
ONEX

Management's Discussion and Analysis and
Financial Statements, Third Quarter Ended September 30, 2002

Onex Corporation is a diversified company with 2001 annual revenues of $23.8 billion, assets of $20.9 billion and 87,300 employees worldwide.

We operate through autonomous subsidiaries in a variety of industries, including electronics manufacturing services, theatre exhibition, customer management services, automotive products, engineered building products, wireless communications infrastructure, and sugar refining and marketing.

Our 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

In building the value of our companies over the long term, we realize that they will likely operate in both buoyant and challenging phases of the economic cycle. In the third quarter of 2002, several of our companies continued to face significant challenges. Celestica, MAGNATRAX and Radian, in particular, experienced ongoing reductions in customer demand due to sluggish economic growth. As well, J.L. French is currently in discussions with its lenders to obtain greater financial flexibility. This report highlights these challenges and discusses what the management teams of our operating companies are doing to address industry conditions.

We made good progress in building our theatre exhibition platform during the quarter. Loews Cineplex increased its ownership in Megabox Cineplex, its South Korean theatre exhibition partnership, to 50 percent. As part of this transaction, Onex invested an additional $19 million in Loews Cineplex. Loews Cineplex filed a registration statement with the U.S. Securities and Exchange Commission for an initial public offering of equity and filed a preliminary prospectus with the Canadian regulatory authorities to qualify the distribution of Cineplex Canada Exchangeable Shares. For the time being, market conditions remain unfavourable for initial public offerings. We will await a better market to complete these issues.

At quarter-end, Onex, the parent company, remained in a very strong financial position, with close to $1.4 billion in cash to support our existing companies and fund new acquisitions.

The information that follows includes Onex' Unaudited Interim Consolidated Financial Statements and Notes for the three months and nine months ended September 30, 2002, together with Management's Discussion and Analysis of those results.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*The Management's Discussion and Analysis may contain certain statements that include words such as "believes", "expects", "anticipates" and words of similar connotation, which would constitute forward-looking statements. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to be materially different from those anticipated in these forward-looking statements. We are under no obligation to update any forward-looking statements contained herein should material facts change due to new information, future events or otherwise.*

*This Management's Discussion and Analysis and the Onex Corporation Consolidated Financial Statements have been prepared to provide information on Onex Corporation on a consolidated basis and should not be considered as providing sufficient information to make an investment decision on any particular Onex operating company.*

The following discussion of the consolidated financial condition and results of operations should be read in conjunction with the September 30, 2002 Unaudited Interim Consolidated Financial Statements and the 2001 Audited Annual Consolidated Financial Statements. All amounts are in Canadian dollars unless otherwise indicated.

## Financial Highlights for the Third Quarter of 2002

- Revenues were **$5.5 billion** compared to $5.4 billion in the third quarter of 2001.
- Operating earnings, as defined on page 8, were **$330 million**, up from $273 million for the same quarter last year.
- Net earnings were **$34 million ($0.21 per share)** compared to $23 million ($0.14 per share) in the 2001 third quarter.
- Cash flow from operations, excluding changes in working capital, was **$228 million**, down from $252 million in the third quarter of 2001.

## Financial Highlights for the Nine Months ended September 30, 2002

- Revenues were **$17.1 billion** compared to $17.9 billion in the first nine months of 2001.
- Operating earnings were **$952 million**, up 10 percent from $868 million.
- Net earnings from continuing operations totalled **$105 million ($0.65 per share)** for the first nine months of 2002 compared to a loss of $153 million ($0.95 per share) for the nine months ended September 30, 2001.
- Net earnings for the first nine months were **$105 million ($0.65 per share)**, down from $786 million ($4.88 per share) last year. The first nine months of 2001 included a net gain of $939 million from the sale of Sky Chefs.
- Cash flow from operations grew to **$864 million**, up 15 percent from the first nine months of 2001.
- At September 30, 2002, assets totalled **$22.1 billion** and shareholders' equity was **$1.5 billion**.

# Significant Events

This section provides a summary of significant activities at Onex and its operating companies during the three months ended September 30, 2002.

## Theatre exhibition

The theatre exhibition industry segment, which includes Loews Cineplex, Star Theatres, Cinemex and Galaxy Entertainment, reported revenues of $451 million and operating earnings of $49 million in the third quarter of 2002. There were excellent movie releases during the third quarter, including *Austin Powers in Goldmember, Signs* and *XXX*. Since Loews Cineplex was acquired in the first quarter of this year, a comparison to the company's prior year results is not provided.

In August, Onex and Oaktree Capital, its partner in Loews Cineplex, invested an additional $33 million in Loews Cineplex; Onex' initial share was $19 million. In turn, Loews Cineplex used these proceeds to increase its ownership in Megabox Cineplex to 50 percent. Megabox Cineplex, a South Korean partnership that Loews Cineplex formed with Orion Group in 1999, is a cinema exhibition company with five theatres and 42 screens. The company owns a 16-screen complex in Seoul, South Korea that has the highest attendance of any theatre in the world with six million patrons annually.

Loews Cineplex filed a registration statement in August with the U.S. Securities and Exchange Commission for an initial public offering of up to US$300 million of equity. The offering was planned to consist of primary shares sold by Loews Cineplex and secondary shares sold by Oaktree Capital. Concurrent with the U.S. filing, Loews Cineplex Canada filed a preliminary prospectus with Canadian securities authorities to qualify the distribution of Cineplex Canada Exchangeable Shares ("Exchangeable Shares"). These Exchangeable Shares were to be offered only in Canada to provide Canadian investors with an opportunity to invest in Loews Cineplex.

In October, Loews Cineplex and its shareholders decided not to proceed with the proposed initial public offering of shares in the U.S. and the Exchangeable Shares in Canada due to unfavourable market conditions. The company will await better market conditions to complete these offerings. Onex had not planned to sell any of its ownership in Loews Cineplex in these offerings.

As part of Loews Cineplex' efforts to enhance its industry position, the company is testing, or has agreements to test, 20 digital projectors for full-length feature films in its existing markets. The company believes that this will be one of the largest test programs for digital projection. Loews Cineplex is also engaged in a pilot program for showing advertising and other content via digital projectors. The 120-screen test in metropolitan New York is being run by a third party at no cost to the company.

Loews Cineplex opened two new theatres in the third quarter with Yelmo Cineplex, its joint venture in Spain. The first was a 12-screen theatre in the Canary Islands; the second was a 15-screen theatre in the suburbs of Madrid. Both locations feature stadium seating and state-of-the-art projection and digital sound. These theatres are located in commercial complexes and are expected to be an anchor location for each complex.

In December 2002, Loews Cineplex anticipates opening the largest theatre in the Washington, D.C. area – the new 14-screen Loews Georgetown theatre. The Loews Georgetown will feature stadium seating for 3,000, oversized screens, state-of-the-art projection and digital sound, and an underground parking garage.

## Electronics manufacturing services

Celestica experienced lower demand from some of its largest customers in the third quarter as demand in telecommunications and information technology end-markets remained challenging. Celestica reported revenues of $3.1 billion for the three months ended September 30, 2002, an 11 percent decline from the same quarter last year. As a result, operating earnings were $98 million compared to $124 million in the third quarter of last year. Nevertheless, Celestica continued to drive solid improvements in working capital management and further improved its already strong balance sheet. Cash at quarter-end was more than $2.9 billion, up 15 percent from the second quarter of 2002. The company used its strong cash position to further reduce balance sheet leverage, redeeming all of its Senior Subordinated Notes for US$130 million and repurchasing US$110.4 million in principal amount of its outstanding Liquid Yield Option Notes for US$48.3 million. Celestica also initiated a Normal Course Issuer Bid during the third quarter and repurchased one million of its Subordinate Voting Shares at a cost of US$17 million.

In the third quarter, Celestica incurred $204 million in restructuring charges as part of its overall restructuring plan announced in the second quarter of 2002. That plan is to address the prolonged difficult end-market conditions and includes the consolidation of facilities and a workforce reduction. The company has and expects to continue to benefit from the restructuring measures taken in 2001 and 2002 through margin improvements and reduced operating costs.

## Customer management services

ClientLogic's revenues increased 9 percent to $158 million for the quarter ended September 30, 2002 compared to the same quarter last year. The company reported an operating loss of $4 million in the third quarter compared to a break-even position in the third quarter of last year. The lower results this quarter were due to non-recurring charges for cost reduction efforts under ClientLogic's Best-in-Class ("BIC") initiatives. The BIC, which began in early 2002, is focused on reducing cost of sales labour and improving gross margins to offset the significant pricing pressure in the telephony sector in North America. For the nine months ended September 30, 2002, ClientLogic reported an operating loss of $8 million, a significant improvement on the $30 million operating loss reported for the first nine months of last year.

