CINEPLEX GALAXY INCOME FUND

GO BIG

2006 ANNUAL REPORT

1

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MILLION DOLLARS SAVED THROUGH SYNERGIES

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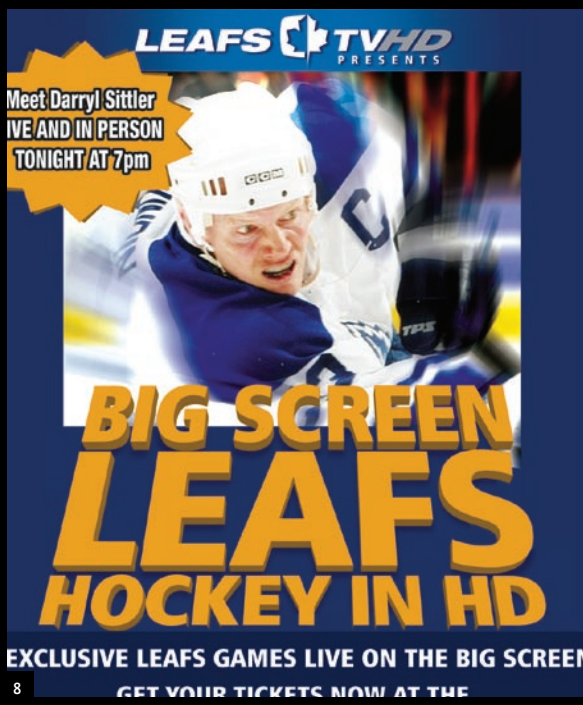

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1. Cineplex Entertainment Gift Card
2. Galaxy Cinemas Brockville
3. Cineplex Odeon Cast Members
4. Tim Hortons - now available in select theatres
5. Scotiabank Theatre Toronto
6. $30 million in annual synergies
7. Galaxy Cinemas Saskatoon lobby
8. Maple Leafs hockey on the Big screen

Cover image: HAPPY FEET™ Courtesy of Warner Bros. Pictures

Cineplex prides itself on being a leader in the North American theatrical exhibition industry. From the quality of experience we offer our guests to our operating and financial performance, we strive to exceed expectations.

GO BIG is more than a campaign aimed at making movie-going the first choice for out-of-home entertainment, it reflects our corporate mission of passionately delivering an exceptional entertainment experience.

We've successfully integrated our businesses, establishing a common culture in which we share one goal – creating the best entertainment company in Canada.

3.2%

INCREASE IN BOX OFFICE REVENUE

Our goal in 2006 was to integrate our businesses, systems and people following our acquisition of Famous Players. We did this – and more.

We reached $30 million in synergies, $10 million more than we had projected at the time of the transaction. The synergies came from these core areas of our operations:

- We reduced overhead costs by consolidating two home offices and rationalizing staff.
- We adopted the best practices of both companies to enhance revenues and reduce operating costs.
- We capitalized on improved purchasing and merchandising opportunities.
- We established Cineplex Media, a wholly-owned media company with substantially improved media sales efficiencies and effectiveness.

We integrated our financial and operating systems, implementing new technology across the network that will allow us to grow our business and more fully engage our guests – a major focus for 2007.

Finally, we created a management team comprised of the most experienced individuals in the Canadian exhibition industry. As important, we established a common culture in which all employees share one goal – creating the best entertainment company in Canada. We built alliances with companies that are giants in their own industries including Coca-Cola and Scotiabank.

Powerful foundation for growth

During 2006, we enjoyed box office revenue growth of 3.2% compared to industry growth of 2.0%, reflecting the quality of the Cineplex experience, our GO BIG campaign and the opening of five new theatres. We not only achieved record revenues, but we've also seen a shift in our revenue pie as we achieved record average concession revenue per guest and focused on growing other revenue sources.

As a result of the synergies, cost savings and revenue growth, we improved our adjusted EBITDA margin to 15.9% in 2006 from 14.0% in 2005. Distributable cash increased by 39.5% to $1.4330 per unit in 2006 from $1.0273 per unit in 2005. Our payout ratio declined to 80% in 2006 from 112% in 2005 and we've reduced our leverage, creating the financial capacity to fund continued growth while providing our unitholders with stable annual distributions.

Enhanced technological capabilities

During 2006, we substantially completed the implementation of our digital pre-show network. Our theatres now have the capability to project high definition multi-media presentations combining entertainment, advertising and promotional messages prior to the beginning of each feature film. The digital pre-show creates new opportunities for advertisers through reduced production costs, increased flexibility and creativity, improved image quality and much larger images. This also provides us with the technology required to further expand our alternative programming.

Financial highlights

(expressed in thousands of dollars except per unit and per patron data)	2006	2005	2004
Revenue	**$ 740,244**	$ 490,299	$ 315,786
Adjusted EBITDA	**117,622**	68,770	66,968
Net income	**7,836**	12,976	30,248
Total assets	**819,691**	798,751	325,436
Cash distributions declared per LP unit	**1.1496**	1.1496	1.1496
Distributable cash per LP unit	**1.4330**	1.0273	1.2283
Box office revenue per patron	**7.99**	7.73	7.45
Concession revenue per patron	**3.72**	3.44	3.04
Other revenue per patron	**1.18**	1.11	0.74

We completed the installation of a single point-of-sale platform across all of our theatres along with scanners capable of reading bar codes at the ticket and concession counters. This system made it possible to serve our guests more efficiently while creating the technology platform we needed to offer our guests stored value gift cards, which we launched in November. This also allowed us to launch our "SCENE" loyalty program (scene.ca) in early 2007 in partnership with Scotiabank.

We merged the Famous Players, Cineplex Odeon and Galaxy websites, launching cineplex.com, a site which quickly became the second most popular entertainment website in Canada. To further engage our guests, we plan to launch a new website in 2007 with richer content and interactive capabilities. The new site will be more attractive to advertisers as well, creating a new revenue stream for us. Our website could become one of our most significant marketing and sales channels and an important component of our strategy to transform our bricks-and-mortar business – our theatres – to a clicks-and-mortar business.

Capturing growth opportunities

During 2006 we opened a record five new theatres. Three were in the Ontario communities of Milton, Brockville and Oshawa with the remaining two in Brossard, QC and Saskatoon, SK. We have two new theatres planned for 2007 – Collingwood and Oakville, ON.

During the year, we selected Coca Cola as our exclusive beverage supplier to all of our theatres for the next five years, which generated both cost savings and new marketing opportunities. We also added Tim Hortons outlets at three theatres. These have proved successful and we plan to open more Tim Hortons locations in 2007. We're continuing to review all of the suppliers and retail branded outlets at our theatres to ensure they are delivering maximum value to our theatres and guests.

Cineplex Media continues to grow, driven by our expanded advertising reach and amplified by the opportunities created through the digital pre show and our alliances with Coca-Cola and Scotiabank. Cineplex Media publishes three magazines – Famous, Famous Kids and Famous Quebec which are distributed in all Cineplex Entertainment theatres. It also manages advertising sales in our theatres, lobbies and website and provides media sales representation for other Canadian theatre circuits such as Empire and AMC theatres.

Engaging 60 million guests

In 2006 we were intensely focused on establishing a solid operating platform. In 2007 we will renew our focus on engaging our guests. Cineplex attracts close to 60 million guests every year. We can touch those guests through our entertainment offerings, magazines, in-theatre advertising and interactive website. Each of these opportunities was enhanced through our alliance with Scotiabank and the launch of "SCENE", Canada's

During 2006, we improved our financial capacity to fund continued growth and provide our unitholders with stable annual distributions.

65%

BOX OFFICE MARKET SHARE IN CANADA

first entertainment loyalty program. The program extends beyond our guests to Scotiabank's six million Canadian customers at 967 branches – substantially expanding the reach of both companies. The partnership with Scotiabank also includes naming rights for five theatres and on-screen advertising commitments for Cineplex Media.

The rollout of digital capabilities for the pre show also made it possible for our theatres to offer alternative programming. We expanded the program menu of National Hockey League games and World Wrestling Entertainment offered in 2006 to include the *Live in HD at the Metropolitan Opera* series, which was particularly successful.

This response has encouraged us to expand the program and we are investigating additional programs such as Broadway plays and concerts. Our sales team is also targeting customers who want to rent our theatres for private and corporate events, such as annual general meetings.

Creating a leading entertainment company

We've just begun to explore our potential to further engage our guests. We anticipate a solid 2007 with the release of several movies that have had exceptionally popular prequels including *Spiderman 3, Shrek the Third, Pirates of the Caribbean: At Worlds End,* and *Harry Potter and the Order of the Phoenix.*

Engaging our guests is more than just presenting great movies. It requires a constant focus on improving the experience for our guests. We've developed a new SilverCity prototype to engage a wider demographic which we plan to open in Oakville in late 2007. This concept expands the entertainment offering beyond movies to include bowling, a lounge and VIP auditoriums. We're studying the impact of expanding the range of activities at our theatres and offering a wider variety of foods and merchandise. Our goal is to create entertainment destinations that offer more than movies.

Outlook

2006 was full of accomplishments – each one achieved through the commitment of our management team and the hard work of our employees. I'd like to express my sincere gratitude to them and to the members of our Board of Trustees and Directors, whose insight and support throughout the year was invaluable. Finally, I would like to thank our unitholders and guests for their loyalty.

Building upon the foundation we've established, we are poised to engage our guests and deliver an exceptional entertainment experience and unitholder value.

(Signed:)

Ellis Jacob
Chief Executive Officer

March 9, 2007

Financial review

TABLE OF CONTENTS

As of December 31, 2006, Cineplex Galaxy Income Fund indirectly owns an approximate 59.7% interest in Cineplex Entertainment Limited Partnership. Cineplex Galaxy Income Fund does not consolidate the results and operations of Cineplex Entertainment Limited Partnership. For this reason we present the audited financial statements with accompanying notes therein for both Cineplex Galaxy Income Fund and Cineplex Entertainment Limited Partnership. The following management's discussion and analysis of the Cineplex Entertainment Limited Partnership financial condition and results of operations should be read together with the financial statements and related notes. This management's discussion and analysis (MD&A) contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our annual information form and in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry such as poor film product and unauthorized copying; the risks associated with world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions and infectious diseases, changes in income tax legislation, and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex Galaxy Income Fund or Cineplex Entertainment Limited Partnership, its financial or operating results or its securities. Additional information, including Cineplex Galaxy Income Fund's Annual Information Form (AIF) can be found on SEDAR at www.sedar.com.

Management's discussion and analysis

OVERVIEW

On July 22, 2005 Cineplex Entertainment Limited Partnership (the "Partnership") completed the acquisition (the "Acquisition") of the Famous Players Limited Partnership ("Famous Players") movie exhibition business from Viacom Inc. ("Viacom") and Viacom Canada Inc. ("Viacom Canada") (see "The Acquisition and Related Transactions"), becoming Canada's largest film exhibition operator with theatres in six provinces. The Partnership's theatre circuit is concentrated in major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. As of December 31, 2006, the Partnership owned, leased or had a joint-venture interest in 1,305 screens in 130 theatres. This total includes 58 screens in 7 theatres held in joint ventures.

The Partnership was formed on November 26, 2003 to acquire substantially all of the business assets of Cineplex Odeon Corporation ("COC") and all of the shares of Galaxy Entertainment Inc. ("GEI"). The Partnership's investors include Cineplex Galaxy Trust (the "Trust"), Cineplex Entertainment Corporation (the "General Partner"), COC, Cineplex Odeon (Quebec) Inc., and certain former investors in GEI. The Trust is wholly owned by Cineplex Galaxy Income Fund (the "Fund"). On October 3, 2005 the Partnership changed its name from Cineplex Galaxy Limited Partnership to Cineplex Entertainment Limited Partnership.

Under the provisions of an Exchange Agreement designed to facilitate the exchange of units of the Partnership ("LP Units") into units of the Fund ("Fund Units"), the Fund issued 4,277,706 Fund Units during the year ended December 31, 2006, of which 3,250,000 units were exchanged by Onex Corporation ("Onex") and related parties, in exchange for notes and units from the Trust. As a result, the Fund indirectly increased its ownership in the Partnership. As a result of the transactions surrounding the Acquisition of Famous Players, discussed below, and the issuance of Fund Units by the Fund during 2004, 2005 and 2006, in a one-for-one exchange of Fund Units for LP Units and the additional investment by the Fund on June 20, 2006 discussed below, as at December 31, 2006 the Fund indirectly owned approximately 59.7% of the Partnership (excluding the Class C Limited Partnership Units ("Class C LP Units")).

During the second quarter of 2006, the Fund issued 2,000,000 Fund Units for gross proceeds of $31.8 million. The Fund used the proceeds to indirectly purchase 2,000,000 Class A Limited Partnership Units ("Class A LP Units") for an additional 1.7% interest in the Partnership. The Partnership and the Fund entered into a reimbursement agreement under which the fees associated with the issuance of the Fund Units in the amount of approximately $2.0 million were reimbursed by the Partnership. The proceeds received by the Partnership on the issuance of the Class A LP Units to the Fund were used to indirectly repay indebtedness under the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities") and to pay certain expenses of the Fund.

THE ACQUISITION AND RELATED TRANSACTIONS

The Partnership, Viacom and Viacom Canada entered into a purchase agreement dated June 10, 2005 ("Purchase Agreement") pursuant to which the Partnership agreed to acquire Famous Players and its general partner, Famous Players Co., which together held substantially all the assets and liabilities of Viacom Canada's film exhibition business formerly operated by its Famous Players division, including its subsidiaries' shares and joint venture interests, and excluding liabilities to related parties other than to related parties relating solely to film distributions rights on arm's length terms. The Acquisition was completed on July 22, 2005. On closing of the Acquisition, total consideration paid by the Partnership amounted to $468.8 million in cash plus transaction costs. The Purchase Agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. The purchase price adjustment was settled during the first quarter of 2006 with no additional amounts paid or payable to or by the Partnership.

The Acquisition combined Canada's two leading theatre exhibition companies. Famous Players operated a total of 80 theatres with 785 screens across the country, including theatres in its joint ventures with IMAX Corporation and Alliance Atlantis Cinemas partnership. Famous Players theatres included the Coliseum, Colossus, Paramount and SilverCity brands. A discussion of the accounting implications of the Acquisition can be found in Note 2 of the Partnership's financial statements.

In order to finance the Acquisition, the Partnership entered into a number of transactions. The Partnership issued indirectly to the Fund 6,835,000 Class A LP Units for gross proceeds of approximately $110 million and 5,600,000 Class C LP Units for gross proceeds of $105 million. Class C LP Units are entitled to a distribution equal to 6.02% per annum payable semi-annually on the business day before June 30 and December 31 each year in priority to distributions paid on the Class A LP Units, Class B Limited Partnership Units ("Class B LP Units") and Class D Limited Partnership Units ("Class D LP Units").

The Fund financed the acquisition of the Class A LP Units and Class C LP Units through the issuance of 6,835,000 Fund Units at $16.10 per Fund Unit to raise gross proceeds of approximately $110 million and the issuance of $105 million aggregate principal amount of convertible extendible unsecured subordinated debentures (the "Convertible Debentures"), bearing interest at a rate of 6% per annum, payable semi-annually and convertible, at the option of the holder into Fund Units at a conversion price of $18.75 per Fund Unit. Upon conversion of the Convertible Debentures to Fund Units, distributions on Class C LP Units will automatically adjust such that the holder of Class C LP Units will receive distributions in the same manner as distributions are made on the corresponding number of Class A LP Units. On redemption or at the December 31, 2012 maturity date, the Fund may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the Convertible Debentures by issuing and delivering Fund Units. The Partnership and the Fund entered into a reimbursement agreement under which fees associated with the issuance of the Fund Units and Convertible Debentures in the amounts of $5.5 million and $4.2 million were reimbursed by the Partnership. The Partnership recorded the fees in partners' equity and deferred charges, respectively, and will amortize the deferred charges over 3.5 years. As a result of the Fund's investment in Class A LP Units, the Fund's investment in the Partnership increased by 6.4% from 43.8% as at June 30, 2005 to 50.2% as at July 22, 2005. Subsequent to the Acquisition, the Fund continued to account for the Partnership under the equity method as Onex continued to hold both a substantial equity interest in the Partnership and, indirectly, the majority controlling interest in the General Partner that controls the Partnership.

The Class C LP Units are redeemable by the Trust under certain conditions and as such they have characteristics of both debt and equity. As a result, under the provisions of CICA Handbook Section 3860, "Financial Instruments Disclosure and Presentation", an amount of $96.5 million had been classified as a liability and the remainder of $8.5 million had been recorded in equity. Distributions and accretion on the Class C LP Units are included in interest expense.

In connection with the Acquisition, the Partnership entered into an amended and restated credit agreement (collectively the "Amended Credit Facilities") with a syndicate of lenders pursuant to which it has available: (i) a 364 day $50 million extendible senior secured revolving credit facility; (ii) a four year $315 million senior secured non-revolving term credit facility; and (iii) a four year $60 million senior secured revolving credit facility. The Amended Credit Facilities, to be drawn as prime rate loans or bankers acceptances and which bear interest at a floating rate based on the Canadian dollar prime rate or on the bankers acceptance rates plus an applicable margin, amend and restate the Partnership's previous credit facilities ("Former Credit Facilities") under which $141 million was outstanding as at July 22, 2005. The amendment of the Former Credit Facilities was considered an extinguishment of debt under Emerging Issues Committee ("EIC") Abstract 88, "Debtors Accounting for a Modification or Exchange of Debt Instruments", and as a result deferred financing charges of $1.2 million were expensed to the net earnings of the Partnership upon the amendment of the Former Credit Facilities. Upon extinguishment of the Former Credit Facilities, the Partnership recognized the mark-to-market adjustment on the previous interest rate swap agreement in the amount of $2.2 million. Effective July 22, 2005 the Partnership entered into a new interest rate swap. In accordance with the swap agreement, the Partnership pays an interest rate of 3.8% and receives a floating rate. The 3.8% interest rate includes the mark-to-market buy-out of the interest rate swap on the Former Credit Facilities which was accrued on acquisition. The swap is for a term of four years and the principal outstanding is $200 million.

On July 22, 2005, the Partnership issued 500,000 Class D LP Units, a new class of LP Units, at an estimated value of $8.1 million to be held in trust for certain of its executives upon closing the Acquisition. This amount was recorded as compensation expense during the year ended December 31, 2005. These LP Units were not exchangeable for Fund Units but were entitled to receive distributions on substantially the same basis as the Class B LP Units. At the May 11, 2006 meeting of unitholders of the Fund, unitholders approved a resolution making the Class D LP Units exchangeable for Fund Units. Following approval of this resolution, the holders of the Class D LP Units became entitled to exchange such LP Units for Fund Units. Subsequent to the approval by the unitholders, 371,000 of such Class D LP Units were exchanged for 371,000 Fund Units.

In addition, the Partnership agreed to pay Onex, a related party, a transaction fee of $4 million in connection with advisory services rendered by Onex in connection with the Acquisition, the issuance of Fund Units and Convertible Debentures, and the Amended Credit Facilities. The Partnership did not engage a third party for these services. The fee was satisfied by the issuance of 248,447 Class D LP Units upon completion of the Acquisition. At the May 11, 2006 meeting of unitholders of the Fund, unitholders approved a resolution making the Class D LP Units exchangeable for Fund Units. Following approval of this resolution, Onex became entitled to exchange such LP Units for Fund Units. Subsequent to the approval by the unitholders, all 248,447 of such Class D LP Units were exchanged for 248,447 Fund Units.

Using the proceeds from the above transactions, the Partnership acquired 100% of the limited partnership units of Famous Players and the shares of its general partner, Famous Players Co. for total cash consideration of $468.8 million plus transaction costs. The Acquisition was accounted for by the purchase method and the allocation finalized on March 31, 2006. Based on management's best estimates, the purchase price has been allocated to the assets and liabilities of Famous Players as follows:

(expressed in millions of dollars)		
Assets and liabilities acquired:		
Property, plant and equipment	$	318.8
Advertising contracts		23.3
Trademarks and trade names		33.2
Goodwill		191.9
Fair value of leases – assets		17.1
Fair value of leases – liabilities		(22.0)
Net pension liability		(6.6)
Net working capital deficiency		(34.9)
Other liabilities		(8.1)
Capital leases		(39.8)
Net assets	$	472.9
Less: Cash from the Acquisition		(20.1)
	$	452.8
Consideration given		
Cash paid for the Acquisition	$	468.8
Transactions costs associated with the Acquisition		4.1
Less: Cash from the Acquisition		(20.1)
	$	452.8

In contemplation of completing the Acquisition, on May 27, 2005 the Partnership entered into a Consent Agreement with the Canadian Commissioner of Competition (the "Consent Agreement"). Under the terms of the Consent Agreement, upon completion of the Acquisition, the Partnership agreed to divest 34 specified theatres, held by both the Partnership and Famous Players within a specified period of time on the terms and conditions set out in the Consent Agreement. The divestiture of the 34 specified theatres has now been completed. With the fulfillment of all of its obligations under the Consent Agreement, the Partnership has received a certificate of clearance from the Canadian Commissioner of Competition. Until May 27, 2010, the Partnership must provide the Commissioner with prior written notice of any acquisition by it of any non-Partnership theatre or assumption of lease where the remaining term exceeds two years. The Partnership also may not, during this time, re-acquire any of the divested theatres without prior approval of the Commissioner. In addition, the Partnership announced its intention to sell its 49% interest in the five Alliance Atlantis branded theatres, and has since sold that interest.

Under the terms of the Amended Credit Facilities the Partnership is required to make repayments of the secured non-revolving term credit facility for 100% of all net cash proceeds of any sale required under the Consent Agreement.

During the year ended December 31, 2005 the Partnership completed the divestiture of 27 of the specified theatres as required under the Consent Agreement for gross proceeds of $83 million that, net of costs, was used to repay a portion of the secured non-revolving term credit facility. In addition, the Partnership and its joint venture partner completed the sale of two of the Alliance Atlantis branded theatres. The Partnership's share of the proceeds was $3.0 million. During the three months ended March 31, 2006 the Partnership completed the divestiture of the remaining seven of the specified theatres as required under the Consent Agreement, and, as discussed below, entered into a screen advertising agreement for gross proceeds of $1.9 million. As per EIC-142 "Revenue Arrangements with Multiple Deliverables", $1.0 million of the proceeds has been allocated to the screen advertising contract with the remaining $0.9 million allocated to the sale of the seven theatres. As a result a net gain of $2.1 million on the disposition of the seven theatres was initially recognized in income from discontinued operations. In January 2007, the Partnership was notified that the guarantee provided to the landlord of one of the properties disposed of had been triggered. See discussion under "Subsequent Events". The remaining proceeds and closing adjustments, under the terms of the agreement, were payable within six months of the closing of the agreement, subject to a purchase price adjustment. During the three months ended September 30, 2006 the Partnership completed the sale of its interest in the three remaining Alliance Atlantis branded theatres to a related party.

As part of these dispositions, the Partnership has entered into an agreement with each of the respective purchasers to sell screen advertising for the disposed theatres on behalf of the purchaser. As a result of these agreements, the Partnership books and collects screen advertising revenue for the disposed locations and in exchange, for certain of the divestitures, it provides a minimum financial commitment to the purchaser based on attendance levels.

REVENUE AND EXPENSES

Revenues

The Partnership generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in the average per patron admission and average concession revenue per patron. The commercial appeal of the films released during the period and the success of marketing and promotion for those films by film studios and distributors drives attendance. Average admissions per patron are affected by the mix of film genres (*e.g.,* its appeal to certain audiences, such as children, teens or young adults) and established ticket prices. Average concession revenue per patron is affected by concession product mix, concession prices and type of film. In addition, the Partnership generates other revenues from screen advertising sales, promotional activities, game rooms, screenings, private parties, corporate events and theatre management fees.

Expenses

Film cost represents the film rental fees paid on films exhibited in the Partnership's theatres. Film costs are calculated as a percentage of box office revenue and vary directly with changes in box office revenue. Film costs are accrued on the related box office receipts at either mutually agreed-upon terms, established prior to the opening of the film, or on a mutually agreed settlement upon conclusion of the film's run, depending upon the film licensing arrangement.

Cost of concessions represents the costs of concession items sold and vary directly with changes in concession revenue.

Occupancy costs include lease related expenses, property and business related taxes and insurance. Lease expenses are primarily a fixed cost at the theatre level because the Partnership's theatre leases generally require a fixed monthly minimum rent payment. However, a number of the Partnership's theatre leases also include a percentage rent clause whereby the landlord is paid an additional amount of rent based primarily upon box office revenues over a specified threshold.

Other theatre operating expenses consist of fixed and variable expenses, including marketing and advertising, salaries and wages, utilities and maintenance. Certain operating costs, such as salaries and wages, will vary directly with changes in revenues and attendance levels. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance.

General and administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Partnership's business, which includes functions such as film buying, marketing and promotions, operations and concession management, accounting and financial reporting, legal, treasury, construction and design, real estate development and administration and information systems. The Partnership's general and administrative costs primarily consist of payroll, occupancy costs related to its corporate office in Toronto, Ontario, professional fees (such as public accountant and legal fees) and travel and related costs. The Partnership's general and administrative staffing and associated costs are maintained at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

The Partnership is dependent on the quality of the product supplied by the film distributors. Its main competition is alternative forms of entertainment which compete for the customer's entertainment spending.

