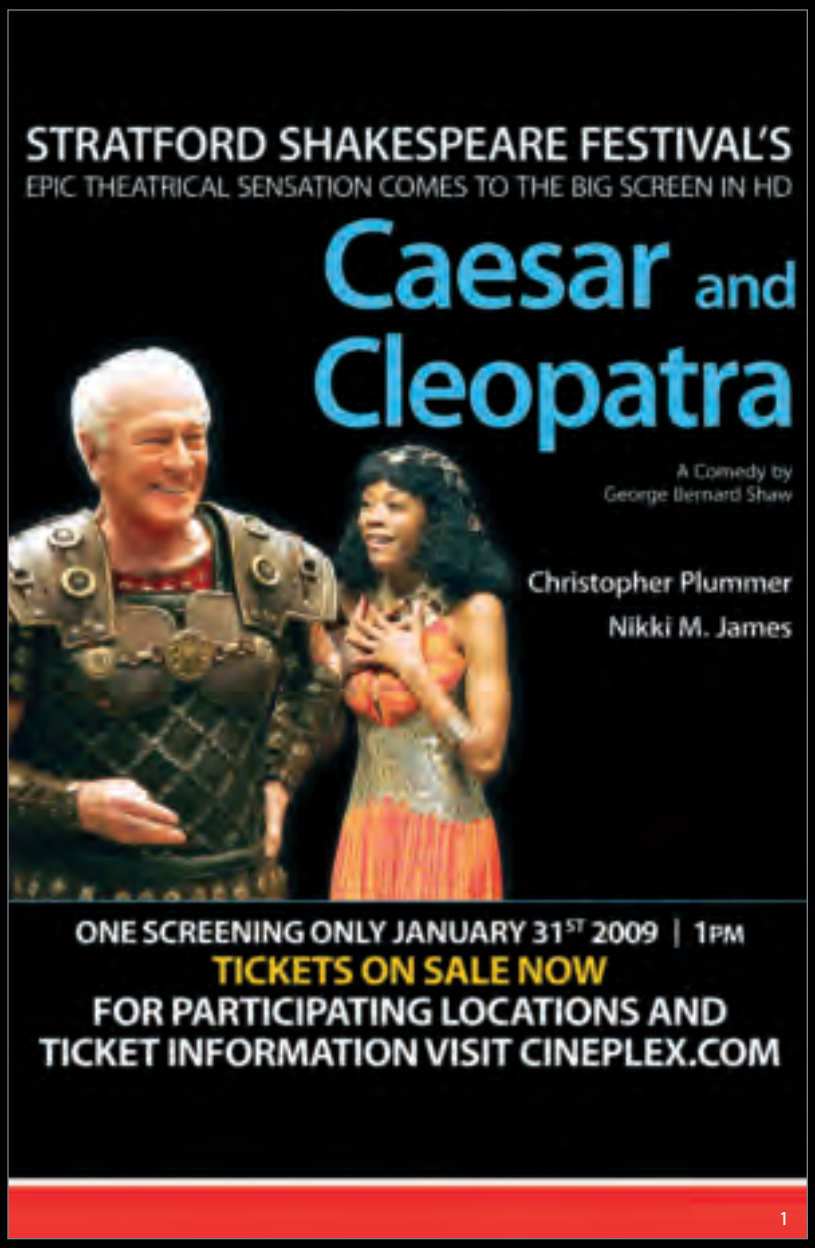
ESCAPE WITH US

2008 Annual Report

CINEPLEX GALAXY INCOME FUND



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6

1. The Shakespeare Festival's Caesar and Cleopatra played exclusively in Cineplex Entertainment theatres 2. Cineplex Entertainment gift card
3. Scotiabank Theatre Toronto box office 4. Corporate meetings and events are a big hit in theatres 5. SilverCity Hamilton Mountain Cinemas
6. Guests enjoying the VIP Lounge at SilverCity Oakville Cinemas

Letter to unitholders

We have a strong balance sheet and are well positioned to capitalize on strategic opportunities to grow our business further.

ELLIS JACOB
CHIEF EXECUTIVE OFFICER

Cineplex Entertainment enjoyed its best year ever in 2008! Following a very successful year in 2007, we continued to generate records in our key performance metrics.

Total revenue for the year increased 5.5% to $850 million. Box office revenue grew 4.5% to $511 million compared to Canadian industry growth of approximately 3.3%. We attribute this growth to strong film product, alternative programming and the success of our SCENE loyalty program. These initiatives culminated in record attendance of 63.5 million guests, an increase of 3.8%.

Concession revenues grew 7.0% to $252 million. This was due to increased attendance volumes, selected price increases implemented during the year and improved promotions and product mix.

Other revenue increased 7.5% to $87 million, primarily as a result of the continued success of our Cineplex Media business.

We also achieved strong performance on the metrics that best indicate our strategic philosophy of maximizing returns, controlling costs and optimizing cash flow. Adjusted EBITDA increased 5.7% to $144.9 million; distributable cash per unit increased 7.7% to $1.8544; net income increased 30.6% to $34.6 million; and our payout ratio ended the year at 67%. These are difficult economic times, but we have a strong balance sheet and are well positioned to capitalize on strategic opportunities to grow our business further.

A NEW LOOK

As we continue to develop our brand, we have refreshed our logo and added a new tagline that truly reflects what we are about. We are very proud of this new look, which we have placed on the cover of this year's annual report. The logo is part of a new corporate brand strategy that you will begin to see more fully integrated in our theatres in 2009. ESCAPE WITH US, our new tagline, invites people to immerse themselves in the Cineplex experience on screen with movies, opera, sports, or online at cineplex.com. Given the challenges we face with the current economy, we are happy to provide our guests with affordable escapism that is needed now more than ever.

This past year, we continued to diversify our business and have identified six core business areas: exhibition, media, loyalty, alternative programming, interactive and merchandising. Each of these businesses represents an opportunity to leverage the relationship with our customer and generate incremental revenues. This diversification makes us stronger overall by capturing tremendous opportunities for continued, strategic growth and expansion beyond theatrical exhibition of movies.

Our strategy is to keep the entertainment experience affordable and focus on increasing overall attendance.

EXHIBITION

Exhibition is the core of our business and represents approximately 60% of overall annual revenues. In 2008, we realized a new box office per patron (BPP) record of $8.05 versus $7.99 in 2007. This increase is due to revenue generated from a higher proportion of adult ticket sales combined with 3D programming and alternative content that commands higher ticket prices. Our strategy is to keep the entertainment experience affordable and focus on increasing overall attendance.

Four new theatres opened during the year: in Red Deer, Alberta and in the Ontario communities of Brantford, Hamilton and Toronto (at Fairview Mall). We also announced that new theatres are to be built in London, Ontario in 2009 and Edmonton, Alberta in 2010. Both of these new theatres will include VIP auditoriums, which have proven to be great crowd pleasers because of the added amenities such as extra large seats with side tables, adult-only access, reserved seating and food and beverage service-to-your-seat.

The motion picture exhibition business and Cineplex are on the cusp of an industry-transforming event where digital projectors will replace 35mm projectors. Originally the major conversion was anticipated to begin during late 2008. However, the global credit crisis has delayed the financing of third-party providers, which has stalled the conversion. Although a major transition to digital has been delayed, we did move forward with the installation of digital projectors in all new theatres opened in the fourth quarter. In addition we added digital projectors and RealD 3D systems in select theatres across the country in order to capitalize on the release of 3D films. At December 31, 2008 we had 84 digital projectors installed in 46 locations with 49 RealD 3D installations. We believe that digital projection, in particular 3D, provides great growth opportunities for Cineplex and the industry overall. The 3D entertainment experience is unique and currently only readily available in theatre. This provides added incentive for movie-goers to visit our theatres.

The tremendous success of the *Hanna Montana/Miley Cyrus: Best of Both Worlds Concert* film, released in February 2008, was the catalyst behind adding more digital projectors and signing an agreement with RealD to install 175 RealD 3D systems into our theatres. It appears 2009 will be the year of 3D movies with more than a dozen 3D films scheduled for release by major Hollywood studios, including the much anticipated unveiling of *Monsters vs. Aliens* by Jeffrey Katzenberg (*Shrek*) in March and *Avatar* by James Cameron (*Titanic*) in December. We will add additional RealD 3D systems in the first two quarters of 2009 to capitalize on this product. In addition to enhancing the experience, 3D movies command price premiums versus traditional movies, often outperforming 2D movies by as much as four times.

Our Corporate Sales business, which includes our gift card, corporate tickets, groups and facility rental sales, has continued to deliver tremendous growth year over year. New in 2008 was the expansion of gift card distribution by third-party providers. This expands our distribution channel significantly beyond our theatres and website. Meeting rental revenue continues to increase as organizations rent our theatres for product launches, sales meetings and employee events. This daytime activity represents added revenue by using our facilities during a traditionally slower period.

CINEPLEX ENTERTAINMENT LP

FINANCIAL HIGHLIGHTS

(EXPRESSED IN THOUSANDS OF DOLLARS EXCEPT PER UNIT, PER PATRON AND ATTENDANCE DATA)	2008	2007	2006	2005
Revenue	$ 849,689	$ 805,019	$ 740,244	$ 490,299
Adjusted EBITDA	144,949	137,162	117,622	68,770
Net income	34,570	26,471	7,836	12,976
Total assets	775,054	778,013	819,691	798,751
Distributable cash per LP unit	1.8544	1.7217	1.4330	1.0273
Cash distributions declared per LP unit	1.2400	1.1832	1.1496	1.1496
Box office revenue per patron	8.05	7.99	7.99	7.73
Concession revenue per patron	3.96	3.84	3.72	3.44
Other revenue per patron	1.37	1.33	1.18	1.11
Attendance	63,491	61,148	57,425	39,945

MEDIA

Cineplex Media is our wholly owned fully integrated media business that manages full motion, digital pre-show, magazine, online and in-lobby theatre advertising. It commands a 94% market share of in-theatre advertising through our own theatres and sales representation of other circuits. Cineplex Media also publishes our *Famous* magazine, which celebrated its 100th issue in April 2008, an achievement claimed by only a few Canadian publishers. Our three magazines have a circulation per issue of approximately 1 million.

Media revenues increased through the first three quarters of 2008 due to higher full motion and digital pre-show advertising revenues, but felt the economic impact on advertising in the fourth quarter. Although we remain optimistic for 2009 we are tempering our outlook for this area of the business.

In 2008, we transformed our pre-show into a mix of topical and entertaining programming spanning music, celebrity news, trivia, technology, and of course, movies. Our in-house production now includes original shoots, interviews and exclusive content that offer our guests a much more customized and unique pre-show experience culminating in content sponsorship. We are also seeing significant growth in advertising revenues on cineplex.com.

We are in the process of rolling out a Digital Media Lobby Network in our theatres that will provide our advertisers with another avenue to reach our guests as digital technology increases the impact of their messages.

LOYALTY

Our SCENE program experienced tremendous growth in 2008 reaching 1.4 million members at December 31, 2008. We exceeded our expectations and membership continues to grow. SCENE was also recognized by Strategy Magazine as one of Canada's Best Brands of the Year in 2008.

Our goals in creating SCENE were to gain a more thorough understanding of our guests, drive frequency of visit, increase revenue per guest, and communicate directly and regularly with them. Mining the membership data provides us with tremendous insights into our guests behaviour, which we have never had access to before. As we gain more history, we will be able to better target our marketing, promotions and incentives to increase frequency of visit and purchase incidence for our key customer segments.

Cineplex is the trusted name in Canadian movie entertainment and we touch the customer first in the movie cycle.

ALTERNATIVE PROGRAMMING

The unprecedented success of *The Met Opera – Live in High Definition* series continued in 2008, expanding again to more than 80 theatres this year. These presentations have attracted a much broader and more loyal audience of individuals who have become our best advocates, encouraging others to attend. As a result of this success, we have continued to feature other cultural performances. During 2008 we presented *The National Ballet of Canada's – The Nutcracker* and in early 2009 we featured *The Stratford Shakespeare Festival's – Caesar and Cleopatra*. Other events included concerts, sporting events and comedy festivals. In future, as 3D evolves, we envision 3D concerts and 3D sporting events to take centre stage.

As successful as the Met Opera series is, ethnic movies including Bollywood, Tamil and Hindi movies shown in just a handful of theatres continue to perform well and broaden our audiences further. Given Canada's tremendous ethnic diversity, this enables us to continue to identify and test new genres to further expand our audience.

INTERACTIVE

Cineplex is the trusted name in Canadian movie entertainment and we touch the customer first in the movie cycle. Our online initiatives are designed to drive traffic to cineplex.com making it more attractive to advertisers. Simultaneously, cineplex.com provides a broader array of guest services and positions Cineplex as the focal point for movie entertainment information.

Cineplex.com has expanded beyond show times by adding exclusive entertainment and movie news, movie trailers, social networking and e-commerce. In 2008, we eliminated the processing fees for buying tickets online and expanded print-at-home ticketing. This ability to print your ticket at home and bypass the box office line-up enhances the overall movie-going experience.

In 2008 our Interactive team continued to expand our online presence by launching our new social media network, *mycineplex*, and our newest e-commerce business, the *Cineplex Store*, just before year end. *Mycineplex* is an online social networking community (similar to Facebook) that invites movie fans to "review, discuss and share" their thoughts and ideas about movies and entertainment with other movie fans. The *Cineplex Store* extends the movie-going experience into the home by enabling guests to purchase DVDs and Blu-ray discs online. Launching over several phases, near term expansion will enable customers to purchase merchandise and Cineplex gift cards and earn and redeem SCENE points. Longer term, Cineplex will be at the forefront of electronic sell-through as downloading technology evolves.

MERCHANDISING

Our food retailing business represents approximately 30% of total revenues and generated $252 million in 2008, an increase of 7.0% over 2007. This was due to increased attendance volumes, selected price increases implemented during the year and improved promotions and product mix. Concession per patron (CPP) of $4.03 in the fourth quarter represents the first time in our history we have crossed the $4.00 threshold. We achieved a new record annual CPP of $3.96, which represents an increase of 3.1% over 2007. These are tremendous accomplishments considering the 10% discount SCENE members receive on concession purchases combined with the impact of other discount programs designed to drive attendance.

Cineplex features some of the best retail branded outlets (RBOs) in the fast food business including *Burger King, New York Fries, Pizza Pizza, Yogen Früz* and *Tim Hortons* among others. In 2008 we continued to refine the product mix in selected locations by removing underperforming brands and replacing them with proven successes. Moving forward, our goal is to focus on guest service execution with an eye to gaining greater efficiencies, continued CPP growth, reduced lineups, and excellent guest service.

FINANCIAL ATTRIBUTES

We are in a solid position financially, well positioned for continued growth and sustainable distributions to unitholders. Our balance sheet is strong and we have continued our focus on reducing leverage and debt. In July 2007, we amended our credit facility to provide increased commitment amounts, financial covenant improvements, additional flexibility and a term extension to 2012. Furthermore, we continue to benefit from more than $600 million in capital asset tax pools that can be used to shelter future taxable income.

Our six core business areas (exhibition, media, loyalty, alternative programming, interactive and merchandising) will continue to grow and evolve, expanding our overall business.

We will continue to support the communities in which we operate both in terms of corporate social responsibility and charitable support. In 2008 our theatre staff and guests raised more than $500,000 for the Starlight Children's Foundation. This charity helps children with life-threatening illnesses, and their families, deal with the pain and isolation by providing some much-needed escapism in and out of hospital. Funds raised are invested in the community where they originated, which is one of the reasons they were selected as our charity of choice.

I want to extend a special thanks to our almost 10,000 employees located across the country for all their hard work and dedication. Our goal is to make Cineplex Entertainment the best out-of-home entertainment company in North America. We believe our 2009 focus of enhancing service excellence and execution will bring us closer to achieving that goal.

Thank you to our Board of Trustees and Directors for their support and commitment. Most especially, thank you to the more than 63 million guests who visited our theatres last year. We are committed to *passionately delivering an exceptional entertainment experience* to you! Enjoy the show!

(Signed:)

Ellis Jacob
President and Chief Executive Officer

Financial review

TABLE OF CONTENTS

MANAGEMENT S DISCUSSION AND ANALYSIS

FINANCIAL STATEMENTS AND NOTES

Management's discussion and analysis

FEBRUARY 11, 2009

As of December 31, 2008, Cineplex Galaxy Income Fund (the "Fund") indirectly owned approximately 76% of Cineplex Entertainment Limited Partnership (the "Partnership"). The following management's discussion and analysis ("MD&A") of the Fund and the Partnership's financial condition and results of operations should be read together with the consolidated financial statements and related notes of the Fund (see Section 1, Overview of the Fund). These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

Unless otherwise specified, all information in this MD&A is as of December 31, 2008.

NON-GAAP MEASURES

The Fund reports on certain non-GAAP measures that are used by management to evaluate performance of the Partnership and the Fund. In addition, non-GAAP measures are used in measuring compliance with debt covenants and are used to manage the Fund's capital structure. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled to their nearest GAAP measure. The definition, calculation and reconciliation of non-GAAP measures are provided in Section 18, Non-GAAP measures.

FORWARD LOOKING STATEMENTS

This 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 ("AIF") 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 national and world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions, 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, their financial or operating results or their securities. Additional information, including the Fund's AIF, can be found on SEDAR at www.sedar.com.

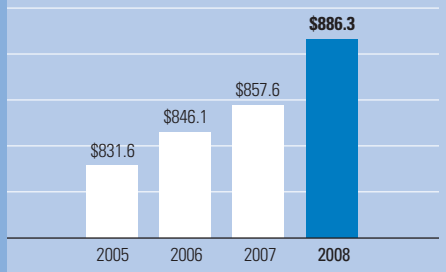
1. OVERVIEW OF THE FUND

The Fund and the Partnership were 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 (indirectly through CELP 2007 Limited Partnership ("CELP 2007 LP")), Cineplex Odeon (Quebec) Inc. ("COQ") and certain former investors in GEI. The Trust is wholly owned by the Fund. On July 22, 2005 the Partnership acquired the movie exhibition business of Famous Players Limited Partnership ("Famous Players"), becoming Canada's largest film exhibition operator with theatres in six provinces. The Fund'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, 2008, the Fund owned, leased or had a joint-venture interest in 1,331 screens in 130 theatres, including 37 screens in four theatres held in joint ventures.

Under the provisions of an exchange agreement entered into at the time of the Fund's initial public offering (as amended or restated from time to time, the "Exchange Agreement") designed to facilitate the exchange of units of the Partnership ("LP Units") into units of the Fund ("Fund Units"), the Fund issued 174,502 Fund Units during the year ended December 31, 2008 in exchange for notes and units from the Trust. The Trust acquired 174,502 LP Units in the exchange. As a result, during this period the Fund indirectly increased its ownership in the Partnership to 76% excluding the Class C LP Units.