Under the BIC, new operating technologies were deployed in North America to enhance quality and efficiency. These new technologies include a workforce management tool which was deployed in the company's North American contact centres. A national operations centre was also established in Nashville to provide central oversight of the daily management of all North American contact centres. In addition to the deployment of the workforce management tool in North America, ClientLogic intends to expand the deployment to its contact centres in Europe. A national operations centre will also be established in Europe in early 2003, and Nashville will be upgraded to a global operations centre shortly thereafter.

During the quarter, ClientLogic won new business valued at approximately $25 million annually; there were virtually no client disengagements. This new business is scheduled to begin late in the fourth quarter of 2002 and early in the first quarter of 2003. For the first nine months of 2002, new business totalled approximately $74 million against disengagements of about $17 million.

## Automotive products

North American production of passenger cars and light trucks increased approximately 8.3 percent to 3.9 million units during the third quarter. This compared to 3.6 million units during the same quarter of 2001, when plant shutdowns after September 11, 2001 adversely affected production. Retail sales continued to be strong in the third quarter of 2002 because of low finance rates and other incentives offered by nearly all automakers.

Higher volumes in the North American automotive and RV markets and new business awards in North America and Europe pushed Dura Automotive's revenues to $919 million in the third quarter of 2002 compared to $882 million last year. This growth was lessened by the elimination of sales from the Plastics Products Division, which was sold during the first quarter of 2002, and weakness in the European automotive industry. Despite the growth in revenues, operating earnings for the three months ended September 30, 2002 were $53 million compared to $55 million reported in the same quarter last year.

Higher production volumes by both North American and European customers drove an increase in revenues at J.L. French. Revenues for the third quarter of 2002 were $208 million, up from $174 million for the same period last year. Operating earnings were $17 million in the third quarter of 2002 compared to $25 million for the three months ended September 30, 2001. J.L. French recorded provisions for losses on certain contracts, which reduced 2002 results. Excluding loss contracts, operating earnings were constant between years for the third quarter. J.L. French continues to meet the requirements to its lenders as at September 30, 2002; however, the majority of J.L. French's long-term debt has been classified as current in Onex' Unaudited Interim Consolidated Balance Sheet at September 30, 2002. This accounting classification requirement results from J.L. French's management not being certain that the company will be able to meet all its existing covenant requirements over the next 12 months from September 30. The company is in discussions with its lenders and other parties on alternatives that would improve J.L. French's financial structure. While management of J.L. French believes that alternative financing can be completed, accounting rules require the debt be classified as current until such time that new financing arrangements are consummated. At this time, there is no certainty that such financing arrangements can be completed. Onex has not guaranteed J.L. French's debt.

Performance Logistics Group reported revenues of $77 million in the third quarter, up 17 percent from $66 million for the three months ended September 30, 2001. Increased North American light vehicle production in the third quarter resulted in improved revenues over the comparative quarter last year. In addition, operating earnings of $4 million in the third quarter were slightly ahead of last year. Cost-reduction programs implemented by the company in late 2001 boosted operating earnings.

Heavy truck production in the third quarter of 2002 was up approximately 20 percent over the same quarter last year. Production remained strong in the third quarter of 2002 as several large fleets were buying new trucks before new U.S. emission regulations took effect on October 1, 2002. The commercial vehicle sector companies – Commercial Vehicle Systems, Trim Systems and Bostrom – reported combined third quarter revenues of $134 million, up 29 percent from $104 million in the third quarter of last year. Higher volumes and a change in the business mix accounted for most of the increase in revenues in the quarter. Moreover, operating earnings grew to $11 million for the three months ended September 30, 2002 from $9 million reported last year. Higher revenues, improved productivity and cost-reduction initiatives focused on labour, freight and scrap costs resulted in the improved operating earnings for the quarter.

While Bostrom was in compliance with its debt covenants at September 30, 2002, financial projections prepared by management of Bostrom indicate that the company may not be able to achieve its financial covenant levels over the next 12 months. Accordingly, Bostrom's debt in the amount of $75 million has been classified as current in Onex' Unaudited Interim Consolidated Balance Sheet as at September 30, 2002. Onex has not guaranteed the debt of Bostrom.

## Engineered building products

The severe cyclical downturn in the engineered metal buildings industry continued to adversely affect MAGNATRAX during the quarter. The company had revenues of $304 million compared to $319 million in the third quarter of last year. Recent tariffs on steel imported to the United States have resulted in increases to a major cost component for the business. These increased costs and the effect of lower revenues reduced operating earnings to $6 million compared to $14 million in the third quarter of last year. Given this financial performance, MAGNATRAX was not in compliance with its financial covenants at September 30, 2002. As a result, its subsidiary, Vicwest Corporation, was not permitted to pay interest to holders of its public subordinated notes. Discussions have continued with the lenders to MAGNATRAX to achieve a solution that would enable the company to operate through this prolonged industry downturn. These discussions have been constructive, with the lenders having waived the covenant violations through November 15, 2002. Until an agreement is reached with MAGNATRAX' lenders, however, virtually all of the company's debt in the amount of $472 million has been classified as current in Onex' Unaudited Interim Consolidated Balance Sheet. The debt of MAGNATRAX is not guaranteed by Onex. Onex has committed to invest an additional $16 million in the company during the fourth quarter.

Operationally, MAGNATRAX is focused on reducing its internal cost structure and creating distinctive value for its large base of builders and contractors. The introduction of a lean manufacturing process has enabled the company to make improvements in reducing its engineering and production costs. This process has been complemented by the addition of new technology that further reduced the cost of engineering buildings and roofs. New software programs that significantly reduce design time and costs are currently being piloted internally and are in a limited dealer trial.

## Other businesses

**Communications infrastructure** Radian's customers continued to delay their network expansion spending during the third quarter. As a result, Radian reported revenues of $29 million compared to $34 million in the third quarter of 2001. Highly competitive markets resulted in lower margins and led to an operating loss of $5 million in the third quarter of 2002 compared to operating earnings of $1 million in the same quarter last year. Radian's management focused on reducing costs and implementing enhanced process control management tools to more tightly manage its costs in these difficult conditions. The company's initiatives to expand in the United States are showing promise with the recent win of a tower supply and installation project in Michigan. This project represents the first significant engineer, furnish and install business that Radian has won in the United States.

**Small-capitalization opportunities** ONCAP's operating companies – CMC Electronics Inc. and Armtec Limited – provided $124 million in total revenues and $13 million in combined operating earnings during the third quarter of 2002; this compared to $123 million in revenues and $10 million in operating earnings for the third quarter of last year. CMC Electronics generated essentially all of the growth in revenues and operating earnings.

During the quarter, CMC Electronics and Thales Avionics signed a significant contract under which CMC Electronics' Enhanced Vision System will be offered on Bombardier's Global Express long-range business jet. CMC Electronics also sold its Military Communications Division as part of its strategy to divest certain non-core assets. Proceeds from the sale will be used to repay debt and for general corporate purposes.

**Sugar refining and marketing** The Lantic Sugar–Rogers Sugar enterprise reported third-quarter revenues of $109 million and $17 million in operating earnings. Since Rogers Sugar's operations only began to be consolidated in the first quarter of 2002, a direct comparison to last year is not meaningful. In the third quarter, Lantic Sugar continued to boost sales due to strong demand in its industrial segment.

# Financial Review

This section compares the unaudited consolidated financial results for the three months and nine months ended September 30, 2002 to those ended September 30, 2001.

## CONSOLIDATED RESULTS

### Revenues

Consolidated revenues increased slightly to $5.5 billion in the third quarter of 2002 from $5.4 billion in the same quarter last year. The theatre exhibition platform – which includes Loews Cineplex, Star Theatres, Cinemex and Galaxy Entertainment – added $442 million in revenues during the quarter. Lower third-quarter revenues at Celestica mostly offset this contribution.

For the nine months ended September 30, 2002, revenues were $17.1 billion compared to $17.9 billion for the first nine months of 2001. Lower revenues at Celestica and MAGNATRAX accounted for much of the reduction from the same period in the prior year. The inclusion of Loews Cineplex' revenues partially offset the overall decline in revenues for the first nine months of 2002.

A detailed breakdown of revenues by industry segment is provided in note 11 to the Unaudited Interim Consolidated Financial Statements.