Accounting for joint ventures

The financial statements incorporate the operating results of joint ventures in which the Partnership has an interest using the proportionate consolidation method as required by generally accepted accounting principles in Canada ("GAAP").

DISCLOSURE CONTROLS AND PROCEDURES

Management of the Fund is responsible for establishing and maintaining disclosure controls and procedures for the Fund as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings are being prepared.

Management of the Fund has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2006, and has concluded that the design and effectiveness of these controls and procedures provides reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries will be made known to management on a timely basis to ensure adequate disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Fund is responsible for designing internal controls over financial reporting for the Fund as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

There have been no changes in the Fund's internal controls over financial reporting that occurred during the fourth quarter of 2006, the most recently completed interim period, that have materially affected, or are reasonably likely to materially affect, the Fund's internal controls over financial reporting.

RESULTS OF OPERATIONS

The following table presents summarized financial data for the Partnership for the three most recently completed financial years.

(expressed in thousands of dollars except per LP Unit and per patron data)	**2006**	2005	2004
Total revenue	**$ 740,244**	$ 490,299	$ 315,786
Cost of operations	**622,622**	421,529	248,818
Income from operations	**117,622**	68,770	66,968
Amortization	**64,493**	42,948	22,530
Loss (gain) on disposal of theatre assets	**148**	122	(111)
Loss on extinguishment of debt	**–**	4,156	–
Loss on impairment of assets	**–**	4,296	–
Interest on long-term debt	**31,354**	18,401	8,280
Interest on loan from the Trust	**14,000**	14,000	14,000
Interest income	**(745)**	(378)	(473)
Income tax recovery	**(1,264)**	(1,463)	(1,149)
Income (loss) from discontinued operations	**(2,073)**	28,116	6,357
Non-controlling interest	**(273)**	1,828	–
Net income	**$ 7,836**	$ 12,976	$ 30,248
Net income per LP Unit[ii]	**$ 0.13938**	$ 0.25466	$ 0.63590
Total assets	**819,691**	798,751	325,436
Total long term financial liabilities[i]	**348,000**	343,500	225,512
Cash distributions declared per LP Unit	**$ 1.1496**	$ 1.1496	$ 1.1496
Distributable cash per LP Unit	**$ 1.4330**	$ 1.0273	$ 1.2283
Box office revenue per patron	**$ 7.99**	$ 7.73	$ 7.45
Concession revenue per patron	**$ 3.72**	$ 3.44	$ 3.04
Film cost as a percentage of box office revenue	**51.5%**	51.7%	51.6%
Attendance	**57,425**	39,945	28,096

(i) Excludes the Class C LP Units – liability component, capital lease obligations, accrued pension liability, other liabilities, and liabilities related to property held for sale.

(ii) Computed using weighted average number of LP Units outstanding for the period.

Management calculates distributable cash per LP Unit for the Partnership as follows:

(expressed in thousands of dollars except per unit data)	**Year ended December 31, 2006**	Year ended December 31, 2005	Year ended December 31, 2004
Cash used in operating activities	**$ 101,044**	$ 62,612	$ 43,818
Less:			
Changes in operating assets and liabilities[(i)]	**(5,023)**	(11,210)	7,808
Tenant inducements[(ii)]	**(21,314)**	(7,662)	(3,708)
Capital lease payments	**(1,358)**	(532)	–
Dividends paid by subsidiary to non-controlling interest	**(196)**	(1,862)	–
Maintenance capital expenditures[(iii)]	**(7,850)**	(4,006)	(3,491)
Add:			
Interest on loan from Cineplex Galaxy Trust[(iv)]	**14,000**	14,000	14,000
Non cash components in operating assets and liabilities[(v)]	**1,285**	602	–
Expenses funded through integration and restructuring reserve[(vi)]	**123**	849	–
Distributable cash	**$ 80,711**	$ 52,791	$ 58,427
Number of LP Units outstanding[(vii)]	**56,323,024**	51,389,862	47,566,974
Distributable cash per LP Unit	**$ 1.4330**	$ 1.0273	$ 1.2283

(i) Changes in operating assets and liabilities are not considered a source or use of distributable cash.

(ii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of distributable cash.

(iii) Maintenance capital expenditures are funded out of distributable cash. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005 (see discussion under "Liquidity and Capital Resources – Future Obligations"). Maintenance capital expenditures for the year ended December 31, 2006 are not representative of the expected run-rate as the Partnership has focused on integrating the two circuits and evaluating capital requirements.

(iv) Subject to "Catch-up Payment" provision and is considered part of distributable cash.

(v) Reflects non-cash expenses including accretion on Class C LP Units, amortization of deferred gain on a RioCan Real Estate Investment Trust ("RioCan") sale-leaseback transaction and amortization of swap on extinguished debt (see discussion under "The Acquisition and Related Transactions").

(vi) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash. See discussion under "Liquidity and Capital Resources – Future Obligations" below.

(vii) LP Units outstanding reflect the issuance on June 20, 2006 of 2,000,000 Class A LP Units.

Alternatively, the calculation of distributable cash using the income statement as a reference point would be as follows:

(expressed in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005	Year ended December 31, 2004
Income before undernoted	**$ 117,622**	$ 68,770	$ 66,968
Adjust for:			
Interest on long-term debt	**(31,354)**	(18,401)	(8,280)
Interest income	**745**	378	473
Income taxes – current portion	**647**	(2,461)	(404)
Maintenance capital expenditures[i]	**(7,850)**	(4,006)	(3,491)
Dividends paid by subsidiary to non-controlling interest	**(196)**	(1,862)	–
Principal component of capital lease obligations	**(1,358)**	(532)	–
Expenses funded through integration and restructuring reserve[iii]	**123**	849	–
Income before undernoted from discontinued operations	**(460)**	3,019	7,563
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	**(1,130)**	(3,201)	(5,352)
Amortization of debt issuance costs	**2,637**	1,586	950
Issuance of Class D LP Units included in general and administrative expenses	**–**	8,050	–
Other non-cash items[ii]	**1,285**	602	–
Distributable cash	**$ 80,711**	$ 52,791	$ 58,427

(i) Maintenance capital expenditures are funded out of distributable cash. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005 (see discussion under "Liquidity and Capital Resources – Future Obligations"). Maintenance capital expenditures for the year ended December 31, 2006 are not representative of the expected run-rate as the Partnership has focused on integrating the two circuits and evaluating capital requirements.

(ii) Includes accretion on Class C LP Units, amortization of deferred gain on RioCan sale-leaseback transaction and amortization of swap on extinguished debt.

(iii) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash. See discussion under "Liquidity and Capital Resources – Future Obligations" below.

Year ended December 31, 2006 Compared to the Year ended December 31, 2005 for the Partnership

Total revenues. Total revenues for the year ended December 31, 2006 increased $249.9 million to $740.2 million. Of this increase, $218.7 million related to the Acquisition and an increase of $31.2 million related to the Cineplex Odeon and Galaxy Entertainment brand theatres (the "Cineplex Galaxy circuit"). A discussion of the factors affecting the changes in box office, concession and other revenues for this period in comparison to the same period in 2005 is provided below.

Box office revenues. Box office revenues for the year ended December 31, 2006 increased $150.2 million to $458.8 million. Of this increase, $138.5 million related to the Acquisition and an increase of $11.7 million, or 5.9%, to the Cineplex Galaxy circuit. Canadian industry box office reported growth ranging from flat to 2% for 2006. The Cineplex Galaxy increase in box office revenues was due to an increase in new theatres ($9.6 million) and an increase in average box office revenues per patron ($2.5 million) and increased same-store attendance levels ($0.1 million), offset by the impact of disposed theatres ($0.5 million). The Famous Players increase in box office revenues was driven by increased attendance levels due to an extra seven months of operations in 2006 versus 2005 ($135.1 million) and an increase in average box office revenues per patron ($3.4 million). The average box office revenue per patron of the Partnership increased $0.26, or 3.4%, from $7.73 for the year ended December 31, 2005 to $7.99 for the year ended December 31, 2006. The average box office revenue per patron of Famous Players increased from $8.28 to $8.40, and the average box office revenue per patron for Cineplex Galaxy increased from $7.44 to $7.55. The increase in the average box office revenue per patron is due to a strong slate of films catering to adult audiences during the summer and holiday periods, including *Pirates of the Caribbean: Dead Man's Chest*, *Superman Returns*, *The Departed*, *Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan*, and *Casino Royale*.

Concession revenues. Concession revenues for the year ended December 31, 2006 increased $76.2 million to $213.5 million. Of this increase, $63.5 million related to the Acquisition and $12.7 million, or 14.8%, to the Cineplex Galaxy circuit. The Cineplex Galaxy increase in concession revenues was due to an improvement in average concession revenues per patron ($7.9 million), additional revenues from operation of new theatres ($4.9 million) and increased same-store attendance levels ($0.1 million), offset by the impact of disposed theatres ($0.2 million). The Famous Players increase in concession revenues was driven by increased attendance levels due to an extra seven months of operations in 2006 versus 2005 ($62.0 million) and improvement in average concession revenues per patron ($1.5 million). The average concession revenue per patron of the Partnership increased $0.28 or 8.2% from $3.44 to $3.72. The average concession revenue per patron for Famous Players increased from $3.80 to $3.85, and the average concession revenue per patron for Cineplex Galaxy increased from $3.25 to $3.57. In November 2005, the Partnership implemented a number of pricing and size changes for its core concession products and has undertaken the rationalization of concession offerings, which has contributed to the increases.

Other revenues. Other revenues for the year ended December 31, 2006 increased $23.6 million, or 53.2%, to $67.9 million mainly as a result of higher advertising revenues. Of this increase $16.7 million related to the Acquisition and $6.9 million related to the Cineplex Galaxy circuit. It should be noted that the Partnership launched its digital advertising network in its 21 Toronto extended market area theatres on April 1, 2005 and accordingly, there is no revenue from this activity included in the first quarter 2005 results. On November 1, 2005, the Partnership announced the formation of the Cineplex Media department, which was formed through the combination of Cineplex Entertainment's CineMarketing Sales division and Famous Players Media Inc. ("FP Media"). Coincident with this formation, the Partnership acquired 100% of the media business for the combined circuit and added the Famous Players branded magazine assets. In November 2006, the Partnership announced its loyalty program and the sale of naming rights of certain theatres. The results do not include any amounts from these two new initiatives.

The Partnership launched its digital advertising network in its 21 Toronto extended market area theatres on April 1, 2005. As at December 31, 2006, 80 theatres and 922 screens are running the digital pre-show. At the Acquisition date, the Partnership had established an integration reserve, which was to be used in part, to fund the integration from a distributed DVD system to a networked pre-show system (see "Liquidity and Capital Resources – Future Obligations").

Film cost. Film cost for the year ended December 31, 2006 increased $77.0 million to $236.5 million. Of this increase $72.0 million related to the Acquisition and $5.0 million related to the Cineplex Galaxy circuit. As a percentage of box office revenue, film cost decreased to 51.5% for the year ended December 31, 2006 from 51.7% for the year ended December 31, 2005.

Cost of concessions. Cost of concessions for the year ended December 31, 2006 increased $16.5 million to $43.5 million. Of this increase, $13.5 million related to the Acquisition and a $3.0 million increase related to the Cineplex Galaxy circuit. The Cineplex Galaxy increase in cost of concessions was due to the costs associated with new theatres that were opened ($1.0 million) and increased purchase incidence ($2.1 million), offset by the impact of disposed theatres ($0.1 million). The Famous Players increase in cost of concessions was driven by increased attendance levels due to an extra seven months of operations in 2006 versus 2005 ($11.2 million) and increased purchase incidence ($2.3 million). As a percentage of concession revenues, cost of concessions increased from 19.7% for the year ended December 31, 2005, to 20.4% for the year ended December 31, 2006. During the second quarter of 2006, the Partnership completed the integration of a number of concession suppliers resulting in the write off of obsolete inventory. These costs are included in concession costs for the year ended December 31, 2006.

Occupancy expense. Occupancy expense for the year ended December 31, 2006 increased $51.7 million to $145.0 million. Of this increase, $50.4 million related to the Acquisition and $1.3 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the incremental costs associated with new theatres that were opened ($3.3 million), increases in common area maintenance ($1.9 million) were offset by a decrease due to successful property tax appeals ($3.4 million) and the impact of disposed theatres ($0.5 million).

Other theatre operating expenses. Other theatre operating expenses for the year ended December 31, 2006 increased $58.2 million to $164.5 million. Of this increase, $46.9 million related to the Acquisition and $11.3 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($3.4 million), increased marketing and promotion costs ($2.8 million), increased operating costs due to variable costs and inflationary increases ($2.9 million) and increased costs due to expanded business activities ($2.5 million), offset by the impact of disposed theatres ($0.3 million).

General and administrative costs. General and administrative costs decreased from $35.2 million for the year ended December 31, 2005 to $33.1 million for the year ended December 31, 2006. Included in the general and administrative costs for the year ended December 31, 2005 are the following one-time charges: $8.1 million relating to compensation expense related to the issuance of 500,000 Class D LP units to management on the Acquisition, $0.7 million in severance costs to former Cineplex Galaxy employees, $1.5 million in professional fees related to the Acquisition, $0.5 million in consulting fees related to preparation for Bill 198 compliance and $0.2 million in recruitment and resource costs related to the establishment of an information technology department in the Canadian head office. General and administrative costs for the year ended December 31, 2006 include the full year expenses arising from running the combined businesses. General and administrative costs for the year ended December 31, 2005 only include costs associated with the Acquisition incurred subsequent to July 22, 2005.

Management fee. Effective November 26, 2003, the Partnership entered into a services agreement with COC (subsequently assumed by Loews Cinema Theatres Inc.) under which management information systems (MIS) support was provided to the Partnership at a cost of US$0.5 million per annum. The Partnership terminated the services agreement during the second quarter of 2005. The Partnership had recruited additional staff and acquired additional hardware and software licenses to repatriate this MIS function. Included in the results for the year ended December 31, 2005 is both the cost of these additional resources and the management fee paid up to the date of the contract termination.

Income before undernoted. The Partnership reported income before undernoted for the year ended December 31, 2006 of $117.6 million as compared to income before undernoted of $68.8 million for the year ended December 31, 2005. This change was due to the aggregate effect of the factors described above.

Amortization. For the year ended December 31, 2006 amortization costs increased $21.5 million to $64.5 million. Of this increase, $17.7 million related to the Acquisition and $3.8 million related to the Cineplex Galaxy circuit. The increase in the Cineplex Galaxy circuit was due primarily to the impact of new theatres.

Loss (gain) on disposal of theatre assets. For the year ended December 31, 2006 the Partnership recorded a loss of $0.1 million as compared to a loss of $0.1 million for the year ended December 31, 2005. The loss primarily relates to losses on asset disposals for closed theatres, partially offset by a reversal of previously accrued theatre shut-down costs as a result of early lease terminations for two closed theatres.

Loss on extinguishment of debt. The loss of $4.2 million on extinguishment of debt in 2005 represents the write-off of the deferred financing fees under the prior credit facility and the recognition of the loss on the mark-to-market adjustment on the previous interest rate swap agreement.

Impairment of long-lived assets. Property equipment and leaseholds are evaluated for impairment according to CICA handbook section 3063, "Impairment of Long-Lived Assets". During the year ended December 31, 2005, management performed a reassessment of expected future cash flows at the theatre level and recorded an impairment charge of $4.3 million.

Interest on long-term debt and capital lease obligations. Interest on long-term debt for the year ended December 31, 2006 increased to $31.4 million from $18.4 million for the year ended December 31, 2005 primarily as a result of the additional borrowings in 2005 and 2006 to finance the Acquisition and new theatre development. Interest expense is comprised of the amortization of $2.6 million of deferred financing fees, interest on capital leases of $2.8 million, interest of $6.3 million and accretion expense of $2.5 million on the Class C LP Units and $17.2 million of interest on long-term debt. For the year ended December 31, 2005 interest expense includes $1.6 million for the amortization of deferred financing fees, interest on capital leases of $1.2 million, interest of $2.8 million and accretion expense of $1.1 million on the Class C LP Units, and $12.5 million of interest on long-term debt offset by interest expense of $0.8 million allocated to discontinued operations for the year ended December 31, 2005.

Interest on loan from Cineplex Galaxy Trust. Interest on the loan from the Trust represents interest at a rate of 14% on the $100 million loan from the Trust that was drawn on November 26, 2003.

Interest income. Interest income was $0.7 million for the year ended December 31, 2006 and $0.4 million for the year ended December 31, 2005.

Income tax expense. For the year ended December 31, 2006, subsidiaries of the Partnership recorded a current income tax recovery of $0.7 million (2005 – $2.4 million) and a future tax recovery of $0.6 million (2005 – $3.9 million expense, of which $2.1 million arose from the media sales subsidiary of Famous Players, FP Media Inc.).

Income (loss) from discontinued operations. Loss from discontinued operations for the year ended December 31, 2006 amounted to $2.1 million, of which $1.6 million related to a loss associated with the disposal of theatre properties and a loss of $0.5 million arising from the operations of the Alliance Atlantis branded theatres sold during the third quarter of 2006, and the seven Quebec theatres sold at the end of the first quarter of 2006 (see "Subsequent Events"). This compares to income from discontinued operations for the year ended December 31, 2005 of $28.1 million of which $25.8 million related to the gain on sale of 27 locations to Empire Theatre Limited and one Alliance Atlantis branded cinema and $2.3 million related to the income from operations from the 34 theatres to be divested under the Consent Agreement and the Alliance Atlantis branded theatres.

Non-controlling interests. Non-controlling interests for the year ended December 31, 2006 of $0.3 million income (2005 – $1.8 million expense) represents the minority share of the results of FP Media Inc., which is in the process of being wound up.

Net income. Net income for the year ended December 31, 2006 decreased to $7.8 million from $13.0 million for the year ended December 31, 2005, primarily due to the net effect of all of the other factors described above.

EBITDA

EBITDA is defined as income before interest expense, income taxes and amortization expense. Adjusted EBITDA excludes from EBITDA the non-controlling interest, loss on extinguishment of debt, income from discontinued operations, foreign exchange gain, non-recurring management fee, impairment of long-lived assets, and the loss (gain) on disposal of theatre assets. Partnership management uses adjusted EBITDA to evaluate performance primarily because of the significant effect certain unusual or non-recurring charges and other items have on EBITDA from period to period. EBITDA adjusted for various unusual items is also used to define certain financial covenants in the Partnership's credit facilities. EBITDA and adjusted EBITDA are not presentations made in accordance with GAAP in Canada and are not measures of financial condition or profitability.

While the Partnership's management uses these measures to remove non-cash items and non-operating charges in order to evaluate the performance of the business, they are not necessarily comparable to other similarly titled captions of other issuers due, among other things, to differences in methods of calculation.

(expressed in thousands of dollars)	**Year ended December 31, 2006**	Year ended December 31, 2005	Year ended December 31, 2004
Net income	**$ 7,836**	$ 12,976	$ 30,248
Amortization	**64,493**	42,948	22,530
Interest on long-term debt	**31,354**	18,401	8,280
Interest on loan from Cineplex Galaxy Trust	**14,000**	14,000	14,000
Interest income	**(745)**	(378)	(473)
Income tax recovery	**(1,264)**	(1,463)	(1,149)
EBITDA	**$ 115,674**	$ 86,484	$ 73,436
Non-controlling interest	**(273)**	1,828	–
Loss on extinguishment of debt	**–**	4,156	–
Loss on impairment on assets	**–**	4,296	–
Loss (income) from discontinued operations	**2,073**	(28,116)	(6,357)
Loss (gain) on disposal of theatre assets	**148**	122	(111)
Adjusted EBITDA	**$ 117,622**	$ 68,770	$ 66,968

SEASONALITY AND QUARTERLY RESULTS

Historically, the Partnership's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures are generally released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. In order to stabilize working capital requirements during the slower quarters, the Partnership has available for its use a $50.0 million Working Capital Facility (see "Liquidity and Capital Resources – Credit Facilities" discussed below). As of December 31, 2006 there were no outstanding amounts drawn on the Working Capital facility.

Summary of Quarterly Results

(expressed in thousands of dollars except per unit and per patron data)	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Total revenue	**$ 194,964**	**$ 198,976**	**$ 183,642**	**$ 162,662**	$ 193,186	$ 151,879	$ 75,197	$ 70,037
Cost of operations	**158,539**	**163,273**	**156,430**	**144,380**	157,735	140,883	63,688	59,223
Income from operations	**36,425**	**35,703**	**27,212**	**18,282**	35,451	10,996	11,509	10,814
Amortization	**17,081**	**16,340**	**15,834**	**15,238**	16,235	14,136	6,364	6,213
Loss (gain) on disposal of theatre assets	**793**	**344**	**(1,173)**	**184**	(54)	195	(19)	–
Loss on extinguishment of debt	**–**	**–**	**–**	**–**	–	4,156	–	–
Loss on impairment of assets	**–**	**–**	**–**	**–**	–	4,296	–	–
Interest on long-term debt	**7,912**	**8,002**	**8,026**	**7,414**	7,691	6,160	2,344	2,206
Interest on loan from Cineplex Galaxy Trust	**3,500**	**3,500**	**3,500**	**3,500**	3,500	3,500	3,500	3,500
Interest income	**(248)**	**(237)**	**(156)**	**(104)**	(91)	(109)	(60)	(118)
Income taxes	**(112)**	**(1,450)**	**243**	**55**	(925)	(712)	119	55
(Loss) income from discontinued operations	**(2,830)**	**108**	**1,607**	**(958)**	(620)	26,912	981	843
Non-controlling interest	**106**	**10**	**(352)**	**(37)**	1,214	614	–	–
Net income (loss)	**$ 4,563**	**$ 9,302**	**$ 2,897**	**$ (8,926)**	$ 7,261	$ 5,672	$ 242	$ (199)
Net income (loss) per LP Unit	**$ 0.080**	**$ 0.163**	**$ 0.052**	**$ (0.162)**	$ 0.132	$ 0.106	$ 0.005	$ (0.004)
Cash flows from operations	**79,639**	**30,415**	**15,109**	**(24,119)**	57,141	327	6,710	(1,566)
Cash flows from investing activities	**(13,771)**	**(21,757)**	**(21,706)**	**(15,634)**	(10,083)	(286,671)	(23,622)	4,258
Cash flows from financing activities	**(33,182)**	**(6,778)**	**7,458**	**14,914**	(26,697)	302,255	2,292	(17,212)
Net change in cash	**$ 32,686**	**$ 1,880**	**$ 861**	**$ (24,839)**	$ 20,361	$ 15,911	$ (14,620)	$ (14,520)
Box office revenue per patron	**$ 8.17**	**$ 8.09**	**$ 7.87**	**$ 7.81**	$ 7.97	$ 7.76	$ 7.50	$ 7.34
Concession revenue per patron	**$ 3.67**	**$ 3.77**	**$ 3.72**	**$ 3.72**	$ 3.68	$ 3.40	$ 3.26	$ 3.11
Attendance	**14,369**	**15,380**	**14,481**	**13,195**	14,815	12,471	6,420	6,239

(i) Comparative amounts for tenant inducements have been reclassified from cash flows from financing activities to cash flows from operations in the consolidated statements of cash flows to conform to the current year's financial statement presentation.

(ii) Comparative amounts for property, equipment and leasehold purchases financed through accrued liabilities have been reclassified from cash flows from investing activities to cash flows from operations to conform to the current year's financial statement presentation.

(iii) Computed using weighted average number of LP Units outstanding for the year.

Distributable Cash

Management has calculated distributable cash per LP Unit of $1.4330 for the year ended December 31, 2006 ($1.0273 for the year ended December 31, 2005). On a quarterly basis, management calculates distributable cash per LP Unit for the Partnership as follows:

(expressed in thousands of dollars except per unit)	2006 Q4	2006 Q3	2006 Q2	2006 Q1	2005 Q4	2005 Q3	2005 Q2	2005 Q1
Cash used in operating activities	$ 79,639	$ 30,415	$ 15,109	$ (24,119)	$ 57,141	$ 327	$ 6,710	$ (1,566)
Less: Changes in operating assets and liabilities[i]	(46,995)	5,027	4,487	32,458	(27,864)	8,922	(384)	8,116
Tenant inducements[ii]	(6,829)	(10,604)	(2,907)	(974)	(5,497)	(269)	(605)	(1,291)
Capital lease payments	(347)	(345)	(339)	(327)	(322)	(210)	–	–
Dividends paid by subsidiary to non-controlling interest	–	–	(196)	–	(490)	(1,372)	–	–
Maintenance capital expenditures[iii]	(4,039)	(1,905)	(1,057)	(849)	(1,482)	(590)	(1,304)	(630)
Add: interest on loan from Cineplex Galaxy Trust[iv]	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Non cash components in operating assets and liabilities[v]	320	333	312	320	319	283	–	–
Expenses funded through integration and restructuring reserve[vi]	20	27	32	44	65	784	–	–
Distributable cash	$ 25,269	$ 26,448	$ 18,941	$ 10,053	$ 25,370	$ 11,375	$ 7,917	$ 8,129
Number of units outstanding[vii]	57,150,421	57,150,421	55,809,762	55,150,421	55,150,421	55,150,421	47,566,974	47,566,974
Distributable cash per LP Unit	$ 0.4421	$ 0.4628	$ 0.3394	$ 0.1823	$ 0.4600	$ 0.2063	$ 0.1664	$ 0.1709

(i) Changes in operating assets and liabilities are not considered a source or use of distributable cash.