On April 2, 2007, under provisions of the Exchange Agreement, certain minority investing partners of Onex Corporation ("Onex") exchanged 9,122,751 Class B, Series 1 and Series 2-C LP Units for 9,122,751 Fund Units. Prior to the April 2, 2007 exchange, the Fund accounted for the Partnership under the equity method. As a result of that April 2007 exchange, the Fund acquired control of the Partnership and has consolidated the Partnership since April 2, 2007. Accordingly, the results of operations of the business acquired are included in the consolidated financial statements effective with the acquisition of control (see Section 16, Subsequent event).

2. INDUSTRY OVERVIEW



Source: Motion Picture Theatre Associations of Canada

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary initial distribution channel for new motion picture releases. Canadian industry box office has shown continued growth in the past four years.

Management of the Fund believes that the following market trends are important factors in the growth of the film exhibition industry in Canada:

IMPORTANCE OF THEATRICAL SUCCESS IN ESTABLISHING MOVIE BRANDS AND SUBSEQUENT MARKETS

Theatrical exhibition is the initial and most important distribution channel for new motion picture releases. A successful theatrical release which "brands" a film is often the determining factor in its popularity and value in "downstream" distribution channels, such as home video, digital video disk ("DVD"), pay-per-view, network and syndicated television.

INCREASED INVESTMENT IN PRODUCTION AND MARKETING OF FILMS BY STUDIOS

Additional revenues generated by films in domestic, international and downstream markets have driven the major studios in North America to increase the average spending on producing and marketing new theatrical releases from US$78.2 million per title in 2002 to US$106.6 million per title in 2007, the latest industry reported amounts. This represents a compound annual growth rate of 6.4%. With the current economic conditions, it is expected that the total investment in new theatrical releases will decline although it is unclear how this will impact the average spending per theatrical release.

INCREASED SUPPLY OF SUCCESSFUL FILMS

Studios are increasingly producing films in series, such as *Batman, Madagascar, The Chronicles of Narnia* and *The Mummy.* Additionally, new series continue to be developed, such as *Iron Man* and the *Twilight* series based on the Stephenie Meyer young adult novels. When the first film in a series is successful, subsequent films in the series benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film exhibitors. The studios' success in producing and marketing a wide variety of diverse yet commercially appealing movies such as *Juno* and *Slumdog Millionaire* has expanded the demographic base of regular movie-goers and also contributed to greater per capita attendance.

In addition, the studios' strong pipeline of new releases and sequels for 2009 provides good visibility for future box office revenue, such as *Hannah Montana: The Movie, X-Men Origins: Wolverine, Star Trek, Angels & Demons, Harry Potter and the Half-Blood Prince* and *Transformers: Revenge of the Fallen.*

With the current economic conditions, there may be a reduction in the number of films being produced. Given the long lead-time in the film production cycle, this reduction is not expected to impact the Fund until the latter half of 2010. Although the quantity of films

may be reduced, it is the quality and commercial success of a more limited number of films that impacts the overall box office success of the Fund. As at December 31, 2008, the Fund's average screen count per location was 10.2, which is lower than the average screen count of the four largest movie theatre chains in North America. Circuits with lower average screen counts will be less impacted by a reduction in the number of films produced.

FAVOURABLE DEMOGRAPHIC ATTENDANCE TRENDS

The demographic segment of the movie-going population in the U.S. that attends the most movies is between 12 to 29 years of age. This group is expanding and continues to be the largest segment of movie-goers. The "baby boom" generation, currently between the ages of 40 and 58, is also attending more movies in the U.S. Management believes that similar trends exist in Canada. According to Statistics Canada, these segments of the population are expected to increase in Canada over the next few years. Management believes that these demographic trends will result in higher attendance levels and continued growth in the film exhibition business.

CONVENIENT AND AFFORDABLE FORM OF OUT-OF-HOME ENTERTAINMENT

The Partnership's average box office revenue was $8.05 and $7.99 for 2008 and 2007, respectively. As such, the movie going experience continues to provide value and compares favourably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre.

REDUCED SEASONALITY OF REVENUES

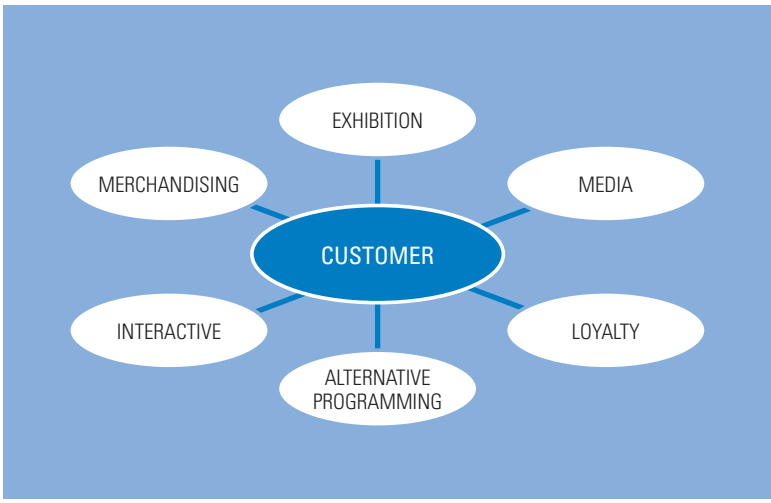
Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods.

DIVERSIFICATION OF REVENUE STREAMS

While box office revenues (which include alternative programming) continue to account for the largest portion of exhibitors' revenues, expanded concession offerings, advertising, games, promotions and other revenue streams have increased as a share of total revenues. The margins on these other revenue streams, particularly advertising, are much higher than on admission sales and have enhanced the profitability of the industry in general.

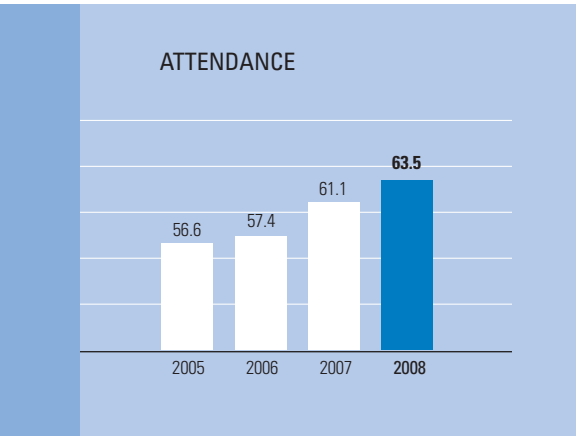
3. BUSINESS STRATEGY

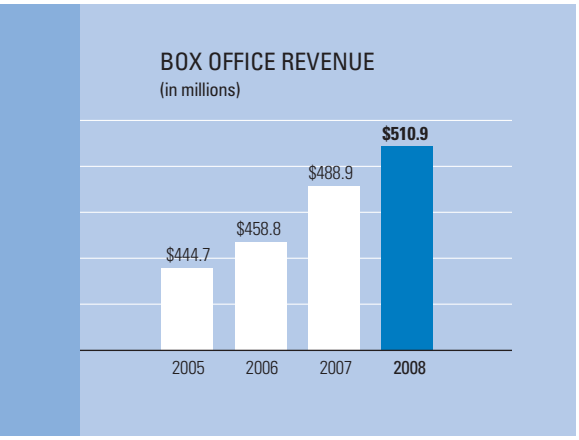
The Partnership's business strategy is to continue to enhance its position as a leading exhibitor in the Canadian market by focusing on providing customers with a premium entertainment experience in its theatres, through its media vehicles and on its website. Key elements of this strategy include going beyond movies to reach customers in new ways. Since the Famous Players acquisition in 2005, Cineplex has diversified the business beyond the traditional movie exhibition model to include the SCENE loyalty program, a more robust website that includes an e-commerce business selling DVDs, as well as further capitalizing on the Cineplex media division ("Cineplex Media"). A key component of the in-theatre strategy is a focus on merchandising, which comprises the Partnership's food retailing business, by increasing the variety of food and beverage choices available to its customers.

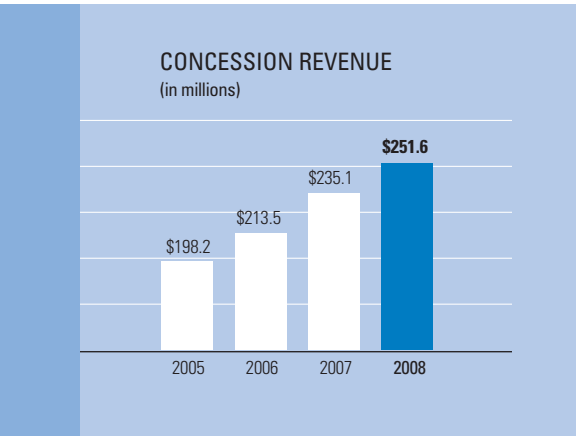


Unless otherwise indicated, 2005 results discussed herein are reported pro forma to include the full year results of Famous Players, acquired by the Partnership on July 22, 2005.

The Partnership's mission statement is "Passionately delivering an exceptional entertainment experience". All of its efforts are focused towards this mission and it is the Partnership's goal to consistently provide guests with an







exceptional entertainment experience at a fair value. With this in mind, during 2007 and 2008, the Partnership implemented new initiatives to improve the overall movie-going experience, including enhanced in-theatre services, alternative pricing strategies, the SCENE loyalty program, a gift card program, the cineplex.com online store, further expansion of the digital pre-show and enhanced merchandising programs. The ultimate goal of these customer service initiatives is to increase the frequency of movie-going at the Partnership's theatres. For the past four years, the Partnership has consistently increased the overall attendance at its theatres.

THEATRE EXHIBITION

During 2008, the Partnership reported its highest box office revenue amount since its inception and has shown continued growth in the past four years. Theatre exhibition is, and remains, the core business of the Partnership. Management understands that exhibition is the engine that drives the train and fuels all of the other core businesses. During 2008, more than 63 million guests visited Partnership theatres. Digital and three-dimensional ("3D") projection is an enhancement to an established business and provides an additional element for growth at minimal cost to the exhibitor. The Partnership has already begun some digital conversion to capitalize on the 3D programming being presented in 2009. This technology will expand the Partnership's exhibition opportunities to anything digital, including 3D movies and live or recorded events or programs. As part of its strategy to provide state-of-the-art entertainment offerings to its customers, the Partnership has been evaluating and planning a national roll-out of digital projection systems, which commenced in 2008. To date the Partnership has 84 digital projectors in 46 theatres installed strategically in major markets across the country, with 49 of these screens being 3D capable with RealD 3D technology. In addition, the Partnership has nine IMAX locations which are also 3D capable. 3D film presentations are well received by audiences, add breadth to the overall film schedule and have a higher average ticket price.

The Partnership's plan remains to open an average of 2 to 3 new theatres per year, although in certain years opportunities may arise to exceed this number. During 2008 the Partnership opened new theatres in Red Deer, Brantford, Hamilton and Toronto. The Partnership's prominent market position enables it to effectively manage film, concession and other theatre-level costs, thereby maximizing operating efficiencies. The Partnership seeks to continue to achieve incremental operating savings by, among other things, implementing best practices and negotiating improved supplier contracts. It will also continue to evaluate its existing theatre assets as it continually upgrades older Cineplex Entertainment theatres to state-of-the-art entertainment complexes.

MERCHANDISING

Within the Partnership's theatre exhibition business is merchandising. Offering guests a range of food choices enhances their theatre experience and generates strong profit margins. The Partnership's theatres feature some of the most popular fast food brands in Canada including Burger King, New York Fries, Pizza Pizza, Taco Bell, KFC, Yogen Früz and Tim Hortons (collectively, "Retail Branded Outlets"). During 2008, the Partnership focused on growing the merchandising business by refining and expanding the food offered in its theatres, creating promotions that drove traffic to concessions and improved overall operating efficiency. As a result, the Partnership's concession revenue per patron increased from $3.84 in 2007 to $3.96 in 2008. The Partnership has reported continuous growth in average concession revenue per patron ("CPP") for the past five years. During the fourth quarter of 2008, the Partnership reported its highest quarterly CPP amount ever of $4.03.

SCENE LOYALTY PROGRAM

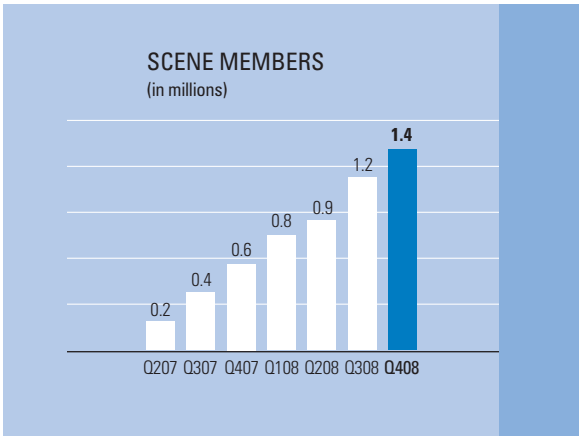
In 2007, the Partnership entered into an agreement with Scotiabank to introduce the SCENE loyalty program, providing the Partnership with a more comprehensive understanding of the demographics and movie-going habits of its audience. The SCENE loyalty program was rolled out in the Greater Toronto Area early in 2007 and nationally in May 2007. The SCENE loyalty program also allows the Partnership to extend special offers to its guests, implement tailored marketing programs and deliver targeted messages.

The Partnership's objectives in creating SCENE were to gain a more thorough understanding of its customers, drive customer frequency, increase overall spending at its theatres and provide it with the ability to communicate directly and regularly with customers. Benefits of the program are reflected in box office and concession revenue respectively. Membership in the SCENE loyalty program at December 31, 2008 was approximately 1,375,000, an increase of approximately 757,000 during 2008. To date, the Partnership is achieving all of these objectives and the program has been well received. SCENE has begun investigating potential reward partners to expand both the opportunity to collect and redeem SCENE points. In addition to reward partnership opportunities, the Partnership plans to use the SCENE customer database to generate additional revenue opportunities.

INTERACTIVE

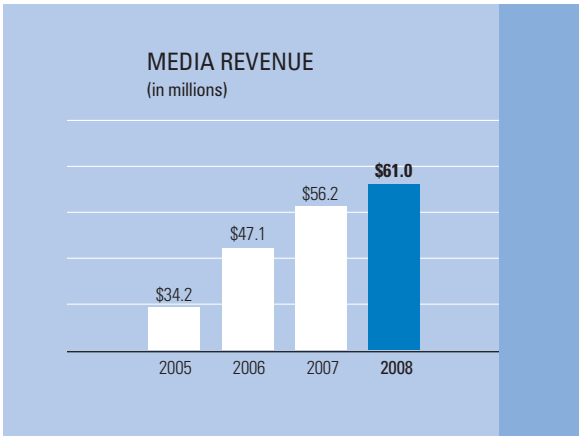
During 2007, in conjunction with the SCENE loyalty program, the Partnership re-launched and substantially expanded its website, www.cineplex.com. During 2008, the Partnership continued to enhance the website by creating the online social networking community *mycineplex*, a community built by movie fans for movie fans, and opening the Cineplex online store to sell DVDs.

Management's efforts are to drive www.cineplex.com to become the destination of choice for Canadians seeking movie entertainment information on the internet. The website now offers streaming video, increased search capabilities, movie and entertainment news, user ratings and box office reports as well as new advertising and merchandising opportunities. These features and others are a platform for building an online community where Cineplex can engage and interact with its guests. This will also allow the Partnership to offer engaging, targeted, sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.



MEDIA

Cineplex Media, with its national presence and over 90% market share of the Canadian movie-going public, is well positioned for continued growth. Cineplex Media is the ideal channel for advertisers wanting to reach the highly sought-after 17- to 25-year-old Canadian market. It is the only national coast-to-coast cinema sales representation that can offer advertisers fully integrated in-theatre media campaigns that include full-motion, digital pre-show, magazines, online, sampling and in-lobby advertising. Cineplex Media also distributes Canada's leading entertainment magazine – *Famous*, in addition to its sister publications – *Le Magazine Famous Québec* and *Famous Kids*, that are now available in all Cineplex Entertainment locations. Combined, these magazines have a circulation of approximately 1,000,000 copies. With the continued developments of digital technology, the Partnership can offer a digital advertising pre-show to provide advertisers with the ability to present a national or local advertising campaign with a richer full-screen, full-motion experience. The Partnership has reported continued growth in this area during the past four years.



ALTERNATIVE PROGRAMMING

The Partnership has been exhibiting alternative programming for several years, including The Metropolitan Opera, The National Ballet of Canada, ethnic film programming, World Wrestling Entertainment events, sporting events and concerts. Most of this programming is premium-priced and attracts a wider spectrum of people to theatres expanding the Partnership's demographic reach and enhancing revenues. The events presented in 2008 were successful such that the Partnership intends to expand the alternative content offered in order to continue to broaden its audience.

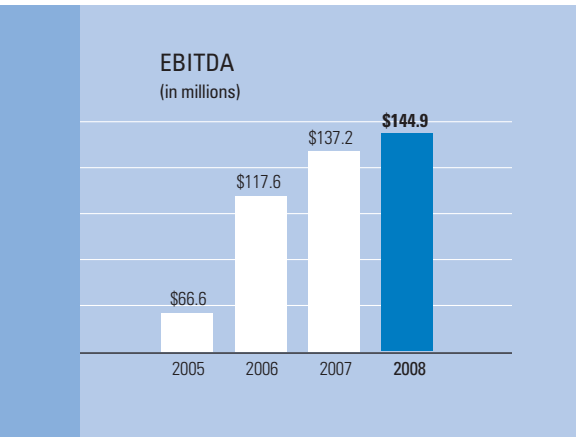
CAPITALIZING ON OTHER REVENUE OPPORTUNITIES

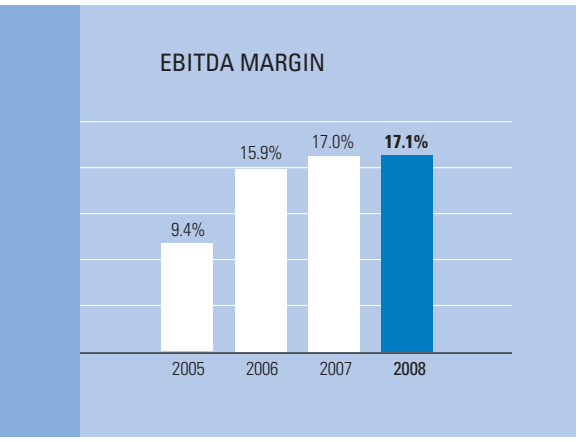
The Partnership seeks to expand and further develop other revenue opportunities, such as promotions, games, live concerts and special events. These activities generate attractive margins and involve limited incremental operating expense. Management believes that the Partnership's national presence allows it to develop new ancillary revenue opportunities more quickly and profitably than most of its competitors.