### Operating earnings

We define operating earnings as EBIAT, or earnings before interest expense, amortization of goodwill, intangible assets and deferred charges, acquisition and restructuring expenses, and income taxes. Although this is a non-GAAP measure, Onex uses this measure to evaluate its operating companies' performance because it eliminates interest charges, which are a function of the particular financing structure, and any unusual charges. Onex' method of determining operating earnings or EBIAT may differ from other companies' methods and, accordingly, EBIAT may not be comparable to measures used by other companies. The table which follows provides a reconciliation to operating earnings:

| Amounts as shown in the Unaudited Interim Consolidated Statements of Earnings *(in millions of dollars)* | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Earnings Before the Undernoted Items | **$ 466** | $ 391 | **$ 1,350** | $ 1,186 |
| Amortization of property, plant and equipment | **(198)** | (163) | **(577)** | (448) |
| Interest and other income | **21** | 45 | **65** | 130 |
| Stock-based compensation | **41** | – | **114** | – |
| Operating Earnings | **$ 330** | $ 273 | **$ 952** | $ 868 |

Consolidated operating earnings were $330 million in the third quarter of 2002, up 21 percent from $273 million reported in the third quarter of last year. This increase was due primarily to the inclusion of Loews Cineplex' operating earnings. Partially offsetting this growth were significantly lower operating earnings at Celestica, MAGNATRAX, Radian and J.L. French.

For the nine months ended September 30, 2002, Onex' operating earnings of $952 million were 10 percent higher than the $868 million reported for the first nine months of 2001. This improvement was due primarily to the growth in operating earnings at ClientLogic and Onex' automotive companies, and the inclusion of the theatre exhibition segment. Reduced operating earnings at Celestica and MAGNATRAX partially offset this growth.

Note 11 to the Unaudited Interim Consolidated Financial Statements provides a detailed breakdown of operating earnings by industry segment.

## Amortization of goodwill, intangible assets and deferred charges

Effective January 1, 2002, Onex and its subsidiaries adopted the new accounting standards for business combinations and for goodwill and other intangible assets. These new policies resulted in the discontinuance of amortization for all goodwill and intangible assets with indefinite useful lives. Intangible assets with finite useful lives continue to be amortized. Note 1 to the Unaudited Interim Consolidated Financial Statements discusses the accounting policy for goodwill and other intangible assets in greater detail.

Amortization of goodwill, intangible assets and deferred charges was significantly lower in the third quarter of 2002 – $56 million compared to $86 million in the same quarter last year. For the first nine months of 2002, the charges totalled $138 million compared to $265 million for the nine months ended September 30, 2001. The above-noted change in accounting policy was the primary factor in the reduction.

## Writedown of goodwill and intangible assets by operating companies

There were goodwill writedowns in the third quarter of 2002 related to the adoption of the new accounting policy for goodwill and other intangible assets. The adoption of this policy required that goodwill be assessed as of January 1, 2002 under more stringent criteria and, if determined to be impaired, be written down and charged to retained earnings as at January 1, 2002. A detailed discussion of this new accounting policy and the writedowns booked by Onex' subsidiaries is provided in the Shareholders' equity section of this report.

During the second quarter of 2001, ClientLogic and J.L. French completed a review of the recoverability of their companies' unamortized goodwill and intangible assets. The management teams of these companies determined that full recoverability of goodwill on their balance sheets was not achievable. As a result, ClientLogic recorded a non-cash charge of $140 million while J.L. French recorded a $225 million non-cash charge, both relating to writedowns of goodwill and intangible assets. The net effect of these non-cash charges on Onex' consolidated net earnings in the second quarter of 2001 was $181 million or $1.12 per share.

## Interest and other income

Interest and other income decreased to $21 million in the third quarter of 2002 from $45 million in the same quarter last year, as Onex and certain of its operating companies, primarily Celestica, earned significantly lower interest rates on cash balances. The same factor affected interest and other income for the nine months ended September 30, 2002, which decreased to $65 million from $130 million for the first nine months of 2001.

## Stock-based compensation

Onex has adopted a policy of expensing its stock-based compensation at the parent company through its statement of earnings. In the Management's Discussion and Analysis section of Onex' December 31, 2001 report, we indicated that Onex would be adopting the new accounting policy for stock-based compensation in 2002 and in the future would be recording the effect of the change in the value of Onex' options and investment rights in the statement of earnings. At that time, we also indicated that it could have the effect of decreasing or increasing earnings, depending upon changes in the market value of the shares. During the third quarter, the revaluation of Onex' stock-based compensation liability to market value resulted in a $41 million improvement in earnings due to the decrease in value of stock options and investment rights from their value at June 30, 2002. For the first nine months of 2002, the revaluation of stock-based compensation liability resulted in the recognition of a $114 million improvement in earnings due to the overall decline in value of the stock-based compensation liability from January 1, 2002. These amounts are presented as a separate line item on the Unaudited Interim Consolidated Statements of Earnings. The new accounting requirement for stock-based compensation, effective January 1, 2002, is discussed in greater detail in notes 1 and 8 to the Unaudited Interim Consolidated Financial Statements.

## Gains on shares of operating companies

There were no gains on shares of operating companies in the third quarter of 2002; this compares to gains of $41 million reported for the three months ended September 30, 2001. Included in the results for the third quarter of 2001 was a $30 million accounting dilution gain from the issuance of shares by Celestica as part of its purchase of Primetech.

For the nine months ended September 30, 2002, gains on shares of operating companies were $8 million compared to $109 million for the same period last year. Celestica's share offerings in the second and third quarters of 2001 led to accounting dilution gains at Onex.

## Acquisition, restructuring and other expenses

Acquisition, restructuring and other expenses are considered to be one-time costs incurred to realign organizational structures, restructure manufacturing capacity and obtain operating synergies critical to building the long-term value of Onex' operating companies. In the third quarter of 2002, acquisition, restructuring and other expenses totalled $210 million compared to $97 million in the same quarter last year. In the third quarter of 2002, Celestica recorded $204 million in restructuring costs related to its restructuring plans. The restructuring plans are intended to reduce Celestica's manufacturing capacity and thus improve operating efficiency through better capacity utilization rates. Included in last year's third quarter were $84 million in charges recorded by Celestica related to its restructuring plans.

For the nine months ended September 30, 2002, acquisition, restructuring and other expenses were $270 million compared to $219 million reported for the first nine months of 2001. Celestica accounted for $226 million of these charges, which primarily related to the integration of certain assets of Lucent Technologies, NEC Corporation and Omni Industries that were acquired during the past year, and to the company's restructuring plans as discussed above. In addition, Dura Automotive recorded $33 million in restructuring expenses in the second quarter of 2002, primarily related to the divestiture of its Steering Gear business. This business was considered non-essential to Dura Automotive's core business.

## Non-controlling interests of operating companies

The non-controlling interest amount on the Unaudited Interim Consolidated Statements of Earnings represents the interests of shareholders other than Onex in the net earnings or losses of the subsidiary companies. The non-controlling interest amount changed during the third quarter of 2002 and for the first nine months of 2002 due to the inclusion of other shareholders' interests in the earnings of Loews Cineplex, which was acquired in March 2002, the Loeks-Star Partnership, acquired in April 2002, and Cinemex, acquired in June 2002.

Onex is currently required for accounting purposes to recognize 100 percent of the losses of ClientLogic, InsLogic, Trim Systems and MAGNATRAX. Prior losses at these companies eliminated the value contributed by other shareholders in these companies. Therefore, for accounting purposes the other shareholders' portion of these companies' current losses has been included in determining Onex' net earnings. For the third quarter of 2002 and for the first nine months of 2002, the losses of other shareholders totalled $17 million and $29 million, respectively. In the future, Onex will record 100 percent of any profits in these companies until the value of the losses of non-controlling shareholders has been recovered.

## Net earnings

Consolidated net earnings for the third quarter of 2002 were $34 million ($0.21 per share) compared to net earnings of $23 million ($0.14 per share) for the third quarter of 2001.

For the nine months ended September 30, 2002, consolidated net earnings from continuing operations were $105 million ($0.65 per share) compared to a loss of $153 million ($0.95 per share) for the first nine months of 2001. Overall, net earnings for the first nine months were $105 million ($0.65 per share) in 2002 compared to $786 million ($4.88 per share) in 2001, which includes the gain on Sky Chefs.

Note 11 to the Unaudited Interim Consolidated Financial Statements provides a detailed breakdown of revenues, operating earnings, and earnings before taxes and non-controlling interests by industry segment for the third quarter and the first nine months of 2002 and 2001.

## Cash flow

Cash flow from operations, excluding changes in working capital, totalled $228 million for the third quarter of 2002. This compares to $252 million for the three months ended September 30, 2001. For the first nine months of 2002, cash flow from operations increased to $864 million from $752 million reported in the same period last year. The increase was due primarily to the cash flow from operations from the acquisitions of Loews Cineplex, the Loeks-Star Partnership and Cinemex in 2002.

Cash flow used in financing activities totalled $301 million in the third quarter of 2002 compared to cash flow from financing activities of $73 million in the same quarter last year. Debt repayment, primarily by Celestica and CMC Electronics, accounted for most of the change in cash used in financing activities in the third quarter of 2002. For the nine months ended September 30, 2002, cash flow used in financing activities was $1 million compared to cash flow from financing activities of $1.3 billion for the first nine months of 2001. Included in the cash flow from financing activities for the nine months ended September 30, 2001 was $1 billion raised from the May 2001 Celestica share offering.

