company, which are without recourse to Onex or ONCAP. Washington, headquartered in California, United States, is the second-largest provider of inventory counting services in North America.

In early May 2005, Onex announced that it and Onex Partners would offer for sale approximately 49 percent of their Magellan shares by means of a secondary offering in the United States. If the offering is completed, Onex and Onex Partners would continue to hold approximately 4.3 million Magellan shares, or 12 percent of the outstanding Magellan common stock (10 percent if the underwriters exercise their overallotment option), but would cease to have voting control of Magellan. Accordingly, Onex would no longer consolidate the results of operations and balance sheet of Magellan; Onex would account for Magellan's results on an equity accounting basis from the time of the completion of the secondary offering.

## 13. INFORMATION BY INDUSTRY SEGMENT

<i>(Unaudited)</i> <i>(in millions of dollars)</i> <i>Three months ended March 31, 2005</i>	Electronics Manufacturing Services	Theatre Exhibition	Healthcare	Customer Management Services	Automotive Products	Other <sup>(a)</sup>	Consolidated Total
Revenues	\$ 2,639	\$ 78	\$ 945	\$ 181	\$ 160	\$ 233	\$ 4,236
Cost of sales	(2,453)	(62)	(766)	(113)	(129)	(168)	(3,691)
Selling, general and administrative expenses	(82)	(5)	(61)	(55)	(5)	(63)	(271)
Earnings before the undernoted items	\$ 104	\$ 11	\$ 118	\$ 13	\$ 26	\$ 2	\$ 274
Amortization of property, plant and equipment	(42)	(7)	(23)	(8)	(14)	(10)	(104)
Amortization of intangible assets and deferred charges	(9)	-	(8)	(4)	-	(7)	(28)
Interest expense of operating companies	(15)	(2)	(22)	(4)	(18)	(9)	(70)
Interest and other income	1	2	5	1	-	41	50
Equity-accounted investments	-	-	-	-	2	2	4
Foreign exchange gains (loss)	1	-	-	(1)	-	12	12
Stock-based compensation	(5)	-	(7)	-	-	(7)	(19)
Derivative instruments	-	-	-	-	-	1	1
Gains on sales of operating investments, net	-	-	-	-	-	603	603
Acquisition, restructuring and other expenses	(41)	-	-	(1)	-	(1)	(43)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (6)	\$ 4	\$ 63	\$ (4)	\$ (4)	\$ 627	\$ 680
Provision for income taxes							(38)
Non-controlling interests of operating companies							(29)
Earnings from continuing operations							\$ 613
Earnings from discontinued operations							108
Net earnings							\$ 721
Total assets	\$ 5,913	\$ 340	\$ 3,297	\$ 302	\$ 451	\$ 2,851	\$ 13,154
Long-term debt <sup>(b)</sup>	\$ 759	\$ 130	\$ 1,281	\$ 211	\$ 729	\$ 388	\$ 3,498

(a) Includes Radian, Cosmetic Essence, Onex Real Estate Partners, ONCAP and parent company.

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

## 13. INFORMATION BY INDUSTRY SEGMENT (cont'd)

<i>(Unaudited)</i> <i>(in millions of dollars)</i> <i>Three months ended March 31, 2004</i>	Electronics Manufacturing Services	Theatre Exhibition	Healthcare	Customer Management Services	Automotive Products	Other <sup>(a)</sup>	Consolidated Total
Revenues	\$ 2,658	\$ 77	\$ 539	\$ 182	\$ 307	\$ 118	\$ 3,881
Cost of sales	(2,500)	(61)	(416)	(109)	(242)	(75)	(3,403)
Selling, general and administrative expenses	(82)	(4)	(60)	(50)	(14)	(49)	(259)
Earnings (loss) before the undernoted items	\$ 76	\$ 12	\$ 63	\$ 23	\$ 51	\$ (6)	\$ 219
Amortization of property, plant and equipment	(55)	(6)	(9)	(9)	(18)	(2)	(99)
Amortization of intangible assets and deferred charges	(10)	-	(4)	(4)	-	(3)	(21)
Interest expense of operating companies	(1)	(2)	(12)	(3)	(27)	(8)	(53)
Interest and other income	-	-	1	-	-	5	6
Foreign exchange gains (loss)	(4)	-	-	-	-	6	2
Stock-based compensation	(5)	-	(15)	(1)	-	(21)	(42)
Derivative instruments	-	-	-	-	-	(20)	(20)
Gains on sales of operating investments, net	-	-	-	-	-	90	90
Acquisition, restructuring and other expenses	(18)	-	(3)	(1)	-	(4)	(26)
Writedown of long-lived assets	-	-	-	-	(2)	-	(2)
Earnings (loss) before income taxes, non-controlling interests and discontinued operations	\$ (17)	\$ 4	\$ 21	\$ 5	\$ 4	\$ 37	\$ 54
Provision for income taxes							(3)
Non-controlling interests of operating companies							(6)
Earnings from continuing operations							\$ 45
Loss from discontinued operations							(8)
Net earnings							\$ 37
Total assets as at December 31, 2004 <sup>(b)</sup>	\$ 5,925	\$ 368	\$ 1,537	\$ 303	\$ 452	\$ 3,224	\$ 11,809
Long-term debt as at December 31, 2004 <sup>(c)</sup>	\$ 750	\$ 129	\$ 450	\$ 192	\$ 721	\$ 416	\$ 2,658

(a) Includes Radian, Cosmetic Essence, ONCAP and parent company.

(b) Other includes discontinued operations described in note 2.

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

# SHAREHOLDER INFORMATION

## First Quarter Dividend

A dividend of \$0.0275 per Subordinate Voting Share was paid on April 29, 2005 to shareholders of record as of April 8, 2005.

## Dividend Reinvestment Plan

Onex has a Dividend Reinvestment Plan that provides a means for resident Canadian holders of Onex' Subordinate Voting Shares to reinvest cash dividends into new Subordinate Voting Shares issued by Onex without payment of brokerage commissions. To participate, registered shareholders should contact Onex' share registrar, CIBC Mellon Trust Company, at the address below. Non-registered shareholders should contact their investment dealer or broker and indicate their desire to participate.

## Stock Listing

The Toronto Stock Exchange  
Symbol: OCX.SV

## Registrar and Transfer Agent

CIBC Mellon Trust Company  
P.O. Box 7010  
Adelaide Street Postal Station  
Toronto, Ontario M5C 2W9  
(416) 643-5500  
or call toll-free throughout  
Canada and the United States  
1-800-387-0825

All questions about accounts, stock certificates or dividend cheques should be directed to the Registrar and Transfer Agent.

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# ONEX