Further, the development of a premium experience through design, structure and digital technology makes the Partnership's theatres ideal locations for meetings and corporate events. Organizations, particularly corporations with offices across the country, can use the Partnership's theatres and digital technology for annual meetings, product launches and employee events, producing new revenue streams independent of film exhibition.

PURSUING SELECTED GROWTH AND ACQUISITION OPPORTUNITIES

The Partnership will continue to seek to enhance its competitive position by selecting complementary development opportunities, improving and refurbishing theatres and pursuing certain acquisition opportunities. The Partnership intends to only pursue expansion opportunities that meet certain strategic and financial return criteria. The Partnership's new theatre strategy focuses on locations underserved by a modern multiplex theatre in expanding urban and suburban markets as well as mid-sized communities. Management believes that the Partnership has the financial strength, experience and flexibility to pursue attractive development and acquisition opportunities that are accretive to the Partnership. The Partnership has announced the opening of two new theatres scheduled for 2009 and 2010, which have aggregate capital commitments of approximately $11.2 million related to these locations. The Partnership's revolving credit facility (discussed below under Section 7, Liquidity and capital resources of the Partnership) includes provisions for funding new theatre construction and acquisitions. The new theatres scheduled to be opened in 2009 and 2010 will be located in London, Ontario and Edmonton, Alberta.





GROWING EBITDA AND EBITDA MARGINS
(see Section 18, Non-GAAP measures)

Although the Partnership focuses on growth initiatives, management remains vigilant in controlling costs without compromising the guest experience. The Partnership will continue to invest in new revenue generating activities, as it continued to do in 2008. The Partnership invested approximately 1% of revenues in expanding and developing the SCENE and interactive initiatives, investments which are expected to provide benefits in future periods. The Partnership's growth initiatives tend to not require substantial amounts of capital as they capitalize on the existing physical plants and customer base. As a result, new growth initiatives tend to not only result in EBITDA increases but also EBITDA margin increases. However, this does not preclude the Partnership from embarking on initiatives that would result in EBITDA growth but EBITDA margin declines. Over the past four years, the Partnership has shown significant growth in EBITDA and in 2008 management is pleased to report the Partnership's highest EBITDA since the inception of the Partnership.

4. OVERVIEW OF OPERATIONS

REVENUES

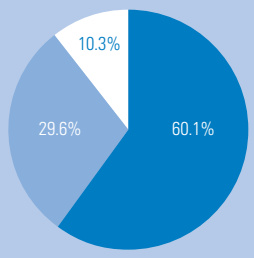
The Partnership generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in the average box office revenue per patron and average concession revenue per patron. Box office revenue represented approximately 60.1% of revenue in 2008 and continues to represent the largest component of revenue. As discussed earlier, the Partnership's business strategy is to position itself as a leading exhibitor in the Canadian market by focusing on providing customers with a premium entertainment experience. As a result of the Partnership's focus on diversifying the business beyond the traditional movie exhibition model, the revenue mix has shifted from box office revenue to concession and other revenue sources. These revenue sources typically provide a higher incremental contribution margin than traditional exhibition or box office revenue.

The commercial appeal of the films and alternative content released during the period, the success of marketing as well as promotion for those films by film studios, distributors and content providers drives attendance. Average box office revenue per patron is affected by the mix of film and alternative content product that appeals to certain audiences (such as children or young adults who pay lower ticket prices) and ticket prices during the period. During 2007 and 2008, the Partnership's average ticket price was impacted as a result of the acquisition of three discount theatres in July 2007. During 2008, the Partnership's average ticket price increased approximately 0.8% to $8.05 from $7.99 in 2007. The Partnership's main focus is to drive incremental visits to the theatre and employs a ticket price strategy which takes into account the local demographics and competition at each individual theatre.

Average concession revenue per patron ("CPP") is affected by concession product mix, concession prices and type of film. Film product targeted to children tends to result in a higher CPP and more upscale or adult oriented product tends to produce a lower CPP. As a result, CPP tends to fluctuate from quarter to quarter based on the type of film product playing during the quarter. Although pricing has an impact on CPP, the Partnership focuses on growing CPP through the broadening of the product offerings and operational excellence.

In addition, the Partnership generates other revenues from in-theatre advertising sales through Cineplex Media, promotional activities, its cineplex.com online store, game rooms, screenings, private parties, corporate events, breakage on gift card sales and theatre management fees.

2008 REVENUE MIX

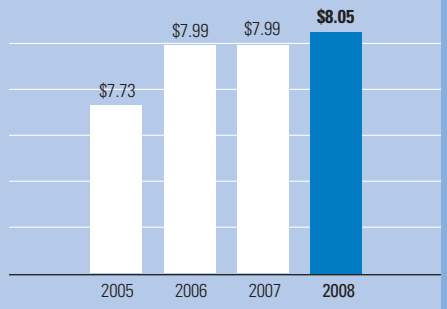


Box Office Concession Other

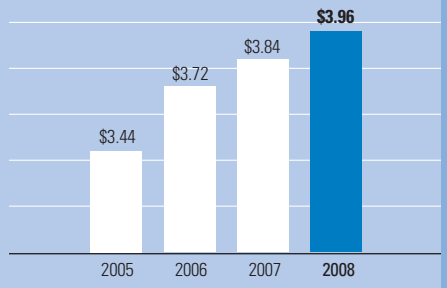
REVENUE MIX % BY YEAR

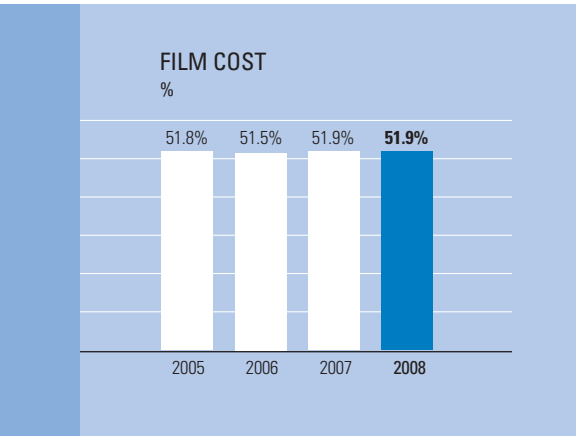
	2008	2007	2006	2005
Box office	60.1%	60.7%	62.0%	63.1%
Concession	29.6%	29.2%	28.8%	28.1%
Other	10.3%	10.1%	9.2%	8.8%
Total	100.0%	100.0%	100.0%	100.0%

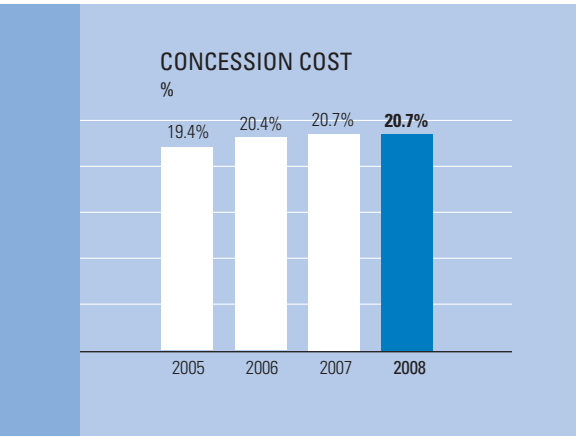
AVERAGE TICKET PRICE



CPP







COST OF SALES AND 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 are dependent on various factors including the performance of the film, and generally vary 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. Although the film cost percentage is relatively stable when reviewed on an annual basis, there can be significant variances throughout the quarters based on the actual results versus the expected results for specific films playing during each quarter.

Concession cost represents the costs of concession items sold and varies with changes in concession revenue as well as the quantity and mix of concession offerings sold. During periods where the concession sales mix is dominated by core concession products (soft drinks, popcorn and candy), the concession cost percentage tends to be lower than periods with higher proportional sales through the Partnership's Retail Branded Outlets. Film product that caters to children tends to result in a higher mix of core concession product sales. The 10% discount offered to members of the SCENE loyalty program impacts the concession cost percentage, as concession revenues relating to these sales are reduced by 10% while the corresponding cost of concessions remains constant.

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 operating expenses consist of fixed and variable expenses, including marketing and advertising, media, loyalty, interactive, theatre salaries and wages, supplies and services, utilities and maintenance. 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. Theatre salaries and wages represented 46.6% of other operating expenses in 2008.

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

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 GAAP.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA OF THE FUND

The following table presents summarized financial data for the Fund for the three most recently completed financial years (expressed in thousands of dollars except Fund Units outstanding and per Fund Unit data).

	2008	2007[i]	2006[i]
Total revenues	$ 849,689	$ 626,423	$ –
Net income	$ 29,003	$ 31,225	$ 10,101
Basic net income per Fund Unit	$ 0.67	$ 0.76	$ 0.32
Diluted net income per Fund Unit[ii]	$ 0.55	$ 0.56	$ 0.23
Total assets	$ 1,285,816	$ 1,304,066	$ 484,295
Total long-term financial liabilities[iii]	$ 334,834	$ 333,748	$ 98,112
Fund Units outstanding at December 31	43,414,217	43,239,715	34,116,698
Cash distributions declared per Fund Unit	$ 1.2400	$ 1.1832	$ 1.1496

(i) The Fund accounted for its investment in the Partnership under the equity method prior to April 2, 2007 (see Section 5.2, Reconciliation of Partnership net income to Fund net income, below).

(ii) Excludes the conversion of the Convertible Debentures, as such conversion would be anti-dilutive.

(iii) Comprised of long-term debt and the Fund's Convertible Debentures. Excludes fair value of interest rate swap agreements, capital lease obligations, accrued pension benefit liability, other liabilities and deferred financing fees net against long-term debt.

5.2 RECONCILIATION OF PARTNERSHIP NET INCOME TO FUND NET INCOME

The Fund's only source of income arises from its investment in the Partnership. As the Fund commenced consolidating the results of the Partnership during the second quarter of 2007, the Fund's financial statements for the year ended December 31, 2008 do not contain historic comparative results for the Partnership on a line-by-line basis. These differences are the result of the Fund's acquisition of control of the Partnership on April 2, 2007 and the accounting for the acquisition using the purchase method in the Fund's consolidated financial statements. This has resulted in a valuation basis for certain financial statement items in the Fund's consolidated financial statements (including the related amortizations) which are different than the historic costs contained in the Partnership's financial statements. See note 3 of the Fund's consolidated financial statements for the year ended December 31, 2008 for a discussion of the acquisition of control.

To provide meaningful commentary on the results of operations, the discussions in Sections 5 through 8 and Section 10 focus on the financial statements of the Partnership which includes line-by-line comparative information. See Section 19, Consolidated financial statements of the Partnership, for a reconciliation of Partnership net income to Fund net income, as well as the financial statements for the Partnership as at and for the years ended December 31, 2008 and 2007.

5.3 SELECTED FINANCIAL DATA OF THE PARTNERSHIP

The following table presents selected financial data for the Partnership for the three most recently completed financial years (expressed in thousands of dollars except per LP Unit, per patron and attendance data).

	2008	2007	2006
Box office revenues	$ 510,934	$ 488,871	$ 458,842
Concession revenues	251,645	235,102	213,542
Other revenues	87,110	81,046	67,860
Total revenues	849,689	805,019	740,244
Film cost	265,210	253,864	236,469
Cost of concessions	52,192	48,599	43,527
Occupancy expenses	150,725	151,843	144,991
Other operating expenses	196,546	177,822	164,518
General and administrative expenses	40,067	35,729	33,117
Cost of operations	704,740	667,857	622,622
Income from operations	144,949	137,162	117,622
Net income	$ 34,570	$ 26,471	$ 7,836
Net income per LP Unit[i]	$ 0.60489	$ 0.46318	$ 0.13938
Total assets	775,054	778,013	819,691
Total long-term financial liabilities[ii]	335,000	335,000	348,000
Cash distributions declared per LP Unit	$ 1.2400	$ 1.1832	$ 1.1496
Distributable cash per LP Unit	$ 1.8544	$ 1.7217	$ 1.4330
Box office revenue per patron	$ 8.05	$ 7.99	$ 7.99
Concession revenue per patron	$ 3.96	$ 3.84	$ 3.72
Film cost as a percentage of box office revenue	51.9%	51.9%	51.5%
Attendance (in thousands of patrons)	63,491	61,148	57,425

(i) Computed using weighted average number of LP Units outstanding for the period (excluding unconverted Class C LP Units).

(ii) Comprised of long-term debt and amount due to Cineplex Galaxy Trust. Excludes the fair value of interest rate swap agreements, Class C LP Units – liability component, capital lease obligations, accrued pension benefit liability, other liabilities and deferred financing fees net against long-term debt.

5.4 OPERATING RESULTS FOR 2008

TOTAL REVENUES

Total revenues for the three months and year ended December 31, 2008 increased $28.8 million and $44.7 million to $211.4 million and $849.7 million, respectively. A discussion of the factors affecting the changes in box office, concession and other revenues for fourth quarter and the full year compared to 2007 is provided on the following pages.

BOX OFFICE REVENUES

The following table highlights the movement in box office revenues, attendance and box office revenues per patron ("BPP") for the quarter and the year (in thousands of dollars, except attendance and per patron data):

BOX OFFICE REVENUES	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Box office revenues	$ 122,797	$ 105,542	16.3%	$ 510,934	$ 488,871	4.5%
Attendance	15,229	13,076	16.5%	63,491	61,148	3.8%
Box office revenue per patron	$ 8.06	$ 8.07	(0.1)%	$ 8.05	$ 7.99	0.8%
Canadian industry revenues[i]			13.9%			3.3%
Same store box office revenues	$ 118,217	$ 103,063	14.7%	$ 493,754	$ 480,953	2.7%
Same store attendance	14,515	12,510	16.0%	60,474	59,372	1.9%

(i) Source: Motion Picture Theatre Associations of Canada.

BOX OFFICE CONTINUITY	Fourth Quarter		Full Year	
In thousands	Box Office	Attendance	Box Office	Attendance
2007 as reported	$ 105,542	13,076	$ 488,871	61,148
Same store attendance change	16,518	2,005	8,927	1,102
Same store BPP change	(1,364)	–	3,874	–
New and acquired theatres	2,617	266	10,658	1,522
Disposed and closed theatres	(516)	(118)	(1,396)	(281)
2008 as reported	$ 122,797	15,229	$ 510,934	63,491

Fourth Quarter

Top Cineplex Films – Fourth Quarter 2008 compared to Fourth Quarter 2007

Q4 2008 Top Cineplex Films	% Total Box	Q4 2007 Top Cineplex Films	% Total Box
1 Quantum of Solace	10.3%	1 I Am Legend	6.9%
2 Twilight	7.2%	2 American Gangster	5.7%
3 Madagascar: Escape 2 Africa	6.5%	3 Bee Movie	5.3%
4 Four Christmases	3.9%	4 The Golden Compass	4.4%
5 High School Musical 3: Senior Year	3.7%	5 Enchanted	4.4%

In spite of the general economic downturn in the fourth quarter of 2008, box office revenues for the quarter were up compared to the prior year, driven by the strong performance of *Quantum of Solace*, as well as the first film based on the highly popular Stephenie Meyer young adult series *Twilight*.

Film product during the fourth quarter of 2007 lacked strong blockbuster titles, making the 2007 results a weak comparator. The slight decrease in box office revenue per patron from $8.07 to $8.06 was driven by more family-oriented film product resulting in a higher proportion of ticket sales to children during the quarter. The decrease driven by the family-oriented product was partially offset by select ticket price increases implemented in November 2008.

Full Year

Top Cineplex Films – Full Year 2008 compared to Full Year 2007

2008 Top Cineplex Films	% Total Box	2007 Top Cineplex Films	% Total Box
1 The Dark Knight	4.9%	1 Transformers	3.4%
2 Iron Man	2.9%	2 Spider-Man 3	3.2%
3 Indiana Jones and the Kingdom of the Crystal Skull	2.9%	3 Shrek the Third	3.0%
4 Quantum of Solace	2.5%	4 Harry Potter and the Order of the Phoenix	2.9%
5 Hancock	2.0%	5 Pirates of the Caribbean: At World's End	2.9%

Box office revenues for 2008 were up as compared to the prior year, driven by the highly successful latest release from the Batman franchise, *The Dark Knight*, which finished 2008 as the second highest grossing film of all time in North American box office. Other strong performing releases included the latest Marvel comic film adaptation, *Iron Man*; the highly anticipated release from Stephen Spielberg, *Indiana Jones and the Kingdom of the Crystal Skull*; and the latest James Bond film *Quantum of Solace*.

The Partnership's box office revenue per patron was $8.05 for the year ended December 31, 2008 and $7.99 for the year ended December 31, 2007. The increase in BPP was driven by a higher proportion of ticket sales to adults during the year as well as select ticket price increases introduced in November 2008. Three of the top five films during 2008 catered to adult audiences, whereas the top five films of 2007 drove relatively more child ticket sales. The success of premium-priced IMAX and 3D product during the year also contributed to this increase in box office revenue per patron. In July 2007, the Partnership acquired three Cinema City branded locations, second-run theatres which employ a discounted ticket price strategy. The discounted pricing at these locations reduced the Partnership's average box office revenue per patron for 2008 and the second half of 2007. Excluding the impact of these locations purchased in July 2007 and therefore not fully reflected in the prior year comparatives, BPP of the Partnership was $8.15 for the year ended December 31, 2008 and $8.06 for the year ended December 31, 2007. Further impacting the box office per patron was the introduction of the "Big Ticket Tuesday" program in some locations during the second quarter of 2007, the Partnership's discounted admission and concession offering available in certain markets.

CONCESSION REVENUES

The following table highlights the movement in concession revenues, attendance and box office revenues per patron for the quarter and the year (in thousands of dollars, except per patron amounts):

CONCESSION REVENUES	Fourth Quarter			Full Year		
	2008	2007	Change	**2008**	2007	Change
Concession revenues	$ 61,373	$ 50,578	21.3%	$ 251,645	$ 235,102	7.0%
Attendance	15,229	13,076	16.5%	63,491	61,148	3.8%
Concession revenue per patron	$ 4.03	$ 3.87	4.1%	$ 3.96	$ 3.84	3.1%
Same store concession revenues	$ 58,376	$ 48,559	20.2%	$ 239,565	$ 229,066	4.6%
Same store attendance	14,515	12,510	16.0%	60,474	59,372	1.9%

CONCESSION REVENUE CONTINUITY	Fourth Quarter		Full Year	
IN THOUSANDS	Concession	Attendance	Concession	Attendance
2007 as reported	$ 50,578	13,076	$ 235,102	61,148
Same store attendance change	7,783	2,005	4,252	1,102
Same store CPP change	2,034	–	6,247	–
New and acquired theatres	1,391	266	6,940	1,522
Disposed and closed theatres	(413)	(118)	(896)	(281)
2008 as reported	$ 61,373	15,229	$ 251,645	63,491

Fourth Quarter

The average concession revenue per patron of the Partnership increased from $3.87 in the fourth quarter of 2007 to $4.03 in 2008. This represents the highest quarterly concession per patron average for the Partnership, and the first time over $4.00. Higher purchase incidence was driven by film product during the fourth quarter catering to family audiences who tend to be strong concession purchasers. Management believes that concession revenues will continue to be dependent on overall theatre attendance and that the current economic conditions will not have a material impact on concession revenues.