Cash flow used in investing activities was $116 million compared to $1.3 billion in the third quarter of last year. Reduced investment in acquisitions in the third quarter of 2002 accounted for essentially all of the decrease in cash used in investing activities. On a year-to-date basis, cash flow used in investing activities declined to $870 million from $2.5 billion used in the same period last year.

Acquisitions completed in the first nine months of 2002 required $522 million in cash, compared to $1.8 billion for those finalized in the first nine months of 2001. In the second quarter of 2002, two acquisitions were completed in the theatre exhibition industry – the Loeks-Star Partnership and Cinemex – which used total cash of $392 million. Although Loews Cineplex was a significant acquisition during the first quarter of 2002, the purchase did not require a significant amount of cash on closing; Onex primarily converted its debt holdings in Loews Cineplex, acquired in early 2001, into shares of the company. The cash used in the first quarter of 2002 for the Loews Cineplex acquisition was $55 million, of which Onex invested $33 million as additional equity. Note 2 to the Unaudited Interim Consolidated Financial Statements discloses additional details of the acquisitions completed during the nine months ended September 30, 2002.

Overall, consolidated cash increased by about $800 million to $4.6 billion at September 30, 2002 from $3.8 billion at December 31, 2001. Celestica had more than $2.9 billion of this cash at quarter-end. Onex, the parent company, had $1.4 billion of cash on hand.

## CONSOLIDATED FINANCIAL POSITION

Consolidated assets grew to $22.1 billion at September 30, 2002 from $20.9 billion at December 31, 2001. A breakdown of assets by industry segment is provided in note 11 to the Unaudited Interim Consolidated Financial Statements.

### Acquisitions

The growth in assets at September 30, 2002 was due to acquisitions completed to date during 2002, which are summarized as follows:

- In March, Onex exchanged its interest in the shares of Lantic Sugar for approximately 21 million units of the Rogers Sugar Income Fund ("RSIF"). No cash was exchanged on this transaction. Onex now has an approximate 28 percent interest in RSIF and has voting control of RSIF's operating companies, Lantic Sugar and Rogers Sugar. Accordingly, the assets, liabilities and operations of Rogers Sugar have been consolidated from the date of completion of this transaction. This increased assets for the first half of this year by approximately $473 million.
- In late March, Onex completed the acquisition of Loews Cineplex following that company's emergence from bankruptcy. This purchase added approximately $1.7 billion in assets.
- At the end of March, Celestica acquired certain assets in Japan from NEC Corporation and signed a five-year supply agreement to provide a range of electronics manufacturing services for NEC.
- In early April, Onex purchased the remaining 50 percent interest in the Loeks-Star Partnership, a leading theatre exhibition company in Michigan that operates theatres under the Star Theatres brand. In mid-June, Onex completed the acquisition of Cinemex, the largest theatre exhibitor in Mexico City. The Loeks-Star Partnership and Cinemex added about $670 million in assets.
- In July, CMC Electronics acquired Flight Visions Inc., a U.S.-based aviation company that manufactures heads-up displays and mission computers. This acquisition added $42 million in assets.
- In August, Celestica acquired certain assets from Corvis Corporation in the U.S. and signed a multi-year supply agreement to exclusively manufacture Corvis' terrestrial optical networking products and sub-sea terminating equipment.

Further information on these acquisitions is provided in note 2 to the Unaudited Interim Consolidated Financial Statements.

## Long-term debt

Onex, the parent company, has no debt with the exception of debentures that are exchangeable into shares of Celestica. It has been Onex' policy to preserve a financially strong parent company that has the funds available for new acquisitions and to support the growth of its operating companies. All debt financing is undertaken by Onex' operating companies, and each company is required to support its own debt. There are no cross guarantees between Onex companies.

Total long-term debt, including the current portion, increased to $5.5 billion at September 30, 2002, up $1.1 billion from $4.4 billion at December 31, 2001; $91 million of the increase occurred in the third quarter of 2002. The increase from year-end was primarily due to new debt associated with the acquisitions of Loews Cineplex and Cinemex, which added $976 million, as well as the debt of Rogers Sugar in the amount of $378 million, which is now consolidated because of the exchange of Lantic Sugar for RSIF trust units in the first half of 2002, as described in the Acquisitions section of this report.

There was a shift in the debt of MAGNATRAX and Bostrom from long-term to current debt in the third quarter. The debt of J.L. French has been classified as current since the second quarter of 2002. The combination of these classifications added approximately $1.5 billion to the current portion of long-term debt on the balance sheet, with a corresponding reduction to long-term debt.

J.L. French met its financial covenants as of September 30, 2002. However, management of J.L. French is not certain that it will be able to achieve compliance with its debt requirements over the 12 months from September 30, 2002. Accounting principles necessitate the evaluation of the company's ability to meet debt obligations and covenants under its existing debt agreements over the next 12 months and classify debt as current if it appears that those requirements may not be met. Therefore, $954 million of J.L. French's long-term debt has been classified as current debt on the Unaudited Interim Consolidated Balance Sheet as at September 30, 2002. The company is in discussions with its lenders and other parties on alternatives that would improve J.L. French's financial structure. While management of J.L. French believes that alternative financing can be completed, accounting rules require that the debt be classified as current until such time that the financing is consummated. At this time, there is no certainty that such financing arrangements can be completed. The debt of J.L. French is non-recourse to Onex and its other operating companies.

The severe cyclical decline in the metal building products industry in which MAGNATRAX operates caused the company to not be in compliance with its bank covenants. As a result, MAGNATRAX' subsidiary, Vicwest Corporation, was not permitted to make the interest payment on its public subordinated notes due during the third quarter. MAGNATRAX is currently in negotiations with its lenders to find a solution that would enable the company to operate through this cyclical industry decline. Until new arrangements are reached with its lenders, virtually all of MAGNATRAX' debt of $472 million has been classified as current. This debt is without recourse to Onex and its other operating companies.

While Bostrom was in compliance with its debt covenants at September 30, 2002, financial projections prepared by management of Bostrom indicate that the company may not be able to achieve its financial covenant levels over the next 12 months. Accordingly, Bostrom's debt in the amount of $75 million has been classified as current on Onex' Unaudited Interim Consolidated Balance Sheet as at September 30, 2002. The debt of Bostrom is non-recourse to Onex and its other operating companies.

## Shareholders' equity

Shareholders' equity declined to $1.5 billion as at September 30, 2002 compared to $2.2 billion at December 31, 2001. The decline was due to the adoption of the two new accounting requirements for stock-based compensation and goodwill and other intangible assets.

In connection with the adoption of the new accounting requirement for goodwill and other intangible assets, Onex' operating companies are required to assess, under a new methodology, whether goodwill and other intangible assets are impaired as at January 1, 2002. All the goodwill and other intangible assets recorded on Onex' consolidated balance sheet represent the goodwill and other intangible assets recorded at the operating companies. Onex, the parent company, does not carry a goodwill balance. Any goodwill and other intangible assets that are determined to be impaired under this test are charged against retained earnings as at January 1, 2002.

The impairment assessment is a two-step process. The accounting standard provided until June 30, 2002 to complete an initial assessment that would determine whether goodwill and other intangible assets are impaired and then a further six months until December 31, 2002 to measure the amount of impairment. Onex' operating companies have completed the first step. The Company concluded that there is an impairment of goodwill and other intangible assets associated with certain operating companies. In the third quarter, a charge of $547 million was booked to opening retained earnings at January 1, 2002. The reduction in the goodwill balance resulting from the adoption of this policy is $817 million, of which $270 million was recorded as a reduction in non-controlling interests. This represents the interests in the goodwill writedown of other shareholders in the operating companies. Although all operating companies have completed their initial assessments, the extensive effort required to comply with this new accounting policy will not be completed by all of Onex' operating companies until the end of the year. We currently estimate the additional goodwill impairment to be approximately $750 million, of which approximately $450 million would be charged to opening consolidated retained earnings as at January 1, 2002, and the balance allocated to the non-controlling interests amount on the consolidated balance sheet. Note 1 to the Unaudited Interim Consolidated Financial Statements provides information on this new accounting policy.

In January 2002, Onex recorded a $280 million charge to retained earnings related to the adoption of the new accounting requirement for stock-based compensation; this charge represents the cumulative value of stock options and investment rights as at January 1, 2002. Note 1 to the Unaudited Interim Consolidated Financial Statements provides further information on this new accounting policy.

The Unaudited Interim Consolidated Statements of Shareholders' Equity show the changes to the components of shareholders' equity for the nine months ended September 30, 2002 and 2001.

In early July, Onex issued 682,500 options at an exercise price of $20.50, which was the market value of Onex shares at the time of issuance of the options. These options vest over five years and are not exercisable unless the market price is at least 25 percent above the option price.

## ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant estimates are used in determining the allowance for doubtful accounts, inventory valuation and the useful lives of intangible assets. Actual results could differ materially from those estimates and assumptions.

### Recent Accounting Developments

**Business combinations, goodwill and other intangible assets** The *Canadian Institute of Chartered Accountants ("CICA") Handbook* Section 1581, "Business Combinations", and Section 3062, "Goodwill and Other Intangible Assets", became effective on July 1, 2001. See note 1 to the Unaudited Interim Consolidated Financial Statements for the discussion of the adoption of these new accounting policies.

**Stock-based compensation and other stock-based payments** Effective January 1, 2002, the Company adopted the new *CICA Handbook* Section 3870, "Stock-based Compensation and Other Stock-based Payments". See note 1 to the Unaudited Interim Consolidated Financial Statements for the review of this accounting policy.

**Foreign currency translation and hedging relationships** *CICA Handbook* Section 1650, "Foreign Currency Translation", has been amended to eliminate the deferral and amortization of foreign currency translation gains and losses on long-lived monetary items, effective January 1, 2002, with retroactive restatement of prior periods. The Company is not impacted by this change. The CICA issued *Accounting Guideline* AcG-13, "Hedging Relationships", which establishes criteria for hedge accounting effective for the Company's 2003 fiscal year. The Company has complied with the requirements of AcG-13 and has determined that all of its current hedges will continue to qualify for hedge accounting.

### Proposed Accounting Guidelines

**Guarantees** The CICA issued a draft Guideline that would require additional disclosure on guarantees as follows: (1) the nature of the guarantee, including how it arose and the events or circumstances that would require the guarantor to perform under the guarantee, (2) the maximum amount of future payments the guarantor would be required to make, (3) the nature of any recourse provisions and the nature of assets held, either collateral or by third parties and (4) the approximate extent to which the proceeds from collateral would be expected to cover the maximum potential for loss under the guarantee. We are currently monitoring the proposed accounting guideline since the Company believes that this guideline may affect its financial disclosure. This guideline has a tentative adoption date of December 31, 2002.

# Consolidated Balance Sheets

| *(in millions of dollars)* | *(Unaudited)* As at September 30 **2002** | *(Audited)* As at December 31 2001 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and short-term investments | **$ 4,571** | $ 3,780 |
| Accounts receivable | **2,706** | 2,786 |
| Inventories | **2,032** | 2,730 |
| Other current assets | **728** | 730 |
| | **10,037** | 10,026 |
| Property, plant and equipment | **4,578** | 3,550 |
| Investments and other assets | **1,463** | 1,180 |
| Goodwill (note 3) | **5,054** | 5,218 |
| Intangible assets | **955** | 896 |
| | **$ 22,087** | $ 20,870 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities** | | |
| Bank indebtedness, without recourse to Onex | **$ 47** | $ 76 |
| Accounts payable and accrued liabilities | **4,661** | 4,340 |
| Current portion of long-term debt and obligations under capital leases of subsidiaries, without recourse to Onex (note 4) | **1,608** | 360 |
| | **6,316** | 4,776 |
| Long-term debt of subsidiaries, without recourse to Onex (note 4) | **3,925** | 4,038 |
| Obligations under capital leases, without recourse to Onex | **78** | 38 |
| Exchangeable debentures | **190** | 590 |
| Future income taxes | **957** | 938 |
| Other liabilities | **1,357** | 525 |
| | **12,823** | 10,905 |
| Non-controlling interests | **7,760** | 7,746 |
| **Shareholders' equity** | **1,504** | 2,219 |
| | **$ 22,087** | $ 20,870 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

*These Unaudited Interim Consolidated Financial Statements should be read in conjunction with the Audited Annual Consolidated Financial Statements.*

# Consolidated Statements of Earnings

| *(Unaudited)* *(in millions of dollars, except per share data)* | Three months ended September 30 **2002** | 2001 | Nine months ended September 30 **2002** | 2001 |
|---|---|---|---|---|
| **Revenues** | **$ 5,473** | $ 5,435 | **$ 17,058** | $ 17,916 |
| **Earnings Before the Undernoted Items** | **$ 466** | $ 391 | **$ 1,350** | $ 1,186 |
| Amortization of property, plant and equipment | **(198)** | (163) | **(577)** | (448) |
| Amortization of goodwill, intangible assets and deferred charges (note 3) | **(56)** | (86) | **(138)** | (265) |
| Interest expense of operating companies | **(127)** | (106) | **(351)** | (334) |
| Interest and other income | **21** | 45 | **65** | 130 |
| Stock-based compensation (note 8) | **41** | – | **114** | – |
| Gains on shares of operating companies, net | **–** | 41 | **8** | 109 |
| Acquisition, restructuring and other expenses (note 5) | **(210)** | (97) | **(270)** | (219) |
| Debt prepayment costs | **(15)** | – | **(24)** | – |
| Writedown of goodwill and intangible assets by operating companies | **–** | (57) | **–** | (422) |
| **Earnings (loss) before income taxes and non-controlling interests** | **(78)** | (32) | **177** | (263) |
| Provision for income taxes | **13** | 1 | **(41)** | (54) |
| **Earnings (loss) before non-controlling interests** | **(65)** | (31) | **136** | (317) |
| Non-controlling interests of operating companies | **99** | 54 | **(31)** | 164 |
| **Earnings (loss) from continuing operations** | **34** | 23 | **105** | (153) |
| Earnings from discontinued operations | **–** | – | **–** | 939 |
| **Net Earnings for the Period** | **$ 34** | $ 23 | **$ 105** | $ 786 |
| **Net Earnings (Loss) per Subordinate Voting Share** (notes 3 and 6) | | | | |
| Basic: | | | | |
| Continuing operations | **$ 0.21** | $ 0.14 | **$ 0.65** | $ (0.95) |
| Discontinued operations | **$ –** | $ – | **$ –** | $ 5.83 |
| Net earnings | **$ 0.21** | $ 0.14 | **$ 0.65** | $ 4.88 |
| Diluted: | | | | |
| Continuing operations | **$ 0.20** | $ 0.13 | **$ 0.63** | $ (0.95) |
| Discontinued operations | **$ –** | $ – | **$ –** | $ 5.83 |
| Net earnings | **$ 0.20** | $ 0.13 | **$ 0.63** | $ 4.88 |

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

*These Unaudited Interim Consolidated Financial Statements should be read in conjunction with the Audited Annual Consolidated Financial Statements.*

# Consolidated Statements of Shareholders' Equity

| *(Unaudited)* Nine months ended September 30<br>*(in millions of dollars, except per share data)* | Share Capital (note 7) | Retained Earnings | Cumulative Translation Adjustment | Total Shareholders' Equity |
|---|---|---|---|---|
| **Balance – December 31, 2000** | $ 665 | $ 728 | $ 38 | $ 1,431 |
| Dividends declared | – | (13) | – | (13) |
| Issue of shares – dividend reinvestment plan | 2 | – | – | 2 |
| Stock options surrendered or exercised | – | (1) | – | (1) |
| Purchase and cancellation of shares | (9) | (30) | – | (39) |
| Currency translation adjustment | – | – | 60 | 60 |
| Net earnings for the period | – | 786 | – | 786 |
| **Balance – September 30, 2001** | $ 658 | $ 1,470 | $ 98 | $ 2,226 |
| **Balance – December 31, 2001** | **$ 659** | **$ 1,440** | **$ 120** | **$ 2,219** |
| Change in accounting policies[1] | **–** | **(827)** | **–** | **(827)** |
| Dividends declared | **–** | **(13)** | **–** | **(13)** |
| Issue of shares – dividend reinvestment plan | | | | |
| and exercise of options | **4** | **–** | **–** | **4** |
| Currency translation adjustment | **–** | **–** | **16** | **16** |
| Net earnings for the period | **–** | **105** | **–** | **105** |
| **Balance – September 30, 2002** | **$ 663** | **$ 705** | **$ 136** | **$ 1,504** |

(1) Adoption of *CICA Handbook* Section 3870, "Stock-based Compensation and Other Stock-based Payments" and *CICA Handbook* Section 3062, "Goodwill and Other Intangible Assets", which were effective January 1, 2002 (see note 1).

Dividends declared per Subordinate Voting Share were $0.0825 (2001 – $0.0825) for the nine months ended September 30, 2002.