(ii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of distributable cash flow.

(iii) Maintenance capital expenditures are funded out of distributable cash. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005 (see discussion under "Liquidity and Capital Resources – Future Obligations" below). Maintenance capital expenditures for the nine months ended September 30, 2006 are not representative of the expected run-rate as the Partnership has focused on integrating the two circuits and evaluating capital requirements.

(iv) Subject to "Catch-up Payment" provision and is considered part of distributable cash.

(v) Reflects non-cash expenses including accretion on Class C LP Units, amortization of deferred gain on RioCan sale-leaseback transaction and amortization of swap on extinguished debt.

(vi) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash. See discussion under "Liquidity and Capital Resources – Future Obligations" below.

(vii) LP Units outstanding reflect the issuance on July 22, 2005 of 6,835,000 Class A LP Units and 748,447 Class D LP Units to the fund the Acquisition and the June 20, 2006 issuance of 2,000,000 Class A LP Units.

Operating results for the fourth quarter

Total revenues. Total revenues for the three months ended December 31, 2006 increased $1.8 million to $195.0 million. A discussion of the factors affecting the changes in box office, concession and other revenues for this period in comparison to the same period in 2005 is provided below.

Box office revenues. Box office revenues for the three months ended December 31, 2006 decreased $0.6 million to $117.4 million compared to the same period in 2005. Various sources report that Canadian industry box office was down approximately 5-7% for the fourth quarter of 2006 due to weaker overall film product in the fourth quarter of 2006 versus the same quarter in 2005. The decrease in box office revenues was due to a 6.1% decrease in same store attendance levels ($7.1 million) and the impact of disposed theatres ($0.4 million), offset by increased average box office revenues per patron ($3.1 million) and an increase due to new theatres ($3.8 million). The average box office revenue per patron of the Partnership increased from $7.97 to $8.17. The increase in average box office revenue per patron was a result of a slate of films that catered to adult audiences in the fourth quarter of 2006 including *Casino Royale*, *Borat: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan* and *The Departed*.

Concession revenues. Concession revenues for the three months ended December 31, 2006 decreased $1.9 million to $52.7 million compared to the same period in 2005. The decrease was due to decreased same store attendance levels ($3.3 million), decreased average concession revenues per patron ($0.3 million) and the impact of disposed theatres ($0.2 million), partially offset by additional revenues from operation of new theatres ($1.9 million). The average concession revenue per patron of the Partnership decreased from $3.68 to $3.67. The decrease in average concession revenue per patron is due to a shift from a strong slate of children and family friendly movies during the fourth quarter of 2005 (such as *The Chronicles of Narnia*, *Harry Potter and the Goblet of Fire* and *Chicken Little*), to a slate of films that catered to adult audiences in the fourth quarter of 2006.

Other revenues. Other revenues for the three months ended December 31, 2006 increased $4.3 million to $24.8 million. On November 1, 2005, the Partnership announced the formation of the Cineplex Media division, which was formed through the combination of Cineplex Entertainment's CineMarketing Sales division and FP Media. Coincident with this formation, the Partnership acquired 100% of the media business for the combined circuit and added the Famous Players branded magazine assets.

Film cost. Film cost for the three months ended December 31, 2006 decreased $1.3 million to $60.1 million. As a percentage of box office revenue, film cost decreased to 51.2% for the three months ended December 31, 2006 from 52.0% for the three months ended December 31, 2005.

Cost of concessions. Cost of concessions for the three months ended December 31, 2006 increased $0.5 million to $10.8 million. The increase in cost of concessions was due to additional costs from the operation of new theatres ($0.4 million) and increased purchase incidence ($0.7 million), offset by decreased same-store attendance ($0.6 million). As a percentage of concession revenues, cost of concessions increased from 18.8% for the three months ended December 31, 2005, to 20.4% for the three months ended December 31, 2006.

Occupancy expense. Occupancy expense for the three months ended December 31, 2006 decreased $1.6 million to $35.7 million. The decrease was primarily due to successful property tax appeals ($2.8 million) and the impact of disposed theatres ($0.1 million), partially offset by the incremental costs associated with new theatres that were opened ($1.3 million).

Other theatre operating expenses. Other theatre operating expenses for the three months ended December 31, 2006 increased $4.2 million to $43.7 million. The overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($1.3 million) and increased operating costs due to variable costs and inflationary increases ($3.0 million), partially offset by the impact of disposed theatres ($0.1 million).

General and administrative costs. General and administrative costs decreased from $9.3 million for the three months ended December 31, 2005 to $8.3 million for the three months ended December 31, 2006 as a result of the combination and integration of Cineplex Galaxy and Famous Players.

Income before undernoted. The Partnership reported income before undernoted for the three months ended December 31, 2006 of $36.4 million as compared to income before undernoted of $35.5 million for the three months ended December 31, 2005. This change was due to the aggregate effect of the factors described above.

Amortization. For the three months ended December 31, 2006 amortization costs increased $0.8 million to $17.1 million. The increase was due primarily to the impact of new theatres.

Loss (gain) on disposal of theatre assets. The loss (gain) on disposal of theatre assets represents the loss or gain on theatre assets that were sold or otherwise disposed of. For the three months ended December 31, 2006 the Partnership recorded a loss of $0.8 million as compared to a gain of $0.1 million for the three months ended December 31, 2005. The loss primarily relates to disposals of assets.

Interest on long-term debt and capital lease obligations. Interest on long-term debt for the three months ended December 31, 2006 increased to $7.9 million from $7.7 million for the three months ended December 31, 2005 as a result of the additional borrowings in 2006 to finance new theatre development. Interest expense is comprised of the amortization of $0.7 million of deferred financing fees, interest on capital leases of $0.7 million, interest of $1.5 million and accretion expense of $0.6 million on the Class C LP Units and $4.4 million of interest on long-term debt. For the three months ended December 31, 2005 interest expense includes $0.7 million for the amortization of deferred financing fees, interest on capital leases of $0.7 million, interest of $1.6 million and accretion expense of $0.6 million on the Class C LP Units and $4.1 million of interest on long-term debt.

Interest on loan from Cineplex Galaxy Trust. Interest on the loan from the Trust represents interest at a rate of 14% on the $100 million loan from the Trust that was drawn on November 26, 2003.

Interest income. Interest income was $0.2 million for the three months ended December 31, 2006 and $0.1 million for the three months ended December 31, 2005.

Income taxes. For the three months ended December 31, 2006, a subsidiary of the Partnership recorded a current income tax recovery of $0.4 million, partially offset by a future income tax expense of $0.3 million (2005 – $2.3 million, offset by a current income tax expense of $1.4 million of which $1.3 million arose from the media sales subsidiary of Famous Players).

Income (loss) from discontinued operations. Loss from discontinued operations for the three months ended December 31, 2006 represents the reversal of a gain recorded in the second quarter of 2006 relating to the discontinued operations of one theatre whose lease payments were guaranteed by the Partnership (see "Subsequent Events"). Income from discontinued operations for the three months ended December 31, 2005 represents the income from the remaining theatres required to be disposed of as outlined in the Consent Agreement and the Alliance Atlantis branded theatres, which was $0.6 million including a loss of $0.8 million on disposed theatres.

Non-controlling interests. Non-controlling interests for the three months ended December 31, 2006 of $0.1 million (2005 – $1.2 million) represents the minority share of the results of FP Media Inc., which is in the process of being wound up.

Net income. Net income for the three months ended December 31, 2006 decreased from $7.3 million for the three months ended December 31, 2005 to $4.6 million, primarily due to the net effect of all the other factors described above.

BALANCE SHEET

Assets

Assets increased $20.9 million to $819.7 million as at December 31, 2006 due mainly to an increase in cash of $11.2 million, accounts receivable of $13.7 million and property, equipment and leaseholds of $12.9 million, partially offset by a decrease in other intangibles of $5.5 million, goodwill of $5.3 million and assets held for sale of $4.3 million.

Accounts receivable. Accounts receivable increased $13.7 million to $35.5 million as at December 31, 2006, from $21.8 million as at December 31, 2005. This increase was due to increased media advertising business volumes.

Fixed assets. The increase in fixed assets from $435.0 million as at December 31, 2005 to $447.9 million as at December 31, 2006 is due to capital expenditures primarily on new theatre builds and the digital pre-show network ($69.5 million) and to valuation adjustments ($2.3 million), partially offset by amortization expenses ($58.7 million).

Goodwill. The decrease in goodwill by $5.3 million from $206.2 million as at December 31, 2005 to $200.9 million as at December 31, 2006 is primarily due to final adjustments arising on the valuation of the Acquisition.

Assets held for sale. Assets held for sale decreased from $4.3 million ($0.8 million current and $3.5 million long term) as at December 31, 2005 to nil as at December 31, 2006 as all properties held for sale were disposed of during 2006.

Liabilities

Liabilities increased $34.5 million from $750.3 million as at December 31, 2005 to $784.8 million as at December 31, 2006 primarily due to an increase in deferred revenue of $9.2 million, an increase in other liabilities of $22.8 million and an increase in borrowings of $4.5 million, partially offset by a decrease in liabilities held for sale of $4.1 million.

Deferred revenue. Deferred revenue increased by $9.2 million to $50.2 million as at December 30, 2006 from $41.0 million as at December 31, 2005. This was due primarily to the introduction of Cineplex gift cards in November 2006 which experienced high sales volumes during holiday season.

Other liabilties. Other liabilities increased from $124.0 million as at December 31, 2005 to $146.8 million as at December 31, 2006. This increase was primarily due to a $16.5 million increase in deferred lease inducements and a $7.6 million increase in rent averaging liabilities, partially offset by a $4.0 million decrease in market rent liabilities.

Long-term debt. Long term debt increased from $243.5 million as at December 31, 2005 to $248.0 million as at December 31, 2006 as a result of amounts borrowed to fund construction and approved projects net of repayments from proceeds of the equity issuance during the second quarter of 2006, (see "Overview").

Liabilities held for sale. Liabilities held for sale decreased from $4.1 million as at December 31, 2005 to nil as at December 31, 2006 as all properties held for sale were disposed of during 2006.

Outstanding Fund Units

The Fund had the following Fund Units outstanding for the year ended December 31:

(expressed in thousands of dollars, except for Fund Unit amounts)	2006 Number of Fund units	2006 Amount	2005 Number of Fund units	2005 Amount
Fund Units beginning of year	**27,838,992**	**$ 334,287**	20,023,689	$ 201,477
Issuance of Fund Units	**2,000,000**	**31,800**	6,835,000	110,044
Issuance of Convertible Debentures – equity component	**–**	**–**	–	8,546
Issuance of Fund Units under Exchange agreement	**4,277,706**	**62,278**	980,303	14,220
	34,116,698	**$ 428,365**	27,838,992	$ 334,287

Class B and Class D LP Units of the Partnership may be exchanged for Fund Units. As at December 31, the following Class B and Class D LP Units had not been exchanged for Fund Units:

	2006 Number of units	2005 Number of units
Class B Series 1	**19,038,502**	20,321,237
Class B Series 2-C	**2,086,957**	2,086,957
Class B Series 2-G	**1,779,264**	4,154,788
Class D	**129,000**	–
	23,033,723	26,562,982

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

Cash flow is generated primarily from the sale of admission tickets, concession sales and other revenues. Generally, this provides the Partnership with positive working capital, since cash revenues are normally collected in advance of the payment of certain expenses. Operating revenue levels are directly related to the success and appeal of the film product produced and distributed by the studios.

Cash provided by operating activities was $101.0 million for the year ended December 31, 2006 as compared to $62.6 million for the year ended December 31, 2005. The primary reason for the difference was a $22.3 million increase in income before the non-cash gain on disposal of theatre assets, an increase in amortization of property, equipment and leaseholds, deferred charges and intangible assets of $20.8 million and a $13.7 million increase in tenant inducements received in 2006, partially offset by a decrease in changes in operating assets and liabilities of $6.2 million.

Investing Activities

Cash used by investing activities for the year ended December 31, 2006 of $72.9 million primarily related to capital expenditures ($71.3 million).

Cash used by investing activities for the year ended December 31, 2005 of $316.1 million primarily related to the Acquisition ($448.7 million) and capital expenditures ($27.8 million), offset by the sale of four theatres to Riocan ($67.0 million) and the disposition of 27 theatres under the Consent Agreement ($83.0 million) (see discussion under "The Acquisition and Related Transactions") offset by the removal of the restrictions on distributions on the Support Theatre Units (discussed in "Liquidity and Capital Resources – Distributions").

The Partnership funds maintenance capital expenditures through internally generated cash flow and cash on hand. The Partnership funds new theatre capital expenditures through the Development Facility discussed below under "Liquidity and Capital Resources – Credit Facilities". In addition, at the Acquisition date, the Partnership identified certain capital expenditures required for the integration of the two businesses (principally point-of-sale systems and the standardization of the digital advertising network) which were pre-funded from the proceeds of the financing transactions on the Acquisition.

Financing Activities

Cash used by financing activities for the year ended December 31, 2006 of $17.6 million was due primarily to distribution payments ($50.5 million), partially offset by the issuance of Partnership units ($30.2 million) and net borrowings under the Amended Credit Facilities ($4.5 million). Cash provided by financing activities for the year ended December 31, 2005 of $260.6 million was due primarily to the issuance of Partnership units ($207.2 million) and net borrowings under the Former Credit Facilities and the Amended Credit Facilities ($118.0 million), partially offset by distribution payments ($51.9 million) and the payment of financing fees ($9.8 million). Distribution payments included payment of distributions of $8.3 million on the Support Units (discussed in "Liquidity and Capital Resources – Distributions" below).

The Partnership believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under the Amended Credit Facilities.

Distributions

Partnership distributions are made on a monthly basis to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. For the year ended December 31, 2006, the Partnership's distributable cash flow per LP Unit was $1.4330 and $1.0273 for the year ended December 31, 2005. The declared distribution per LP Unit and interest on the Galaxy Note (see "Credit Facilities" below) per LP Unit for each of these periods totaled $1.1496. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts, as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

The Partnership made distributions on the Class C LP Units during the year ended December 31, 2006 of $6.3 million (2005 – $2.8 million). Distributions on the Class C LP Units are made twice a year, on the business day before June 30 and December 31. Distributions on Class C LP Units are included in interest expense and are deducted by the Partnership in computing its net income and distributable cash.

As part of the Partnership's support arrangements with certain limited partners, the amount of the distributions paid in respect of certain Class B LP Units in 2005 was dependent on the annual cash flows from seven prescribed new theatres (the "Support Theatres"). During the year ended December 31, 2004 the performance targets were met for the seven Support Theatres and, as a result, the Partnership paid the full amount of the withheld distributions of $8.3 million to the holders of the certain Class B LP Units during the three months ended March 31, 2005. The support arrangements terminated effective December 31, 2004, and the holders of such Class B LP Units were thereafter fully entitled to receive cash distributions in a manner consistent with the Class B Series 1 LP Units.

For the years ended December 31, 2006 and December 31, 2005, the Fund declared distributions totaling $1.1496 per Fund Unit. The Fund is entirely dependent on distributions from the Partnership and interest payments from GEI to make its own distributions.

The after-tax return to unitholders of the Fund subject to Canadian federal income tax from an investment in Fund Units will depend, in part, on the composition for tax purposes of the distributions paid by the Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital, which are not included in a unitholder's income but which reduce the adjusted cost base of the Fund Units to the unitholder. The composition for tax purposes of these distributions may change over time, thus affecting the after-tax return to such unitholders. For the year ended December 31, 2005, 67.3% of the Fund's distributions ($0.77332 per Fund Unit) represented taxable income, 16.6% of the Fund's distributions ($0.19097 per Fund Unit) represented a capital

gain with the balance, 16.1% ($0.18531 per Fund Unit) representing a return of capital to the unitholder. For the year ended December 31, 2004, 78.2% of the Fund's distributions ($0.89852 per Fund Unit) represented taxable income to the unitholder, and 21.8% of the Fund's distributions ($0.25108 per Fund Unit) represented a nontaxable return of capital.

As at December 31, 2005 based on the tax returns filed to that date, the Partnership has tax pools of $606.7 million available to offset future taxable income. Use of these tax pools is restricted to a percentage claim based on the nature of the original expenditure.

On October 31, 2006 the Department of Finance (Canada) introduced modifications to the income tax rules that will result in the taxation of distributions made by the Fund beginning in the year 2011. See "Accounting Policies and Recent Developments – Income Taxes".

Credit Facilities

In connection with the Acquisition, the Partnership entered into the Amended Credit Facilities that are comprised of the following:

(i) a 364-day $50 million extendible senior secured revolving credit facility ("Working Capital Facility");

(ii) a four-year $315 million senior secured non-revolving term credit facility ("Term Facility"); and

(iii) a four-year $60 million senior secured revolving credit facility ("Development Facility").

The Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or banker's acceptance rate, plus an applicable margin, and amended and restated the Partnership's Former Credit Facilities under which $141 million was outstanding as at July 22, 2005.

The Working Capital Facility is a revolving facility available for general corporate purposes, including up to $15 million to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The Working Capital Facility may be extended for a period not to exceed the maturity date of the Term Facility.

The Development Facility is to be used for the development or acquisition of projects approved by the Trustees of the Fund. The Development Facility has a term of four years and is payable in full at maturity.

The Term Facility has a term of four years and is payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Term Facility was used to finance the purchase price of the Acquisition.

During the year ended December 31, 2006 the Partnership borrowed $95.0 million under the Amended Credit Facilities and repaid $90.5 million. As at December 31, 2006 the Partnership had no amounts outstanding under the Working Capital Facility, $235.0 million outstanding under the Term Facility and $13.0 million outstanding under the Development Facility.

The Partnership's credit facilities contain numerous restrictive covenants that limit the discretion of the Partnership's management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Partnership to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity.

The Amended Credit Facilities are secured by all of the Partnership's assets and are guaranteed by the Trust.

Interest rate swap. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects the mark-to-market buyout of the previous interest rate swap on the Former Credit Facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200 million. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the four-year senior secured non-revolving term credit facility. The estimated fair market value of the swap is an unrealized gain of $2.0 million ($1.9 million as at December 31, 2005) that is not recognized on the balance sheet or statement of income in accordance with GAAP as it is considered an effective hedge.

Due to Cineplex Galaxy Trust. On November 26, 2003, the Trust entered into an agreement with GEI, a wholly-owned subsidiary of the Partnership, whereby it loaned to GEI $100 million (the "Galaxy Note"). The Galaxy Note bears interest at a rate of 14% per annum and has no scheduled repayments prior to maturity. The Galaxy Note matures on November 26, 2028 at which time it is payable in full. The Galaxy Note is subordinated to the bank credit facilities discussed on the previous page.

Future Obligations

As of December 31, 2006, the Partnership had the following contractual commitments:

(expressed in thousands of dollars)		Payments due by period			
Contractual obligations	**Total**	Within 1 year	2-3 years	4-5 years	After 5 years
Long term debt	**$ 248,000**	$ –	$ 248,000	$ –	$ –
New theatre construction	**17,461**	8,064	9,397	–	–
Point-of-sale upgrade	**457**	457	–	–	–
Digital preshow	**500**	500	–	–	–
Capital leases	**60,562**	4,187	8,374	8,797	39,204
Operating leases	**1,388,575**	99,846	194,485	184,951	909,293
Total contractual obligations	**$ 1,715,555**	$ 113,054	$ 460,256	$ 193,748	$ 948,497

A portion of the proceeds arising from the issuance of Fund Units for the Acquisition, the net borrowings under the Amended Credit Facility and the proceeds of the RioCan sale-leaseback transaction were available for general corporate purposes, including a $25.0 million reserve for integration and restructuring costs associated with the Acquisition. Of this reserve, severance charges in the amount of $3.7 million were paid during the year ended December 31, 2006 ($8.5 million from the inception of the reserve in July 2005).

As a result of the Acquisition, the Partnership increased its commitment with respect to the digital network. With the inclusion of the Famous Players theatres, the total additional cost of the digital network is in the range of $7.0 million to $8.0 million to be spent by the end of 2007. Of this amount, $7.0 million is included in the $25.0 million reserve that was established for integration and restructuring costs associated with the Acquisition. As at December 31, 2006, this reserve has been fully utilized.

Included in the $25.0 million reserve is $4.0 million for the upgrade of the Famous Player's point-of-sale system. As of December 31, 2006, this reserve has been fully utilized.

As of December 31, 2006 the Partnership had outstanding letters of credit totaling $0.3 million (2005 – $1.3 million).

The Partnership conducts a significant part of its operations in leased premises. The Partnership's leases generally provide for minimum rent and a number of the leases also include percentage rent based primarily upon sales volume. The Partnership's leases may also include escalation clauses, guarantees and certain other restrictions, and generally require it to pay a portion of the real estate taxes and other property operating expenses. Initial lease terms generally range from 15 to 20 years and contain various renewal options, generally in intervals of five to ten years.

During the three months ended March 31, 2006, the Partnership entered into an agreement with a third party to divest seven theatres, six of which were leased properties, as required by the Commissioner of Competition, and to provide advertising services to the purchaser until December 31, 2012. The Partnership is guarantor under the leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. The Partnership has also guaranteed certain advertising revenues based on attendance levels. During the three months ended September 30, 2006, the Partnership entered into an agreement with a related party to divest its 49% share in its three remaining Alliance Atlantis branded theatres. The Partnership is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Partnership's share in the theatres does not fulfill its obligations under the respective lease. During 2005, the Partnership and Famous Players sold 29 theatres to third parties, of which 24 were leased properties. The Partnership and Famous Players are guarantors under the leases for the remainder of the lease term in the event that the purchaser of each theatre does not fulfill its obligations under the respective lease. With the exception discussed in "Subsequent Events", no amounts have been provided in the consolidated financial statements for these guarantees as the occurrence of the guarantees being exercised is not determinable and the total future minimum payments guaranteed by the Partnership cannot be estimated. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Partnership could face a substantial financial burden.

RELATED PARTY TRANSACTIONS

The Fund has entered into transactions with parties to which it is related. During the years ended December 31, 2006 and 2005, distributions in the amount of $21.5 million and $13.0 million, respectively, were received from the Partnership. The Fund had distributions receivable from the Partnership at December 31, 2006 and 2005 in the amount of $2.1 million and $1.5 million, respectively.

The Fund received interest income from the Partnership with respect to the Class C LP Units during the year ended December 31, 2006 in the amount of $6.3 million (2005 – $2.8 million).

The Fund received interest income in the amount of $14.0 million for both years ended December 31, 2006 and 2005 with respect to the Galaxy Note.

The Partnership has entered into transactions with certain parties to which it is related as summarized below.

COC charged the Partnership $0.5 million for the year ended December 31, 2006 for rent for the Partnership's head office (2005 - $0.5 million). The Partnership charged COC $35 thousand for certain theatre management services during the year ended December 31, 2006 (2005 - $0.1 million).

For the years ended December 31, 2006 and 2005 the Partnership incurred expenses for film rental totaling $29.2 million and $25.3 million, respectively, to Motion Picture Distribution LP ("Motion Picture"), a subsidiary of Alliance Atlantis Communications Inc. ("Alliance"). Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance.

During the year ended December 31, 2006, the Partnership disposed of its 49% share in the three remaining Alliance Atlantis branded theatres to a related party for a nominal amount.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the year ended December 31, 2006, the Partnership earned revenue in the amount of $0.8 million with respect to these services (2005 – $0.8 million).

The underwriters' fees and other offering costs for a 2006 offering of Fund Units were reimbursed to the Fund pursuant to a reimbursement agreement with the Partnership. In addition to the costs associated with the 2,000,000 Class A LP Unit issuance, pursuant to a contractual obligation, the Partnership also assumed the transaction costs relating to Onex' secondary offering of Fund Units.

A former trustee of the Fund is the President and Chief Executive Officer of RioCan. The trustee resigned from the Board of the Fund effective August 1, 2005. For the period of January 1, 2005 to July 31, 2005 the Partnership incurred rental costs for theatres under lease commitments with RioCan of $7.3 million.

Distributions paid by the Partnership to related parties consist of:

(expressed in thousands of dollars)	2006	2005
Fund	$ 21,506	$ 12,953
Onex and its subsidiaries	27,887	35,254
Other related parties	577	1,057

Distributions payable by the Partnership to related parties consist of:

(expressed in thousands of dollars)	December 31, 2006	December 31, 2005
Fund	$ 2,102	$ 1,500
Onex and its subsidiaries	2,168	2,480
Other related parties	24	72

During the year ended December 31, 2006 Ellis Jacob, Chief Executive Officer of the Partnership, exchanged 250,000 Class B and D LP Units for 250,000 Fund Units under the provisions of the Exchange Agreement. The exchanges have been recorded at fair market value as required by EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts".

During the year ended December 31, 2006 certain other executives of the Partnership exchanged 246,000 Class D LP Units for 246,000 Fund Units under the provisions of the Exchange Agreement. The exchange has been recorded at fair market value as required by EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts".