Full Year

The average concession revenue per patron of the Partnership increased from $3.84 in 2007 to $3.96 in 2008. This increase was due to selected price increases implemented in the second quarter of 2008 and the improved product mix encouraging consumers to make purchases outside of the core concession offerings. In addition, higher purchase incidence was achieved through a better product mix during 2008 as compared to 2007.

OTHER REVENUES

The following table highlights the movement in media, games and other revenues for the quarter and the year (in thousands of dollars):

OTHER REVENUES	Fourth Quarter			Full Year		
	2008	2007	Change	**2008**	2007	Change
Media	**$ 19,926**	$ 20,151	(1.1)%	**$ 60,966**	$ 56,066	8.7%
Games	**1,149**	1,204	(4.6)%	**4,999**	5,584	(10.5)%
Other	**6,176**	5,151	19.9%	**21,145**	19,396	9.0%
Total other revenues	**$ 27,251**	$ 26,506	2.8%	**$ 87,110**	$ 81,046	7.5%

Fourth Quarter

Media revenue decreased due to lower full motion and digital pre-show advertising revenues in the fourth quarter of 2008. Current economic conditions resulted in fewer advertisers committing to on-screen advertising in the fourth quarter of 2008 as compared to the prior year. Games revenues were down, consistent with the earlier quarters in 2008. Other revenues were up primarily due to higher breakage revenues associated with increased sales of gift cards and corporate coupons.

Full Year

Media revenues increased due to higher full motion and digital pre-show advertising revenues through the first three quarters of the year, offset by decreased advertising revenues in the fourth quarter of 2008. Current economic conditions resulted in less advertisers committing to on-screen advertising in the fourth quarter of 2008 as compared to the prior year. Games revenue decreased due to the slate of films targeting more mature audiences. Other revenues increased primarily due to higher breakage revenues associated with increased sales of gift cards and corporate coupons as compared to the prior year.

FILM COST

The following table highlights the movement in film cost and film cost as a percentage of box office revenue ("film cost percentage") for the quarter and the year (in thousands of dollars, except film cost percentage):

FILM COST	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Film cost	$ 62,360	$ 53,485	16.6%	$ 265,210	$ 253,864	4.5%
Film cost percentage	50.8%	50.7%	0.2%	51.9%	51.9%	0.0%

Fourth Quarter

Film cost varies primarily with box office revenue. The quarterly increase was driven by the 16.3% increase in box office revenues. Film cost percentage was up marginally as compared to the prior year.

Full Year

The increase over the prior year was driven by the 4.5% increase in box office revenues during the year. As a percentage of box office revenue, film cost was 51.9% for the years ended December 31, 2008 and 2007. Management does not anticipate that the current economic conditions will have a material impact on film cost, as the film cost percentage on individual films have negotiated terms that vary primarily based on the quality of the film product.

COST OF CONCESSIONS

The following table highlights the movement in concession cost and concession cost as a percentage of concession revenues ("concession cost percentage") for the quarter and the year (in thousands of dollars, except concession cost percentage):

COST OF CONCESSIONS	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Concession cost	$ 12,192	$ 10,379	17.5%	$ 52,192	$ 48,599	7.4%
Concession cost percentage	19.9%	20.5%	(2.9)%	20.7%	20.7%	0.0%

Fourth Quarter

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The decrease in concession cost percentage period over period was due to higher volume rebates received from certain suppliers, which were higher in the fourth quarter of 2008 than 2007. This decrease was partially offset by the impact of the 10% concession discount offered to members of the SCENE loyalty program, which accounted for a 0.2% increase in the concession cost percentage during 2008 as compared to the prior year.

Full Year

As a percentage of concession revenues, cost of concessions was 20.7% for both the years ended December 31, 2008 and 2007. The 10% concession discount offered to members of the SCENE loyalty program accounted for a 0.2% increase in the concession cost percentage during 2008 as compared to the prior year. Annual volume rebates received from certain suppliers were higher in 2008 than 2007 due to a 7.0% increase in concession sales in 2008 as compared to 2007. Management does not anticipate that the current economic conditions will have a material impact on concession costs. The Partnership has agreements in place to purchase its popcorn seed and beverage products, which constitute the two largest concession inputs.

OCCUPANCY EXPENSE

The following table highlights the movement in occupancy expenses for the quarter and year, including non-recurring one-time benefits of lease-related amounts recognized during the periods (in thousands of dollars):

OCCUPANCY EXPENSE	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Occupancy expenses	$ 37,368	$ 36,983	1.0%	$ 150,725	$ 151,843	(0.7)%
One-time benefits	$ (312)	$ (950)	(67.2)%	$ (2,982)	$ (4,380)	(31.9)%

Fourth Quarter

The $0.4 million increase in occupancy expenses was primarily due to lower one-time benefits of lease-related amounts recognized in 2008 as compared to the prior period ($0.6 million) and the incremental costs associated with new and acquired theatres ($0.6 million), offset by the impact of disposed and closed theatres ($0.5 million) and lower real estate taxes, business taxes and other ($0.3 million).

Full Year

The $1.1 million full year decrease in occupancy expenses was primarily due to a one-time theatre shutdown expense for a theatre closed on September 30, 2007 included in the prior year's results ($2.8 million), non-cash occupancy costs ($1.9 million), lower insurance costs ($0.3 million) and the impact of disposed and closed theatres ($1.9 million). These decreases were offset by the incremental costs associated with new and acquired theatres ($3.3 million), lower one-time benefits of lease-related amounts recognized in 2008 as compared to the prior period ($1.4 million) and higher rent expenses ($1.1 million).

OTHER OPERATING EXPENSES

The following table highlights the movement in other operating expenses during the quarter and year (expressed in thousands of dollars):

OTHER OPERATING EXPENSES	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Other operating expenses	$ 52,212	$ 46,921	11.3%	$ 196,546	$ 177,822	10.5%

Fourth Quarter

The $5.3 million increase in other operating expenses was due to the incremental impact of new and acquired theatres ($0.8 million), increased operating costs associated with the SCENE loyalty program and the development of the Partnership's interactive business ($0.4 million) and increased operating costs ($4.4 million). Components of the $4.4 million increase include increased theatre payroll driven by minimum wage increases and increased concession staff payroll due to higher theatre attendance in the fourth quarter of 2008 as compared to the same period in 2007 ($1.9 million), additional marketing costs ($0.8 million), and other costs related to expanded service offerings such as the elimination of charges for online ticketing and 3D technology licensing payments ($0.3 million). These increases were offset by the impact of disposed and closed theatres ($0.3 million). The Partnership launched its online store, an initiative to sell DVDs through its cineplex.com website, during December 2008.

Full Year

The $18.7 million increase in other operating expenses was due to the incremental impact of costs associated with new and acquired theatres ($4.3 million), operating costs associated with the SCENE loyalty program and development costs of the Partnership's interactive business ($2.5 million) and increased operating costs ($12.9 million). Components of the $12.9 million include increased theatre payroll driven by minimum wage increases and extended operating hours during the summer months ($5.8 million),

increased expenses relating to Cineplex Media as well as gift card and corporate coupon programs ($3.0 million), additional marketing costs ($1.7 million) and other costs relating to expanded service offerings such as the elimination of charges for online ticketing and 3D technology licensing payments ($1.0 million combined). These increases were offset by the impact of disposed and closed theatres ($1.0 million).

GENERAL AND ADMINISTRATIVE EXPENSES

The following table highlights the movement in general and administrative ("G&A") expenses during the quarter and year, including the Partnership's total Long-Term Incentive Plan ("LTIP") costs, and the net general and administrative costs without factoring in the LTIP program (expressed in thousands of dollars):

G&A EXPENSES	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
G&A excluding LTIP	$ 8,853	$ 8,465	4.6%	$ 32,789	$ 31,071	5.5%
LTIP	$ 2,313	$ 563	310.8%	$ 7,278	$ 4,658	56.2%
G&A costs as reported	$ 11,166	$ 9,028	23.7%	$ 40,067	$ 35,729	12.1%

Fourth Quarter

General and administrative costs increased $2.1 million primarily as a result of increased costs under the LTIP ($1.7 million), increased direct costs ($0.2 million) related to higher head office payroll due to higher headcount relating to the Partnership's new initiatives, and higher pension costs resulting from the Partnership's defined benefit plan's lower than expected return on plan assets ($0.2 million). The Partnership has received approval for the proposed wind-up of the Famous Players defined benefit pension plan and estimates that the expense to be recorded on the wind-up will be $1.7 million.

Full Year

Costs increased $4.3 million for the year ended December 31, 2008, primarily as a result of increased costs under the Partnership's LTIP ($2.6 million), increased direct costs ($1.0 million) due to higher head office payroll and higher pension costs resulting from the Partnership's defined benefit plan ($0.7 million) that is in the process of being wound-up.

AMORTIZATION

During the fourth quarter of 2008, amortization costs decreased primarily due to the effect of fully amortized theatre assets and disposed theatre assets, offset by new and acquired theatre assets. The Partnership closed four theatres between September 1, 2008 and November 30, 2008 with three theatre openings in November and December. For the year ended December 31, 2008 amortization costs increased primarily due to the effect of new and acquired theatre assets, net of the impact of fully amortized theatre assets and disposed theatre assets (in thousands of dollars):

AMORTIZATION EXPENSES	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Amortization	$ 16,738	$ 18,061	(7.3)%	$ 67,356	$ 67,211	0.2%

LOSS ON DISPOSAL OF THEATRE ASSETS

The loss on disposal of theatre assets represents the loss on theatre assets that were sold or otherwise disposed of (in thousands of dollars):

LOSS ON DISPOSAL OF THEATRE ASSETS	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Loss on disposal of theatre assets	$ 2,874	$ 521	451.6%	$ 3,887	$ 3,539	9.8%

Fourth Quarter

For the three months ended December 31, 2008, the Partnership recorded a loss of $2.9 million, which primarily relates to a $2.4 million lease termination payment for a theatre that was closed in November, with the remainder relating to assets that were sold or otherwise disposed of. The Partnership recorded a loss of $0.5 million for the three months ended December 31, 2007 that was primarily related to the disposition of theatre equipment.

Full Year

For the year ended December 31, 2008, the Partnership recorded a loss of $3.9 million, which primarily relates to lease termination payments for two theatres that were closed during 2008 ($3.2 million), with the remainder relating to assets that were sold or otherwise disposed of. The Partnership recorded a loss of $3.5 million for the year ended December 31, 2007 that was primarily related to lease termination payments of $2.7 million relating to two theatres with negative cash flow that were closed during 2007, with the balance relating to the disposition of theatre equipment.

INTEREST ON LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The following table highlights the movement in interest on long-term debt and capital lease obligations during the quarter and year (expressed in thousands of dollars):

INTEREST EXPENSE	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Long-term debt interest expense	$ 2,872	$ 3,517	(18.3)%	$ 12,567	$ 15,565	(19.3)%
Class C LP Units interest expense	1,554	1,550	0.3%	6,321	6,321	0.0%
Capital lease interest expense	641	673	(4.8)%	2,606	2,736	(4.8)%
Sub-total – cash interest expense	5,067	5,740	(11.7)%	21,494	24,622	(12.7)%
Class C LP Units accretion expense	720	660	9.1%	2,764	2,513	10.0%
Deferred financing fee amortization	150	157	(4.5)%	596	971	(38.7)%
Interest rate swap – non-cash	2	(186)	(101.1)%	1,312	(977)	(234.3)%
Sub-total – non-cash interest expense	872	631	38.2%	4,672	2,507	86.4%
Total interest expense	$ 5,939	$ 6,371	(6.8)%	$ 26,166	$ 27,129	(3.5)%

Interest on long-term debt for the quarter decreased to $5.9 million from $6.4 million for the same period in 2007. The decrease primarily reflects lower long-term debt interest due to lower average debt levels. For the year, interest expense decreased to $26.2 million from $27.1 million in 2007. The decrease primarily reflects lower long-term debt interest due to lower average debt levels and lower negotiated rates.

INTEREST ON LOAN FROM CINEPLEX GALAXY TRUST

Interest on the loan to GEI from the Trust represents interest at a rate of 14% on the $100.0 million loan (expressed in thousands of dollars):

INTEREST ON LOAN FROM CINEPLEX GALAXY TRUST	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Interest on loan from Cineplex Galaxy Trust	$ 3,500	$ 3,500	0.0%	$ 14,000	$ 14,000	0.0%

INTEREST INCOME

The increase in interest income in the fourth quarter of 2008 as compared to the prior year due to higher average cash on hand balances in the fourth quarter of 2008, partially offset by lower interest rates. The decrease in interest income in 2008 over 2007 primarily relates to lower interest rates and lower average cash on hand balances (expressed in thousands of dollars):

INTEREST INCOME	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Interest income	$ 155	$ 131	18.3%	$ 746	$ 969	(23.0)%

INCOME TAXES

For the three months ended December 31, 2008, a subsidiary of the Partnership recorded a future income tax expense of $0.1 million (2007 – $0.3 million). For the year ended December 31, 2008, a subsidiary of the Partnership recorded a future income tax recovery of $0.3 million and a current tax recovery of $4 thousand (2007 – expense of $0.3 million and a current tax expense of $11 thousand) (expressed in thousands of dollars):

INCOME TAXES	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Current income tax (recovery) expense	$ –	$ –	NM	$ (4)	$ 11	(136.4)%
Future income tax expense (recovery)	$ 133	$ 281	(52.7)%	$ (280)	$ 331	(184.6)%

NON-CONTROLLING INTEREST

Non-controlling interest for the year ended December 31, 2007 of $0.6 million arises from the wind-up activities being undertaken at Famous Players Media Inc. which has ceased operations (expressed in thousands of dollars):

NON-CONTROLLING INTEREST	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Non-controlling interest	$ –	$ –	NM	$ –	$ (561)	NM

NET INCOME (LOSS)

Net income for the three months ended December 31, 2008 increased from a net loss of $2.8 million for the three months ended December 31, 2007 to net income of $7.1 million. Net income for the year ended December 31, 2008 increased from $26.5 million for the year ended December 31, 2007 to $34.6 million. These changes were due to the net effect of all the other factors described above (expressed in thousands of dollars):

NET INCOME (LOSS)	Fourth Quarter			Full Year		
	2008	2007	Change	2008	2007	Change
Net income (loss)	$ 7,094	$ (2,773)	NM	$ 34,570	$ 26,471	30.6%

5.5 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 18, Non-GAAP measures)

The following table represents the Partnership's EBITDA and adjusted EBITDA for the three most recently completed fiscal years (expressed in thousands of dollars):

YEAR ENDED DECEMBER 31,	2008	2007	2006
EBITDA	$ 141,062	$ 134,184	$ 115,674
Adjusted EBITDA	$ 144,949	$ 137,162	$ 117,622
Adjusted EBITDA margin	17.1%	17.0%	15.9%

Adjusted EBITDA for 2008 increased $7.8 million, or 5.7%, from 2007. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 17.1%, up 0.1% as compared to the year ended December 31, 2007. The Partnership recognized this increase in adjusted EBITDA margin while continuing to invest in the SCENE loyalty program and launching significant interactive media and e-commerce initiatives. The Partnership spent $8.7 million, or approximately 1% of revenue, on these initiatives in 2008 (2007 – $6.1 million).

6. BALANCE SHEETS OF THE PARTNERSHIP

The following are the significant changes in the Partnership's consolidated balance sheets during the year (in thousands of dollars):

AT DECEMBER 31,	2008	2007	Change ($)	Change (%)
Cash and cash equivalents	$ 43,187	$ 42,906	$ 281	0.7%
Accounts receivable	45,507	45,322	185	0.4%
Inventories	4,014	3,026	988	32.7%
Prepaid expenses and other current assets	3,733	4,584	(851)	(18.6)%
Due from related parties	6	6	–	0.0%
Total current assets	96,447	95,844	603	0.6%
Property, equipment and leaseholds	423,975	420,884	3,091	0.7%
Fair value of interest rate swap agreements	–	1,523	(1,523)	(100.0)%
Future income taxes	6,105	5,825	280	4.8%
Deferred charges	953	1,085	(132)	(12.2)%
Intangible assets	47,273	52,815	(5,542)	(10.5)%
Goodwill	200,301	200,037	264	0.1%
Total assets	$ 775,054	$ 778,013	$ (2,959)	(0.4)%
Accounts payable and accrued expenses	$ 84,833	$ 80,779	$ 4,054	5.0%
Distributions payable	4,834	4,548	286	6.3%
Income taxes payable	48	65	(17)	(26.2)%
Deferred revenue	76,929	64,610	12,319	19.1%
Capital lease obligations – current portion	1,700	1,581	119	7.5%
Total current liabilities	168,344	151,583	16,761	11.1%
Long-term debt	232,861	232,265	596	0.3%
Fair value of interest rate swap agreements	20,628	–	20,628	NM
Capital lease obligations – long-term portion	33,131	34,831	(1,700)	(4.9)%
Due to Cineplex Galaxy Trust	100,000	100,000	–	0.0%
Accrued pension benefit liability	1,151	1,109	42	0.4%
Other liabilities	152,009	150,162	1,847	1.2%
Class C LP Units – liability component	104,995	102,231	2,764	2.7%
Total liabilities	813,119	772,181	40,938	5.3%
Partners' (deficiency) equity	(38,065)	5,832	(43,897)	NM
Total liabilities and Partners' (deficiency) equity	$ 775,054	$ 778,013	$ (2,959)	(0.4)%

INVENTORIES

Inventories fluctuate primarily with anticipated business volumes, with an increase in inventories prior to the weekends which are the busiest time of the week at the theatre. Since 2008 ended on a Wednesday and 2007 ended on a Monday, the inventory balance at the end of 2008 is higher due to increased stock on hand for the weekend period.

PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets are down $0.9 million as compared to the prior year primarily due to the timing of recognition of revenues and expenses relating to non-monetary transactions.

PROPERTY, EQUIPMENT AND LEASEHOLDS

The increase in property, equipment and leaseholds is due to increased new build and other capital expenditures ($55.3 million) and maintenance capital expenditures ($11.6 million), offset by amortization expenses ($61.7 million) and asset dispositions ($2.1 million).

INTANGIBLE ASSETS

The decrease in intangible assets is due to amortization.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses are up $4.1 million as compared to the prior year, primarily due to higher business volumes during the fourth quarter of 2008 compared to the previous year.

DEFERRED REVENUE

Deferred revenue increased primarily due to increased sales of gift cards and coupons sold during the holiday season in December 2008 as compared to the same period in the prior year.

FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS

Fair value of the interest rate swap agreements represent the fair value of the interest rate swap agreements entered into in July 2005 and April 2008. The July 2005 swap agreements valuation moved from an asset of $1.5 million at December 31, 2007 to a liability of $3.3 million at December 31, 2008. At December 31, 2008 the swap agreements the Partnership entered during the second quarter of 2008 had a fair value liability position of $17.3 million. Multiple interest rate cuts during 2008 led to the liability position for the swap agreements.

CAPITAL LEASE OBLIGATIONS – LONG-TERM PORTION

The decrease in capital lease obligations – long-term portion relates to principal repayments on the Partnership's capital leases during the year.

CLASS C LP UNITS – LIABILITY COMPONENT

The increase in the Class C LP Units – liability component represents the non-cash accretion of the units under the effective interest method for the year. As at December 31, 2008, the Class C LP Units are fully accreted.

OTHER LIABILITIES

Other liabilities increased $1.8 million mainly due to increases in non-cash occupancy liabilities driven by new theatre openings during the year.

7. LIQUIDITY AND CAPITAL RESOURCES OF THE PARTNERSHIP

7.1 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. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios.

Cash provided by operating activities was $126.6 million for the year ended December 31, 2008 compared to $97.4 million for 2007. The primary reasons for the change were the increase in net income for the year versus 2007 ($8.1 million), changes in operating assets and liabilities versus the same period one year ago (a source of $15.2 million in 2008 compared to a use of $2.9 million in the prior year) driven by an increase in deferred revenue from 2008 compared to 2007, and increased tenant inducement receipts ($2.2 million).

7.2 INVESTING ACTIVITIES

Cash used in investing activities for the year ended December 31, 2008 of $61.3 million related to capital expenditures ($60.2 million), theatre shutdown payments ($3.2 million) and a payment relating to the acquisition of the Famous magazines ($0.4 million), offset by proceeds from the sale of theatre assets ($2.5 million). Cash used in investing activities for the year ended December 31, 2007 of $39.8 million related to capital expenditures ($27.6 million), cash paid on the acquisition of businesses ($8.0 million), a lease guarantee payment (see Section 7.5, Future obligations, below) ($4.5 million) and theatre shutdown payments ($2.2 million), offset by proceeds from the sale of theatre assets ($2.5 million). Capital expenditures were higher in 2008 as compared to 2007 primarily due to expenditures related to four new properties opened in 2008 and the acquisition of the Partnership's head office location as well as three drive-in properties (see Section 11, Related party transactions, below) compared to two new properties opened during 2007.

The Partnership funds maintenance capital expenditures through internally generated cash flow and cash on hand. The Partnership's Revolving Facility (discussed in "Credit Facilities" below) is available to fund new theatre capital expenditures.

7.3 FINANCING ACTIVITIES

Cash used in financing activities for the year ended December 31, 2008 of $65.0 million was due to distribution payments ($56.6 million), the acquisition of Fund Units for the LTIP ($6.9 million) and payments under capital leases ($1.5 million). Cash used in financing activities for the year ended December 31, 2007 of $71.1 million was due primarily to distribution payments ($53.4 million), credit facility net repayments described below under Section 7.4, Credit facilities ($13.0 million) and the acquisition of Fund Units for the LTIP ($2.7 million).

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 Second Amended Credit Facilities as described in "Credit Facilities".

7.4 CREDIT FACILITIES

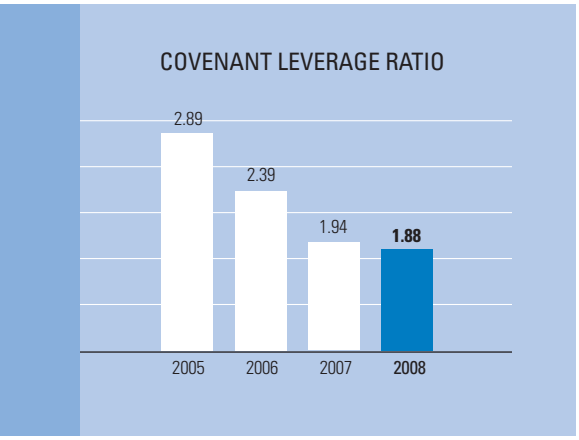
The Partnership's credit agreement with a syndicate of lenders consists of the following facilities (collectively, the "Second Amended Credit Facilities"):

IN MILLIONS	Available	Drawn	Reserved[1]	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 130.0	$ –	$ 0.9	$ 129.1
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 235.0	$ 235.0	$ –	$ –

(1) Letters of credit outstanding at December 31, 2008 of $0.9 million reserved against the Revolving Facility.

The Second Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or banker's acceptances rates plus, in each case, an applicable margin to those rates. These facilities amended and restated the Partnership's former amended credit facilities ("Former Amended Credit Facilities"). There are provisions to increase the Revolving Facility commitment amount by an additional $100.0 million with the consent of the lenders. The Term Facility matures in July 2012 and is payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

During the year ended December 31, 2008, the Partnership borrowed and repaid $13.0 million under the Second Amended Credit Facilities. During the year ended December 31, 2007, the Partnership borrowed $72.0 million and repaid $85.0 million under the Former Amended Credit Facilities. At December 31, 2008 the Partnership had no amount outstanding under the Revolving Facility and $235.0 million outstanding under the Term Facility.



The Partnership's Second Amended 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. One of the key financial covenants in the Second Amended Credit Facilities is the leverage covenant. As at December 31, 2008, the Partnership's leverage ratio as calculated in accordance with the credit facility definition, was 1.88x as compared to a covenant of 3.0x. The definition of debt as per the credit facility includes long-term debt (excluding any convertible debentures), capital leases and letters of credit but does not include a reduction for cash on hand and excludes the Class C LP Units, which can be converted to equity. For the purposes of the credit facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.

In July 2005, the Partnership increased its borrowings to finance, in part, the acquisition of Famous Players. The Partnership has shown continued improvements in its covenant leverage ratio through the realization of transaction synergies, operating performance improvements and debt repayments.

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

The Partnership believes that the Second Amended Credit Facilities, in place until 2012, 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 despite the shortage of credit available in the financial markets due to the current economic conditions. 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.

Interest rate swap agreements. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the interest rate 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 agreement on the Former Amended Credit Facilities. These interest rate swap agreements have a term of four years in the aggregate notional principal amount outstanding of $200.0 million and mature in July 2009.

Effective April 23, 2008, the Partnership entered into three interest rate swap agreements. Under these interest rate swap agreements, the Partnership will pay a fixed rate of 3.97% per annum, plus an applicable margin, and will receive a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of three years commencing in July 2009 and have an aggregate notional principal amount of $235.0 million.

The purpose of the interest rate swap agreements is to act as a cash flow hedge of the floating interest rate payable under the Partnership's Term Facility. The Partnership considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with CICA Handbook Section 3865, *Hedges*. Under the provisions of CICA Handbook Section 3865, *Hedges*, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income.

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 $100.0 million to GEI (the "Galaxy Note"). 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 unsecured and subordinated to the Second Amended Credit Facilities.

7.5 FUTURE OBLIGATIONS

As of December 31, 2008, the Partnership had the following contractual or other commitments authorized by the Board of Directors (expressed in thousands of dollars):

				Payments due by period	
FUTURE OBLIGATIONS	Total	Within 1 year	2-3 years	4-5 years	After 5 years
Long-term debt	$ 235,000	$ –	$ –	$ 235,000	$ –
Interest rate swap agreements	33,688	8,032	18,659	6,997	–
New theatre construction	11,206	224	10,982	–	–
Other theatre projects	22,201	16,853	5,348	–	–
Capital leases	52,151	4,187	8,797	8,880	30,287
Operating leases	1,321,840	105,451	205,160	200,790	810,439
Total future obligations	$ 1,676,086	$ 134,747	$ 248,946	$ 451,667	$ 840,726

At December 31, 2008, the Partnership had outstanding letters of credit totalling $0.9 million (2007 – $0.5 million).

The Fund has $105.0 million principal amount of Convertible Debentures outstanding that have a maturity date of December 31, 2012. At December 31, 2008, the liability component of the Convertible Debentures was recorded on the Fund's balance sheet at $99.8 million (December 31, 2007 – $98.7 million). The Convertible Debentures are being accreted to their maturity value using the effective interest method as prescribed by CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. 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 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 2005, the Partnership and Famous Players sold 29 theatres to third parties, of which 24 were leased properties. The Partnership is guarantor under the 24 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. At December 31, 2008, two of the disposed leased theatres have since closed, extinguishing the Partnership's obligations for these properties.

During the first quarter of 2006, the Partnership entered into an agreement with a third party to divest seven theatres, six of which were leased properties. The Partnership is a guarantor under the six 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. During 2007, the Partnership was notified that the guarantee provided to a landlord of one of the theatre properties disposed of had been triggered; this was settled for $4.5 million during the first quarter of 2007.

During 2006, the Partnership entered into an agreement with a related party to divest its 49% share in the 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. One of the disposed theatres closed during 2007, extinguishing the Partnership's obligations for that property.

The Partnership guarantees certain advertising revenues based on attendance levels for a majority of the theatres disposed to third parties.

No amounts have been provided in the consolidated financial statements for guarantees for which the Partnership has not been notified of triggering events at December 31, 2008 in accordance with the transitional provisions for CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, the Partnership assessed the fair value of these guarantees to be a nominal amount. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Partnership could face a substantial financial burden.

The Fund sponsors the Retirement Plan for Salaried Employees of Famous Players, a defined benefit pension plan (the "Plan"). Effective October 25, 2005, the Fund elected to freeze future accrual of defined benefits under the Plan and move continuing employees into the Fund's defined contribution plan for future accrual. As of December 31, 2007, no employees are accruing defined benefits under the Plan. Effective December 31, 2007, the Fund has declared a full wind-up of the Plan. An actuarial valuation has been filed with the Financial Services Commission of Ontario ("FSCO") and final regulatory approval of the wind-up was granted in December 2008. The Fund will make a one-time contribution to fund any deficiency in the funded status of the Plan to enable the settlement of all remaining defined benefit obligations. The settlement loss relating to the Plan is estimated to be $1.7 million, of which $1.1 million will be required to be paid in cash and will be expensed when the Plan is wound up.

8. DISTRIBUTABLE CASH AND DISTRIBUTIONS OF THE PARTNERSHIP

8.1 DISTRIBUTABLE CASH (see Section 18, Non-GAAP measures)

The Partnership distributes cash to its unitholders on a monthly basis. Although the Partnership has made a distribution for each month of its operation, the amount and timing of distributions cannot be assured and are dependent upon operating performance, as cash available for distributions is received solely from operating cash flows of the Partnership. The following table illustrates distributable cash per LP Unit, distributions paid per LP Unit, and the payout ratio of Partnership distributions relative to distributable cash for the fourth quarter and full year of 2008 compared to the prior year periods:

DISTRIBUTABLE CASH	Fourth Quarter			Annual		
	2008	2007	Change	**2008**	2007	Change
Distributable cash per LP Unit	$ 0.4513	$ 0.2597	73.8%	$ 1.8544	$ 1.7217	7.7%
Distributions paid per LP Unit	$ 0.3150	$ 0.3000	5.0%	$ 1.2400	$ 1.1832	4.8%
Payout ratio	69.8%	115.5%	(39.6)%	66.9%	68.7%	(2.7)%

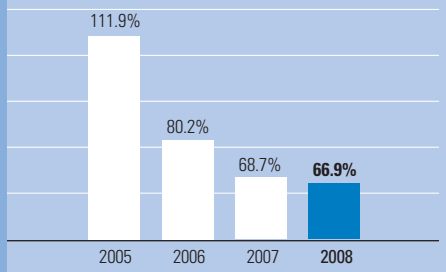
Measures relevant to the discussion of distributable cash per LP Unit for the Partnership are as follows (expressed in thousands of dollars except LP Units outstanding, per unit data and payout ratios):

YEAR ENDED DECEMBER 31,	**2008**	2007	2006
Partnership cash flows from operations	$ 126,580	$ 97,438	$ 101,044
Partnership net income	$ 34,570	$ 26,471	$ 7,836
Standardized distributable cash	$ 66,403	$ 69,846	$ 29,754
Distributable cash	$ 105,983	$ 98,396	$ 80,711
Cash distributions declared	$ 56,867	$ 53,621	$ 50,741
Average number of LP Units outstanding[(i)]	57,150,687	57,150,465	56,323,024
Distributable cash per LP Unit	$ 1.8544	$ 1.7217	$ 1.4330
Cash distributions declared per LP Unit	$ 1.2400	$ 1.1832	$ 1.1496
Payout ratio	66.9%	68.7%	80.2%

(i) Excluding unconverted Class C LP Units. Average number of LP Units outstanding reflect the issuance on June 20, 2006 of 2,000,000 Class A LP Units.

For the year ended December 31, 2008, standardized distributable cash decreased $3.4 million to $66.4 million, compared to $69.8 million for the same period in 2007. The decrease reflects higher capital expenditures in 2008, due to higher new build theatre and other capital expenditures of $48.6 million compared to $17.2 million in the prior year. New build capital expenditures and other in 2008 also include $9.6 million for the purchase of the Partnership's head office building and three drive-in theatre properties purchased during the year (see Section 11, Related party transactions). New build capital expenditures and other are financed using either cash from operations or the Revolving Facility. As at December 31, 2008, the Partnership had spent $5.4 million on digital projectors for its theatres that was not included in maintenance capital expenditures as it is expected that these expenditures will be reimbursed by a third-party integrator. The Partnership opened four new theatres in 2008 as compared to two new theatres in 2007, driving the increased new build spending. For the year, maintenance capital expenditures were up $1.2 million to $11.6 million in 2008, from $10.4 million in 2007.

Distributable cash was $106.0 million for 2008 as compared to $98.4 million during 2007. This increase was mainly due to increased cash generated from operating activities ($29.1 million) adjusted for changes in operating assets and liabilities and tenant inducement receipts ($20.3 million), which are not considered a source of distributable cash, offset by increased maintenance capital expenditures ($1.2 million).



The Partnership historically has maintained a payout ratio lower than 100%, reflecting management's and the Board of Directors' intention to provide cash returns to the Partnership's partners while investing in future growth initiatives. The payout ratio for the Partnership since its inception is 80.0%. Given the low payout ratio, management believes that despite the challenging economic climate in Canada, the Partnership will be able to generate sufficient distributable cash to maintain cash distributions in 2009 and beyond.

8.2 DISTRIBUTIONS – PARTNERSHIP

Partnership distributions are made on a monthly basis to unitholders of record of Class A LP Units, Class B LP Units, converted Class C LP Units and Class D LP Units on the last business day of each month. For the year ended December 31, 2008, the Partnership's distributable cash per LP Unit was $1.8544 compared to $1.7217 for 2007. The declared distribution per LP Unit and interest on the Galaxy Note (see Section 7.4, Credit facilities, above) per LP Unit for the year ended December 31, 2008 totalled $1.2400, and for the year ended December 31, 2007 totalled $1.1832.

Holders of the Class B LP Units and Class D LP Units are entitled to receive, before distributions made by the Partnership to holders of the Class A LP Units and the converted Class C 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 the Class A LP Units, Class B LP Units, converted Class C 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 and converted Class C LP Unit distributions, on a per unit basis, which reflect, in part, payments received by the Trust on the Galaxy Note.

The Partnership made distributions on the unconverted Class C LP Units during the years ended December 31, 2008 and 2007 of $6.3 million. Distributions on the unconverted Class C LP Units are made twice a year, on the business day before June 30 and December 31. Distributions on the unconverted Class C LP Units are deducted by the Partnership in computing its net income and distributable cash.

9. FUND UNITS AND DISTRIBUTIONS OF THE FUND

9.1 OUTSTANDING FUND UNITS

The Fund had the following Fund Units outstanding for the years ended December 31 (expressed in thousands of dollars, except for numbers of Fund Units):

	2008		2007	
	Number of Fund Units	Amount	Number of Fund Units	Amount
OPENING BALANCE – BEGINNING OF YEAR				
Fund Units	43,239,715	$ 562,960	34,116,698	$ 419,819
Convertible debentures – equity component	–	8,546	–	8,546
LTIP compensation obligation	–	1,024	–	–
LTIP Fund Units	(117,491)	(1,802)	–	–
	43,122,224	570,728	34,116,698	428,365
TRANSACTIONS DURING THE YEAR				
Issuance of Fund Units under the Exchange Agreement	174,502	2,139	9,122,751	143,136
Issuance of Fund Units upon conversion of Convertible Debentures	–	–	266	5
LTIP compensation obligation, net of vested Fund Units	–	2,225	–	1,024
Purchase of LTIP Fund Units	(410,949)	(6,887)	(117,491)	(1,802)
Settlement of LTIP obligation through transfer of Fund Units to LTIP participants	196,014	3,196	–	–
	(40,433)	673	9,005,526	142,363
Fund Units	43,414,217	565,099	43,239,715	562,960
Convertible debentures – equity component	–	8,546	–	8,546
LTIP compensation obligation	–	3,249	–	1,024
LTIP Fund Units	(332,426)	(5,493)	(117,491)	(1,802)
CLOSING BALANCE – END OF YEAR	43,081,791	$ 571,401	43,122,224	$ 570,728

The LTIP compensation is recorded as an accrued liability until the corresponding LTIP pool of funds is utilized to acquire Fund Units, at which point the liability is reclassified to unit capital, as the Fund is obligated to deliver a fixed number of Fund Units, the value of which will vary with the fair value of the Fund Units. Subsequent changes in the fair value of the Fund Units are not recognized.

Under terms of the Exchange Agreement, during 2008, 45,502 Class B, Series 2-G LP Units and 129,000 Class D LP Units were exchanged for 174,502 Fund Units. Under terms of the Exchange Agreement, on April 2, 2007, COC exchanged 18,411,913 Class B, Series 1 and 2,086,957 Class B, Series 2-C LP Units for 11,376,119 units of CELP 2007 LP ("CELP 2007 LP Units") and 9,122,751 Fund Units.

Class B and Class D LP Units of the Partnership and CELP 2007 LP Units may be exchanged for Fund Units on a one-for-one basis. The following Class B and Class D LP Units and CELP 2007 LP Units had not been exchanged for Fund Units at December 31, 2008 and 2007 (see Section 16, Subsequent event):

NUMBER OF UNITS	2008	2007
Class B Series 1	626,589	626,589
Class B Series 2-G	1,733,762	1,779,264
Class D	–	129,000
CELP 2007 Class B	11,376,119	11,376,119
	13,736,470	13,910,972

During the first quarter of 2008, the Fund initiated a Fund Unit option plan designed to compensate certain employees for service, ensuring their interests are aligned with those of the Fund, and providing compensation opportunities to attract, retain and motivate key employees. On February 12, 2008, 1,250,000 Fund Unit options with an exercise price equal to the market price of $17.03 were granted to 21 employees. The options vest one-third on each of the successive anniversaries of the grant date.