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

*These Unaudited Interim Consolidated Financial Statements should be read in conjunction with the Audited Annual Consolidated Financial Statements.*

# Consolidated Statements of Cash Flows

| *(Unaudited)* *(in millions of dollars)* | Three months ended September 30 **2002** | 2001 | Nine months ended September 30 **2002** | 2001 |
|---|---|---|---|---|
| **Operating Activities** | | | | |
| Net earnings (loss) from continuing operations | **$ 34** | $ 23 | **$ 105** | $ (153) |
| Items not affecting cash: | | | | |
| Amortization of property, plant and equipment | **198** | 163 | **577** | 448 |
| Amortization of goodwill, intangible assets and deferred charges | **56** | 86 | **138** | 265 |
| Writedown of goodwill and intangible assets by operating companies | **–** | 57 | **–** | 422 |
| Non-cash component of acquisition, restructuring and other expenses | **109** | 35 | **109** | 61 |
| Non-controlling interests of operating companies | **(99)** | (54) | **31** | (164) |
| Future income taxes | **(9)** | (5) | **(15)** | – |
| Stock-based compensation | **(41)** | – | **(114)** | – |
| Gains on shares of operating companies, net | **–** | (41) | **(8)** | (109) |
| Other | **(20)** | (12) | **41** | (18) |
| | **228** | 252 | **864** | 752 |
| Increase (decrease) in other liabilities | **(24)** | (25) | **17** | (18) |
| Decrease in non-cash net working capital related to operations | **633** | 591 | **781** | 134 |
| | **837** | 818 | **1,662** | 868 |
| **Financing Activities** | | | | |
| Issuance of long-term debt | **125** | 246 | **1,298** | 1,049 |
| Repayment of long-term debt | **(411)** | (228) | **(1,533)** | (945) |
| Repurchase of share capital, net | **–** | (10) | **–** | (39) |
| Issuance of share capital by subsidiaries | **10** | 38 | **310** | 1,211 |
| Increase (decrease) in other financing activities | **(25)** | 27 | **(76)** | 59 |
| | **(301)** | 73 | **(1)** | 1,335 |
| **Investing Activities** | | | | |
| Acquisition of operating companies, net of cash in acquired companies[1] | **(54)** | (1,200) | **(522)** | (1,816) |
| Purchase of property, plant and equipment | **(137)** | (141) | **(391)** | (484) |
| Proceeds from sales of shares of operating companies | **–** | 11 | **12** | 12 |
| Net decrease (increase) in other investing activities | **75** | (12) | **31** | (227) |
| | **(116)** | (1,342) | **(870)** | (2,515) |
| **Cash from discontinued operations** | **–** | – | **–** | 1,253 |
| **Increase (Decrease) in Cash and Short-term Investments for the Period** | **420** | (451) | **791** | 941 |
| Cash and short-term investments – beginning of the period | **4,151** | 3,621 | **3,780** | 2,229 |
| **Cash and Short-term Investments – End of the Period** | **$ 4,571** | $ 3,170 | **$ 4,571** | $ 3,170 |

(1) Cash in the acquired companies for the quarter was nil (2001 – $24) and $156 (2001 – $289) for the nine months ended September 30.

Change in cash and short-term investments is after unrealized foreign exchange gains (losses) on cash equivalents for the quarter of $174 (2001 – $102) and $(4) (2001 – $97) for the nine months ended September 30.

*See accompanying Notes to Unaudited Interim Consolidated Financial Statements.*

*These Unaudited Interim Consolidated Financial Statements should be read in conjunction with the Audited Annual Consolidated Financial Statements.*

# Notes to Interim Consolidated Financial Statements

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

**Onex Corporation ("Onex" or the "Company") is a diversified company whose subsidiaries operate as autonomous businesses.**

## 1. BASIS OF PREPARATION

The Company prepares its financial statements in accordance with Canadian generally accepted accounting principles. 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, 2001.

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 below in regard to the new accounting requirements for stock-based compensation and for goodwill and other intangible assets.

### STOCK-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

Effective January 1, 2002, the Company adopted Section 3870 of the *Canadian Institute of Chartered Accountants ("CICA") Handbook*, "Stock-based Compensation and Other Stock-based Payments". These recommendations require that a fair-value-based method of accounting be applied to all stock-based payments to employees and non-employees that are direct awards of stock, stock appreciation rights or that call for settlement in cash or other assets.

Onex has three types of plans that are covered by this section. The first is the Company's Stock Option Plan (the "Plan") described in note 12(e) to the Audited Annual Consolidated Financial Statements, which provides, in certain situations, that the Company has the right, but not the obligation, to settle any exercisable option under the Plan by the payment of cash to the option holder. With the adoption of the new accounting policy, the Company has recorded a liability as at January 1, 2002 for the potential future settlement of vested options at that date by reference to the value of Onex shares at that date, with a corresponding charge to opening retained earnings. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares with the corresponding effect reflected in the statement of earnings. This is disclosed on the line "Stock-based compensation" in the Unaudited Interim Consolidated Statements of Earnings.

The second is the Management Investment Plan (the "MIP"), which is described in note 20(e) to the Audited Annual Consolidated Financial Statements. The MIP provides that exercisable investment rights may be settled by the issuance of the underlying shares or, in certain situations, by a cash payment for the value of the investment right. Under the MIP, once the targets have been achieved for the exercise of investment rights, a liability is recorded for the value of the investment rights under the MIP by reference to the value of underlying investments, with a corresponding compensation expense being recorded to the statement of earnings. At January 1, 2002, three investments had fulfilled all the requirements needed for the MIP investment rights to be exercised. For these investments, opening retained earnings was charged for the fair value of the investment rights by reference to the underlying investments. On a quarterly basis, the liability is adjusted up or down for the change in the market value of the underlying shares with the corresponding change recorded in the statement of earnings. This is disclosed on the line "Stock-based compensation" in the Unaudited Interim Consolidated Statements of Earnings.

The third type of employee stock option plan is for employees at the subsidiary companies, under which, on payment of the exercise price, stock of the subsidiary company is issued. This type of plan is not required to be accounted for by the fair-value method; however, these plans require disclosure in the notes to the Unaudited Interim Consolidated Financial Statements of pro forma net earnings and earnings per share information as if these plans had been accounted for under the fair-value method.

The adoption of this new accounting principle for the Plan and MIP has been applied retroactively, with no restatement of prior periods and with retained earnings as at January 1, 2002 being reduced by $280 with an equal increase in other liabilities. The Company has applied the pro forma disclosure provisions of this new accounting standard to employee stock-based awards of subsidiaries granted on or after January 1, 2002 as is set out in note 8 to the Unaudited Interim Consolidated Financial Statements.

#### GOODWILL AND OTHER INTANGIBLE ASSETS

During the third quarter of 2001, the Company adopted *CICA Handbook* Section 3062, "Goodwill and Other Intangible Assets". This section requires that goodwill and other intangible assets with indefinite lives not be amortized but rather that their fair value be assessed periodically and written down for any impairment in value. For acquisitions made subsequent to July 1, 2001 and as of January 1, 2002, for all existing goodwill and other intangible assets with indefinite lives, such assets will no longer be amortized, but will be evaluated annually for impairment. This impairment methodology is more conservative than the previous standard.

Essentially all of the goodwill and other intangible assets amounts that appear on the Unaudited Interim Consolidated Balance Sheets are recorded by the operating subsidiary companies. Section 3062's transitional provisions require the Company and its subsidiaries to assess whether goodwill and other intangible assets are impaired as of January 1, 2002. The Company and its subsidiaries have up to six months (to June 30, 2002) to complete their initial assessment and a further six months to perform and measure the amount of impairment, if any. This second step is to be completed no later than December 31, 2002. Any impairment identified through the application of this process will be charged to opening retained earnings as of January 1, 2002.

Based on the completion of the initial assessments, the Company concluded that there is an impairment of goodwill associated with certain operating companies. For those companies that have measured the amount of goodwill impairment, a charge of $547 was booked to opening consolidated retained earnings as at January 1, 2002 as a result of the adoption of this new accounting policy. The reduction in the goodwill balance as a result of the adoption of this policy is $817, of which $270 was recorded as a reduction in non-controlling interests. Although all operating companies have completed the initial assessment, the extensive effort required to measure the impairment to comply with this section will not be completed until the end of 2002. Based on current estimates, the Company currently believes the additional goodwill impairment to be approximately $750, of which approximately $450 would be charged to opening retained earnings as at January 1, 2002, and the remainder allocated to the non-controlling interests amount on the consolidated balance sheet.

### 2. CORPORATE INVESTMENTS

During the first nine months of 2002 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 acquisitions are without recourse to Onex.

**a)** In March 2002 Celestica acquired certain assets located in Japan from NEC Corporation. In August 2002 the company acquired certain assets from Corvis Corporation located in the Northeastern United States. The total purchase price of $175 was funded with cash on hand at Celestica.

**b)** In March 2002 Onex completed the purchase of Loews Cineplex Entertainment Corporation and all of its wholly owned subsidiaries ("Loews Cineplex"). Onex and its partner, Oaktree Capital Management, LLC ("Oaktree Capital"), converted $462 of Loews Cineplex' bank debt held into an equity interest in the restructured company and invested an additional $55 in the equity of the company for a combined 100% of the equity. Loews Cineplex, headquartered in New York, United States, is one of the largest theatre exhibition companies, operating more than 2,200 screens at over 230 locations in North America, Spain and South Korea.