During the year ended December 31, 2006 Onex exchanged 3,250,000 Class B and Class D LP Units for 3,250,000 Fund Units under the provisions of the Exchange Agreement. The exchange has been recorded at fair market value as required by EIC-151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts".

Transactions noted above are in the normal course of business and unless otherwise noted are measured at the exchange amount, which is the amount of consideration established and agreed to by related parties.

ACCOUNTING POLICIES AND RECENT DEVELOPMENTS

Critical Accounting Policies and Estimates

The Partnership prepares its financial statements in conformity with GAAP, which requires management to make estimates, judgments and assumptions that the Partnership believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The policies which the Partnership believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

REVENUES

Box office and concession revenues are recognized, net of applicable taxes, when admission and concession sales are collected at the theatre. Amounts collected on advance ticket sales and long-term screen advertising agreements are deferred and recognized in the period earned. Amounts collected on the sale of gift certificates are deferred and recognized when redeemed by the patron.

FILM RENTAL COSTS

Film rental costs are recorded based upon the terms of the respective film license agreements. In some cases the final film cost is dependent upon the ultimate duration of the film play and until this is known, management uses its best estimate of the ultimate settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the period the Partnership settles with the distributors. Actual settlement of these film costs could differ from those estimates.

LEASES

Leases are classified as either capital or operating. Leases that transfer substantially all of the risks and benefits of ownership to the Partnership and meet the criteria for capital leases set out in CICA handbook Section 3065, "Leases", are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of

minimum lease payments. Related building and equipment are amortized on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to income as incurred.

Tenant inducements received are amortized into occupancy expenses over the term of the related lease agreement. Lease payments are recorded in occupancy expenses on a straight-line basis over the term of the related lease.

The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities. Certain of the leases to which the Partnership is party require a portion of rent to be determined with respect to the volume of activity at the specific theatre. An estimate of the expected expense is determined by management and recorded throughout the lease year.

GOODWILL

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually or more frequently if impairment indicators arise. A goodwill impairment loss will be recognized in net income if the estimated fair value of the goodwill is less than its carrying amount.

INTANGIBLE ASSETS

Intangible assets represent the value of trademarks, trade names and advertising contracts of GEI and Famous Players as well as the fair value of Famous Players leases that are recorded as assets. As the useful life of the trademarks and trade names is indefinite, no amortization is recorded. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The fair value of lease contract assets is amortized on a straight-line basis over the remaining term of the lease into amortization expense.

INCOME TAXES

The Partnership is not subject to income or capital taxes, as the income, if any, is taxed in the hands of the individual partners.

Income taxes for the Partnership's subsidiaries, GEI and FP Media, are accounted for under the asset and liability method, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax base. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets are recorded in the financial statements to the extent that realization of such benefits is more likely than not.

On October 31, 2006, the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These proposals will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006 (although the announcement suggested that this transitional relief could be lost under certain circumstances, including the "undue expansion" of an income trust). On December 21, 2006, the Department of Finance issued for public comment the draft legislation to implement these proposals. There is no assurance that the draft legislation will be enacted in the manner proposed or at all.

On December 15, 2006, the Department of Finance (Canada) released guidance for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much

an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity over the next four years equal to its market capitalization as of the end of trading on October 31, 2006 (subject to certain annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly-traded units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the proposed rules.

The Fund is considering these announcements and the possible impact of the proposed rules to the Fund. The proposed rules (including the guidance released on December 15, 2006) may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

DISPOSAL OF LONG-TERM ASSETS AND DISCONTINUED OPERATIONS

As per CICA handbook Section 3475, "Disposal of Long-Term Assets and Discontinued Operations," a long-term asset must be classified as an asset held for sale in the period during which all required criteria have been met. A long-term asset to be disposed of by sale must be measured at the lower of its carrying amount or fair market value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Assets and liabilities classified as held for sale are recorded on the consolidated balance sheets as assets held for sale and as liabilities related to property held for sale. When a disposal group is a portion of a reporting unit that constitutes a business, goodwill is allocated to the disposal group and included in its carrying amount prior to determining any write-down or gain on sale of the discontinued operations. A long-term asset to be disposed of other than by sale, namely abandonment, before the end of its useful service life estimated previously, is classified as an asset held for sale until its disposal and the amortization estimates must be revised according to the assets' abbreviated useful service life. In addition, this standard specifies that the operating results of a company's component disposed of by sale, or by withdrawal, or being classified as held for sale, be included in the discontinued operations if the operations or cash flows of the component have been or will be eliminated from the Partnership's current operations pursuant to the disposal, and if the Partnership does not have significant continuing involvement in the operations of the component after the disposal transaction. Each theatre is considered a component of the Partnership as the operations and cash flows can be distinguished from the rest of the enterprise. Interest on debt that is assumed by the Partnership and interest on debt that is required to be repaid as a result of the disposal transaction is allocated to discontinued operations.

LONG-LIVED ASSETS

The Partnership continuously assesses the recoverability of its long-lived assets by determining whether the carrying value of these balances over the remaining life can be recovered through undiscounted projected cash flows associated with these assets. Generally this is determined on a theatre-by-theatre basis for theatre related assets. In making its assessment, the Partnership also considers the useful lives of its assets, the competitive landscape in which those assets operate, the introduction of new technologies within the industry and other factors affecting the sustainability of asset cash flows.

USE OF 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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions made by management in the preparation of the financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Famous Players business combination, the assessment of theatre cash flows to identify potential asset impairments, the assessment of the fair value of GEI and Famous Players to identify a potential goodwill impairment, estimating the fair value of the indefinite life assets to identify a potential impairment, the value of gift certificates that remain unutilized and in circulation for revenue recognition purposes, the film cost payable accrual, valuation of future income tax assets and the determination of the asset retirement obligation

as certain leases may require the retirement of leaseholds, and this outcome is at the landlords' discretion at the end of the lease. Actual results could differ from those estimates. Where required, management has obtained external valuation assistance. For other estimates, management uses historical indicators adjusted for new developments and anticipated future events.

Recent Accounting Developments

In April 2005, the CICA issued new Handbook Sections: Section 1530, "Comprehensive Income"; Section 3251, "Equity"; and Section 3855, "Financial Instruments – Recognition and Measurement", for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other primary financial statements. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period in addition to the requirements of Section 1530. Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Sections 1530, 3251 and 3855 all apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. Management is assessing the impact of these Handbook Sections on the Fund and the Partnership.

In October 2005, the CICA issued EIC-157, "Implicit Variable Interest Under AcG-15" which was effective for the first interim period or first annual fiscal period beginning subsequent to the date of the issuance of EIC-157, therefore, it was effective for the first quarter of 2006 for the Partnership. The standard addresses implicit variable interests which are an implied financial interest in an entity that changes with the changes in the fair value of that entity's net assets exclusive of variable interests. The Partnership adopted the standard in the first quarter of 2006. Management has reviewed the requirements under EIC-157 and determined that it has is no impact on the financial statements of the Partnership.

In December 2005, the CICA issued EIC-159, "Conditional Asset Retirement Obligations" which is effective for all interim and annual reporting periods ending after March 31, 2006 with early adoption encouraged. The standard addresses the issue of a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. The Partnership adopted this standard in the second quarter of 2006. Management has assessed the requirements under this standard and determined there is no significant impact on the financial statements of the Partnership.

In April 2006, the CICA issued EIC-161, "Discontinued Operations" which was to be applied prospectively and should be applied to all disposal transactions initiated after the date of issue (April 12, 2006). The standard addresses the allocation of interest expense and general corporate overhead expenses to Discontinued Operations, as well as the use of the Discontinued Operations classification to an entity where the remaining operations are insignificant. Subsequent to April 12, 2006, the Partnership has not identified any assets as held for sale. Management has assessed the requirements under this standard and determined that it has no impact on the financial statements of the Partnership.

RISKS AND UNCERTAINTIES

Investment in the Fund Units is subject to a number of risk factors. Cash distributions to unitholders are dependent upon the ability of the Partnership to generate income. The ability of the Partnership to generate income is susceptible to a number of risk factors which include: (i) the reliance on film production and film performance; (ii) alternative film delivery methods and other forms of entertainment; (iii) increased capital expenditures resulting from the development of digital technologies for film exhibition; (iv) reliance on key personnel; (v) the acquisition and development of new theatre sites; (vi) impact of new theatres; (vii) unauthorized copying of films; (viii) rising insurance and labor costs; (ix) financial liability arising from lawsuits; (x) the shrinking DVD window; and (xi) the ability to generate additional ancillary revenue. See "Risk Factors" detailed in the Fund's Annual Information Form dated March 22, 2006 for a more detailed description of risks facing the Partnership.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These proposals will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006. The Fund is considering this announcement and the possible impact of the proposed rules to the Fund. See discussion under "Accounting Policies and Recent Developments – Income Taxes".

COC, Cineplex Odeon (Quebec) Inc. ("COQ"), and former investors in GEI (collectively the "Investors") hold in aggregate approximately 40.3% of the outstanding LP Units of the Partnership (excluding the Class C LP Units) which, pursuant to the Exchange Agreement, can be exchanged at any time, subject to certain conditions, thereby causing the issuance of additional Fund Units. Restrictions on the ability of COC and COQ to exchange certain of their LP Units expired on November 26, 2006. If COC and COQ sell substantial amounts of Fund Units in the public market, the market price of the Fund Units could fall. The perception among the public that these sales may occur could also produce such effect.

The Partnership is a guarantor under the leases disposed of during 2005 and 2006 (see "Future Obligations"). There is a risk that the Partnership could have a substantial financial burden should the purchasers of the theatres fail to fulfill their lease commitment obligations (see "Subsequent Events").

Market Risk

The Partnership is exposed to financial market risks, including changes in interest rates and other relevant market prices. As discussed in "Liquidity and Capital Resources – Credit Facilities" the Partnership has entered into various interest rate swaps agreements on $200 million of outstanding indebtedness. The estimated fair market value of the swap is an unrealized gain of $2.0 million (gain of $1.9 million as at December 31, 2005) that is not recognized on the balance sheet or statement of income in accordance with GAAP.

Interest Rate Risk

As of December 31, 2006, the Partnership had long-term debt and amounts due to the Trust (including current maturities) of $348.0 million. Approximately $248.0 million of this debt is variable rate debt. An increase or decrease in interest rates would affect interest costs relating to this debt. For comparative purposes, for every change of 0.125% in interest rates, the Partnership's interest costs would change by approximately $0.3 million per year. Offsetting this risk is the impact of the interest rate swap referred to above.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership, Alliance Atlantis Cinemas Partnership and Famous Players Limited Partnership alleging discrimination against hearing-impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against other exhibitors and certain film distributors. All complaints have been referred to the Human Rights Tribunal (the "Tribunal") and have been joined together for hearing. At the present time, the Partnership is unable to assess the magnitude of any potential judgment from the Tribunal. If the Tribunal were to rule against the Partnership and force the maximum provision of technology to the complainants, the Partnership could face a material financial burden.

The Partnership and its subsidiaries are parties to various disputes arising in the ordinary course of business. From time to time, the Partnership is involved in disputes or litigation with landlords, contractors, past employees and other third parties. It is the opinion of management that any liability to the Partnership, which may arise as a result of these existing disputes, will not have a material adverse effect on the Partnership's operating results, financial position or cash flows.

In addition to the above, the Partnership would be adversely impacted by a national or global flu pandemic and could be impacted by any future changes to existing income trust income tax regulations.

OUTLOOK

Management believes there are opportunities to grow revenue and distributable cash per unit. For example, cinema advertising in Canada has only recently been established and represents a significant growth opportunity for the Partnership. Management believes that its cinema network, which reaches an audience of up to 80 million guests annually on a national basis, will continue to receive enhanced demand from advertisers. In addition, the Partnership continues to realize and seek out other revenue growth opportunities which include such opportunities as naming rights on certain theatres, extracting the benefits of the recently announced loyalty program, alternative programming and entertainment opportunities and enhanced web-based initiatives.

The Partnership believes that its Amended Credit Facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures, investments in working capital and distributions. However, the Partnership's needs may change and in such event the Partnership's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond the Partnership's control.

On October 31, 2006 the Department of Finance (Canada) introduced modifications to the income tax rules that will result in the taxation of distributions made by the Fund beginning in the year 2011 (see discussion in "Accounting Policies and Recent Developments – Income Taxes").

SUBSEQUENT EVENTS

In January 2007, the Partnership was notified that the guarantee provided to the landlord of one of the properties disposed of had been triggered. The maximum estimated exposure under the guarantee is $4.5 million. The Partnership has not determined the magnitude of the liability that will arise as a result of this guarantee. As a result, the Partnership has reversed the gain previously recognized as part of discontinued operations on disposition of the theatre. Included in the financial statements is a provision reflecting the Partnership's best estimate of its exposure under this guarantee. The accrual has been recorded in accounts payable in anticipation of the settlement of the resulting liability of the Partnership under the guarantee.

During January 2007 the Partnership entered into an agreement to terminate a theatre property operating lease prior to the contractual end of the lease. The agreement requires that the Partnership pay to the landlord an amount of $2.0 million. No amounts are recorded in the December 31, 2006 financial statements with respect to this amount.

February 6, 2007

Cineplex Galaxy Income Fund

Management's report to unitholders

Management is responsible for the preparation of the accompanying consolidated financial statements and all other information contained in this Annual Report. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, which involve management's best estimates and judgments based on available information.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are reliable for preparing financial statements.

The Board of Trustees of the Cineplex Galaxy Income Fund (the "Board") is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the "Audit Committee"). The Audit Committee meets periodically with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

PricewaterhouseCoopers LLP serve as the Fund's auditors. PricewaterhouseCoopers LLP's report on the accompanying consolidated financial statements follows. Their report outlines the extent of their examination as well as an opinion on the consolidated financial statements.

(Signed:)

Ellis Jacob
Chief Executive Officer

Toronto, Ontario
February 6, 2007

(Signed:)

Gord Nelson
Chief Financial Officer

Auditors' report

February 6, 2007

To the Trustees of Cineplex Galaxy Income Fund

We have audited the consolidated balance sheets of **Cineplex Galaxy Income Fund** (the "Fund") as at December 31, 2006 and 2005 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed:)

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Ontario

Cineplex Galaxy Income Fund

Consolidated balance sheets

As at December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 1,270	$ 1,209
Distributions receivable from Cineplex Entertainment Limited Partnership (NOTE 4)	2,102	1,500
	3,372	2,709
Due from Galaxy Entertainment Inc. (NOTE 4)	100,000	100,000
Investment in Cineplex Entertainment Limited Partnership (NOTES 1 AND 2)	275,921	206,763
Investment in Cineplex Entertainment Limited Partnership Class C LP Units (NOTE 1)	105,000	105,000
Investment in Cineplex Entertainment Corporation (NOTES 1 AND 2)	2	2
	$ 484,295	$ 414,474
LIABILITIES		
Current liabilities		
Distributions payable (NOTE 9)	$ 3,268	$ 2,667
Due to Cineplex Entertainment Limited Partnership (NOTE 4)	4	4
	3,272	2,671
Convertible Debentures – liability component (NOTES 1 AND 7)	98,112	96,964
	101,384	99,635
Unitholders' Equity	382,911	314,839
	$ 484,295	$ 414,474
Guarantees (NOTE 10)		

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Trustees

(Signed:)

Howard Beck
Trustee

(Signed:)

Robert Steacy
Trustee

Cineplex Galaxy Income Fund

Consolidated statements of earnings

For the years ended December 31, 2006 and 2005

(expressed in thousands of Canadian dollars, except per unit amounts)	2006	2005
Share of loss of Cineplex Entertainment Limited Partnership (NOTE 5)	**$ (2,812)**	$ (1,845)
Interest income (NOTE 4)	**20,360**	16,826
Interest and accretion expense on Convertible Debentures (NOTE 7)	**(7,447)**	(3,306)
Net earnings	**$ 10,101**	$ 11,675
Basic earnings per unit	**$ 0.32**	$ 0.49
Weighted average number of units outstanding used in computing basic earnings per unit	**31,109,204**	23,706,446
Diluted earnings per unit	**$ 0.23**	$ 0.44
Weighted average number of units outstanding used in computing diluted earnings per unit (NOTE 8)	**55,952,363**	50,619,316

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Galaxy Income Fund

Consolidated statements of unitholders' equity

For the years ended December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	2006 Unitholders' capital (NOTE 6)	2006 Accumulated earnings	2006 Accumulated distributions	2006 Total
Balance – January 1, 2006	**$ 334,287**	**$ 32,988**	**$ (52,436)**	**$ 314,839**
Issuance of units (NOTE 2)	**31,800**	**–**	**–**	**31,800**
Issuance of units under Exchange Agreement (NOTE 6)	**62,278**	**–**	**–**	**62,278**
Distributions declared (NOTE 9)	**–**	**–**	**(36,107)**	**(36,107)**
Net earnings for the year	**–**	**10,101**	**–**	**10,101**
Balance – December 31, 2006	**$ 428,365**	**$ 43,089**	**$ (88,543)**	**$ 382,911**

(expressed in thousands of Canadian dollars)	2005 Unitholders' capital (NOTE 6)	2005 Accumulated earnings	2005 Accumulated distributions	2005 Total
Balance – January 1, 2005	$ 201,477	$ 21,313	$ (24,733)	$ 198,057
Issuance of units (NOTE 2)	110,044	–	–	110,044
Issuance of Convertible Debentures – equity component	8,546	–	–	8,546
Issuance of units under Exchange Agreement (NOTE 6)	14,220	–	–	14,220
Distributions declared (NOTE 9)	–	–	(27,703)	(27,703)
Net earnings for the year	–	11,675	–	11,675
Balance – December 31, 2005	$ 334,287	$ 32,988	$ (52,436)	$ 314,839

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Galaxy Income Fund

Consolidated statements of cash flows

For the years ended December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	2006	2005
CASH PROVIDED BY (USED IN)		
Operating activities		
Net earnings for the year	$ 10,101	$ 11,675
Items not affecting cash and cash equivalents		
Share of loss from equity investee (NOTE 5)	2,812	1,845
Accretion of Convertible Debentures	1,148	510
Distributions received from Cineplex Entertainment Limited Partnership (NOTE 9)	21,506	12,954
	35,567	26,984
Investing activities		
Investment in Cineplex Entertainment Limited Partnership (NOTE 1)	(31,800)	(110,044)
Investment in Cineplex Entertainment Limited Partnership Class C LP Units (NOTE 1)	–	(105,000)
	(31,800)	(215,044)
Financing activities		
Issuance of units (NOTE 2)	31,800	110,044
Issuance of Convertible Debentures (NOTE 1)	–	105,000
Distributions paid	(35,506)	(26,954)
	(3,706)	188,090
Increase in cash and cash equivalents during the year	61	30
Cash and cash equivalents – Beginning of year	1,209	1,179
Cash and cash equivalents – End of year	$ 1,270	$ 1,209
Supplemental information		
Cash received for interest	$ 14,040	$ 14,021
Class C LP distributions received and classified as interest income	$ 6,321	$ 2,805
Cash paid for interest	$ 6,300	$ 2,796

Certain non-cash transactions occurred relating to exchanges of Class B LP Units and Class D LP Units for Fund units (NOTE 6).

The accompanying notes are an integral part of these consolidated financial statements.

December 31, 2006 and 2005 (expressed in thousands of Canadian dollars, except per unit amounts)

1 DESCRIPTION OF THE FUND

Cineplex Galaxy Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on October 2, 2003 pursuant to the Fund Declaration of Trust. The Fund was established to invest, through Cineplex Galaxy Trust (the "Trust"), a newly constituted wholly owned trust, in partnership units of Cineplex Galaxy Limited Partnership (the "Partnership") and shares of Cineplex Galaxy General Partner Corporation (the "General Partner"), the general partner of the Partnership. The Partnership was formed on November 26, 2003 to acquire substantially all of the theatre business assets and liabilities of Cineplex Odeon Corporation ("COC") and all of the shares of Galaxy Entertainment Inc. ("GEI"). The Partnership is currently Canada's largest film exhibition organization with theatres in six provinces. The Partnership's investors comprise the Trust, the General Partner, COC, Cineplex Odeon (Quebec) Inc., Onex Corporation ("Onex") and other former investors in GEI.

On June 20, 2006, the Fund issued 2,000,000 Fund units for proceeds of $31,800. The Partnership and the Fund entered into a reimbursement agreement under which the fees associated with the issuance of the Fund units in the amount of $1,984 were reimbursed by the Partnership.

On July 22, 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. (the "Acquisition"), which together held substantially all the assets and liabilities of Viacom Canada Inc.'s ("Viacom Canada") film exhibition business formerly operated by its Famous Players division, including its subsidiaries' shares and joint venture interests and excluding liabilities to related parties other than to related parties relating solely to film distribution rights on arm's-length terms. On closing of the Acquisition, total consideration incurred by the Partnership to acquire the net assets noted above amounted to $468,806 in cash plus transaction costs. The purchase agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. During the first quarter of 2006, it was determined that a purchase price adjustment was not required.

On July 22, 2005, the Fund issued 6,835,000 units for gross proceeds of approximately $110,044 (note 6) and convertible, extendible, unsecured, subordinated debentures ("Convertible Debentures") (note 7) for gross proceeds of $105,000, on the closing of the offering. The Partnership and the Fund entered into a reimbursement agreement under which fees associated with the issuance of the Fund units and Convertible Debentures in the amounts of $5,502 and $4,200, respectively, were reimbursed by the Partnership.

On July 22, 2005, the Fund indirectly purchased 6,835,000 Class A Limited Partnership units ("Class A LP Units") for an additional 6.4% interest in the Partnership and 6.4% of common shares of the General Partner for a nominal amount. In addition, the Fund indirectly acquired 5,600,000 Class C Limited Partnership units ("Class C LP Units"). The total cash paid for the Class A LP Units and Class C LP Units was $215,044.

The Partnership used these proceeds to finance the Acquisition. The additional investment in the Partnership comprised $110,044 in Class A LP Units and $105,000 in Class C LP Units. The Class C LP Units are entitled to a distribution on the business day before June 30 and December 31 each year, in priority to distributions paid on the Class A LP Units, Class B Limited Partnership units ("Class B LP Units") and Class D Limited Partnership units ("Class D LP Units"), equal to 6.02% per annum, included in interest income by the Fund. Upon conversion of the Convertible Debentures, the Class C LP Units will automatically adjust such that each Class C LP Unit will receive distributions in the same manner as the distributions are made for a corresponding Class A LP Unit. The Class C LP Units are redeemable by the Trust in order to provide the Fund with sufficient cash to repay, repurchase or redeem the Convertible Debentures.

On October 3, 2005, the Partnership changed its name from Cineplex Galaxy Limited Partnership to Cineplex Entertainment Limited Partnership and the General Partner changed its name to Cineplex Entertainment Corporation.

As a result of the transactions undertaken for the Acquisition, the issuance of additional units during 2006 and the issuance of additional units in a one-for-one exchange of Class B LP Units and Class D LP Units, the Fund's indirect ownership of the Partnership, held through the Trust, increased to approximately 59.7% as at December 31, 2006 (50.5% as at December 31, 2005).

2 BUSINESS ACQUISITIONS

As a result of the July 22, 2005 Acquisition, the Fund indirectly acquired an additional 6.4% interest in each of the Partnership and the General Partner (note 1). The total consideration was $110,044 in cash for the additional 6.4% interest in the Partnership and a nominal amount for the additional 6.4% interest in the General Partner.

As a result of the additional investment in the Partnership, the Fund's 6.4% increased share of the net book value of the underlying identifiable net liabilities, excluding goodwill, of the Partnership was $9,425 at the date of the step acquisition. The cost of the Fund's investment of $110,044 in the Partnership exceeded the underlying carrying value of the net liabilities of the Partnership in the amount of $119,469. This excess has been allocated to: property, equipment and leaseholds in the amount of $5,204; advertising contracts in the amount of $624; fair value of leases in the amount of $294; and trademarks in the amount of $2,164. The remaining $111,183 represents equity method goodwill. Amounts allocated to property, equipment and leaseholds are amortized over a period of approximately 9.5 years, amounts allocated to advertising contracts are amortized over approximately 5.0 years and amounts allocated to the fair value of leases are amortized over 3 to 11 years. As the useful lives of trademarks and goodwill are indefinite, no amortization is recorded on these assets. The above allocation of the purchase price was revised from the December 31, 2005 preliminary estimates and was finalized on March 31, 2006.

On June 20, 2006, the Fund issued 2,000,000 Fund units for gross proceeds of $31,800. The Fund used the proceeds to indirectly purchase 2,000,000 Class A LP Units for an additional 1.7% interest in the Partnership. In addition, on June 20, 2006, certain investors exchanged 3,250,000 Class B and Class D LP Units for an equivalent number of units in the Fund (note 6). As a result of these two transactions, the Fund increased its ownership in the Partnership by approximately 7.4%.