The option plan and aforementioned option grants were approved by the Fund's unitholders at an annual and special meeting on May 14, 2008. The Fund anticipates that Fund Unit optionholders will exercise, and that the administrators of the Fund Unit option plan will settle the options for cash. The Fund, therefore, accounts for options issued under the plan as cash-settled liabilities. The options are recorded at fair value at each balance sheet date, based on the market price of Fund Units in excess of the exercise price, taking into account the Fund Unit options vested on a graded schedule. Forfeitures are recorded as they occur.

From May 14, 2008, the date of approval of the plan by the Fund's unitholders, through December 31, 2008, no compensation expense or liability was recorded, as the average market price of the Fund Units did not exceed the exercise price throughout this period.

9.2 DISTRIBUTIONS – FUND

The Fund distributes cash to its unitholders on a monthly basis. Although the Fund has made a distribution for each month of its operation, the amount and timing of distributions cannot be assured and are dependent upon operating performance, as cash available for distributions is received solely from operating cash flows of the Fund's subsidiaries, including the Partnership.

Fund distributions are made on a monthly basis to unitholders of record on the last business day of each month. For the year ended December 31, 2008 and 2007 the Fund declared distributions totalling $1.2400 and $1.1832 per Fund Unit, respectively. Effective for the May 2008 distribution, the Fund increased its monthly distribution from $0.1000 to $0.1050 per Fund Unit, or $1.26 per Fund Unit on an annualized basis from $1.20 per Fund Unit. Effective for the May 2007 distribution, the Fund increased its monthly distribution from $0.0958 to $0.1000 per Fund Unit, or $1.20 per Fund Unit on an annualized basis from $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 of distributions for tax purposes has not yet been determined for 2008.

The composition for tax purposes of these distributions may change over time, thus affecting the after-tax return to such unitholders. The composition of distributions for tax purposes for each of the following years ended December 31 were as follows (in dollars per unit):

		Taxable Income		Capital Gain		Return of Capital	
	Distributions Declared	Amount	Percent of Distribution	Amount	Percent of Distribution	Amount	Percent of Distribution
2007	$ 1.18320	$ 1.12356	95.0%	$ –	–	$ 0.05964	5.0%
2006	$ 1.14960	$ 1.07256	93.3%	$ –	–	$ 0.07704	6.7%
2005	$ 1.14960	$ 0.77332	67.3%	$ 0.19097	16.6%	$ 0.18531	16.1%

At December 31, 2007, based on substantively enacted tax rates and tax returns filed to that date, the Partnership had tax pools of $604.6 million available to offset future taxable income. As of the date of this MD&A, tax returns for 2008 have not been filed. Use of these tax pools is restricted to a percentage claim based on the nature of the original expenditure.

10. SEASONALITY AND QUARTERLY RESULTS OF THE PARTNERSHIP

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. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, the Partnership has available for its use the Revolving Facility. As of December 31, 2008, there were no amounts drawn on the Revolving Facility.

SUMMARY OF QUARTERLY RESULTS (expressed in thousands of dollars except per unit, per patron and attendance data):

				2008				2007
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Box office revenue	$ 122,797	$ 144,957	$ 126,357	$ 116,823	$ 105,542	$ 150,376	$ 120,066	$ 112,887
Concession revenues	61,373	71,520	62,031	56,721	50,578	72,408	59,792	52,324
Other revenues	27,251	22,626	20,936	16,297	26,506	21,072	20,083	13,385
Total revenues	211,421	239,103	209,324	189,841	182,626	243,856	199,941	178,596
Film cost	62,360	76,212	67,706	58,932	53,485	80,057	63,445	56,877
Cost of concessions	12,192	14,690	13,657	11,653	10,379	14,842	12,955	10,423
Occupancy expenses	37,368	37,320	37,714	38,323	36,983	41,205	37,023	36,632
Other operating expenses	52,212	52,370	46,712	45,252	46,921	46,205	43,042	41,654
General and administrative	11,166	9,445	9,943	9,513	9,028	9,914	8,432	8,355
Cost of operations	175,298	190,037	175,732	163,673	156,796	192,223	164,897	153,941
Income from operations	36,123	49,066	33,592	26,168	25,830	51,633	35,044	24,655
Net income (loss)	$ 7,094	$ 23,094	$ 5,040	$ (658)	$ (2,773)	$ 24,755	$ 8,264	$ (3,775)
Net income (loss) per LP Unit[(i)]	$ 0.124	$ 0.404	$ 0.088	$ (0.012)	$ (0.049)	$ 0.433	$ 0.145	$ (0.066)
Cash provided by (used in) operating activities	70,846	32,274	18,180	5,280	51,879	48,111	11,539	(14,091)
Cash used in investing activities	(34,527)	(13,808)	(6,369)	(6,546)	(9,817)	(11,686)	(9,478)	(8,804)
Cash used in financing activities	(14,908)	(14,902)	(14,323)	(20,916)	(14,022)	(42,595)	(8,529)	(5,984)
Net change in cash	$ 21,411	$ 3,564	$ (2,512)	$ (22,182)	$ 28,040	$ (6,170)	$ (6,468)	$ (28,879)
Box office revenue per patron	$ 8.06	$ 8.06	$ 8.08	$ 7.98	$ 8.07	$ 7.86	$ 7.98	$ 8.13
Concession revenue per patron	$ 4.03	$ 3.98	$ 3.97	$ 3.87	$ 3.87	$ 3.79	$ 3.97	$ 3.77
Attendance (in thousands of patrons)	15,229	17,988	15,630	14,645	13,076	19,129	15,050	13,893

(i) Computed using weighted average number of LP Units outstanding for the period (excluding unconverted Class C LP Units).

SUMMARY OF DISTRIBUTABLE CASH BY QUARTER

Management calculates distributable cash per LP Unit for the Partnership as follows (see Section 18, Non-GAAP measures, for a discussion of distributable cash) (expressed in thousands of dollars except per unit data and number of LP Units outstanding):

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by (used in) operating activities	$ 70,846	$ 32,274	$ 18,180	$ 5,280	$ 51,879	$ 48,111	$ 11,539	$ (14,091)
Less: Total capital expenditures	(32,138)	(13,412)	(6,810)	(7,817)	(7,660)	(5,524)	(9,480)	(4,928)
Standardized distributable cash	38,708	18,862	11,370	(2,537)	44,219	42,587	2,059	(19,019)
Less:								
Changes in operating assets and liabilities	(39,731)	6,409	5,560	12,558	(34,779)	(6,085)	15,195	28,591
Tenant inducements	(5,112)	(736)	(447)	(1,818)	(1,820)	(932)	(2,535)	(617)
Principal component of capital lease obligations	(406)	(399)	(392)	(384)	(377)	(371)	(364)	(357)
Add:								
New build capital expenditures and other	28,333	10,280	2,992	6,983	3,637	3,631	6,506	3,433
Interest on loan from Cineplex Galaxy Trust	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Non-cash components in operating assets and liabilities	498	503	444	445	457	464	405	421
Expenses funded through integration and restructuring reserve	–	–	–	–	5	5	21	16
Distributable cash	$ 25,790	$ 38,419	$ 23,027	$ 18,747	$ 14,842	$ 42,799	$ 24,787	$ 15,968
Number of LP Units outstanding	57,150,687	57,150,687	57,150,687	57,150,687	57,150,594	57,150,421	57,150,421	57,150,421
Distributable cash per LP Unit	$ 0.4513	$ 0.6722	$ 0.4029	$ 0.3280	$ 0.2597	$ 0.7489	$ 0.4337	$ 0.2794

11. RELATED PARTY TRANSACTIONS

The Fund and Partnership have entered into transactions with certain parties to which they are related as summarized below.

On December 30, 2008, the Fund acquired from COC the land and building of its head office location and three properties at which the Fund historically has operated drive-in theatres. Cash consideration of $9.6 million was based on independent valuations in transactions that are not in the ordinary course of business for either party. Prior to the property sales, COC charged the Fund $0.5 million for each of the years ended December 31, 2008 and 2007 in rent for the Fund's head office.

The Fund performs certain management and film booking services for joint ventures in which it is a partner. During the year ended December 31, 2008, the Fund earned revenue in the amount of $0.5 million with respect to these services (2007 – $0.8 million). On December 31, 2007, the Fund acquired the only other venturer's interest in one joint venture, representing a 50% interest in three theatres with 21 screens located in Quebec. Upon closing, the Fund owned 100% of the joint venture.

Distributions paid by the Partnership to related parties during the years ended December 31, 2008 and 2007 were as follows (in thousands of dollars):

DISTRIBUTIONS PAID	2008	2007
Fund	$ 39,564	$ 33,483
Onex and its subsidiaries	16,654	19,424
Other related parties	193	299

Distributions payable by the Partnership to related parties at December 31, 2008 and 2007 were as follows (in thousands of dollars):

DISTRIBUTIONS PAYABLE AS AT DECEMBER 31,	2008	2007
Fund	$ 3,392	$ 3,157
Onex and its subsidiaries	1,415	1,351
Other related parties	13	25

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.

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP 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. Actual results could differ from those estimates. The most significant estimates 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 Fund's consolidation of the Partnership and the Partnership's acquisition of other businesses, the assessment of theatre cash flows to identify potential asset impairments, the value of unredeemed loyalty points and of gift certificates that remain unutilized and in circulation for revenue recognition purposes, the film cost payable accrual and the determination of asset retirement obligations.

ALLOCATION OF PURCHASE PRICES

Allocation of purchase prices to assets and liabilities of acquired businesses requires management judgment based on knowledge of the industry and expected future cash flows. Where required, management has obtained external valuation assistance. The values allocated to assets and liabilities of acquired businesses affect net income after acquisition through amortization of tangible and intangible assets, among other items. Values typically are allocated from a range, with the unallocated positive purchase price allocated to goodwill. To the extent more value is allocated to depreciable assets, future amortization will be higher, reducing net income. The initial estimates recorded historically have been changed within a year of acquisitions, as valuations are finalized and more information becomes available. Those changes in estimates have been disclosed in the financial statements in the periods of change.

CASH FLOWS AND POTENTIAL ASSET IMPAIRMENTS, INCLUDING GOODWILL

Management forecasts expected future cash flows from theatre operations annually or more often as required by GAAP to support the valuation of tangible and intangible assets. In doing so, management uses estimated cash flows based on historical experience adjusted for expected variances, and discount rates consistent with the Fund's weighted-average cost of capital. Management's estimates of future cash flows and discount rate, if applicable, affects whether an impairment of property, plant and equipment, goodwill or other intangible assets may be identified, requiring an expense to be recorded. There have been no significant changes in those estimates in the past two years. As at December 31, 2008 the Fund's market capitalization was in excess of the book value of

its equity by approximately 26%, and was approximately equal to the value of the Fund's goodwill. These factors, combined with the record results reported by the Fund in 2008, are consistent with management's determination that there was no goodwill or other intangible asset impairments during the year.

UNREDEEMED LOYALTY POINTS AND GIFT CERTIFICATES – REVENUE RECOGNITION

Management monitors trends in redemption rates for each of the products sold for redemption including coupons, which can be redeemed for admission or concession items, and gift cards (collectively, "gift certificates"). The estimate of the value of the gift certificates that will not be redeemed ("breakage") affects the amount of revenue recognized in a period. On an annual basis, management adjusts breakage to reflect current estimates of breakage based on historical trends.

As the SCENE loyalty program commenced in 2007, the Partnership does not have an established redemption history and therefore no amounts have been recognized by the Fund for the estimated non-redemption of SCENE loyalty points.

Management assumes future redemptions will follow historical trends. If future redemptions are significantly lower than estimated, other revenues would increase with additional breakage. If future redemptions are significantly higher than historical trends, other revenues would decrease. All gift certificate redemptions have associated costs of sales or services, so to the extent redemptions are higher than estimated, film or other costs increase, resulting in lower net income.

FILM COSTS ACCRUED

Management accrues film costs based on box office revenues to the end of the period and other anticipated terms based on historical settlements. Historically differences from those estimates have been insignificant, but actual film costs could differ materially from those estimates.

ASSET RETIREMENT OBLIGATIONS

Management estimates asset retirement obligations by location by estimating discounted future expected cash flows based on the terms of the lease and estimated future costs of labour and materials. There have been no significant changes in the estimates in the past two years.

DEFINED BENEFIT PENSION PLANS

As discussed in Section 7.5, Future obligations, the Fund sponsors the Retirement Plan for Salaried Employees of Famous Players, a defined benefit pension plan. The Plan does not require ongoing actuarial valuations for funding, as it is being wound up effective December 31, 2007. During December 2008, the wind-up of the Plan was approved by the FSCO. During 2009 a final supplementary wind-up report and accounting valuation will be prepared. The settlement loss relating to the Plan is estimated to be $1.7 million, which will be expensed when the Plan is wound up, of which $1.1 million will require cash funding. After the wind-up of the Plan, the Fund will have no material remaining defined benefit pension assets or liabilities.

13. ACCOUNTING POLICIES

13.1 CHANGES IN ACCOUNTING POLICIES

In August 2008, the CICA issued Emerging Issues Committee ("EIC") EIC-171, *Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through*, which concludes that temporary differences associated with assets and liabilities attributable to exchangeable interests should not be recorded prior to the conversion of the exchangeable interests. The Fund implemented EIC-171 during the year ended December 31, 2008, resulting in a restatement of future income taxes and non-controlling interests for previously reported periods.

On May 14, 2008, the Fund's unit option plan was approved by the Fund's unitholders. The Fund accounts for unit options in accordance with the fair value based method. The fair value of unit options is measured at each balance sheet date based on the market price of Fund Units and is recorded as compensation expense on a graded basis over the options' vesting periods. Forfeitures are not estimated, but recorded when they occur.

13.2 INITIAL ADOPTION OF ACCOUNTING POLICIES

In December 2006, the CICA issued new Handbook sections: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation*, for annual and interim periods beginning on or after October 1, 2007. Section 1535 establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. Sections 3862 and 3863 enhance existing disclosures in previously issued Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. Section 3863 carries forward the same presentation standards as Section 3861. The Fund adopted these standards on January 1, 2008.

In April 2007, the CICA Accounting Standards Board amended CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to disclose any uncertainties that cast significant doubt upon the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. The Fund adopted this standard on January 1, 2008 on a prospective basis, and it did not affect the consolidated financial statements.

In June 2007, the CICA issued Handbook Section 3031, *Inventories*, which replaces CICA Handbook Section 3030, *Inventories*. The standard requires inventory to be measured at the lower of cost or net realizable value and requires any writedowns to be reversed if the value subsequently recovers, provides expanded guidance on the determination of cost, including the allocation of certain overhead costs, and expands disclosures. The Fund adopted this standard on January 1, 2008 and there was no effect on the consolidated financial statements.

13.3 FUTURE CHANGES IN ACCOUNTING POLICIES

Management of the Fund reviews all changes to the CICA Handbook when issued. The following is a discussion of relevant items that were released, revised or will become effective after December 31, 2008:

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Fund is analyzing the impact of IFRS on its consolidated financial statements. A project team has been set up to manage the transition to IFRS and to ensure successful implementation within the required timeframe. The project team has completed the scoping phase of the project and has moved into the evaluation phase. Management will provide disclosures of the key elements of the plan and progress on the IFRS conversion as the information becomes available during the transition period.

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and CICA Handbook Section 3450, *Research and Development Costs*. The new standard is not expected to have any effect on the Fund's consolidated financial statements when adopted on January 1, 2009.

In April 2008, the CICA issued EIC-170, *Conversion of an Unincorporated Entity to an Incorporated Entity*, which describes accounting and presentation by businesses that undergo such a conversion after the issuance of EIC-170. EIC-170 had no effect on the Fund's consolidated financial statements for the current year.

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaces CICA Handbook Section 1581, *Business Combinations*. The new standard must be adopted on or before January 1, 2011 and will be applied prospectively; previous business combinations will not be restated. While there will be no impact on the consolidated financial statements of the Fund upon adoption of the new standard, differences in recognition and measurement may result in materially different future financial position and results of operations from business combinations accounted for in accordance with the existing standard.

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and CICA Handbook Section 1602, *Non-controlling Interests*, which together replace CICA Handbook Section 1600, *Consolidated Financial Statements*. The new standards must be adopted on or before January 1, 2011. The Fund is analyzing the impact on its consolidated financial statements.

14. RISK MANAGEMENT

The Fund is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. The Fund has operating and risk management strategies and insurance programs to help minimize these operating risks.

During fiscal 2008, the Fund adopted an annual enterprise risk management assessment which is overseen by the Fund's executive management team and reported to the Board of Trustees. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across the Fund. During 2008, general economic conditions changed, impacting some of the risks discussed below. Where there is a significant impact, the changes are discussed in each section.

INDUSTRY RISK

The Fund's ability to operate successfully depends upon the availability, diversity and appeal of films, the ability of the Fund to license films and the performance of these films in the Fund's markets. The Fund primarily licenses first-run films, the success of which is dependent upon their quality, as well as on the marketing efforts of film studios and distributors. The Fund is actively working to diversify its entertainment offerings to include alternate programming and to move into other sources of revenue such as e-commerce and the SCENE loyalty program. Nonetheless, the Fund is highly dependent on film product and film performance, including the number and success of blockbuster films. A reduction in quality or quantity of film product or any disruption in the production or release of films, including a strike or threat of a strike, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect the Fund's business and results of operations.

Because of the long lead time required to produce a film, the Fund believes that the quantity and quality of film product will not be adversely affected in 2009. However, should the economic downturn continue for a prolonged period of time, there may be a reduction in film product in 2010 and years thereafter because of the reduced ability to finance films and the capital constraints on studios.

In 2008, seven major film distributors accounted for approximately 90% of the Fund's box office revenues, which is consistent with industry standards. A deterioration in the Fund's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. The Fund actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all.

The Fund competes with other film delivery methods, including cable and satellite television and DVDs, as well as pay-per-view services and downloads via the Internet. The release date of a film in other channels of distribution such as pay television or DVD is at the discretion of each distributor and earlier release windows for such alternative channels could have a negative impact on the Fund's business and results of operations. While release windows have stabilized in the past two years, the Fund continues to emphasize with film distributors the need to maintain reasonable release windows.

COMPETITION RISK

The Fund competes in each of its local markets with other national and regional circuits and independent film exhibitors, particularly with respect to film licensing, attracting guests and acquiring and developing new theatre sites and acquiring existing theatres. Movie-goers are generally not brand conscious and usually choose a theatre based on its location, the films showing, show times available and the theatre's amenities. As a result, the building of new theatres or the addition of screens to existing theatres by competitors in areas in which the Fund operates theatres may result in reduced attendance levels at the Fund's theatres.

Management fosters strong ties with the real estate and development community and monitors potential development sites closely. Most prime locations in larger markets have been developed such that further development would be generally uneconomical. In addition the exhibition industry is capital intensive with high operating costs and long-term contractual commitments. Rising construction and real estate costs make it increasingly difficult to develop new sites profitably reducing the risk of competition through development.