In April 2002 Onex and its partner purchased the 50% interest in the Loeks-Star Partnership ("Loeks-Star") not previously owned by Loews Cineplex. This brought Star Theatres, owned by Loeks-Star, under the Company's control. Star Theatres, based in Michigan, United States, is a leading theatre exhibition company in its market with 10 theatres and a total of 156 screens, located primarily in metropolitan Detroit.

In June 2002 the acquisition of Grupo Cinemex, S.A. de C.V. ("Cinemex") was completed. Cinemex is a leading theatre exhibition company in Mexico with 31 theatres and 349 screens, the majority of which are located in Mexico City.

Of the total purchase price of $927 for Loews Cineplex, Loeks-Star and Cinemex, Onex invested a total of $490 for a 52% equity ownership and has voting control of Loews Cineplex, Loeks-Star and Cinemex. Onex also continues to hold a $37 interest in Loews Cineplex' restructured bank debt, which is eliminated upon consolidation.

**c)** In July 2002 ONCAP's subsidiary, CMC Electronics, completed the acquisition of Flight Visions Inc., located in Illinois, United States. The purchase price of $38 was funded with cash on hand.

**d)** The purchase prices of the various acquisitions were allocated to the net assets acquired based on their relative fair value at the date of acquisition. The Company is obtaining third-party valuations of certain assets, which could result in further refinement of the fair-value allocation of the purchase price.

Details of the 2002 acquisitions, which were accounted for as purchases, are as follows:

| | Celestica[a] | Loews Cineplex[b] | ONCAP[c] |
|---|---|---|---|
| Cash | $ – | $ 156 | $ – |
| Current assets | 80 | 57 | 11 |
| Goodwill | – | 509 | 15 |
| Intangible assets | 83 | 167 | 15 |
| Property, plant and equipment and other long-term assets | 102 | 1,452 | 1 |
| | 265 | 2,341 | 42 |
| Current liabilities | (90) | (365) | (4) |
| Other long-term liabilities | – | (1,049) | – |
| | 175 | 927 | 38 |
| Non-controlling interests in net assets | – | (437) | – |
| Interest in net assets acquired | $ 175 | $ 490 | $ 38 |

**e)** In March 2002 Onex and the other shareholders in Lantic Sugar Limited ("Lantic Sugar") exchanged their shares of Lantic Sugar for trust units of Rogers Sugar Income Fund ("RSIF"). Onex received approximately 21 million trust units, representing a 28% interest in RSIF, for the Company's ownership interest in Lantic Sugar. This was a non-cash transaction and Onex retained voting control of Lantic Sugar. As part of the transaction, Onex achieved voting control over RSIF's other operating company, Rogers Sugar Ltd. ("Rogers Sugar"). Effective March 2002, Onex' Unaudited Interim Consolidated Financial Statements include the assets, liabilities and operations of Rogers Sugar. Since there was no change in control of Lantic Sugar and part of the transaction was deemed to be with a related party, no accounting gain was recorded on this transaction.

## 3. GOODWILL

At September 30, 2002 the Company had goodwill of $5,054 that, under the accounting policy described in note 1, is no longer being amortized. This change in accounting policy is applied prospectively, and the amortization amounts presented for prior periods have not been restated for this change. The result of this change on net earnings from continuing operations for 2002 compared to 2001 is as follows:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Net earnings (loss) from continuing operations | **$ 34** | $ 23 | **$ 105** | $ (153) |
| Add back: Onex' share of goodwill amortization | **–** | $ 25 | **–** | $ 86 |
| Net earnings (loss) from continuing operations before goodwill amortization | **$ 34** | $ 48 | **$ 105** | $ (67) |
| Basic net earnings (loss) per Subordinate Voting Share: | | | | |
| Continuing operations | **$ 0.21** | $ 0.14 | **$ 0.65** | $ (0.95) |
| Continuing operations before goodwill amortization | **$ 0.21** | $ 0.30 | **$ 0.65** | $ (0.41) |
| Diluted net earnings (loss) per Subordinate Voting Share: | | | | |
| Continuing operations | **$ 0.20** | $ 0.13 | **$ 0.63** | $ (0.95) |
| Continuing operations before goodwill amortization | **$ 0.20** | $ 0.28 | **$ 0.63** | $ (0.41) |

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

The following describes the significant changes to Onex' consolidated long-term debt from the information provided in the December 31, 2001 Audited Annual Consolidated Financial Statements.

J.L. French and Bostrom met their financial covenants as of September 30, 2002. However, accounting principles necessitate the evaluation of the companies' ability to meet debt requirements over the next 12 months under their existing debt agreements for the debt to remain classified as long-term. Both J.L. French and Bostrom are not certain that they will be able to achieve compliance with their debt requirements through to September 30, 2003. Accordingly, $954 and $75, respectively, of J.L. French's and Bostrom's long-term debt has been classified as current debt on the Unaudited Interim Consolidated Balance Sheet as at September 30, 2002. The companies are in discussions with their lenders and other parties on alternatives that would improve J.L. French's and Bostrom's financial structure. While management of these companies believe that alternative financing arrangements can be completed, accounting rules require that the debt be classified as current until such time as the financing arrangements are consummated. At this time, there is no certainty that such financing arrangements can be completed. The debt of both J.L. French and Bostrom is non-recourse to Onex. No adjustment has been made in the Unaudited Interim Consolidated Financial Statements to the carrying value of the companies. The net book value of the investment in J.L. French is a negative $90 and Bostrom is a positive $28 in the Unaudited Interim Consolidated Financial Statements at September 30, 2002.

Due to the decline in the engineered metal buildings industry, MAGNATRAX was not in compliance with its financial covenants at September 30, 2002. As a result, its subsidiary, Vicwest Corporation, was not permitted to pay interest to holders of its public subordinated notes. Discussions have continued with the lenders to MAGNATRAX to achieve a solution that would enable the company to operate through this prolonged industry downturn. These discussions have been constructive, with the lenders having waived the covenant violations through November 15, 2002. Until an agreement is reached with MAGNATRAX' lenders, however, virtually all of the company's debt in the amount of $472 million has been classified as current in Onex' Unaudited Interim Consolidated Financial Statements. Onex does not guarantee the debt of MAGNATRAX. No adjustments have been made to the carrying amount of the assets or liabilities of MAGNATRAX in the Unaudited Interim Consolidated Balance Sheet with respect to this non-compliance. The net book value of the investment in MAGNATRAX in the Unaudited Interim Consolidated Financial Statements at September 30, 2002 is a negative $140.

The acquisition of Loews Cineplex brought debt in the amount of US$430 (CDN$686) of that company on to the Unaudited Interim Consolidated Financial Statements. That debt is in the form of a term loan agreement entered into in March 2002. The term loan bears interest at a rate of either the base rate or an adjusted Eurodollar rate plus a margin, and matures in February 2008 with quarterly repayments commencing May 2003. Outstanding borrowings under the term loan facility at September 30, 2002 were US$427.

Loews Cineplex also entered into a Priority Secured Credit Agreement, which is comprised of a US$85 Exit Revolving Credit Facility and a US$55 Exit Term Loan including US$20 available in Canada. The Exit Term Loan bears interest at either the base rate plus 2.75% or the adjusted Eurodollar rate plus 3.75% for U.S. loans, and the Canadian prime rate plus 2.75% or the Bankers Acceptance rate plus 3.75% for Canadian loans. At September 30, 2002 there were no borrowings against the Exit Revolving Credit Facility and US$55 was outstanding on the Exit Term Loan. The Exit Term Loan matures in February 2007 with quarterly repayments commencing May 2003.

Borrowings under both the term loan and the Priority Secured Credit Facility are secured by substantially all of the assets of Loews Cineplex and are without recourse to Onex.

The June 2002 acquisition of Cinemex resulted in additional debt on the Unaudited Interim Consolidated Financial Statements of US$71. Cinemex has a senior secured term loan facility of US$71, all of which is outstanding at September 30, 2002. The term loan matures in October 2006 with semi-annual repayments commencing October 2003. The term loan facility bears interest at LIBOR plus a margin and is secured by certain assets of the company.

As a result of the exchange of the shares of Lantic Sugar for RSIF trust units as described in note 2(e), the debt of Rogers Sugar is now included in the Unaudited Interim Consolidated Financial Statements of the Company. Rogers Sugar has $100 in debentures that bear interest at 8.173%. Interest is payable on a quarterly basis. The debentures mature in August 2005, at which point repayment of the principal is due in full.

Rogers Sugar also has subordinated notes payable of $278. All of the notes are held by RSIF and bear a variable interest rate based on Rogers Sugar's earnings before interest, taxes, depreciation and amortization, and working capital requirements, subject to a ceiling of 11.5% and a floor of 6% per annum. The subordinated notes are due in October 2027.