As a result of the June 20, 2006 additional investment in the Partnership, the Fund's 7.4% increased share of the net book value of the underlying identifiable net liabilities, excluding goodwill, of the Partnership was $11,434 at the date of the step acquisition. The cost of the Fund's investment of $78,925 in the Partnership exceeded the underlying carrying value of the net liabilities of the Partnership in the amount of $90,359. This excess has been allocated to: property, equipment and leaseholds in the amount of $5,403; advertising contracts in the amount of $1,063; fair value of leases in the amount of $305; and trademarks in the amount of $2,513. The remaining $81,075 represents equity method goodwill. Amounts allocated to property, equipment and leaseholds are amortized over a period of approximately 8.0 years, amounts allocated to advertising contracts are amortized over approximately 3.9 years and amounts allocated to the fair value of leases are amortized over 2 to 21 years. As the useful lives of trademarks and goodwill are indefinite, no amortization is recorded on these assets.

Equity method goodwill as at December 31, 2006 is as follows:

Equity method goodwill as per November 26, 2003 investment in the Partnership	$	131,247
Equity method goodwill as per July 22, 2005 investment in the Partnership		111,183
Equity method goodwill as per June 20, 2006 investment in the Partnership		81,075
	$	323,505

The Fund's share of the Partnership's net loss has been adjusted to reflect the Fund's proportionate share of the amortization of the excess purchase price over net assets acquired (note 5). As at December 31, 2006, the Fund's investment in the Partnership consists of the following:

Equity investment		
28,235,000 Class A LP Units	$	235,842
5,262,251 Class B LP Units		74,740
619,447 Class D LP Units		9,235
Accumulated share of Partnership income		1,266
Accumulated distributions received or receivable		(45,162)
		275,921
5,600,000 Class C LP Units		105,000
Total investment	$	380,921

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Due to the limited amount of information that these consolidated financial statements provide on the underlying operations of the Partnership, these consolidated financial statements should be read in conjunction with those of the Partnership for the years ended December 31, 2006 and 2005.

Cash and cash equivalents

The Fund considers all operating funds held in financial institutions and all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents.

Consolidation and variable interest entities

Accounting Guideline 15 ("AcG 15"), Consolidation of Variable Interest Entities, addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's ("VIE") assets and activities is the best evidence of control. An enterprise must consolidate a VIE if the enterprise is its primary beneficiary. An enterprise is a primary beneficiary of a VIE if the enterprise holds variable interests that expose it to the majority of the VIE's expected losses or, if no party holds such an exposure, the majority of its expected residual returns. Upon consolidation, the primary beneficiary is generally required to include assets, liabilities and non-controlling interests at fair value and subsequently account for the variable interest as if it were consolidated based on the majority voting interest.

Entities that are outside the scope of AcG 15 or that do not meet the definition of VIEs are consolidated if the Fund owns a majority of the entity's voting interests.

The Fund's consolidated financial statements include the accounts of the wholly owned Trust as the Trust does not meet the definition of a VIE and the Fund owns 100% of the Trust's voting interests. All intercompany transactions have been eliminated.

As at December 31, 2006, the Fund's indirect ownership of the Partnership, held through the Trust, was approximately 59.7% (2005 – 50.5%). The Fund will continue to account for the Partnership under the equity method as the Partnership does not meet the definition of a VIE. In addition, Onex holds both a substantial equity interest in the Partnership and, indirectly, the majority voting interest in the General Partner that controls the Partnership.

The Fund holds a significant variable interest in Galaxy Entertainment Inc. ("GEI") through the $100,000 note due from GEI ("Galaxy Note"). This variable interest originated on November 26, 2003 upon the formation of the Partnership. The Galaxy Note is subordinated to the Partnership's Amended Credit Facilities and has been pledged by the Trust against the Amended Credit Facilities. The Fund's maximum exposure to loss as a result of its involvement with GEI is its $100,000 investment in the Galaxy Note and any accrued interest thereon. The Galaxy Note bears interest at the rate of 14% per annum, and the balance of accrued interest as at December 31, 2006 is $nil (2005 – $nil).

However, based on an evaluation of the risks held by the Fund through its variable interest in GEI, it has been determined that the Fund is not the primary beneficiary of GEI. The Partnership therefore continues to consolidate GEI.

Long-term investments

As the Fund has significant influence over the Partnership and the General Partner, its investment is accounted for using the equity method. Under the equity method, the cost of the Fund's investment in the Partnership is increased by the Fund's proportionate share of income or loss and reduced by any distributions paid or payable to the Fund by the Partnership and the General Partner and by the amortization of property, equipment and leaseholds and certain intangible assets arising as a result of the purchase price allocation. As set out in the Limited Partnership Agreement, income and loss of the Partnership for accounting purposes are allocated to each partner in the same proportion as the income or loss is allocated for tax purposes (note 5).

The Fund's investment in the Partnership is reviewed for impairment if conditions arise that indicate the investment may be impaired. If there is a loss in the value of the investment that is other than a temporary decline, the investment is written down to recognize the loss.

Income taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. As substantially all taxable income will be allocated to the unitholders, no provision for income taxes on earnings has been made in these consolidated financial statements. Income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders. The difference between the tax bases and the financial statement carrying amount of the Fund's investment in the Partnership as at January 1, 2007 is:

Financial statement carrying amount	$	380,921
Tax value	$	412,795

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in Fund income being subject to a tax at the trust level.

In addition, if the proposals are enacted as announced, it would also result in the Fund accounting for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets would be recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not.

Earnings per unit

Basic earnings per unit are computed by dividing the net earnings available for unitholders by the weighted average number of units outstanding during the year. Diluted earnings per unit are computed using the if-converted method, which assumes conversion of the Class B LP Units, Class D LP Units and the Convertible Debentures into Fund units at the beginning of the reporting period, or at the time of issuance, if later (note 8).

Financial instruments

a) Fair value of financial instruments

Cash and cash equivalents, due from and due to related parties, distributions receivable, distributions payable, and investment in Class C LP Units and Convertible Debentures are reflected in the consolidated financial statements at carrying values that approximate fair value because of the short-term maturities of these financial instruments. The Convertible Debentures are publicly traded on the Toronto Stock Exchange. Based on the published fair values, management estimates that the Convertible Debentures have a fair value of $105,525 as at December 31, 2006 (2005 – $105,336). As per note 7 of these consolidated financial statements, the Convertible Debentures are accounted for in accordance with their substance rather than their legal form and presented in the consolidated financial statements in component parts, measured at their respective fair value at the time of issuance, with $8,546 recorded in equity and $96,454 classified as a liability accreting interest on a straight-line basis to the face value of $105,000 on December 31, 2012. The Fund has a $105,000 investment in Class C LP Units which are not publicly traded; however, they have similar characteristics as the Convertible Debentures and therefore management estimates that the Class C LP Units have a fair value of $105,525 as at December 31, 2006 (2005 – $105,336). Financial instruments also include the Galaxy Note that matures on November 26, 2028 and bears interest at 14% per annum. The fair value of the Galaxy Note is not practicable to determine given the many factors, terms and conditions that would influence such a determination.

b) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Fund is exposed to interest rate risk as a result of its issuance of the $100,000 fixed rate Galaxy Note (note 4) and the Convertible Debentures (note 7).

c) Credit risk

The Fund is exposed to credit risk on the Galaxy Note, the Class C LP Units, and interest and distributions receivable from the Partnership. The maximum credit risk is the fair value of the corresponding financial instruments.

Exchangeable securities

Class B LP Units and Class D LP Units are exchangeable for units of the Fund (note 6). The Class B LP Units and Class D LP Units are not shown as part of the Fund's unitholders' equity in the consolidated balance sheets until they have been exchanged for Fund units as there are no requirements for the Class B LP Units and Class D LP Units to be exchanged into Fund units. As such, the Class B LP Units and Class D LP Units are considered as part of the calculation of diluted earnings per unit using the if-converted method.

When Class B LP Units and Class D LP Units are exchanged into Fund units, the Fund accounts for the exchange of units at fair value at the date of the exchange. As a result, the Fund's proportionate share of the amortization of the excess purchase price over the net assets acquired would be adjusted, including an adjustment to equity method goodwill.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

4 RELATED PARTY TRANSACTIONS

On June 20, 2006 and July 22, 2005, the Fund undertook a series of transactions with related parties resulting in additional investments in the Partnership and the General Partner (notes 1 and 2).

The Partnership makes distributions of its available cash to the maximum extent possible to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. Any distributions will be paid within seven days of the end of each month. Subject to agreements the Partnership has entered into with its Class A LP, Class B LP and Class D LP unitholders, the Fund receives the distributions on the Class A LP Units, Class B LP Units and Class D LP Units held by the Trust. For the year ended December 31, 2006, the Fund received $21,506 (2005 – $12,954) of distributions from the Partnership and had $2,102 (2005 – $1,500) of distributions receivable at December 31, 2006.

Interest income earned by the Fund from the Class C LP Unit distributions was $6,321 (2005 – $2,805).

On November 26, 2003, the Trust entered into an agreement with GEI whereby it loaned $100,000 to GEI. The Galaxy Note bears interest at a rate of 14% per annum payable monthly, with principal due on November 26, 2028. During the year ended December 31, 2006, the Trust earned $14,000 of interest from GEI (2005 – $14,000).

The amount due to the Partnership is due on demand and is non-interest-bearing.

During the years ended December 31, 2006 and 2005, investors related to the Fund exchanged their Class B LP Units and Class D LP Units for Fund units under the provisions of the Exchange Agreement (note 6).

See note 10 for a guarantee with a related party.

Transactions noted above are in the normal course of business and are measured at the exchange amount, unless otherwise noted, which is the amount of consideration established and agreed to by the related parties.

5 SHARE OF LOSS OF THE PARTNERSHIP

The Fund's share of the Partnership's loss has been calculated as follows:

	2006	2005
Consolidated Partnership net income	$ 7,836	$ 12,976
Adjustment for Catch-up Payment from Partnership to Class B LP and Class D LP unitholders (NOTE 9)	(11,490)	(16,474)
Remaining loss to be distributed pro rata to Class A LP, Class B LP and Class D LP unitholders	$ (3,654)	$ (3,498)
Fund's proportionate % share[a]	$ (946)	$ (556)
Adjustments for excess purchase price over net assets acquired (NOTE 2)	(1,866)	(1,289)
Share of Partnership's loss	$ (2,812)	$ (1,845)

a) *During 2006, the Fund's indirect ownership of the Partnership, held through the Trust, increased from approximately 50.5% as at December 31, 2005 to approximately 59.7% as at December 31, 2006. The Fund's proportionate share of the loss available to be distributed to the Class A LP, Class B LP and Class D LP unitholders has been adjusted to reflect its increased ownership since the acquisition date.*

The Fund's share of the Partnership's loss (income) from discontinued operations is $1,312 (2005 – $(14,030)).

6 UNITHOLDERS' CAPITAL

The Fund may issue an unlimited number of units. Each unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net earnings, net realized capital gains (other than net realized capital gains distributed to redeeming unitholders) or other amounts, and in the net assets of the Fund in the event of termination or windup of the Fund.

All units are of the same class with equal rights and privileges. The units issued are not subject to future calls or assessments and entitle the holders thereof to one vote for each whole unit held at all meetings of unitholders.

Units are redeemable at any time on demand by the unitholders. Subject to certain restrictions, the aggregate redemption price payable by the Fund in respect of all units surrendered for redemption during any month shall be satisfied by way of a cash payment no later than the last day of the month following the month in which the units were tendered for redemption.

The Class B LP Units and Class D LP Units are indirectly exchangeable one-for-one for Fund units in the manner set out in the Exchange Agreement. Under the terms of the Exchange Agreement, COC and the former shareholders of GEI and management may, under certain circumstances, exchange all or any portion of their Class B LP Units and Class D LP Units for Fund units. At no time may any exchange be made if there exists an uncured event of default arising on Series 1 Trust Notes issued by the Trust to the Fund.

The Convertible Debentures have a final maturity date of December 31, 2012, are convertible into Fund units at the option of the holder, and are redeemable by the Fund after December 31, 2008 and on or prior to December 31, 2010 (note 7).

During the year ended December 31, 2006, under the provisions of the Exchange Agreement, certain investors, including related parties, exchanged 4,277,706 Class B, Series 1 and 2-G LP Units and Class D LP Units for 4,277,706 Fund units. The Fund recorded the Partnership units it acquired at the fair market value of

the Fund units on the date of the transactions. The differences between the fair market value and the value at which the Fund units were issued in the amount of $2,858 have been charged to unitholders' equity, resulting in a net increase in unitholders' capital of $62,278.

During the year ended December 31, 2005, under the provisions of the Exchange Agreement, certain investors, including a related party, exchanged 980,303 Class B, Series 1 and 2-G LP Units for 980,303 Fund units. The Fund recorded the Partnership units it acquired at the fair market value of the Fund units on the date of the transactions. The differences between the fair market value and the value at which the Fund units were issued in the amount of $53 have been charged to unitholders' equity, resulting in a net increase in unitholders' capital of $14,220.

There are 34,116,698 Fund units issued at December 31, 2006 (2005 – 27,838,992) for $428,365 (2005 – $334,287).

	2006		2005	
	Number of units	**Amount**	Number of units	Amount
Units – Beginning of year	**27,838,992**	**$ 325,741**	20,023,689	$ 201,477
Issuance of units (NOTE 1)	**2,000,000**	**31,800**	6,835,000	110,044
Issuance of units under Exchange Agreement	**4,277,706**	**62,278**	980,303	14,220
Units – End of year	**34,116,698**	**419,819**	27,838,992	325,741
Convertible Debentures – equity component	**–**	**8,546**	–	8,546
Unitholders' capital	**34,116,698**	**$ 428,365**	27,838,992	$ 334,287

7 CONVERTIBLE DEBENTURES

On July 22, 2005, the Fund issued Convertible Debentures for proceeds of $105,000. The Convertible Debentures have a final maturity date of December 31, 2012, are convertible into Fund units at the option of the holder and bear interest at a rate of 6.0% per annum, payable semi-annually on June 30 and December 31 each year. The Convertible Debentures cannot be redeemed by the Fund prior to December 31, 2008. After December 31, 2008 and on or prior to December 31, 2010, the Convertible Debentures will be redeemable in whole or in part from time to time at the option of the Fund on not more than 60 days' and not less than 30 days' prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the Fund's units on the Toronto Stock Exchange for the 20 consecutive trading days ending on the fifth trading day preceding the day prior to the date upon which the notice of redemption is given is at least 125% of the conversion price. After December 31, 2010, the Convertible Debentures will be redeemable prior to maturity in whole or in part from time to time at the option of the Fund on not more than 60 days' and not less than 30 days' prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest. On redemption or at the December 31, 2012 maturity date, the Fund may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the Convertible Debentures by issuing and delivering Fund units.

The Convertible Debentures have characteristics of both debt and equity and, as such, an amount of $96,454 was classified as a liability on July 22, 2005 and the remaining $8,546 recorded in equity. As a result, interest expense includes a charge for interest as well as accretion of the liability to the final maturity date.

The payment of the principal and premium, if any, of, and interest on, the Convertible Debentures is subordinated in right of payment to the prior payment in full of all indebtedness, liabilities and obligations of the Fund. The Convertible Debentures are subordinated to claims of creditors of the Fund's subsidiaries except to the extent that the Fund is a creditor of such subsidiary, ranking at least *pari passu* with such other creditors. The

Convertible Debentures will not limit the ability of the Fund to incur additional indebtedness, liabilities and obligations, including indebtedness that ranks senior to the Convertible Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

8 DILUTED EARNINGS PER UNIT

The weighted average number of units outstanding used in computing the diluted earnings per unit includes the dilutive effect of the full exercise of the Class B LP unitholders' and Class D LP unitholders' right to exchange Class B LP Units and Class D LP Units for Fund units. Convertible Debentures in the amount of $105,000 were excluded from the computation of diluted earnings per unit as their effect would have been antidilutive. If converted, the weighted average number of units outstanding used in computing diluted earnings per unit would be 5,600,000 units higher (2005 – 2,500,822).

The following Class B LP Units and Class D LP Units have not been exchanged for Fund units as at December 31:

	2006 Number of units	2005 Number of units
Class B, Series 1	**19,038,502**	20,321,237
Class B, Series 2-C	**2,086,957**	2,086,957
Class B, Series 2-G	**1,779,264**	4,154,788
Class D	**129,000**	–
	23,033,723	26,562,982

The $105,000 Convertible Debentures can be converted into 5,600,000 Fund units at the option of the holder. As at December 31, 2006, none of the Convertible Debentures have been converted into Fund units.

9 DISTRIBUTIONS PAYABLE

The Fund makes monthly distributions of its available cash and is dependent upon the ability of the Partnership to make cash distributions to the Fund. Distributions will be made to unitholders of record on the last business day of each month less estimated cash amounts required for expenses and other obligations of the Fund and cash redemptions of Fund units. The distributions are paid within 30 days following the end of each month.

Subject to certain restrictions, holders of Class B LP Units and Class D LP Units are entitled to receive, before distributions made by the Partnership to holders of Class A LP Units, a per unit distribution equal to the per unit interest payments made to the Trust in respect of the Galaxy Note (the "Catch-up Payment"). Any remaining amounts available for distribution will be shared pro rata between the holders of Class A LP Units, Class B LP Units and Class D LP Units. The purpose of the Catch-up Payment is to ensure that distributions on the Class B LP Units and Class D LP Units are equal to Class A LP Unit distributions, on a per unit basis, which reflect, in part, payments received by the Trust on the Galaxy Note.

Where the Partnership is unable to pay the Catch-up Payment out of the assets of the Partnership, under the terms of a keepwell agreement, the Trust will make a contribution to the capital of the Partnership without the issuance of additional Partnership units to enable the Partnership to meet its Catch-up Payment obligations. The amount of the contribution will be an amount equal to the shortfall in the per unit distribution to the Class B LP and Class D LP unitholders. The Trust has not made any payments to the Partnership under the terms of the keepwell agreement.

10 GUARANTEES

The Trust has guaranteed the Amended Credit Facilities undertaken by the Partnership and has granted a security interest over its assets, including a pledge of its Class A LP Units, Class B LP Units, Class C LP Units, Class D LP Units, shares of the General Partner and the Galaxy Note. Total debt outstanding under the Amended Credit Facilities as at December 31, 2006 amounts to $248,000 (2005 – $243,500). The Fund has not made any payments under such guarantees and no amount has been accrued in these consolidated financial statements with respect to the guarantees.

Cineplex Entertainment Limited Partnership

Management's report to limited partners

Management is responsible for the preparation of the accompanying consolidated financial statements and all other information contained in the Annual Report. The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles, which involve management's best estimates and judgments based on available information.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that transactions are authorized, assets are safeguarded, and financial records are reliable for preparing financial statements.

The Board of Directors of Cineplex Entertainment Corporation (the "Board"), as general partner of Cineplex Entertainment Limited Partnership (the "Partnership"), is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board is assisted in exercising its responsibilities through the Audit Committee of the Board (the "Audit Committee"). The Audit Committee meets periodically with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

PricewaterhouseCoopers LLP serve as the Partnership's auditors. PricewaterhouseCoopers LLP's report on the accompanying consolidated financial statements follows. Their report outlines the extent of their examination as well as an opinion on the consolidated financial statements.

(Signed:)

Ellis Jacob
Chief Executive Officer

(Signed:)

Gord Nelson
Chief Financial Officer

Toronto, Ontario
February 6, 2007

Cineplex Entertainment Limited Partnership

Auditors' report

February 6, 2007

To the Directors of Cineplex Entertainment Corporation, as General Partner of Cineplex Entertainment Limited Partnership

We have audited the consolidated balance sheets of **Cineplex Entertainment Limited Partnership** (the "Partnership") as at December 31, 2006 and 2005 and the consolidated statements of income, partners' equity and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed:)

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Ontario

Cineplex Entertainment Limited Partnership

Consolidated balance sheets

As at December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 56,383	$ 45,190
Accounts receivable (NOTE 5)	35,500	21,752
Inventories	3,193	4,162
Prepaid expenses and other current assets	4,297	3,803
Income taxes receivable	34	–
Due from related parties (NOTE 13)	11	32
Assets held for sale – current (NOTE 4)	–	789
	99,418	75,728
Property, equipment and leaseholds (NOTE 6)	447,932	435,002
Goodwill (NOTES 2 AND 4)	200,910	206,218
Intangible assets (NOTE 7)	57,946	63,464
Future income taxes (NOTE 19)	6,156	5,539
Deferred charges (NOTE 8)	7,329	9,319
Assets held for sale – long-term (NOTE 4)	–	3,481
	$ 819,691	$ 798,751

The accompanying notes are an integral part of these consolidated financial statements.

(expressed in thousands of Canadian dollars)	2006	2005
LIABILITIES		
Current liabilities		
Accounts payable and accrued expenses (NOTE 10)	$ 90,596	$ 88,243
Distributions payable	4,308	4,117
Due to related parties (NOTE 13)	3,143	2,442
Income taxes payable	–	667
Deferred revenue	50,184	41,003
Bank indebtedness (NOTE 11)	–	35
Current portion of capital lease obligations (NOTE 9)	1,470	1,383
Liabilities related to property held for sale – current (NOTE 4)	–	843
	149,701	138,733
Long-term debt (NOTE 11)	248,000	243,500
Capital lease obligations – long-term (NOTE 9)	36,426	38,078
Due to Cineplex Galaxy Trust (NOTE 12)	100,000	100,000
Accrued pension benefit liability (NOTE 14)	3,840	5,229
Other liabilities (NOTE 15)	146,791	123,950
Class C Limited Partnership units – liability component (NOTE 2)	100,037	97,555
Liabilities related to property held for sale – long-term (NOTE 4)	–	3,235
	784,795	750,280
Non-controlling interest	561	1,030
Partners' equity	34,335	47,441
	$ 819,691	$ 798,751

Business acquisitions (NOTE 2)
Commitments, guarantees and contingencies (NOTE 24)

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board of Directors of Cineplex Entertainment Corporation

(Signed:)

Ellis Jacob
Director

(Signed:)

Anthony Munk
Chairman, Board of Directors

Cineplex Entertainment Limited Partnership

Consolidated statements of income

As at December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	2006	2005
REVENUE		
Box office	$ 458,842	$ 308,673
Concessions	213,542	137,323
Other	67,860	44,303
	740,244	490,299
EXPENSES		
Film cost	236,469	159,518
Cost of concessions	43,527	26,986
Occupancy	144,991	93,283
Other theatre operating expenses	164,518	106,308
General and administrative (NOTE 2)	33,117	35,210
Management fee	–	224
	622,622	421,529
Income before undernoted	117,622	68,770
Amortization	64,493	42,948
Loss on disposal of theatre assets	148	122
Loss on extinguishment of debt	–	4,156
Impairment of long-lived assets	–	4,296
Interest on long-term debt and capital lease obligations	31,354	18,401
Interest on loan from Cineplex Galaxy Trust (NOTE 12)	14,000	14,000
Interest income	(745)	(378)
Income (loss) before income taxes, non-controlling interest and discontinued operations	8,372	(14,775)
Provision for (recovery of) income taxes		
Current	(647)	2,461
Future	(617)	(3,924)
	(1,264)	(1,463)
Income (loss) before non-controlling interest and discontinued operations	9,636	(13,312)
Non-controlling interest	(273)	1,828
Income (loss) from continuing operations	9,909	(15,140)
(Loss) income from discontinued operations (NOTES 4 AND 27)	(2,073)	28,116
Net income	$ 7,836	$ 12,976

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Entertainment Limited Partnership

Consolidated statements of partners' equity

For the years ended December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	Partners' capital (NOTE 16)	Deficit (NOTE 3)	Accumulated earnings	Accumulated distributions	Total
	2006				
Balance – January 1, 2006	**$ 232,975**	**$ (147,795)**	**$ 51,925**	**$ (89,664)**	**$ 47,441**
Issuance of Limited Partnership units	**30,210**	**–**	**–**	**–**	**30,210**
Other issuance costs	**(466)**	**–**	**–**	**–**	**(466)**
Distributions declared	**–**	**–**	**–**	**(50,741)**	**(50,741)**
Vesting of Fund units	**142**	**–**	**–**	**–**	**142**
LTIP compensation obligation	**(87)**	**–**	**–**	**–**	**(87)**
Net income	**–**	**–**	**7,836**	**–**	**7,836**
Balance – December 31, 2006	**$ 262,774**	**$ (147,795)**	**$ 59,761**	**$ (140,405)**	**$ 34,335**

(expressed in thousands of Canadian dollars)	Partners' capital (NOTE 16)	Deficit (NOTE 3)	Accumulated earnings	Accumulated distributions	Total
	2005				
Balance – January 1, 2005	$ 110,203	$ (147,795)	$ 38,949	$ (44,620)	$ (43,263)
Issuance of Limited Partnership units	116,591	–	–	–	116,591
Other issuance costs	(2,301)	–	–	–	(2,301)
Issuance of Class C Limited Partnership units – equity component	8,546	–	–	–	8,546
Distributions declared	–	–	–	(45,044)	(45,044)
Investment in Cineplex Galaxy Income Fund units	(267)	–	–	–	(267)
LTIP compensation obligation	203	–	–	–	203
Net income	–	–	12,976	–	12,976
Balance – December 31, 2005	$ 232,975	$ (147,795)	$ 51,925	$ (89,664)	$ 47,441
Business acquisitions (NOTE 2)					

The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Entertainment Limited Partnership

Consolidated statements of cash flows

For the years ended December 31, 2006 and 2005

(expressed in thousands of Canadian dollars)	2006	2005
CASH PROVIDED BY (USED IN)		
Operating activities		
Net income	$ 7,836	$ 12,976
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	64,493	43,686
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(1,130)	(3,201)
Amortization of debt issuance costs	2,637	1,586
Future income taxes	(617)	(3,924)
Loss on extinguishment of debt	–	4,156
Impairment of long-lived assets	–	4,296
Issuance of Class D Limited Partnership units – non-cash compensation (NOTE 2)	–	8,050
Gain (loss) on disposal of theatre assets (NOTE 4)	1,761	(25,713)
Non-controlling interest	(273)	1,828
Tenant inducements	21,314	7,662
Changes in operating assets and liabilities (NOTE 20)	5,023	11,210
	101,044	62,612
Investing activities		
Proceeds from sale of theatre assets	572	67,097
Proceeds from sale of discontinued operations (NOTE 4)	350	85,690
Capital expenditures	(71,290)	(27,823)
Theatre shutdown payment	(1,400)	–
Acquisition of Famous Players Limited Partnership and Famous Players Co. – net of cash acquired (NOTE 2)	–	(448,688)
Acquisition of Famous Players branded magazines (NOTE 2)	(1,100)	–
Cash received from segregated account for distribution (NOTE 3)	–	8,297
Cash transferred to segregated account for future distributions (NOTE 3)	–	(691)
	(72,868)	(316,118)
Financing activities		
Borrowings under credit facility	95,000	296,000
Repayment of credit facility	(90,535)	(178,029)
Payments under capital leases	(1,358)	(532)
Issuance of Partnership units – net of issuance costs (NOTE 2)	30,166	207,240
Dividends paid to non-controlling interest	(196)	(1,862)
Distributions paid	(50,550)	(51,923)
Investment in Cineplex Galaxy Income Fund units (NOTES 3 and 16)	–	(423)
Deferred financing fees	(115)	(9,833)
	(17,588)	260,638
Increase in cash and cash equivalents during the year	10,588	7,132
Cash and cash equivalents – Beginning of year (NOTE 4)	45,795	38,663
Cash and cash equivalents – End of year (NOTE 4)	$ 56,383	$ 45,795
Supplemental information		
Cash paid for interest	$ 34,998	$ 27,482
Class C LP Unit distributions paid and classified as interest	$ 6,321	$ 2,805
Cash paid for income taxes – net	$ 68	$ 1,358

The accompanying notes are an integral part of these consolidated financial statements.