TECHNOLOGY RISK

The film exhibition industry is in the early stages of conversion from a physical film-based medium to a digital medium of film exhibition. Digital technology poses additional risks including increased capital costs, increased maintenance costs, and changing requirements for digital hardware. Recent developments indicate that the financial costs of the conversion to digital projection equipment will be financed by third parties, with the funding to be covered by distributors through a virtual print fee. As such, it is anticipated that the Fund will not bear any material capital or increased operating costs to convert to digital projection. Because of the challenges in the current credit markets, third-party integrators have been unable to obtain financing. Thus the scheduled rollout of digital projectors to theatres has been delayed.

Technological advances and the conversion of films into digital formats have made it easier to create, transmit and "share" via downloading over the internet or unauthorized copying, high-quality copies of films in theatrical release. Some consumers may choose to obtain unauthorized copies of films rather than attending a theatre which may have an adverse effect on the Fund's business. In addition, as home theatre technology becomes more sophisticated, consumers may choose to stay home rather than attending a theatre. To mitigate these risks, the Fund continues to enhance the out-of-home experience through the addition of new technologies including 3D and digital projection in order to further differentiate the theatrical product from the home product.

The Fund needs an effective information technology infrastructure including hardware, networks, software, people and processes to effectively support the current and future needs of the business in an efficient, cost-effective and well-controlled fashion. The Fund is continually upgrading systems and infrastructure to meet business needs. The introduction of the Vista point of sale terminals at all theatres has allowed for efficient transaction processing and the execution of programs at the national level.

CUSTOMER RISK

The Fund competes for the public's leisure time and disposable income with other forms of entertainment including sporting events, live music concerts, live theatre and restaurants. If the Fund is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and concession revenues. Also, prolonged negative trends in the general economy may adversely affect consumer spending which may negatively affect movie theatre attendance. The Fund aims to deliver an affordable out-of-home entertainment experience. The Fund monitors pricing in all markets to ensure that it offers a reasonably priced out-of-home experience compared to other entertainment alternatives. In addition, historical data shows that the movie attendance has not been negatively affected by economic downturns over the past twenty-five years. The Fund has not noted any changes in customer behaviour in the traditional exhibition business due to the recent economic downturn.

A change in consumer preferences may require the Fund to make significant capital expenditures in order to compete effectively. The Fund monitors customer needs to ensure that the out-of-home experience meets the anticipated needs of key demographic groups. The Fund is differentiating the movie-going experience by providing VIP service and family entertainment centres in select theatres and by providing alternative programming which appeals to specific demographic groups. In addition, the advent of digital technology will allow for more niche programming.

The Fund is dependant on its theatre locations to provide a satisfactory entertainment experience. If the Fund's execution of processes does not consistently meet or exceed customer expectations due to a lack of focus on the customer, movie attendance may be adversely affected. The Fund monitors customer satisfaction through surveys, mystery shops, and focus groups and maintains a guest services department to address customer complaints. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives.

The Fund continues to pursue other revenue opportunities such as advertising, games, promotions and alternative uses of its theatres during non-peak hours. The Fund's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams. Although the Fund's media revenue increased 8.7% during the full year of 2008 as compared to 2007, during the fourth quarter of 2008, media revenue declined by 1.1% compared to the prior period. A general decline in media spending is expected during the economic downturn creating uncertainty about the impact on the Fund's media revenue stream. The Fund monitors customer satisfaction with advertising through customer satisfaction surveys and has introduced more entertainment content into its pre-show advertising and set limits on rolling stock advertising in order to maintain satisfaction in this area.

HUMAN RESOURCES RISK

The success of the Fund depends upon the retention of senior executive management, including Ellis Jacob. The loss of services of one or more members of the executive management team could adversely affect the Fund's business, results of operations and the Fund's ability to effectively pursue its business strategy. The Fund does not maintain key-man life insurance for any of its employees but does provide a long-term incentive program to retain key personnel.

Approximately 91% of the employees of the Fund are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee-related costs. Approximately 4% of the Fund's employees are represented by unions. Because of the small percentage of employees represented by unions, the risk of labour disruption is low.

REAL ESTATE RISK

The acquisition and development of new theatre sites to be operated by the Fund is dependent on the ability of the Fund to identify, acquire and develop suitable sites for potential theatre locations in both new and existing markets. The cost to develop a new theatre is substantial, but its success is not assured. While the Fund is careful in selecting sites for new theatres, the significant time lag from identifying a new site to theatre opening can result in a change in local market circumstances and could negatively impact the theatre's chance of success. In addition, the building of new theatres may draw audiences away from less appealing older theatres owned by the Fund. The Fund considers the overall return for the theatres in a geographic area when making the decision to build a new theatre.

The majority of the Fund's theatres are subject to long-term leases. In accordance with the terms of these leases, the Fund is responsible for costs associated with utilities consumed at the theatre and property taxes associated with the theatre. The Fund has no control over these costs and these costs have been increasing over the last number of years.

The Fund may also continue to be liable for obligations under theatre leases in respect of divested theatres. If the transferee of such theatres fails to satisfy the obligations under such leases, the Fund may be adversely affected. If the economic downturn impacts the business of the transferee, the Fund will need to assume the lease obligations.

FINANCIAL MARKETS RISK

The Fund requires efficient access to capital in order to fuel growth, execute strategies, and generate future financial returns. For this reason the Fund has established credit facilities at favourable rates. The Fund has $130.0 million available in a revolving credit facility which does not mature until 2012, protecting the Fund from any uncertainty in near-term refinancing. However, if the current economic downturn causes a significant disruption in the capital markets, the Fund's ability to finance sizable acquisitions may be impaired.

The Fund hedges interest rates, thereby minimizing the impact of significant fluctations in the market rates. The Fund's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure.

SOURCING RISK

Substantially all of the Fund's beverage concessions are products of one major beverage company. If this relationship was disrupted, the Fund may be forced to negotiate a substitute arrangement that could be less favourable to the Fund than the current arrangement. Any such disruptions could therefore increase the cost of concessions and harm the Fund's operating margins, which would adversely affect its business and results of operations.

The Fund relies on a single company for the distribution of a substantial portion of its concession supplies. If this distribution relationship were disrupted, the Fund could be forced to negotiate a number of substitute arrangements with alternative distributors that could, in the aggregate, be less favourable to the Fund than the current arrangement. The Fund has had no indication that the current economic downturn will affect the viability of these relationships.

HEALTH AND SAFETY RISK

The Fund is in compliance with health and safety legislation and conducts employee awareness and training programs on a regular basis.

BUSINESS CONTINUITY RISK

The Fund purchases insurance coverage from third-party insurance companies to cover certain operational risks, and is self-insured for other matters.

The Fund's primary source of revenue is derived from providing an out-of-home entertainment experience. A terrorist threat or the outbreak of a pandemic may cause people to stay away from public places including movie theatres which would significantly impact business results. The Fund operates in six provinces which somewhat mitigates the risk to a specific location. The Fund also has communications and public relations plans to deal with crises of this nature. However, should there be a national threat, it is uncertain to what extent the Fund could mitigate this risk.

LEGAL, TAXATION, AND ACCOUNTING RISK

Changes to any of the various federal and provincial laws, rules and regulations related to the Fund's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to the Fund. Failure to fully comply with various laws, rules and regulations may expose the Fund to proceedings which may materially affect its performance.

To mitigate these risks, the Fund uses third-party tax and legal experts to assist in structuring significant transactions and contracts. The Fund also has systems and controls that ensure the timely production of financial information in order to meet regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. In addition, the Fund promotes a strong ethical culture through its values and code of conduct.

In 2007, legislation was enacted whereby the income tax rules applicable to certain publicly traded or listed trusts and partnerships will be significantly modified to tax certain income and distributions made by these entities. The changes become effective in the trust's 2011 taxation year or immediately if the trust exceeds normal growth, which is defined as the issue of new equity over the four-year period 2007 – 2010 greater than its market capitalization as of October 31, 2006. The legislation 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 rules apply to the Fund, its distributable cash may be materially reduced.

INVESTOR RELATIONS RISK

As a publicly traded entity, the Fund faces the risk that profitability may be lower than analyst expectations thereby reducing the unit price. A decline in investor confidence may impair the Fund's ability to efficiently raise capital. The Fund manages its relations with stakeholders by providing full disclosure of activities in its regulatory filings and analyst calls and presents at investor conferences and analyst marketing days to generate positive interest in Fund Units. The Fund's business volumes track in line with industry results which are publicly available thereby increasing the transparency of the financial results.

INFORMATION MANAGEMENT RISK

The Fund requires relevant and reliable information to support the execution of the business model and reporting on performance. The integrity, reliability and security of information are critical to the Fund's daily and strategic operations. Inaccurate, incomplete or unavailable information or inappropriate access to information could lead to incorrect financial or operational reporting, poor decisions, privacy breaches or inappropriate disclosure of sensitive information. The Fund is working to strengthen IT general controls by developing operating policies and procedures in the areas of change management, computer operations and security access.

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

Management of the Fund is responsible for establishing and maintaining disclosure controls and procedures for the Fund as defined under National 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 has evaluated the design and operation of the Fund's disclosure controls and procedures as of December 31, 2008, and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Fund is responsible for designing and evaluating the effectiveness of internal controls over financial reporting for the Fund as defined under National 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.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal controls over financial reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Fund's internal controls over financial reporting as of December 31, 2008, and has concluded that such internal controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

There has been no change in the Fund's internal controls over financial reporting that occurred during the most recently completed interim period that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

16. SUBSEQUENT EVENT

On January 5, 2009, under provisions of the Exchange Agreement, Onex and certain members of Onex management exchanged their indirect interest in the Partnership for 11,985,818 Fund Units. As a result of this exchange, the Fund increased its indirect ownership in the Partnership to approximately 97%.

17. OUTLOOK

The following discussion is qualified in its entirety by the caution regarding forward-looking statements at the beginning of this MD&A, and Section 14, Risk management.

To date, the Fund's core exhibition business has not been impacted by the current economic environment. Fourth quarter box office was up 16.3% as compared to the prior year and the Fund established a new record for the average concession spending per patron. The film exhibition industry is in the process of converting over to digital projection technology, including the selected installation of 3D capable systems. It is expected that the conversion to digital projection will take one and a half to two years to complete. To date, the Fund has 84 digital projectors installed in 46 theatres, including 49 screens with RealD 3D Technology. The Fund has a commitment to install RealD 3D systems on 175 screens. The Fund believes that 3D technology will provide an enhanced guest experience and will continue to charge a ticket price premium for 3D films and events. Aside from 3D feature films, it is expected that alternative programming events such as sporting events and concerts will be broadcast in 3D in the near future, providing an exciting alternative for the cost conscious consumer.

Given the lead time in the film production schedules, any reductions in film financing due to current credit and economic environments are not expected to impact the exhibition industry until 2010 or thereafter. The Fund may be impacted by the reduction of films but the operating results are impacted more by the quality of product and financial success of a limited number of films rather than the number of films produced. Additionally, the Fund's average screen count of 10.2 screens per location can be more effectively managed with fewer film titles available.

From a merchandising perspective, the Fund has continued to show growth in the average spend per patron over the past five years and continued to report record CPP amounts in the past two quarters, the only reported quarters to date which would be impacted by the recent economic environment. Although pricing does impact the average spend per patron, the Fund's core focus is on operational execution and providing the optimal product mix to provide further growth in this area.

Although the Fund reported 8.7% annual growth in its Media business, it did report a 1.1% decline during the fourth quarter. The Fund believes that cinema advertising is a compelling media offering which is supported by a significant amount of third-party evidence and research. Cinema advertising provides an effective medium to reach the 17-25 demographic. This demographic is a significant proportion of overall attendance and is a more challenging demographic to reach through other traditional media vehicles. The Fund continues to enhance its media offerings, including enhanced website opportunities and an internal lobby digital advertising network which will be implemented during 2009. It is expected that many companies will reduce their advertising and marketing budgets for 2009 in response to the uncertainties relating to the global financial crisis. Although the Fund continues to expand its offerings and provides a compelling media solution, it may be impacted in the near term by this general decline in media spending.

Throughout 2007 and 2008, the Fund continued to invest in two key initiatives: the SCENE loyalty program and web-based initiatives including e-commerce. The Fund will look to extract the benefits of these programs throughout 2009 and thereafter.

Although general economic conditions deteriorated throughout 2008, the Partnership was pleased to report its strongest year since its inception. The Partnership reported record amounts for total revenue, EBITDA, attendance, average ticket price, concession spend per person, media revenue, other revenue and distributable cash per unit, all key success indicators.

The Partnership generated distributable cash per unit of approximately $1.85 per unit and paid out $1.24 per unit for a payout ratio of approximately 67% in 2008. Given the low payout ratio, the Partnership believes that it can support the current level of distributions even with a potential short-term decline in business as a result of the current economic environment.

The Fund's credit facility matures in 2012 and it is therefore not subject to the refinancing risks associated with the current credit environment. The Fund has a $130.0 million revolving credit facility which is available to finance acquisitions, new theatre construction, working capital and distributions. As defined under its credit facility as at December 31, 2008, the Fund will report a leverage ratio of 1.88x as compared to a covenant of 3.00x. Given this wide spread, the Fund believes that its covenant compliance risk is minimal. Between the distributable cash flow generated in excess of the distributions paid and amounts available under its credit facility, the Fund believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and distributions. However, the Fund's needs may change and in such event, the Fund'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 Fund's control.

18. NON-GAAP MEASURES

The following measures included in this MD&A do not have a standardized meaning under GAAP and may not be comparable to similar measures provided by other issuers. The Partnership includes these measures because its management believes that they assist investors in assessing financial performance.

18.1 EBITDA AND ADJUSTED EBITDA

Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. Adjusted EBITDA excludes the loss on disposal of theatre assets, loss from discontinued operations and the impact of the Partnership's former non-controlling interest. The Partnership's 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 non-GAAP measures generally used as an indicator of financial performance and they should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's EBITDA and adjusted EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA or adjusted EBITDA as reported by other entities.

The following represents management's calculation of EBITDA and adjusted EBITDA (expressed in thousands of dollars):

YEAR ENDED DECEMBER 31,	2008	2007	2006
Net income	$ 34,570	$ 26,471	$ 7,836
Amortization	67,356	67,211	64,493
Interest on long-term debt and capital lease obligations	26,166	27,129	31,354
Interest on loan from Cineplex Galaxy Trust	14,000	14,000	14,000
Interest income	(746)	(969)	(745)
Income tax expense (recovery)	(284)	342	(1,264)
EBITDA	$ 141,062	$ 134,184	$ 115,674
Non-controlling interest	–	(561)	(273)
Loss from discontinued operations	–	–	2,073
Loss on disposal of theatre assets	3,887	3,539	148
Adjusted EBITDA	$ 144,949	$ 137,162	$ 117,622

18.2 DISTRIBUTABLE CASH

Distributable cash is the amount available for distribution to the Partnership's and Fund's unitholders based on the operating cash flows and capital maintenance of the Partnership and Fund, as calculated by management. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts and other flow-through entities as an indicator of financial performance, and it should not be viewed as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Standardized distributable cash is a non-GAAP measure recommended by the Canadian Institute of Chartered Accountants ("CICA") in its July 2007 interpretive release, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities*, and is designed to enhance comparability.

Management presents standardized distributable cash and distributable cash per unit because they are key measures used by investors to value and assess the Fund and the Partnership.

Management defines distributable cash as standardized distributable cash adjusted for certain items, and considers distributable cash the amount available for distribution to unitholders. Standardized distributable cash is defined by the CICA as cash from operating activities as reported in the GAAP financial statements, less total capital expenditures and any restrictions on distributions arising from compliance with financial covenants and limitations arising from the existence of a minority interest of a subsidiary.

Management calculates distributable cash per LP Unit for the Partnership as follows (expressed in thousands of dollars except LP Units outstanding and per unit data):

YEAR ENDED DECEMBER 31,	2008	2007	2006
Cash provided by operating activities	$ 126,580	$ 97,438	$ 101,044
Less: Total capital expenditures	(60,177)	(27,592)	(71,290)
Standardized distributable cash	66,403	69,846	29,754
Less:			
Changes in operating assets and liabilities[i]	(15,204)	2,922	(5,023)
Tenant inducements[ii]	(8,113)	(5,904)	(21,314)
Principal component of capital lease obligations	(1,581)	(1,469)	(1,358)
Dividends paid by subsidiary to non-controlling interest	–	–	(196)
Add:			
New build capital expenditures and other[iii]	48,588	17,207	63,440
Interest on loan from Cineplex Galaxy Trust[iv]	14,000	14,000	14,000
Non-cash components in operating assets and liabilities[v]	1,890	1,747	1,285
Expenses funded through integration and restructuring reserve[vi]	–	47	123
Distributable cash	$ 105,983	$ 98,396	$ 80,711
Number of LP Units outstanding[vii]	57,150,687	57,150,465	56,323,024
Distributable cash per LP Unit	$ 1.8544	$ 1.7217	$ 1.4330

(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) New build capital expenditures and other represent expenditures on Board-approved projects as well as any expenditures for digital equipment anticipated to be reimbursed by a third-party digital integrator, and exclude maintenance capital expenditures. 2008 includes $9.6 million for the acquisition of the Partnership's head office location and three drive-in theatre properties. The Partnership's Revolving Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities") is available for use to fund Board-approved projects. Certain integration-related capital expenditures are funded out of reserve funds established on July 22, 2005.

(iv) Subject to "Catch-up Payment" provision and is considered part of distributable cash (see discussion under "Liquidity and Capital Resources – Distributions").

(v) Certain non-cash components of other assets and liabilities are indirectly excluded from distributable cash to the extent they reflect permanent, not timing differences. Such items include the accretion of the liability component of the Class C LP Units and amortization of deferred gains on sale-leaseback transactions (2006 – includes amortization of swap agreements on extinguishment of debt).

(vi) Amounts financed by the $25.0 million reserve set up upon completion of the acquisition of Famous Players are not considered a use of distributable cash.

(vii) Excluding unconverted Class C LP Units. 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,	2008	2007	2006
Income before undernoted	$ 144,949	$ 137,162	$ 117,622
Adjust for:			
Interest on long-term debt	(26,166)	(27,129)	(31,354)
Interest income	746	969	745
Income taxes – current portion	4	(11)	647
Maintenance capital expenditures	(11,589)	(10,385)	(7,850)
Dividends paid by subsidiary to non-controlling interest	–	–	(196)
Principal component of capital lease obligations	(1,581)	(1,469)	(1,358)
Expenses funded through integration and restructuring reserve	–	47	123
Income before undernoted from discontinued operations	–	–	(460)
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(4,177)	(2,307)	(1,130)
Amortization of debt issuance costs	595	749	2,637
Other non-cash items[i]	3,202	770	1,285
Distributable cash	$ 105,983	$ 98,396	$ 80,711

(i) Includes accretion on Class C LP Units, amortization of deferred gains on sale-leaseback transactions and non-cash movement in the fair value of the interest rate swap agreements (2006 – includes amortization of swap agreements on extinguishment of debt).