Rogers Sugar also has a revolving credit facility that extends to August 2004. The revolving credit facility is for Rogers Sugar's operations and drawdowns are subject to certain restrictions. The long-term debt is secured by all of the assets of Rogers Sugar except accounts receivable and inventory, which serve as security for the revolving credit facility.

As part of the Lantic Sugar transaction, Lantic Sugar issued $155 of subordinated notes to RSIF. These notes bear interest at 13.25% per annum and are due in October 2027.

In April 2002 Dura Automotive completed a US$350 offering of senior notes. The senior notes bear interest at 8⅝%, payable semi-annually, and are due in April 2012. The net proceeds from the senior notes offering were used to repay a portion of the outstanding term loan. The company then replaced the existing term loan with a new US$150 term loan due in 2008.

## 5. ACQUISITION, RESTRUCTURING AND OTHER EXPENSES

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Celestica | **$ 204** | $ 84 | **$ 226** | $ 186 |
| Dura Automotive | **5** | 13 | **38** | 16 |
| ClientLogic | **–** | – | **–** | 13 |
| Other | **1** | – | **6** | 4 |
| | **$ 210** | $ 97 | **$ 270** | $ 219 |

Acquisition costs incurred relate to the implementation of business processes, infrastructure and information systems for operations acquired.

Included above for Celestica is a pre-tax restructuring charge totalling $204 to provide for costs of facility consolidations and a reduction in the workforce as a result of the broad slowdown in technology end-markets being experienced by its customers. The charge includes $66 for employee termination costs, $13 for lease and other contractual obligations, $109 for non-cash asset impairments and $16 of facility exit costs. Included in accounts payable and accrued liabilities is $125 relating to various restructuring charges made in the current and prior years for Celestica.

Dura Automotive recorded a non-recurring charge of $33 relating to the divestiture of its Steering Gear business in the second quarter of 2002.

## 6. EARNINGS PER SHARE

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

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Weighted average number of shares outstanding | | | | |
| Basic | **160,760,000** | 160,805,000 | **160,704,000** | 161,309,000 |
| Diluted | **160,760,000** | 170,150,000 | **160,704,000** | 161,309,000 |

Due to the implementation of the stock-based compensation accounting policy as described in note 1, the Onex options are no longer considered for dilutive calculation purposes as the effect of the Onex options is charged or credited to income. The effect of all dilutive factors would reduce consolidated net earnings for the three months and nine months ended September 30, 2002 by $1 (2001 – nil) and $3 (2001 – nil), respectively.

## 7. SHARE CAPITAL

As at September 30, 2002, Onex' issued and outstanding share capital consisted of 160,780,941 (2001 – 160,337,408) Subordinate Voting Shares, 100,000 Multiple Voting Shares and 176,078 Series 1 Senior Preferred Shares.

During the first nine months of 2002, under the Dividend Reinvestment Plan the Company issued 154,321 (2001 – 97,352) Subordinate Voting Shares at a total value of $3 (2001 – $2). As well, 50,000 Subordinate Voting Shares were issued upon the exercise of stock options of the Company at a value of $1.

During the third quarter of 2002, 682,500 options were issued with an exercise price of $20.50.

## 8. STOCK-BASED COMPENSATION

Included in the Unaudited Interim Consolidated Statements of Earnings for the three months and nine months ended September 30, 2002 is a stock-based compensation recovery of $41 and $114, respectively, resulting from the decline in the fair-market value of the underlying shares with respect to the stock-based compensation arrangements of the parent company, as described in note 1.

The table below shows pro forma net earnings and earnings per share adjusted for the effect of stock option plans at the subsidiary companies.

| **Pro forma after the effect of subsidiary companies' stock option plans** | Three months ended September 30 **2002** | Nine months ended September 30 **2002** |
|---|---|---|
| Pro forma net earnings | **$ 32** | **$ 101** |
| Basic earnings per share | **$ 0.20** | **$ 0.63** |
| Diluted earnings per share | **$ 0.19** | **$ 0.61** |

## 9. SUPPLEMENTAL CASH FLOW INFORMATION

Paid during the period:

| | Three months ended September 30 | | Nine months ended September 30 | |
|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 |
| Interest | **$ 68** | $ 91 | **$ 264** | $ 289 |
| Taxes | **$ 18** | $ 72 | **$ 38** | $ 136 |

## 10. COMMITMENTS AND SUBSEQUENT EVENTS

A subsidiary of Onex may be required to purchase from Oaktree Capital its approximate 40% interest in Loews Cineplex on or about the first, third or fifth anniversary date of the acquisition of Loews Cineplex. The cost of such purchase on the first anniversary would be the original cost to Oaktree Capital of approximately $150, and on the third or fifth anniversary date would be based on a defined calculation referenced to operating earnings of Loews Cineplex with no minimum purchase price commitment.

Onex intends to enter or has entered into commitments to invest up to a total of approximately $115 in certain of its operating companies.

Onex renewed its Normal Course Issuer Bid in April 2002 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, which represents approximately 12.7 million shares.

## 11. INFORMATION BY INDUSTRY SEGMENT

| *(Unaudited)* *(in millions of dollars)* | Revenues | | Operating Earnings (Loss)[1] | | Earnings (Loss) before Income Taxes and Non-controlling Interests | |
|---|---|---|---|---|---|---|
| Three months ended September 30 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| Electronics manufacturing services | **$ 3,067** | $ 3,416 | **$ 98** | $ 124 | **$ (171)** | $ (72) |
| Customer management services | **158** | 145 | **(4)** | – | **(12)** | (14) |
| Automotive products | **1,338** | 1,234 | **86** | 92 | **15** | (7) |
| Engineered building products | **304** | 319 | **6** | 14 | **(8)** | (3) |
| Theatre exhibition[5] | **451** | 9 | **49** | – | **25** | – |
| Parent company and other | **155** | 312 | **95** | 43 | **73** | 64 |
| Total | **$ 5,473** | $ 5,435 | **$ 330** | $ 273 | **$ (78)** | $ (32) |

| *(Unaudited)* *(in millions of dollars)* | Revenues | | Operating Earnings (Loss)[1] | | Earnings (Loss) before Income Taxes and Non-controlling Interests | | Total Assets | |
|---|---|---|---|---|---|---|---|---|
| Nine months ended September 30 *(except as otherwise noted)* | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | (Unaudited) As at Sept. 30 **2002** | (Audited) As at Dec. 31 2001 |
| Electronics manufacturing services | **$ 9,987** | $ 11,707 | **$ 357** | $ 473 | **$ (21)**[2] | $ 69 [2] | **$ 10,302** | $ 10,563 |
| Customer management services | **457** | 432 | **(8)** | (30) | **(33)** | (240)[3] | **326** | 361 |
| Automotive products | **4,204** | 4,128 | **327** | 320 | **84** | (201)[4] | **5,340** | 5,431 |
| Engineered building products | **801** | 872 | **11** | 39 | **(30)** | (17) | **615** | 1,081 |
| Theatre exhibition[5] | **858** | 20 | **91** | (3) | **51** | (4) | **2,468** | 53 |
| Parent company and other | **751** | 757 | **174** | 69 | **126** | 130 | **3,036** | 3,381 |
| Total | **$17,058** | $ 17,916 | **$ 952** | $ 868 | **$ 177** | $ (263) | **$ 22,087** | $ 20,870 |

Notes:

(1) Operating earnings (loss) represents Earnings Before the Undernoted Items (as shown on the Unaudited Interim Consolidated Statements of Earnings) less amortization of property, plant and equipment plus interest and other income and stock-based compensation.

(2) Includes acquisition, integration and other expenses in the amount of $226 (2001 – $186).

(3) Includes the writedown of goodwill and intangible assets in the amount of $140.

(4) Includes the writedown of goodwill in the amount of $225.

(5) Includes Loews Cineplex, Loeks-Star, Cinemex and Galaxy in 2002 and only Galaxy in 2001.

# Shareholder Information

### Third Quarter Dividend

A dividend of $0.0275 per Subordinate Voting Share was paid on October 31, 2002 to shareholders of record on October 10, 2002.

### 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 at a five percent discount to a market-related value and 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

### Registrar and Transfer Agent

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario M5C 2W9
Telephone (Canada and U.S.): 1-800-387-0825

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

### Offices

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### E-mail

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ONEX

CELESTICA | LOEWS CINEPLEX ENTERTAINMENT | CLIENTLOGIC | MAGNATRAX CORPORATION

Lantic | ROGERS Sugar | RADIAN | ONCAP

HCI | DURA | JL French | PLG Performance Logistics Group | CVS

Bostrom plc | TRIM SYSTEMS | GALAXY | PHOENIX PICTURES

ONEX