December 31, 2006 and 2005 (expressed in thousands of Canadian dollars, except per unit amounts)

1 DESCRIPTION OF BUSINESS

Cineplex Galaxy Limited Partnership (the "Partnership") commenced operations on November 26, 2003 and was formed to acquire substantially all of the theatre business assets and liabilities of Cineplex Odeon Corporation ("COC") and all of the shares of Galaxy Entertainment Inc. ("GEI"). On October 3, 2005, the Partnership changed its name to Cineplex Entertainment Limited Partnership.

The Partnership's investors consist of Cineplex Galaxy Trust (the "Trust"), Cineplex Galaxy General Partner Corporation (the "General Partner"), COC, Cineplex Odeon (Quebec) Inc., Onex Corporation ("Onex") and other former investors in GEI. The Trust is wholly owned by Cineplex Galaxy Income Fund (the "Fund"). The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on October 2, 2003. On October 3, 2005, the General Partner changed its name to Cineplex Entertainment Corporation.

2 BUSINESS ACQUISITIONS

Under the terms of a purchase agreement (the "Purchase Agreement"), on July 22, 2005 the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. (the "Acquisition"), which together hold substantially all the assets and liabilities of Viacom Canada Inc.'s ("Viacom Canada") film exhibition business formerly operated by its Famous Players division, including its subsidiaries' shares and joint venture interests and excluding liabilities to related parties other than to related parties relating solely to film distribution rights on arm's-length terms. On closing of the Acquisition, total consideration incurred by the Partnership to acquire the net assets noted above amounted to $468,806 in cash plus transaction costs. The Purchase Agreement provided that the net cash flow of the Famous Players' business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. During the first quarter of 2006, it was determined that a purchase price adjustment was not required.

In order to fund the Acquisition, the Partnership issued indirectly to the Fund 6,835,000 Class A Limited Partnership units ("Class A LP Units") for gross proceeds of approximately $110,044 and 5,600,000 Class C Limited Partnership units ("Class C LP Units") for gross proceeds of $105,000. The Fund financed the acquisition of the Class A LP Units and Class C LP Units through the issuance of 6,835,000 units at $16.10 per unit to raise gross proceeds of approximately $110,044, and the issuance of $105,000 convertible, extendible, unsecured, subordinated debentures (the "Convertible Debentures"), bearing interest at a rate of 6.0% per annum, payable semi-annually, and convertible at the option of the holder into Fund units at $18.75 per unit (collectively, the "Offering"). Upon conversion of the Convertible Debentures into Fund units, distributions on Class C LP Units will automatically adjust such that the holder of Class C LP Units will receive distributions in the same manner as distributions are made on the corresponding number of Class A LP Units. The Partnership and the Fund entered into a reimbursement agreement under which fees associated with the issuance of the Fund units and Convertible Debentures in the amounts of $5,502 and $4,200, respectively, were reimbursed by the Partnership. The Partnership recorded the fees in partners' equity and deferred charges, respectively, and is amortizing the deferred charges into interest expense until December 31, 2008.

The Class C LP Units are redeemable by the Trust in order to provide the Fund with sufficient cash to repay, repurchase or redeem the Convertible Debentures and, as such, they have characteristics of both debt and equity. Under the provisions of The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3860, Financial Instruments – Disclosure and Presentation, an amount of $96,454 was classified as a liability at the date of the Acquisition and the remaining $8,546 was recorded in equity as it represents the value of the conversion option. Distributions and accretion on the Class C LP Units are included in interest expense.

Upon closing of the Acquisition, the Partnership issued 500,000 Class D Limited Partnership Units ("Class D LP Units"), a new class of Partnership units, at an estimated value of $8,050, to certain of its executives. This amount was recorded as compensation expense as at July 22, 2005 and was included in general and administrative expenses. The Class D LP Units are entitled to receive distributions on substantially the same basis as the Class B Limited Partnership Units ("Class B LP Units"). In addition, the Partnership agreed to pay Onex, a related party, a transaction fee of $4,000 for advisory services rendered by Onex in connection with the Acquisition, issuance of Fund units and Convertible Debentures, and entering

into amended credit facilities. The fee was satisfied by the issuance of 248,447 Class D LP Units on completion of the Acquisition. At the May 11, 2006 meeting of unitholders of the Fund, unitholders approved a resolution making the Class D LP Units exchangeable on a one-for-one basis for Fund units. Following approval of this resolution, the holders of the Class D LP Units became entitled to exchange such LP Units for Fund units.

During the third quarter of 2005, the Partnership sold real estate interests in four theatre locations (two of which were Famous Players theatres) for proceeds of $67,000 to RioCan Real Estate Investment Trust ("RioCan"), a related party. Subsequent to these transactions, RioCan is no longer a related party. As part of the agreement, the Partnership leased back the four theatres. Proceeds of the sale were used to repay amounts borrowed to finance a portion of the purchase price for the Acquisition. The four leases are treated as operating leases under the provisions of CICA Handbook Section 3065, Leases. The four sale-leaseback transactions were recorded at the exchange amount as there was a substantial change in ownership interest and the exchange amount was supported by independent evidence. A gain was realized on one of the properties in the amount of $12,916. As required under CICA Handbook Section 3065, this gain was deferred and is being amortized against occupancy expense over the term of the lease. A loss of $196 was realized in 2005 on the sale-leaseback of the remaining three properties and was recorded in loss on disposal of theatre assets.

In connection with the Acquisition, the Partnership entered into an amended and restated credit agreement with a syndicate of lenders pursuant to which it has available: (i) a 364-day $50,000 extendible senior secured revolving credit facility; (ii) a four-year $315,000 senior secured non-revolving term credit facility; and (iii) a four-year $60,000 senior secured revolving credit facility (the "Amended Credit Facilities") (note 11).

Using the proceeds from the above transactions, the Partnership acquired all of the limited partnership units of Famous Players and all of the shares of Famous Players Co. for total consideration of $452,837. The Acquisition was accounted for by the purchase method; accordingly, the results of operations of the business acquired have been included in the consolidated financial statements since the acquisition date. The final allocation of the purchase price to the assets and liabilities of Famous Players is as follows:

ASSETS AND LIABILITIES ACQUIRED	
Property, equipment and leaseholds	$ 318,809
Advertising contracts – amortized over five years	23,300
Trademarks and trade names – indefinite useful life	33,200
Goodwill	191,881
Fair value of leases – assets	17,058
Fair value of leases – liabilities	(22,016)
Net pension liability	(6,632)
Net working capital deficiency	(34,933)
Other liabilities	(7,954)
Capital leases	(39,758)
Net assets	472,955
Less: Cash from the Acquisition	20,118
	$ 452,837
CONSIDERATION GIVEN	
Cash paid for Acquisition of Famous Players	$ 468,806
Less: Cash from the Acquisition	20,118
	448,688
Transaction costs associated with the Acquisition	4,149
	$ 452,837

On March 31, 2006, the purchase price was revised from the December 31, 2005 preliminary estimate, based on the estimated fair value of the assets acquired and liabilities assumed at the effective date of the Acquisition. Increases (decreases) to the December 31, 2005 allocation of the purchase price are as follows:

Property, equipment and leaseholds	$ 2,254
Goodwill	(5,209)
Net working capital deficiency	(1,129)
Other liabilities	(1,730)
Capital leases	(235)
Transaction costs associated with the Acquisition	139

Famous Players is currently not subject to income or capital taxes as income, if any, is taxed in the hands of the individual partners. As at the date of the Acquisition, the amount of Famous Players goodwill that is deductible for tax purposes was estimated to be $119,000.

As a result of the Acquisition, the Partnership identified areas where a duplication of functions existed and undertook a restructuring of the workforce in both the Partnership and in Famous Players. Involuntary termination benefits were communicated to the corresponding employees and the final date of benefits to be provided to the terminated employees is January 2008. In accordance with CICA Emerging Issues Committee ("EIC") Abstract 114, Liability Recognition for Costs Incurred on Business Combinations, included in the purchase price allocation is a liability for involuntary termination benefits for employees of Famous Players in the amount of $8,948. During the year ended December 31, 2006, $3,319 was paid to certain terminated employees and accretion expense of $108 was charged to the consolidated statement of income. During the year ended December 31, 2005, the Partnership accrued involuntary termination charges for Cineplex Entertainment Limited Partnership employees of $740 in general and administrative expenses in accordance with EIC-134, Accounting for Severance and Termination Benefits. During the year ended December 31, 2006, this accrual was fully paid.

During 2005, the Partnership entered into a Media Sales Governing Agreement, which allowed for the termination and windup of Famous Players Media Inc. and the acquisition of three Famous Players branded entertainment magazines. The initial consideration for the acquisition was $1,300 with $1,100 paid in January 2006 and $100 payable on each of January 15, 2007 and January 15, 2008. The agreement also has a purchase price adjustment based on the net income for a component of the business for three years effective from January 1, 2006. During 2006, the Partnership incurred an additional $306 of consideration costs under the terms of the purchase price adjustment clause, resulting in a $306 addition to goodwill. The remaining purchase price adjustment has not been finalized and no adjustments have been recognized as the purchase price adjustment and outcome cannot be reasonably estimated at this time.

The acquisition was accounted for by the purchase method; accordingly, the results of operations of the business acquired have been included in the consolidated financial statements since the acquisition date. Based on management's best estimates, the purchase price has been allocated as follows:

Assets acquired		
Equipment	$	113
Goodwill		1,493
	$	1,606
Consideration		
Amounts paid	$	1,100
Amounts payable		506
	$	1,606

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The November 26, 2003 formation of the Partnership has been accounted for under the continuity of interests approach, as there was no substantive change in the ultimate ownership interests of the Partnership. Accordingly, these consolidated financial statements incorporate a deficit in the amount of $147,819 as at November 26, 2003 as if the Partnership has always carried on the business formerly carried on by COC and GEI.

Consolidation and variable interest entities

Accounting Guideline 15 ("AcG 15"), Consolidation of Variable Interest Entities, addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable

interest entity's ("VIE") assets and activities is the best evidence of control. An enterprise must consolidate a VIE if the enterprise is its primary beneficiary. An enterprise is a primary beneficiary of a VIE if the enterprise holds variable interests that expose it to the majority of the VIE's expected losses or, if no party holds such an exposure, the majority of its expected residual returns. Upon consolidation, the primary beneficiary is generally required to include assets, liabilities and non-controlling interests at fair value and subsequently account for the variable interest as if it were consolidated based on the majority voting interest.

Entities that are outside the scope of AcG 15 or that do not meet the definition of VIEs are consolidated if the Partnership owns a majority of the entity's voting interests. Joint ventures outside the scope of AcG 15 are proportionately consolidated.

The Partnership holds a variable interest in GEI through its investment in 100% of the outstanding equity of GEI, which it acquired on November 26, 2003. GEI is considered a VIE as the total investment at risk is not sufficient to permit GEI to finance its activities without additional support. The Partnership is the primary beneficiary of GEI and, therefore, under AcG 15, is required to consolidate GEI. Prior to the application of AcG 15, the Partnership consolidated its interest in GEI; therefore, implementation of AcG 15 has not resulted in a change in the accounting for its investment. Holders of GEI's liabilities have no recourse to the Partnership in the event of default by GEI on its debt or interest payments. Interest payments on the GEI debt are included in the calculation of the Class B LP Units' Catch-up Payments (note 17).

On March 15, 2005, the Partnership created a trust, administered by a third party, to act as trustee for the Partnership's Long-Term Incentive Plan ("LTIP"). On March 16, 2005, the Partnership funded $423 to the trust for exceeding certain 2004 defined distributable cash threshold amounts, subsequent to which the trustee acquired 27,527 Fund units on the open market. One-third of these units vested during each of March 2006 and March 2005 and were distributed to the LTIP members. The remaining units recorded at their carrying value of $125 (2005 – $267) are held in the trust to be distributed under the terms of the LTIP. The trust is considered a VIE as the total investment at risk is not sufficient to permit the trust to finance its activities without additional support. The Partnership holds a variable interest in the trust and has determined that it is the primary beneficiary of the trust and therefore consolidated the trust. The Partnership has not guaranteed the value of the units held by the trust should the market value of the Fund's units decrease from the value at which the trust acquired the units. As at December 31, 2006, consolidating the trust resulted in a $125 (2005 – $267) decrease in assets and partners' capital, respectively, and had no impact on the net income of the Partnership.

The Partnership has an interest in ten joint ventures. The joint ventures were determined not to be VIEs; accordingly, they continue to be accounted for using proportionate consolidation.

Significant intercompany accounts and transactions with consolidated entities and joint ventures have been eliminated.

Cash and cash equivalents

The Partnership considers all operating funds held in financial institutions, cash held by the theatres and all highly liquid investments with original maturities of three months or less when purchased to be cash and cash equivalents.

Restricted cash

Restricted cash represented year-to-date distributions accrued and maintained in a segregated Partnership bank account for 5,130,435 Class B, Series 2-G Limited Partnership units and 2,086,957 Class B, Series 2-C Limited Partnership units (collectively, the "Support Units"). Distributions on the Support Units were dependent on the performance of seven new theatres that, as at November 26, 2003, had either not yet opened or had been open for less than one year. For periods commencing January 2004, distributions on the Support Units were held in a segregated account until the end of the 2004 fiscal year, when a determination was made regarding the actual cash flows of the new theatres.

For the year ended December 31, 2004, the performance targets established in connection with the Fund's initial public offering were met for the seven new theatres and, as a result, the Partnership released the full amount of the escrowed distributions of $8,297 to the holders of the Class B, Series 2 LP Units on February 25, 2005.

Revenues

Box office and concession revenues are recognized, net of applicable taxes, when sales are received at the theatres. Other revenues include revenues from advertising, games and theatre rentals and are recognized when services are provided. Amounts collected on advance ticket sales and screen advertising agreements are deferred and recognized in the period earned or redeemed.

Gift certificates and gift cards

The Partnership sells gift certificates and gift cards (collectively referred to as "gift cards") to its customers. The proceeds from the sale of gift cards are deferred and recognized as revenue either upon redemption of the gift card or in accordance with the Partnership's accounting policy for breakage. Breakage income is included in other income and represents the estimated value of gift cards that are not expected to be redeemed by customers and is estimated based on the terms of the gift cards and historical redemption patterns, including available industry data.

Multiple deliverable arrangements

The Partnership enters into multiple deliverable arrangements related to certain sales of theatre assets, which may also include an advertising contract or an operational agreement. In addition, the Partnership receives payment from certain vendors for advertising contracts, auditorium rentals and ticket purchases. When a sales arrangement requires the delivery of more than one service, the individual deliverables are accounted for separately, if applicable criteria are met. Specifically, the revenue is allocated to each deliverable if reliable and objective evidence of fair value for each deliverable is available. The amount allocated to each unit is then recognized when each unit or service is delivered, provided all other relevant revenue recognition criteria are met with respect to that unit. If, however, evidence of fair value is only available for undelivered elements, the revenue is allocated first to the undelivered items, with the remainder of the revenue being allocated to the delivered items, according to a calculation known as the residual method. If evidence of fair value is only available for the delivered items but not the undelivered items, the arrangement is considered a single element arrangement and revenue is recognized as the relevant recognition criteria are met.

Film rental costs

Film rental costs are recorded based upon the terms of the respective film licence agreements. In some cases, the final film cost is dependent upon the ultimate duration of the film play and, until this is known, management uses its best estimate of the ultimate settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the period the Partnership settles with the distributors. Actual settlement of these film costs could differ from those estimates.

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined by the first-in, first-out method.

Disposal of long-term assets and discontinued operations

As per CICA Handbook Section 3475, Disposal of Long-Term Assets and Discontinued Operations, a long-term asset must be classified as an asset held for sale in the period during which all required criteria have been met. A long-term asset to be disposed of by sale must be measured at the lower of its carrying amount or fair market value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Assets and liabilities classified as held for sale are recorded on the consolidated balance sheets as assets held for sale and as liabilities related to property held for sale. When a disposal group represents a portion of a reporting unit that constitutes a business, goodwill is allocated to the disposal group and included in its carrying amount prior to determining any writedown or gain on sale of the discontinued operations. A long-lived asset to be disposed of other than by sale continues to be classified as held and used until it is disposed. In addition, this standard specifies that the operating results of the Partnership's component disposed of by sale, or by withdrawal, or being classified as held for sale, be included in the discontinued operations if the operations or cash flows of the component have been, or will be, eliminated from the Partnership's current operations pursuant to the disposal, and if the Partnership does not have significant continuing involvement in the operations of the component after the disposal transaction. Each theatre is considered a component of the Partnership as the operations and cash flows can be distinguished from the rest of the enterprise.

Interest on debt that is assumed by the buyer and interest on debt that is required to be repaid as a result of the disposal transaction is allocated to discontinued operations.

Theatre shutdown and lease buyouts

Theatre lease costs and other closure expenses are recognized at the time a theatre closes and are recorded to (gain) loss on disposal of theatre assets in the consolidated statements of income unless the theatre's operating results are included in discontinued operations. A provision is taken based on estimated expected future payments related to the contractual and ongoing maintenance of the property, adjusted for any negotiated termination of the lease obligation and reduced by estimated sublease rentals. Provisions are classified as current or long-term based on management's intention to settle the obligation within one year.

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost, less accumulated amortization. Construction-in-progress is amortized from the date the asset is ready for productive use.

Amortization is provided on the straight-line basis over the following useful lives:

Buildings[a]	30 to 40 years
Equipment	5 to 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

a) For owned buildings constructed on leased property, the useful lives do not exceed the terms of the land lease.

Property, equipment and leaseholds are evaluated for impairment in accordance with CICA Handbook Section 3063, Impairment of Long-Lived Assets. The Partnership assesses the recoverability of its long-lived assets by determining whether the carrying value of these assets over the remaining life can be recovered through undiscounted projected cash flows associated with these assets. Generally, this is determined on a theatre-by-theatre basis for theatre related assets. In making its assessment, the Partnership also considers the useful lives of its assets, the competitive landscape in which those assets are used, the introduction of new technologies within the industry and other factors affecting the sustainability of asset cash flows. While the Partnership believes its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect the evaluation. In the event that such cash flows are not expected to be sufficient to recover the carrying amount of the assets, the assets would be written down to their estimated fair values.

Leases

Leases are classified as either capital or operating. Leases that transfer substantially all of the risks and benefits of ownership to the Partnership and meet the criteria for capital leases set out in CICA Handbook Section 3065, Leases, are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related buildings and equipment are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in occupancy expenses on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into occupancy expenses over the term of the related lease agreement. The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities.

Consideration received by a vendor

The Partnership receives rebates from certain vendors with respect to the purchase of concession goods. In addition, the Partnership receives payments from vendors for advertising undertaken by the theatres on behalf of the vendor. Under EIC-144, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor, the Partnership recognizes rebates earned for purchases of a vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as other revenue.

Asset retirement obligation

CICA Handbook Section 3110, Asset Retirement Obligations, addresses the recognition and measurement of legal obligations associated with the retirement of property, equipment and leaseholds when those obligations result from the acquisition, construction, development or normal operation of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is identified if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset and amortized over the estimated remaining life of the asset. The asset retirement obligation accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to other theatre operating expense for the period.

The Partnership has recognized a discounted liability associated with obligations arising from specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms and the removal of certain property, equipment and leaseholds from the leased building (note 15). The accretion and amortization impact on net earnings for 2006 was $60.

The total undiscounted amount of the cash flows required to settle the obligations, factoring in the effect of inflation and the dates that the leases are expected to end, which range from January 2007 to December 2028, has been estimated to be $1,780. The credit-adjusted risk-free rate at which the cash flows have been discounted is in the range of 5.44% to 6.27%.

Capitalized interest

The Partnership capitalizes interest on amounts drawn on the Development Facility that are used to finance the ongoing development of theatre projects (note 11). Interest is capitalized on projects under development up to the date the theatre enters productive use. During the year ended December 31, 2006, the Partnership has capitalized interest of $256 (2005 – $52).

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually, or more frequently if impairment indicators arise. For the purpose of impairment testing and determining the gain (loss) on disposal of theatre assets, goodwill is allocated to the individual theatres, which management has determined meet the definition of a reporting unit. A goodwill impairment loss will be recognized in net income if the estimated fair value of the goodwill of a theatre is less than the carrying amount of the goodwill of that theatre.

Intangible assets and liabilities

Intangible assets represent the value of trademarks, trade names and advertising contracts of GEI and Famous Players as well as the fair value of Famous Players leases that are recorded as assets. As the useful life of the trademarks and trade names is indefinite, no amortization is recorded. Intangible assets with indefinite service lives, representing trademarks and trade names, are accounted for at cost and are not amortized but are tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. A trademark or trade name impairment loss will be recognized in net income if the estimated fair value of the trademark or trade name is less than the carrying value. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is recorded as an intangible asset and amortized on a straight-line basis over the remaining term of the lease into amortization expense. The fair value of lease contract liabilities is recorded as other liabilities and amortized against occupancy expense.

Pre-opening costs

Expenses incurred for advertising, marketing and staff training related to the opening of new theatres are expensed as incurred and included in operating expenses.

Deferred charges

Deferred charges consist principally of debt issuance costs and long-term assets. Debt issuance costs are amortized over the term of the related debt and included in interest expense. Other long-term assets represent payments made with respect to the early termination of leases and are amortized according to the terms of the termination agreement.

Employee future benefits

The Partnership is the sponsor of a number of employee benefit plans. These plans include defined benefit plans, a defined contribution plan, and additional unfunded defined benefit obligations for former Famous Players employees.

a) Defined benefit plans

The accumulated benefit method has been used to determine the accrued benefit obligation in respect of the defined benefit plans, as future salary levels do not affect the benefits. The expected return on assets is based on the fair value of assets. The excess of unamortized actuarial gains or losses over 10% of the greater of the fair value of plan assets and the benefit obligation is amortized over the average remaining service period of active employees. The average remaining service period is estimated at 13 years.

Upon formation of the Partnership, it continued to amortize COC's transitional asset on a straight-line basis over the average remaining service life of its active employees, which is estimated to be until March 2015. Upon acquiring Famous Players, the Partnership recognized the entire deficit under the Famous Players Plans as at July 22, 2005.

b) Defined contribution plan

Costs for the Partnership's defined contribution plan are recognized into income during the period in which the service is provided.

Financial instruments

a) Fair value of financial instruments

Cash and cash equivalents, bank indebtedness, accounts receivable, prepaid expenses and other current assets, due from and due to related parties, accounts payable and accrued expenses, distributions payable, capital lease obligations, long-term debt and Class C LP Units are reflected in the consolidated financial statements at carrying values, which approximate fair values because of the short-term maturities of these financial instruments or, in the case of long-term debt, the rate of interest applicable to the corresponding item. Financial liabilities include capital lease obligations for which the estimated fair values are not significantly different from their respective carrying values. Class C LP Units are not publicly traded; however, they have similar characteristics as the Fund's Convertible Debentures, which are publicly traded on the Toronto Stock Exchange. Using the published fair value of the Fund's Convertible Debentures, management estimates that the Class C LP Units have a fair value of $105,525 as at December 31, 2006 (2005 – $105,336). As per note 2 of these consolidated financial statements, the Class C LP Units are accounted for in accordance with their substance rather than their legal form and are presented in the consolidated financial statements in component parts, measured at their respective fair value at the time of issue, with $8,546 recorded in equity and, originally, $96,454 classified as a liability accreting interest on a straight-line basis to the face value of $105,000 on December 31, 2008. Financial instruments also include the $100,000 due to the Trust ("Galaxy Note") that matures on November 26, 2028 and bears interest at 14% per annum. The fair value of the Galaxy Note is not practicable to determine given the many factors, terms and conditions that would influence such a determination.

b) Interest rate risk

Interest rate risk is the risk that the fair value of the financial instrument will fluctuate due to changes in market interest rates. The Partnership is exposed to interest rate risk as a result of the fixed interest rate Galaxy Note and Class C LP Units.

c) Credit risk

The Partnership grants credit in the normal course of business and is exposed to credit risk on its accounts receivable balance. Credit valuations are performed on a regular basis and the consolidated financial statements take into account an allowance for bad debts. The maximum credit risk is the fair value of the accounts receivable balance.

d) Derivative financial instruments – hedging transactions

CICA Accounting Guideline 13 ("AcG 13"), Hedging Relationships, addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of, hedge accounting and hedge effectiveness testing requirements. Under the guideline, the Partnership is required to document its hedging transactions and explicitly demonstrate that hedges are

effective in order to continue hedge accounting for positions hedged with derivatives. Any derivative financial instruments that fail to meet the hedging criteria will be accounted for in accordance with EIC-128, Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments. These instruments will be recorded on the consolidated balance sheets at fair value and changes in fair value will be recognized in income in the period in which the change occurs.

The Partnership enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt (note 11). These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. The estimated fair value of the interest rate swap is not recognized on the consolidated balance sheets if the derivative financial instrument qualifies for hedge accounting. Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swaps.

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred on the balance sheets and recognized in income in the period in which the underlying hedged transaction is recognized. In the event that a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized as a loss on extinguishment of debt.

Income taxes

The Partnership and Famous Players are currently not subject to income or capital taxes as the income, if any, is taxed in the hands of the individual partners.

Income taxes for the Partnership's subsidiaries, GEI and Famous Players Media Inc. ("FP Media"), are accounted for under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets are recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not.

Foreign currency translation

The consolidated financial statements are presented in Canadian dollars because it is the currency of the primary economic environment in which the Partnership conducts its operations.

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect as at the dates of the consolidated balance sheets. Non-monetary assets and liabilities and revenues and expenses are translated at the exchange rate in effect at the date of the transaction. Exchange gains and losses arising from translation are included in operations.

Use of estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions made by management in the preparation of the consolidated financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Famous Players business combination; the assessment of theatre cash flows to identify potential asset impairments; the assessment of the fair value of the theatres in the Partnership, GEI and Famous Players, which individually meet the definition of a reporting unit, to identify a potential goodwill impairment; estimating the fair value of the indefinite life intangible assets to identify any potential impairment; the value of gift certificates and gift cards that remain unutilized and in circulation for revenue recognition purposes; the estimation of film cost payable accrual; the assessment of the valuation of future income tax assets; the measurement and allocation of consideration for revenue arrangements with multiple deliverables; and the determination of the asset retirement obligation as certain leases may require

the retirement of leaseholds, and this outcome is at the landlords' discretion at the end of the lease. Actual results could differ from those estimates.

4 DISCONTINUED OPERATIONS

On May 27, 2005, the Partnership entered into a consent agreement (the "Consent Agreement") with the Commissioner of Competition (the "Commissioner") in respect of its Acquisition of Famous Players. Under the terms of the Consent Agreement, the Partnership agreed to divest a total of 34 specified theatres, held by both the Partnership and Famous Players, within a specified period of time on the terms and conditions set out in the Consent Agreement. These conditions were met during the first quarter of 2006. Until May 27, 2010, the Partnership must provide the Commissioner with prior written notice of any acquisition by it of any non-Partnership theatre or assumption of lease where the remaining term exceeds two years. The Partnership also may not, during this time, reacquire any of the divested theatres without prior approval of the Commissioner.

As at December 31, 2005, the Partnership had disposed of 27 of the theatres as required under the Consent Agreement and two Alliance Atlantis brand theatres for gross proceeds of $85,690. A gain in the amount of $25,835 was recognized on the sale of the assets held for sale, after allocating $15,001 of goodwill from the Famous Players acquisition, and is included in income from discontinued operations for the year ended December 31, 2005.

During 2006, the Partnership disposed of the remaining seven theatres, which were in Quebec (the "Quebec Theatres"), as required under the Consent Agreement. The total proceeds for the Quebec Theatres and a related screen advertising contract were $1,850. As per EIC-142, Revenue Arrangements with Multiple Deliverables, $1,000 of the proceeds has been allocated to a screen advertising contract with the remaining $850 allocated to the disposal of the Quebec Theatres, of which the latter amount is subject to a purchase price adjustment. During 2006, the Partnership also disposed of its 49% interest in the remaining three Alliance Atlantis brand theatres to a related party for a nominal amount. Revenue from theatres classified in discontinued operations is $8,069 (2005 – $47,355). See note 27 for subsequent events related to lease guarantees.

The carrying amounts of the major classes of assets held for sale and liabilities related to property held for sale as at December 31, 2005 were as follows:

		2005
Cash	$	605
Property, equipment and leaseholds		3,481
Other		184
	$	4,270
Accounts payable	$	685
Deferred revenue		158
Other		3,235
	$	4,078

As at December 31, 2006, the Partnership no longer had assets and liabilities classified as held for sale.

5 ACCOUNTS RECEIVABLE

Accounts receivable consist of:

		2006		2005
Trade receivables	**$**	**35,232**	$	21,781
Other		**268**		5
		35,500		21,786
Less: Accounts receivable classified as held for sale (NOTE 4)		**–**		34
	$	**35,500**	$	21,752

6 PROPERTY, EQUIPMENT AND LEASEHOLDS

Property, equipment and leaseholds consist of:

	2006		
	Cost	Accumulated amortization	Net
Land	$ 9,357	$ –	$ 9,357
Buildings and leasehold improvements	373,751	116,863	256,888
Buildings and leasehold improvements under capital lease	32,920	3,204	29,716
Equipment	284,801	147,808	136,993
Equipment under capital lease	17,404	3,522	13,882
Construction-in-progress	1,096	–	1,096
	$ 719,329	$ 271,397	$ 447,932

	2005		
	Cost	Accumulated amortization	Net
Land	$ 9,357	$ –	$ 9,357
Buildings and leasehold improvements	337,808	98,312	239,496
Buildings and leasehold improvements under capital lease	32,920	963	31,957
Equipment	252,456	112,997	139,459
Equipment under capital lease	14,157	843	13,314
Construction-in-progress	4,900	–	4,900
	651,598	213,115	438,483
Less: Property, equipment and leaseholds classified as held for sale (NOTE 4)	6,563	3,082	3,481
	$ 645,035	$ 210,033	$ 435,002

Total amortization during the year ended December 31, 2006 was $58,743 (2005 – $40,095). Included in this amount is amortization of property under capital lease of $4,920 (2005 – $1,806).

7 INTANGIBLE ASSETS

Intangible assets consist of the following:

a) Intangible assets subject to amortization

	2006		
	Cost	Accumulated amortization	Net
Advertising contracts	$ 23,651	$ 7,118	$ 16,533
Fair value of leases – assets	7,548	901	6,647
	$ 31,199	$ 8,019	$ 23,180

	2005		
	Cost	Accumulated amortization	Net
Advertising contracts	$ 23,651	$ 2,224	$ 21,427
Fair value of leases – assets	7,548	277	7,271
	$ 31,199	$ 2,501	$ 28,698

Amortization during the year ended December 31, 2006 was $5,518 (2005 – $2,603).

b) Intangible assets not subject to amortization

	2006	2005
Trademarks and trade names	$ 34,766	$ 34,766

8 DEFERRED CHARGES

Deferred charges consist of:

	2006		
	Cost	Accumulated amortization	Net
Deferred financing fees	$ 9,810	$ 3,699	$ 6,111
Other long-term assets	3,141	1,923	1,218
	$ 12,951	$ 5,622	$ 7,329

	2005		
	Cost	Accumulated amortization	Net
Deferred financing fees	$ 9,721	$ 1,102	$ 8,619
Other long-term assets	2,391	1,691	700
	$ 12,112	$ 2,793	$ 9,319

Amortization during the year ended December 31, 2006 was $2,869 (2005 – $1,836).

9 CAPITAL LEASE OBLIGATIONS

As part of the Acquisition, the Partnership has assumed commitments under two non-cancellable capital leases for theatres and capital leases for theatre equipment for various periods, including renewal options. Future minimum payments, by year and in the aggregate, under non-cancellable capital leases are as follows:

2007	$ 4,187
2008	4,187
2009	4,187
2010	4,357
2011	4,440
Thereafter	39,204
	60,562
Less: Amounts representing interest (average rate of 7.3%)	22,666
	37,896
Less: Current portion	1,470
	$ 36,426

Interest expense related to capital lease obligations was $2,764 (2005 - $1,201).

10 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	2006	2005
Accounts payable – trade	**$ 5,863**	$ 9,514
Film and advertising payables	**43,230**	30,928
Accrued salaries and benefits	**11,109**	12,472
Sales tax payable	**7,358**	7,224
Accrued occupancy costs	**5,540**	6,891
Other payables and accrued expenses	**17,496**	21,899
	90,596	88,928
Less: Accounts payable and accrued expenses classified as liabilities related to property held for sale (NOTE 4)	**–**	685
	$ 90,596	$ 88,243

11 CREDIT FACILITIES – LONG-TERM DEBT AND BANK INDEBTEDNESS

In connection with the July 22, 2005 Acquisition, the Partnership entered into an amended and restated credit agreement with a syndicate of lenders consisting of the following facilities (collectively, the "Amended Credit Facilities"):

a) A 364-day $50,000 extendible senior secured revolving credit facility maturing July 21, 2007 (the "Working Capital Facility");

b) A four-year $315,000 senior secured non-revolving term credit facility maturing July 22, 2009 (the "Term Facility"); and

c) A four-year $60,000 senior secured revolving credit facility maturing July 22, 2009 (the "Development Facility").

The Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or on the banker's acceptance rates plus, in each case, an applicable margin to those rates, which will vary based on certain financial ratios. The Amended Credit Facilities adjusted and restated the Partnership's previous credit facilities (the "Previous Credit Facilities") under which $141,000 was outstanding as at July 22, 2005. The amendment of the Previous Credit Facilities is considered an extinguishment of debt under EIC-88, Debtor's Accounting for a Modification or Exchange of Debt Instruments, and, as a result, deferred financing charges of $1,200 were expensed as a loss on extinguishment of debt upon repayment of the Previous Credit Facilities. Deferred financing fees of $5,250 associated with the Amended Credit Facilities are amortized over the four-year term of the facilities. In addition, upon extinguishment of the Previous Credit Facilities, the Partnership recognized the mark-to-market loss of $2,206 as at July 22, 2005 on the previous interest rate swap agreement (the "Previous Interest Rate Swap") which was in the amount of $110,000. As it was no longer an effective hedge instrument, this amount was expensed as a loss on extinguishment of debt and the corresponding liability is amortized against interest expense over the term of the Amended Credit Facilities. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects the mark-to-market buyout of the Previous Interest Rate Swap on the Previous Credit Facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200,000. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the Term Facility. The Partnership considered its hedging relationships and determined that its interest rate swap agreements on its Term Facility qualified for hedge accounting (note 3). As at December 31, 2006, the estimated fair value of the interest rate swap is an unrealized gain of $2,000 (2005 – $1,936). In accordance with GAAP, these gains/losses have not been recognized on the consolidated balance sheets.

The Working Capital Facility and the Development Facility are for general corporate purposes, including up to $15,000 to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The Working Capital Facility may be extended for a period not to exceed the maturity date of the Term Facility. The Term Facility has a term of four years and is payable in full at maturity, with no scheduled repayment of principal required prior to maturity. The Term Facility was used to finance the purchase price of the Acquisition. The Development Facility is to be used for the development or acquisition of theatre projects approved by the Trustees of the Fund. The Development Facility has a term of four years and is payable in full at maturity. Loans under the Amended Credit Facilities are repayable without any prepayment penalties.

As part of the Acquisition, the Partnership obtained a commitment for a senior secured bridge facility in the amount of $300,000 (the "Bridge Facility"). The Bridge Facility had a term of one year and was payable in full at maturity, with no scheduled repayments of principal prior to maturity. The Bridge Facility was to be used to finance the purchase price of the Acquisition and to repay a portion of the existing credit facilities had the Offering not been completed. With the completion of the Offering, the Bridge Facility was not required and fees of $750 associated with the Bridge Facility were expensed as a loss on extinguishment of debt.

Long-term debt consists of:

	2006	2005
Term Facility due July 22, 2009	$ 235,000	$ 235,000
Development Facility due July 22, 2009	13,000	8,500
	248,000	243,500
Less: Current portion	–	–
	$ 248,000	$ 243,500

Bank indebtedness consists of:

	2006	2005
364-day Working Capital Facility	$ –	$ –
Other	–	35
	$ –	$ 35

As at December 31, 2006, the Partnership was subject to a margin of 1.50% (2005 – 1.50%) on the prime rate and 2.50% (2005 – 2.50%) on the banker's acceptance rate, plus a 0.125% (2005 – 0.125%) per annum fee for letters of credit issued on the Working Capital Facility and the Development Facility. The average interest rate on borrowings under the Amended Credit Facilities and the Previous Credit Facilities was 6.4% for the year ended December 31, 2006 (2005 – 6.0%). The Partnership will pay a commitment fee on the daily unadvanced portion of the Working Capital Facility and the Development Facility, which will vary based on certain financial ratios and was 0.50% at December 31, 2006 (2005 – 0.50%). The Amended Credit Facilities provide for certain restrictive undertakings and covenants to be complied with by the Partnership. As at December 31, 2006, the Partnership was in compliance with its debt covenants.

The Amended Credit Facilities are secured by all of the Partnership's assets, including: (i) the Partnership's shares of GEI; (ii) the assets of the Partnership, Famous Players, the General Partner and GEI; (iii) the Partnership's investment in Famous Players and its general partner, Famous Players Co. The Amended Credit Facilities are also guaranteed by GEI. In addition, the Trust has guaranteed the Amended Credit Facilities and has granted a security interest over its assets, including a pledge of its Class A LP Units, Class B LP Units, Class C LP Units, Class D LP Units, shares of the General Partner and the Galaxy Note.

Annual maturities of obligations under long-term debt for the next three years are set forth as follows:

2007	$ –
2008	–
2009	248,000
	$ 248,000

12 DUE TO CINEPLEX GALAXY TRUST

On November 26, 2003, the Trust entered into the Galaxy note agreement with GEI whereby it loaned $100,000 to GEI. The Galaxy Note bears interest at a rate of 14% per annum payable monthly with the principal due on November 26, 2028. The Galaxy Note is subordinated to the Amended Credit Facilities.

13 RELATED PARTY TRANSACTIONS

Due from related parties consists of:

	2006	2005
Due from the Fund	$ 2	$ 2
Due from the Trust	2	2
Due from COC	7	28
	$ 11	$ 32

Due to related parties consists of:

	2006	2005
Due to Motion Picture Distribution LP	$ 3,143	$ 2,442

The Partnership has entered into transactions with certain parties to which it is related. A summary of significant transactions with these parties is provided below.

See note 16 for related party transactions pertaining to the issuance of units by the Partnership during 2006 to the Fund for gross proceeds of $31,800 and the reimbursement of $1,984 of issuance fees to the Fund. As part of a secondary offering, Onex exchanged 3,250,000 Class B and Class D LP Units for 3,250,000 Fund units under the provisions of the Exchange Agreement. The exchange has been recorded at fair market value. Pursuant to a contractual obligation, the Partnership assumed the transaction costs relating to this secondary offering of Fund units by Onex.

See note 2 for related party transactions pertaining to the Acquisition, including the issuance of units to the Fund for gross proceeds of $215,044, the reimbursement of $9,702 of issuance fees to the Fund, a $67,000 sale-leaseback transaction with RioCan, and a $4,000 transaction fee for advisory services rendered by Onex in connection with the Acquisition, issuance of Fund units and Convertible Debentures.

The Partnership incurred interest expense of $14,000 for the year ended December 31, 2006 (2005 – $14,000) on the Galaxy Note.

COC charged the Partnership $521 in rent for the head office during the year ended December 31, 2006 (2005 – $521). This expense is included in general and administrative expense. The Partnership provides COC with certain management services for which it charged COC $35 during 2006 (2005 – $61). This revenue is included in other revenue. All payables and receivables with COC are due on demand and are non-interest-bearing.

For the years ended December 31, 2006 and 2005, the Partnership incurred film rental expenses totalling $29,230 and $25,340, respectively, to Motion Picture Distribution LP ("Motion Picture"), a subsidiary of Alliance Atlantis Communications Inc. ("Alliance"). These expenses are included in film cost. See also note 4 for related party transactions regarding the sale of the Partnership's 49% interest in the Alliance Atlantis branded theatres to Motion Picture. Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance.

Distributions paid to related parties consist of:

	2006	2005
Fund	**$ 21,506**	$ 12,953
Onex and its subsidiaries	**$ 27,887**	$ 35,254
Other related parties	**$ 577**	$ 1,057

Distributions payable to related parties consist of:

	2006	2005
Fund	**$ 2,102**	$ 1,500
Onex and its subsidiaries	**$ 2,168**	$ 2,480
Other related parties	**$ 24**	$ 72

A former Trustee of the Fund is the President and Chief Executive Officer of RioCan. This Trustee resigned from the Board of the Fund effective August 1, 2005; therefore, RioCan is no longer considered a related party after July 31, 2005. Lease occupancy expenses for theatre properties under lease commitments with RioCan during 2005 when RioCan was a related party were $7,294. Prior to August 1, 2005, the Partnership received $449 in tenant inducements from RioCan.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the year ended December 31, 2006, the Partnership earned revenue in the amount of $795 with respect to these services (2005 – $800).

During the year ended December 31, 2006, certain executives of the Partnership exchanged a total of 496,000 Class B and Class D LP Units for 496,000 Fund units under the provisions of the Exchange Agreement. The exchange has been recorded at fair market value.

Transactions noted above are in the normal course of business and are measured at the exchange amount, unless otherwise noted, which is the amount of consideration established and agreed to by the related parties.

14 ACCRUED PENSION BENEFIT LIABILITY

Pension and other retirement benefit plans

The Partnership sponsors the Pension Plan for Employees of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment Plan") covering substantially all full-time employees. Prior to January 1, 1993, this plan was a defined benefit plan and, effective on that date, it was converted into a defined contribution plan. At the date of conversion, benefits under the defined benefit plan were frozen. Member contributions to the pension plan are not permitted. Effective December 31, 2006, members with frozen defined benefits were given the option to either convert the value of their frozen defined benefit into a defined contribution balance for deposit into their defined contribution account or have an annuity purchased on their behalf in respect of their frozen defined benefit pension. In addition, the Partnership sponsors a Supplementary Executive Retirement Plan.

The Partnership also sponsors the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, and the Famous Players Retirement Excess Plan (collectively known as the "Famous Players Plans"). Effective October 23, 2005, the Partnership elected to freeze future accrual of defined benefits under the Famous Players Plans and move continuing employees into the Cineplex Entertainment Plan for future accrual. As of December 31, 2006, eight employees remain on salary continuance and continue to accrue defined benefits under the Famous Players Plans. In addition, the Partnership has assumed sponsorship of certain post retirement health-care benefits for a closed group of grandfathered Famous Players retirees.

As of December 31, 2006, only the Cineplex Entertainment Plan was fully funded.

Cash contributions

Cash contributed by the Partnership to the Cineplex Entertainment Plan's defined contribution provision was $769 (2005 – $486). Cash contributed by the Partnership to the Famous Players defined benefit plan was $1,679 (2005 – $2,079). Cash payments of $5 (2005 – $nil) were made towards the defined benefit provision under the Cineplex Entertainment Plan.

Defined benefit provisions

The Partnership measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the defined benefits provided under the Cineplex Entertainment Plan for funding purposes was as of December 31, 2005. The next valuation will be made as of December 31, 2006 to reflect the conversion to a defined contribution plan. The most recent actuarial valuation of the Famous Players defined benefit plan for funding purposes was as of December 31, 2005 and the next required valuation will be as of December 31, 2006.

RECONCILIATION OF THE ACCRUED BENEFIT OBLIGATIONS

	2006	2005
Accrued benefit obligations		
Balance – Beginning of year	**$ 38,475**	$ 2,012
Current service cost – defined benefit provision	**409**	424
Interest cost	**1,840**	838
Benefits paid	**(5,293)**	(2,342)
Actuarial (gains) losses	**(1,790)**	1,791
Plan amendments	**845**	–
Acquisitions	**–**	35,752
Balance – End of year	**$ 34,486**	$ 38,475

The accrued benefit obligation in respect of post retirement health-care benefits at the end of 2006 is $226 (2005 – $218).

The aggregate accrued benefit obligation for the individual defined benefit pension plans that have deficits is $32,626 and the fair value of plan assets is $30,698 as at December 31, 2006.

RECONCILIATION OF THE FAIR VALUE OF PLAN ASSETS

	2006	2005
Fair value of plan assets		
Balance – Beginning of year	**$ 31,993**	$ 2,033
Actual return on plan assets	**4,214**	947
Employer contributions	**1,684**	2,079
Benefits paid	**(5,293)**	(2,186)
Acquisitions	**–**	29,120
Balance – End of year	**$ 32,598**	$ 31,993

Plan assets consist of:

Percentage of defined benefit assets	**Cineplex Entertainment Plan 2006**	Cineplex Entertainment Plan 2005	**Famous Players Plans 2006**	Famous Players Plans 2005
Asset category				
Equity securities	**60.5**	60.5	**60.5**	62.3
Debt securities	**29.6**	32.8	**29.6**	26.5
Other	**9.9**	6.7	**9.9**	11.2
	100.0	100.0	**100.0**	100.0

RECONCILIATION OF THE FUNDED STATUS OF THE DEFINED BENEFIT PROVISIONS

	2006	2005
Fair value of plan assets	**$ 32,598**	$ 31,993
Accrued benefit obligations	**(34,486)**	(38,475)
Funded status of plans as of December 31	**(1,888)**	(6,482)
Unamortized net actuarial (gain) loss	**(1,590)**	2,511
Unamortized past service costs	**760**	–
Unamortized transitional obligation	**(1,122)**	(1,258)
Accrued pension benefit liability	**$ (3,840)**	$ (5,229)

ELEMENTS OF BENEFIT COSTS FOR DEFINED BENEFIT PROVISIONS RECOGNIZED IN THE YEAR

	2006	2005
Current service cost – defined benefit provisions	$ 409	$ 424
Interest cost	1,840	838
Actual return on plan assets	(4,214)	(947)
Actuarial (gains) losses	(1,790)	1,791
Plan amendments	845	–
Elements of future pension costs before adjustments to recognize long-term nature	(2,910)	2,106
Adjustments to recognize long-term nature of future benefit costs		
Difference between expected and actual return on plan assets	2,251	20
Difference between recognized and actual actuarial losses (gains)	1,849	(1,747)
Difference between amortization of past service costs and actual plan amendments	(760)	–
Amortization of transitional obligation	(136)	(136)
	3,204	(1,863)
Benefit cost recognized	$ 294	$ 243

The benefit cost in respect of post retirement health-care benefits for 2006 is $8 (2005 – $5).

SIGNIFICANT ASSUMPTIONS

The significant assumptions used are as follows:

	2006	2005
Accrued benefit obligations as of December 31		
Discount rate	5.00%	5.00%
Rate of compensation increase	–	–
Benefit cost for years ended December 31		
Discount rate	5.00%	5.75%
Expected long-term rate of return on plan assets	6.50%	7.00%
Rate of compensation increase	–	–
Health-care costs trend rates as of December 31		
Initial rate	9.00%	9.00%
Ultimate rate	4.50%	4.50%
Year ultimate rate reached	2014	2014

SENSITIVITY ANALYSIS

	2006	
	Benefit obligation	Benefit expense
Impact of 1% increase in health-care cost trend rate	$ 30	$ 4
Impact of 1% decrease in health-care cost trend rate	$ (27)	$ (4)

Defined contribution provision

	2006	2005
Total cost recognized for defined contribution provision	$ 769	$ 486

15 OTHER LIABILITIES

Other liabilities consist of the following:

	2006	2005
Deferred tenant inducements	$ 86,885	$ 70,382
Excess of straight-line amortization over lease payments	21,368	13,721
Fair value of leases – liabilities	16,925	20,974
Asset retirement obligations	617	588
Deferred gain on sale-leaseback transaction	12,001	12,647
Theatre shutdown and lease buyout accrual	3,403	6,894
Other	5,592	1,979
	146,791	127,185
Less: Other liabilities classified as liabilities related to property held for sale (NOTE 4)	–	3,235
	$ 146,791	$ 123,950

During 2006, the theatre shutdown and lease buyout accrual decreased as a result of purchase price allocation adjustments on the acquisition of Famous Players ($1,482), lease terminations ($1,856), expenses net against the accrual ($392) and reclassifications to short-term accrual ($16). The accrual was increased by interest charges of $255.

16 PARTNERS' CAPITAL

The Partnership is authorized to issue an unlimited number of Class A LP Units; an unlimited number of Class B, Series 1 LP Units; an unlimited number of Class B, Series 2-C LP Units; an unlimited number of Class B, Series 2-G LP Units; an unlimited number of Class C LP Units; and an unlimited number of Class D LP Units. The Class B LP Units and Class D LP Units are indirectly exchangeable for Fund units on a one-for-one basis in the manner set out in the Exchange Agreement. Under the terms of the Exchange Agreement, COC and the former shareholders of GEI may, under certain circumstances, exchange all or any portion of their Class B LP Units for Fund units. At no time may any exchange be made if there exists an uncured event of default arising on the notes payable by the Trust to the Fund (the "Series 1 Trust Notes"). Class A LP Units, Class B LP Units and Class D LP Units have voting rights that are equivalent in all respects. Under the Partnership's Limited Partnership Agreement, Class A LP Units have differing distribution rights from Class B LP Units, Class C LP Units and Class D LP Units (note 17).

The Class C LP Units are also entitled to a priority distribution of cash equal to the amount paid by the Fund in cash in respect of any principal repayment, redemption or repurchase of Convertible Debentures on the business day immediately prior to such payment. In addition, the Class C LP Units may be redeemed or retracted at any time at a price of $18.75 per Class C LP Unit, plus accrued interest, in order to provide the Fund with sufficient cash to repay, repurchase or redeem the Convertible Debentures.

On June 20, 2006, the Partnership issued 2,000,000 Class A LP Units to the Trust. The Fund financed the acquisition of the Class A LP Units through the issuance of 2,000,000 Fund units at $15.90 per unit to raise gross proceeds of $31,800. The Partnership and the Fund entered into a reimbursement agreement under which fees of $1,984 associated with the issuance of the Fund units were reimbursed by the Partnership. The Partnership recorded the fees in partners' equity. Proceeds from the issuance of units are shown net of underwriting fees. As part of the Acquisition, the Partnership issued Class A LP Units, Class C LP Units and Class D LP Units (note 2).

Partnership units outstanding as at December 31 are as follows:

	2006		2005	
	Number of units	**Amount**	Number of units	Amount
OPENING BALANCE – JANUARY 1				
Class A LP Units	**26,235,000**	**$ 184,021**	19,400,000	$ 79,480
Class B, Series 1 LP Units	**20,949,582**	**16,860**	20,949,582	16,860
Class B, Series 2-C LP Units	**2,086,957**	**–**	2,086,957	–
Class B, Series 2-G LP Units	**5,130,435**	**14,085**	5,130,435	14,085
Class C LP Units	**5,600,000**	**8,546**	–	–
Class D LP Units	**748,447**	**12,050**	–	–
Other issuance costs	**–**	**(2,523)**	–	(222)
Investment in Fund units	**–**	**(267)**	–	–
LTIP compensation obligation	**–**	**203**	–	–
	60,750,421	**232,975**	47,566,974	110,203
TRANSACTIONS DURING THE YEAR				
Class A LP Units – net of issuance costs	**2,000,000**	**30,210**	6,835,000	104,541
Class C LP Units	**–**	**–**	5,600,000	8,546
Class D LP Units	**–**	**–**	748,447	12,050
Other issuance costs	**–**	**(466)**	–	(2,301)
Vesting of Fund units	**–**	**142**	–	–
Investment in Fund units	**–**	**–**	–	(267)
LTIP compensation obligation	**–**	**(87)**	–	203
	2,000,000	**29,799**	13,183,447	122,772
OUTSTANDING – DECEMBER 31				
Class A LP Units	**28,235,000**	**214,231**	26,235,000	184,021
Class B, Series 1 LP Units	**20,949,582**	**16,860**	20,949,582	16,860
Class B, Series 2-C LP Units	**2,086,957**	**–**	2,086,957	–
Class B, Series 2-G LP Units	**5,130,435**	**14,085**	5,130,435	14,085
Class C LP Units	**5,600,000**	**8,546**	5,600,000	8,546
Class D LP Units	**748,447**	**12,050**	748,447	12,050
Other issuance costs	**–**	**(2,989)**	–	(2,523)
Investment in Fund units	**–**	**(125)**	–	(267)
LTIP compensation obligation	**–**	**116**	–	203
Outstanding as at December 31	**62,750,421**	**$ 262,774**	60,750,421	$ 232,975

As the Fund's only investment is in the Partnership, the Partnership treats its $125 investment in Fund units relating to the LTIP as treasury stock and nets this investment against partners' capital. The LTIP compensation obligation is recorded as a liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point in time it is reclassified as partners' capital as the Partnership is now obligated to deliver a fixed number of Fund units, the value of which will vary with the market value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

17 DISTRIBUTIONS PAYABLE

Distributions accrue on a monthly basis to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month, subject to approval of the Directors of the General Partner and to the provisions of the Support Arrangements. Distributions will be paid within seven days of the end of each month.

Under the terms of the First Amendment to the Amended and Restated Limited Partnership Agreement dated July 22, 2005, the holders of the Class C LP Units will be entitled to a distribution on the business day before June 30 and December 31 each year, in priority to distributions paid on the Class A LP Units, Class B LP Units and Class D LP Units, equal to 6.02% per annum. In addition, to the extent the Fund is required to make a payment that relates to interest with respect to the Convertible Debentures on any other date, a distribution in an amount equal to such payment on such date will be made to Class C LP unitholders.

Holders of Class B LP Units and Class D LP Units are entitled to receive, before distributions made by the Partnership to holders of Class A LP Units, a per unit distribution equal to the per unit interest payments made to the Trust in respect of the Galaxy Note (the "Catch-up Payment"). Any remaining amounts available for distribution will be shared pro rata between the holders of Class A LP Units, Class B LP Units and Class D LP Units. The purpose of the Catch-up Payment is to ensure that distributions on the Class B LP Units and Class D LP Units are equal to Class A LP Unit distributions, on a per unit basis, which reflect, in part, payments received by the Trust on the Galaxy Note.

Where the Partnership is unable to pay the Catch-up Payment out of the assets of the Partnership, under the terms of a keepwell agreement, the Trust will make a contribution to the capital of the Partnership without the issuance of additional Partnership units to enable the Partnership to meet its obligations. The amount of the contribution will be an amount equal to the shortfall in the per unit distribution to the holders of Class B LP Units and Class D LP Units. No payments under the keepwell agreement have been made by the Trust.

18 LONG-TERM INCENTIVE PLAN

Officers and key employees of the Partnership are eligible to participate in the Partnership's LTIP. Pursuant to the LTIP, the Partnership will set aside a pool of funds based upon the amount, if any, by which the Fund's distributable cash per unit, for the entire fiscal year, exceeds certain defined distributable cash threshold amounts. This pool of funds will be transferred to a trustee, who will use the entire amount to purchase Fund units on the open market and will hold the Fund units until such time as ownership vests to each participant. Generally, one-third of these units will vest 30 days after the Fund's consolidated financial statements for the corresponding fiscal year are approved by its board of trustees, with an additional one-third vesting on the first and second anniversaries of this date. LTIP participants will be entitled to receive distributions on all Fund units held for their account prior to the applicable vesting date. Unvested units held by the trustee for LTIP participants will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those Fund units will be sold and the proceeds returned to the Partnership and excluded from future LTIP calculations.

Initially, the LTIP will provide for awards that may be earned based on the amount by which the Fund's distributable cash per unit exceeds a base distribution threshold of $1.15 per unit per annum. The base distribution threshold is subject to adjustment at least every three years. The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below, subject to a $4,000 maximum in any fiscal year:

Percentage by which Fund distributions per unit exceed base distribution threshold	Maximum proportion of excess Fund distributions available for LTIP payments
5% or less	10%
Over 5% to 10%	15% of any excess over 5% to 10%
Greater than 10%	20% of any excess over 10%

LTIP costs are estimated at the grant date based on expected performance results and then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are recognized as they occur as a reduction to compensation costs. For the year ended December 31, 2006, the Partnership recognized $1,302 of compensation costs under the LTIP (2005 – $146).

Subsequent to December 31, 2006, the Compensation Committee of the General Partner approved revisions to the Partnership's LTIP. Effective as of January 1, 2007, awards may be earned based on the amount by which the Fund's distributable cash per unit exceeds a base distribution threshold of $1.20 per unit per annum. In addition, the maximum pool has been increased to $10,000 in any fiscal year. The percentage amount of that excess which forms the LTIP incentive pool will be determined as follows:

Percentage by which Fund distributions per unit exceed base distribution threshold	Maximum proportion of excess Fund distributions available for LTIP payments
20% or less	15%
Greater than 20%	30% of any excess over 20%

19 INCOME TAXES

Income taxes arise with respect to GEI and FP Media, subsidiaries of the Partnership, and the Partnership's seven joint ventures. The tax effects of temporary differences that give rise to significant portions of the future income tax assets and liabilities at December 31 are presented below:

	2006	2005
Future income tax assets		
Property, equipment and leaseholds – difference in net book value and undepreciated capital cost	**$ –**	$ 1,901
Financing costs	**706**	1,119
Losses available for carry-forward	**5,041**	1,842
Other	**655**	677
Total gross future income tax assets	**6,402**	5,539
Future income tax liabilities		
Property, equipment and leaseholds – difference in net book value and undepreciated capital cost	**(246)**	–
Net future income tax asset	**$ 6,156**	$ 5,539

The Partnership and Famous Players are currently not subject to income taxes because their income is taxed directly in the partners' hands. The difference between the tax bases and the financial statement carrying amounts of the Partnership's and Famous Players' assets and liabilities is estimated below:

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
Financial statement carrying amount	**$ 713,907**	**$ 651,080**	$ 690,459	$ 617,295
Tax value	**$ 1,024,958**	**$ 531,842**	$ 773,000	$ 525,000

The tax values of the Partnership and Famous Players are subject to change depending on certain tax elections to be filed by COC and Viacom Canada.

The provision for (recovery of) income taxes included in the consolidated statements of income differs from the statutory income tax rate for the years ended December 31 as follows:

	2006	2005
Income (loss) before income taxes, non-controlling interest and discontinued operations	**$ 8,372**	$ (14,775)
Combined Canadian federal and provincial income tax rates	**35.46%**	35.68%
Income tax payable at statutory rates	**2,969**	(5,272)
Change in tax rate for future income taxes	**655**	–
Income not taxable in the Partnership	**(4,583)**	3,139
Large corporations tax	**(66)**	180
Other	**(239)**	490
Recovery of income taxes	**$ (1,264)**	$ (1,463)

At December 31, 2006, GEI has losses available for carry-forward with the following expiry dates:

2007	$ 447
2009	240
2014	3,938
2015	7,598
2026	3,078
	$ 15,301

20 CASH FLOW STATEMENT

The following summarizes the changes in operating assets and liabilities for the years ended December 31:

	2006	2005
Accounts receivable	$ (12,262)	$ (1,239)
Inventories	1,081	615
Prepaid expenses and other current assets	(453)	(636)
Due from related parties	21	(27)
Deferred charges	(350)	(575)
Accounts payable and accrued expenses	3,824	8,535
Due to related parties	701	(374)
Income taxes payable	(701)	798
Deferred revenue	13,191	4,984
Accrued pension benefit liability	(1,390)	(1,992)
Other liabilities	1,361	1,090
Restricted cash	–	31
	$ 5,023	$ 11,210
Non-cash investing activities		
Capital asset purchases financed through accrued liabilities	$ 1,895	$ 5,928

Comparative amounts for property, equipment and leasehold purchases financed through accrued liabilities were previously recorded as capital expenditures in the consolidated statements of cash flows. As these are non-cash transactions, the comparative figures have been amended by decreasing capital expenditures and increasing the movement in accounts payable and accrued liabilities, resulting in a $3,596 decrease in cash flows from operating activities and a $3,596 increase in cash flows from investing activities for the year ended December 31, 2005.

21 LEASES

The Partnership conducts a significant part of its operations in leased premises. Leases generally provide for minimum rentals and, in certain situations, percentage rentals based upon sales volume or other identifiable targets and may include escalation clauses and certain other restrictions, and may require the tenant to pay a portion of real estate taxes and other property operating expenses. Lease terms generally range from 15 to 20 years and contain various renewal options, generally in intervals of five to ten years. Certain theatre assets are pledged as security to landlords for rental commitments, subordinated to the Amended Credit Facilities.

The Partnership's and the Partnership's proportionate share of the joint ventures' future minimum rental commitments as at December 31, 2006 under the above-mentioned operating leases are set forth as follows:

2007	$ 99,846
2008	98,900
2009	95,585
2010	93,352
2011	91,599
Thereafter	909,293
	$ 1,388,575

Minimum rent expense relating to operating leases on a straight-line basis in 2006 was $102,912 (2005 – $69,335). In addition to the minimum rent expense noted above, in 2006 the Partnership incurred percentage rent charges of $1,782 (2005 – $2,788).

22 JOINT VENTURES

The Partnership participates in incorporated joint ventures with other parties and accounts for its interests using the proportionate consolidation method. The following amounts represent the proportionate share of the assets, liabilities, revenues, expenses and net income therein:

	2006	2005
Assets	$ 2,899	$ 6,089
Liabilities	$ 1,873	$ 1,925
Revenues	$ 9,535	$ 9,201
Expenses	$ 9,576	$ 8,439
Net income	$ (41)	$ 762

23 IMPAIRMENT OF LONG-LIVED ASSETS

In accordance with CICA Handbook Section 3063, Impairment of Long-Lived Assets, the Partnership assessed the recoverability of its theatre assets and determined that, during the year ended December 31, 2006, five theatres that were classified as assets held for sale had estimated future cash flows that were not expected to be sufficient to recover the carrying amount of the theatre assets. The Partnership incurred an impairment charge of $962 in order to write down the theatre assets to their estimated fair values. This amount is included in (loss) income from discontinued operations.

During the year ended December 31, 2005, the Partnership incurred an impairment charge of $4,296 in order to write down the value of three theatres to their estimated fair values.

24 COMMITMENTS, GUARANTEES AND CONTINGENCIES

Commitments

As of December 31, 2006, the Partnership has aggregate capital commitments as follows:

	2006
Capital commitments for four theatres to be completed during 2007 – 2008	$ 17,461
Point-of-sale equipment	$ 457
Digital pre-show equipment	$ 500
Letters of credit	$ 312

See also note 21 for theatre lease commitments.

Guarantees

During 2005 and 2006, the Partnership entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties, as required by the Commissioner (note 4), and to provide advertising services until December 31, 2012. The Partnership is guarantor under the leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. The Partnership has also guaranteed certain advertising revenues based on attendance levels. Also during 2006, the Partnership entered into an agreement with a related party to divest its 49% share in its three remaining Alliance Atlantis branded theatres. The Partnership is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Partnership's share in the theatres does not fulfill its obligations under the respective lease. No amounts have been provided in the consolidated financial statements for these guarantees as the occurrence of the guarantees being exercised is not determinable and the total required future minimum payments guaranteed by the Partnership cannot be estimated. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Partnership could face a material financial burden. See subsequent events note 27.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership and Famous Players alleging discrimination against hearing-impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against other exhibitors and certain film distributors. All complaints have been referred to the Human Rights Tribunal (the "Tribunal") and have been joined together for hearing. The trial is scheduled to begin in early 2007 and the parties are currently in mediation. At the present time, the Partnership is unable to assess the magnitude of any potential judgment from the Tribunal. If the Tribunal were to rule against the Partnership and force the maximum provision of technology to the complainants, the Partnership could face a material financial burden.

The Partnership or a subsidiary of the Partnership is a defendant in various claims and lawsuits arising in the ordinary course of business. From time to time, the Partnership is involved in disputes with landlords, contractors, former employees and other third parties. It is the opinion of management that any liability to the Partnership, which may arise as a result of these matters, will not have a material adverse effect on the Partnership's operating results, financial position or cash flows.

25 SEGMENT INFORMATION

The Partnership has determined that the theatre exhibition industry qualifies as a single business segment with all of its revenue and assets generated and held within Canada.

26 COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current year's financial statement presentation.

27 SUBSEQUENT EVENTS

During January 2007, the Partnership was notified that the guarantee provided to a landlord of one of the theatre properties disposed of had been triggered. The maximum estimated exposure under the guarantee is $4,500. The Partnership has not yet determined the magnitude of the liability that will arise as a result of this guarantee. As a result, the Partnership has reversed the gain previously recognized as part of discontinued operations on disposition of the theatre. Included in the financial statements is a provision reflecting the Partnership's best estimate of its exposure under this guarantee. The accrual has been recorded in accounts payable in anticipation of the settlement of the resulting liability of the Partnership under the guarantee.

During January 2007, the Partnership entered into an agreement to terminate the lease for a theatre property prior to the contractual end of the lease term. The agreement requires that the Partnership pay to the landlord $1,995. No amounts are recorded in these consolidated financial statements with respect to this transaction.

Investor information

Trustees and Directors

Joan Dea
Executive Vice President and
Head of Strategic Management
BMO Financial Group

Mr. Howard Beck (1)(3)(5)(6)
Corporate Director
Toronto, ON

Krystyna Hoeg (5)
Corporate Director
Toronto, ON

Mr. Robert Steacy (4)(5)(6)
Corporate Director
Toronto, ON

Directors

Mr. Timothy Duncanson
Managing Director
Onex Corporation
Toronto, ON

Mr. Ellis Jacob
President & Chief Executive Officer
Cineplex Entertainment
Toronto, ON

Mr. Anthony Munk (2)(6)
Managing Director
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Stock Exchange Listing

The Toronto Stock Exchange
CGX.UN

Auditors

PricewaterhouseCoopers LLP
Toronto, ON

Transfer Agent

CIBC Mellon Trust Company
Toronto, ON

Annual Meeting

Tuesday, May 8th, 2007
11:00 A.M. Eastern Standard Time
Scotiabank Theatre Toronto
259 Richmond Street West
Toronto, ON

(1) *Chairman of the Board of Trustees of Cineplex Galaxy Income Fund*
(2) *Chairman of the Board of Directors of Cineplex Entertainment Corporation*
(3) *Chairman of the Compensation, Nominating and Corporate Governance Committee*
(4) *Chairman of the Audit Committee*
(5) *Member of the Audit Committee*
(6) *Member of the Compensation, Nominating and Corporate Governance Committee*

Cineplex Entertainment Theatres

British Columbia

Cineplex Odeon Park & Tilford Cinemas
Cineplex Odeon Victoria Cinemas
Cineplex Odeon Strawberry Hill Cinemas
Cineplex Odeon Aberdeen Mall Cinemas
Galaxy Cinemas Nanaimo
Cineplex Odeon Meadowtown Centre Cinemas
Famous Players Richmond Centre 6 Cinemas
Colossus Langley Cinemas
Famous Players Station Square Cinemas
SilverCity Mission Cinemas
SilverCity Metropolis Cinemas
SilverCity Riverport Cinemas
Famous Players Orchard Plaza 5 Cinemas
Famous Players Eagle Ridge Cinemas
SilverCity Coquitlam Cinemas
Famous Players 7 Cinemas
Famous Players Prince Rupert Cinemas
Famous Players 6 Cinemas
SilverCity Victoria Cinemas
Paramount Vancouver Cinemas

Manitoba

Famous Players Garden City Cinemas
SilverCity Polo Park Cinemas
SilverCity St. Vital Cinemas
Famous Players Kildonan Place Cinemas

Alberta

Galaxy Cinemas Lethbridge
Cineplex Odeon West Mall 8 Cinemas
Cineplex Odeon Eau Claire Market Cinemas
Cineplex Odeon Crowfoot Crossing Cinemas
Galaxy Cinemas Medicine Hat
Cineplex Odeon Grande Prairie Cinemas
Cineplex Odeon Sunridge Spectrum Cinemas
Cineplex Odeon North Edmonton Cinemas
Cineplex Odeon South Edmonton Cinemas
Galaxy Cinemas Sherwood Park
Paramount Calgary Cinemas
SilverCity West Edmonton Mall Cinemas
Famous Players Park Plaza Cinemas
Famous Players Westhills 10 Cinemas

Saskatchewan

Cineplex Odeon Southland Mall Cinemas
Cineplex Odeon Centre Cinemas
Galaxy Cinemas Saskatoon
Galaxy Cinemas Prince Albert
Galaxy Cinemas Moose Jaw
Galaxy Cinemas Regina

Ontario

Cineplex Odeon Brantford Cinemas
Cineplex Odeon Carlton Cinemas
Cineplex Odeon Fairway Centre Cinemas
Cineplex Odeon Huron Market Place Cinemas
Cineplex Odeon Varsity Cinemas
Cineplex Odeon Seaway Mall Cinemas
Cineplex Odeon Upper James Cinemas
Cineplex Odeon Morningside Cinemas
Cineplex Odeon Clarington Place Cinemas
Cineplex Odeon First Markham Place Cinemas
Cineplex Odeon Westmount 6 Cinemas
Cineplex Odeon Sheppard Grande Cinemas
Cineplex Odeon South Keys Cinemas
Cineplex Odeon Ajax Cinemas
Galaxy Cinemas Barrie
Cineplex Odeon Orion Gate Cinemas
Cineplex Odeon Eglinton Town Centre Cinemas
Cineplex Odeon Niagara Square Cinemas
Cineplex Odeon Devonshire Mall Cinemas
Cineplex Odeon Gardiners Road Cinemas
Cineplex Odeon Queensway Cinemas
Galaxy Cinemas Cornwall
Galaxy Cinemas Peterborough
Galaxy Cinemas Owen Sound
Galaxy Cinemas North Bay
Galaxy Cinemas Sault Ste Marie
Galaxy Cinemas St. Thomas
Galaxy Cinemas Waterloo
Galaxy Cinemas Cambridge
Galaxy Cinemas Orangeville
Galaxy Cinemas Midland
Galaxy Cinemas Guelph
Galaxy Cinemas Orillia
Galaxy Cinemas Brockville
Cineplex Odeon Aurora Cinemas
Galaxy Cinemas Milton
Cineplex Odeon Barrhaven Cinemas
Cineplex Odeon Oshawa Cinemas
SilverCity Yonge-Eglinton Cinemas
Scotiabank Theatre Toronto
Famous Players Canada Square Cinemas
Coliseum Scarborough Cinemas
SilverCity Richmond Hill Cinemas
SilverCity Yorkdale Cinemas
SilverCity Newmarket Cinemas
Colossus Vaughan Cinemas
Famous Players Belleville 8 Cinemas
Famous Players Pickering 8 Cinemas
SilverCity Brampton Cinemas
Famous Players Gateway 6 Cinemas
SilverCity Burlington Cinemas
SilverCity Ancaster Cinemas
SilverCity Mississauga Cinemas
Coliseum Mississauga Cinemas
SilverCity London Cinemas
Famous Players Oshawa Centre 8 Cinemas
Coliseum Ottawa Cinemas
Famous Players Lambton 9 Cinemas
SilverCity Gloucester Cinemas
SilverCity Sudbury Cinemas
SilverCity Thunder Bay Cinemas
SilverCity Windsor Cinemas

Québec

Cineplex Odeon Ciné-parc Boucherville
Cineplex Odeon Place Charest Cinemas
Cineplex Odeon St. Bruno Cinemas
Cineplex Odeon Place LaSalle Cinemas (33.3%)
Cineplex Odeon Ciné-parc St. Nicolas Cinemas
Cineplex Odeon Gatineau Cinemas
Cineplex Odeon Latin Quarter Cinemas
Cineplex Odeon Carrefour Dorion Cinemas (50%)
Cineplex Odeon Delson Cinemas (50%)
Chateauguay Encore Cinemas
Cineplex Odeon Ste-Foy Cinemas
Cineplex Odeon Beauport Cinemas
Cineplex Odeon Brossard Cinemas
Galaxy Cinemas Victoriaville
Galaxy Cinemas Rock Forest
Galaxy Cinemas Trois Rivieres
Cinecapital Cinemas St. Jean
Cineplex Odeon Boucherville Cinemas
StarCité Montréal Cinemas
Paramount Montréal Cinemas
Coliseum Kirkland Cinemas
Colossus Laval Cinemas

(As at March 9, 2007)

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2

3

4

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6

7

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1. Galaxy Cinemas Milton box office
2. Coca-Cola - Exclusive beverage supplier to Cineplex Entertainment
3. Cineplex Odeon Oshawa Cinemas lobby
4. SCENE - Canada's first entertainment loyalty program
5. The Metropolitan Opera - LIVE in HD
6. Cineplex Odeon Brossard Cinemas
7. Automated ticketing kiosks
8. Scotiabank - Strategic Partner

Design: Craib Design & Communications | www.craib.com

www.cineplex.com

Passionately delivering an exceptional entertainment experience