18.3 OTHER NON-GAAP MEASUREMENTS MONITORED BY MANAGEMENT.

Management uses the following non-GAAP measurements as indicators of performance for the Partnership and the Fund.

BOX OFFICE PER PATRON

Calculated as total box office revenues divided by total paid attendance for the year.

CONCESSION REVENUE PER PATRON

Calculated as total concession revenues divided by total paid attendance for the year.

FILM COST PERCENTAGE

Calculated as total film cost expense divided by total box office revenues for the year.

CONCESSION COST PERCENTAGE

Calculated as total concession costs divided by total concession revenues for the year.

ATTENDANCE

Attendance is calculated as the total number of paying patrons that frequent the Partnership's theatres during the year.

PAYOUT RATIO

Distributions paid per LP Unit divided by distributable cash per LP Unit.

19. CONSOLIDATED FINANCIAL STATEMENTS OF THE PARTNERSHIP

The following Consolidated Balance Sheets for the Partnership at December 31, 2008 and 2007, Consolidated Statements of Operations, Consolidated Statements of Partners' (Deficiency) Equity and Comprehensive Income and Consolidated Statements of Cash Flows for the Partnership for the years ended December 31, 2008 and 2007 are presented to provide comparable results to prior periods.

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

Consolidated balance sheets

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS) DECEMBER 31,	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 43,187	$ 42,906
Accounts receivable	45,507	45,322
Inventories	4,014	3,026
Prepaid expenses and other current assets	3,733	4,584
Due from related parties	6	6
	96,447	95,844
PROPERTY, EQUIPMENT AND LEASEHOLDS	423,975	420,884
FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS	–	1,523
FUTURE INCOME TAXES	6,105	5,825
DEFERRED CHARGES	953	1,085
INTANGIBLE ASSETS	47,273	52,815
GOODWILL	200,301	200,037
	$ 775,054	$ 778,013
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 84,833	$ 80,779
Distributions payable	4,834	4,548
Income taxes payable	48	65
Deferred revenue	76,929	64,610
Capital lease obligations – current portion	1,700	1,581
	168,344	151,583
LONG-TERM DEBT	232,861	232,265
FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS	20,628	–
CAPITAL LEASE OBLIGATIONS – LONG-TERM PORTION	33,131	34,831
DUE TO CINEPLEX GALAXY TRUST	100,000	100,000
ACCRUED PENSION BENEFIT LIABILITY	1,151	1,109
OTHER LIABILITIES	152,009	150,162
CLASS C LIMITED PARTNERSHIP UNITS – liability component	104,995	102,231
	813,119	772,181
PARTNERS' (DEFICIENCY) EQUITY	(38,065)	5,832
	$ 775,054	$ 778,013

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

Consolidated statements of operations

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS) DECEMBER 31,	2008	2007
REVENUE		
Box office	$ 510,934	$ 488,871
Concessions	251,645	235,102
Other	87,110	81,046
	849,689	805,019
EXPENSES		
Film cost	265,210	253,864
Cost of concessions	52,192	48,599
Occupancy	150,725	151,843
Other operating	196,546	177,822
General and administrative	40,067	35,729
	704,740	667,857
Income before undernoted	144,949	137,162
Amortization	67,356	67,211
Loss on disposal of theatre assets	3,887	3,539
Interest on long-term debt and capital lease obligations	26,166	27,129
Interest on loan from Cineplex Galaxy Trust	14,000	14,000
Interest income	(746)	(969)
Income before income taxes and non-controlling interest	34,286	26,252
(Recovery of) provision for income taxes		
Current	(4)	11
Future	(280)	331
	(284)	342
INCOME BEFORE NON-CONTROLLING INTEREST	34,570	25,910
Non-controlling interest	–	(561)
NET INCOME	$ 34,570	$ 26,471

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

Consolidated statements of partners' (deficiency) equity and comprehensive income

For the year ended December 31, 2008

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Partners' capital	Formation of Partnership deficit	Total Partners' deficiency	Comprehensive income
Balance – December 31, 2007	$ 84,338	$ (194,026)	$ (109,688)	$ 974	$ 262,341	$ (147,795)	$ 5,832	$ –
Distributions declared	–	(56,867)	(56,867)	–	–	–	(56,867)	–
Investment in Cineplex Galaxy Income Fund units	–	–	–	–	(3,691)	–	(3,691)	–
LTIP compensation obligation	–	–	–	–	2,930	–	2,930	–
Net income	34,570	–	34,570	–	–	–	34,570	34,570
Other comprehensive loss – interest rate swap agreements	–	–	–	(20,839)	–	–	(20,839)	(20,839)
Comprehensive income								$ 13,731
Balance – December 31, 2008	$ 118,908	$ (250,893)	$ (131,985)	$ (19,865)	$ 261,580	$ (147,795)	$ (38,065)	

The sum of accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at December 31, 2008 is $151,850.

For the year ended December 31, 2007

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Partners' capital	Formation of Partnership deficit	Total Partners' deficiency	Comprehensive income
Balance – January 1, 2007	$ 57,867	$ (140,405)	$ (82,538)	$ 2,427	$ 262,774	$ (147,795)	$ 34,868	$ –
Distributions declared	–	(53,621)	(53,621)	–	–	–	(53,621)	–
Investment in Cineplex Galaxy Income Fund units	–	–	–	–	(1,677)	–	(1,677)	–
Conversion of Class C LP units	–	–	–	–	5	–	5	–
LTIP compensation obligation	–	–	–	–	1,239	–	1,239	–
Net income	26,471	–	26,471	–	–	–	26,471	26,471
Other comprehensive loss – interest rate swap agreements	–	–	–	(1,453)	–	–	(1,453)	(1,453)
Comprehensive income								$ 25,018
Balance – December 31, 2007	$ 84,338	$ (194,026)	$ (109,688)	$ 974	$ 262,341	$ (147,795)	$ 5,832	

The sum of accumulated distributions in excess of accumulated income and accumulated other comprehensive income as at December 31, 2007 is $108,714.

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

Consolidated statements of cash flows

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	2008	2007
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	$ 34,570	$ 26,471
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	67,356	67,211
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(4,177)	(2,307)
Amortization of debt issuance costs	595	749
Loss on disposal of theatre assets	3,887	3,539
Future income taxes	(280)	331
Cash flow hedges – non-cash interest	1,312	(977)
Non-controlling interest	–	(561)
Tenant inducements	8,113	5,904
Changes in operating assets and liabilities	15,204	(2,922)
	126,580	97,438
INVESTING ACTIVITIES		
Proceeds from sale of theatre assets	2,470	2,510
Purchases of property, equipment and leaseholds	(60,177)	(27,592)
Theatre shutdown payment	(3,156)	(2,195)
Lease guarantee payment and acquisition of theatre assets	–	(4,500)
Acquisition of businesses	(387)	(8,008)
	(61,250)	(39,785)
FINANCING ACTIVITIES		
Distributions paid	(56,581)	(53,381)
Borrowings under credit facility	13,000	72,000
Repayment of credit facility	(13,000)	(85,000)
Payments under capital leases	(1,581)	(1,469)
Investment in Cineplex Galaxy Income Fund units	(6,887)	(2,702)
Deferred financing fees	–	(578)
	(65,049)	(71,130)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	281	(13,477)
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	42,906	56,383
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 43,187	$ 42,906
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 28,008	$ 31,875
Class C LP unit distributions paid and classified as interest	6,321	6,321
Cash paid for income taxes – net	13	11

The following table illustrates the consolidation adjustments that result in the differences between the statements of operations of the Partnership compared to the statement of operations for the Fund for the year ended December 31, 2008:

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	Partnership year ended December 31, 2008	Consolidation adjustments	Fund year ended December 31, 2008
REVENUE			
Box office	$ 510,934	$ –	$ 510,934
Concessions	251,645	–	251,645
Other	87,110	–	87,110
	849,689	–	849,689
EXPENSES			
Film cost	265,210	–	265,210
Cost of concessions	52,192	–	52,192
Occupancy	150,725	4,190 (i)	154,915
Other operating	196,546	–	196,546
General and administrative	40,067	218 (i)	40,285
	704,740	4,408	709,148
Income before undernoted	144,949	(4,408)	140,541
Amortization	67,356	16,924 (i)	84,280
Loss on disposal of theatre assets	3,887	701	4,588
Interest and accretion expense on convertible debentures	–	7,386 (ii)	7,386
Interest on long-term debt and capital lease obligations	26,166	(9,085) (iii)	17,081
Interest on loan from Cineplex Galaxy Trust	14,000	(14,000) (iii)	–
Interest income	(746)	(31) (iv)	(777)
Income before income taxes and non-controlling interests	34,286	(6,303)	27,983
Recovery of income taxes			
Current	(4)	–	(4)
Future	(280)	(3,255) (v)	(3,535)
	(284)	(3,255)	(3,539)
INCOME BEFORE NON-CONTROLLING INTERESTS	34,570	(3,048)	31,522
Non-controlling interests	–	2,519 (vi)	2,519
NET INCOME	$ 34,570	$ (5,567)	$ 29,003

(i) Amounts relate to step acquisition valuation differences.

(ii) Fund's interest and accretion on its Convertible Debentures

(iii) Consolidation adjustments to eliminate transactions between the Fund and the Partnership.

(iv) Interest income earned at the Fund level.

(v) Fund's future income tax recovery.

(vi) Represents the non-controlling interests of the Partnership arising from the consolidation of the Fund and the Partnership.

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 accordance 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 serves 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 11, 2009

(Signed:)

Gord Nelson
Chief Financial Officer

Auditors' report

February 11, 2009

TO THE UNITHOLDERS OF CINEPLEX GALAXY INCOME FUND

We have audited the consolidated balance sheets of Cineplex Galaxy Income Fund (the "Fund") as at December 31, 2008 and 2007 and the consolidated statements of operations, unitholders' equity and comprehensive income 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, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed:)

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

Consolidated balance sheets

AS AT DECEMBER 31, 2008 AND 2007

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	2008	2007
		(Revised – note 2)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 44,585	$ 44,254
Accounts receivable	45,507	45,322
Inventories	4,014	3,026
Prepaid expenses and other current assets	3,733	4,584
	97,839	97,186
PROPERTY, EQUIPMENT AND LEASEHOLDS (NOTE 6)	455,885	461,506
FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS (NOTE 4)	–	1,523
FUTURE INCOME TAXES (NOTE 7)	13,099	7,707
DEFERRED CHARGES	953	1,085
INTANGIBLE ASSETS (NOTE 8)	117,476	131,603
GOODWILL	600,564	600,223
	$ 1,285,816	$ 1,300,833
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses (NOTE 9)	$ 86,140	$ 81,309
Distributions payable (NOTE 10)	6,001	5,715
Income taxes payable	48	65
Deferred revenue	76,929	64,610
Capital lease obligations – current portion (NOTE 11)	1,700	1,581
	170,818	153,280
LONG-TERM DEBT (NOTE 13)	232,861	232,265
FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS (NOTE 4)	20,628	–
CAPITAL LEASE OBLIGATIONS – LONG-TERM PORTION (NOTE 11)	33,131	34,831
ACCRUED PENSION BENEFIT LIABILITY (NOTE 14)	932	672
OTHER LIABILITIES (NOTE 15)	108,380	102,015
CONVERTIBLE DEBENTURES – LIABILITY COMPONENT (NOTE 16)	99,834	98,748
	666,584	621,811
NON-CONTROLLING INTERESTS (NOTE 3(C))	149,860	171,554
UNITHOLDERS' EQUITY	469,372	507,468
	$ 1,285,816	$ 1,300,833

BUSINESS ACQUISITIONS (NOTE 3)
COMMITMENTS, GUARANTEES AND CONTINGENCIES (NOTE 24)

Approved by the Board of Trustees

(Signed:)

Howard Beck
Trustee

(Signed:)

Robert Steacy
Trustee

These financial statements consolidate the results of Cineplex Entertainment Limited Partnership (the "Partnership") from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3(c)).
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of operations

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER FUND UNIT AMOUNTS)	2008	2007
		(Revised – note 2)
REVENUES		
Box office	$ 510,934	$ 375,984
Concessions	251,645	182,778
Other	87,110	67,661
	849,689	626,423
EXPENSES		
Film cost	265,210	196,987
Cost of concessions	52,192	38,176
Occupancy	154,915	120,416
Other operating	196,546	136,168
General and administrative	40,285	27,824
	709,148	519,571
Income before undernoted	140,541	106,852
Amortization	84,280	63,611
Loss on disposal of theatre assets	4,588	884
Share of loss of Cineplex Entertainment Limited Partnership (NOTE 18)	–	4,241
Interest and accretion expense on convertible debentures	7,386	7,290
Interest on long-term debt and capital lease obligations	17,081	12,958
Interest income	(777)	(5,844)
Income before income taxes and non-controlling interests	27,983	23,712
Provision for (recovery of) income taxes		
Current	(4)	5
Future	(3,535)	(10,048)
	(3,539)	(10,043)
Income before non-controlling interests	31,522	33,755
Non-controlling interests	2,519	2,530
Net income	$ 29,003	$ 31,225
Basic net income per Fund Unit	$ 0.67	$ 0.76
Weighted average number of Fund Units outstanding used in computing basic net income per Fund Unit	43,092,701	40,876,533
Diluted net income per Fund Unit (NOTE 19)	$ 0.55	$ 0.56
Weighted average number of Fund Units outstanding used in computing diluted net income per Fund Unit (NOTE 19)	56,858,732	57,061,944

These financial statements consolidate the results of Cineplex Entertainment Limited Partnership (the "Partnership") from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3(c)).
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of unitholders' equity and comprehensive income

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

2008

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Unitholders' capital (note 17) (Revised – note 2)	Total Unitholders' equity	Comprehensive income
BALANCE – DECEMBER 31, 2007	$ 73,532	$ (137,082)	$ (63,550)	$ 290	$ 570,728	$ 507,468	$ –
Issuance of units under Exchange Agreement (NOTE 3(C))	–	–	–	–	2,139	2,139	–
LTIP compensation obligation (NOTE 20)	–	–	–	–	2,225	2,225	–
Treasury stock – LTIP units	–	–	–	–	(3,691)	(3,691)	–
Distributions declared (NOTE 10)	–	(53,799)	(53,799)	–	–	(53,799)	–
Net income	29,003	–	29,003	–	–	29,003	29,003
Other comprehensive loss – interest rate swap agreements, net of $1,857 future income tax recovery	–	–	–	(13,973)	–	(13,973)	(13,973)
COMPREHENSIVE INCOME FOR THE YEAR							$ 15,030
BALANCE – DECEMBER 31, 2008	$ 102,535	$ (190,881)	$ (88,346)	$ (13,683)	$ 571,401	$ 469,372	

The sum of the accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at December 31, 2008 is $102,029.

2007

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Unitholders' capital (note 17) (Revised – note 2)	Total Unitholders' equity	Comprehensive income
BALANCE – DECEMBER 31, 2006	$ 43,089	$ (88,543)	$ (45,454)	$ –	$ 428,365	$ 382,911	$ –
Adoption of new accounting standards	(782)	–	(782)	1,449	–	667	–
BALANCE – JANUARY 1, 2007	42,307	(88,543)	(46,236)	1,449	428,365	383,578	–
Issuance of units under Exchange Agreement (NOTE 3(C))	–	–	–	–	143,136	143,136	–
Issuance of units on conversion of debentures	–	–	–	–	5	5	–
LTIP compensation obligation (NOTE 20)	–	–	–	–	1,024	1,024	–
Treasury stock – LTIP units	–	–	–	–	(1,802)	(1,802)	–
Distributions declared (NOTE 10)	–	(48,539)	(48,539)	–	–	(48,539)	–
Net income	31,225	–	31,225	–	–	31,225	31,225
Other comprehensive loss – interest rate swap agreements	–	–	–	(1,159)	–	(1,159)	(1,159)
COMPREHENSIVE INCOME FOR THE YEAR							$ 30,066
BALANCE – DECEMBER 31, 2007	$ 73,532	$ (137,082)	$ (63,550)	$ 290	$ 570,728	$ 507,468	

The sum of the accumulated distributions in excess of accumulated income and accumulated other comprehensive income as at December 31, 2007 is $63,260.

These financial statements consolidate the results of Cineplex Entertainment Limited Partnership (the "Partnership") from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3(c)).
The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statements of cash flows

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	2008	2007
		(Revised – note 2)
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	$ 29,003	$ 31,225
Adjustments to reconcile net income to net cash provided by operating activities		
Share of loss of Cineplex Entertainment Limited Partnership (NOTE 18)	–	4,241
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	84,280	63,611
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	13	3,347
Amortization of debt issuance costs	595	563
Loss on disposal of theatre assets	4,588	884
Future income taxes	(3,535)	(10,048)
Cash flow hedges – non-cash interest	1,312	(1,226)
Non-controlling interests	2,519	2,530
Accretion of convertible debentures	1,086	990
Distributions received from Cineplex Entertainment Limited Partnership (NOTE 12)	–	6,306
Tenant inducements	8,113	5,287
Changes in operating assets and liabilities (NOTE 23)	12,656	24,201
	140,630	131,911
INVESTING ACTIVITIES		
Proceeds from sale of theatre assets	2,470	35
Purchases of property, equipment and leaseholds	(60,177)	(22,664)
Theatre shutdown payment	(3,156)	(750)
Cash acquired on the acquisition of Cineplex Entertainment Limited Partnership (NOTE 3(C))	–	27,504
Acquisition of businesses (NOTES 3(A) AND 3(B))	(387)	(7,602)
	(61,250)	(3,477)
FINANCING ACTIVITIES		
Distributions paid	(53,564)	(47,483)
Distributions paid by the Cineplex Entertainment Limited Partnership to non-controlling interests	(17,017)	(13,277)
Borrowings under credit facility	13,000	51,000
Repayment of credit facility	(13,000)	(74,000)
Acquisition of long-term incentive plan Fund Units	(6,887)	–
Payments under capital leases	(1,581)	(1,112)
Deferred financing fees	–	(578)
	(79,049)	(85,450)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	331	42,984
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	44,254	1,270
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 44,585	$ 44,254
SUPPLEMENTAL INFORMATION		
Cash received for interest	$ 751	$ 4,268
Cash paid for interest	$ 20,307	$ 19,299
Cash paid for income taxes – net	$ 13	$ 5

Certain non-cash transactions occurred relating to exchanges of Class B LP Units and Class D LP Units for Fund Units (NOTES 3(C) AND 17).

These financial statements consolidate the results of Cineplex Entertainment Limited Partnership (the "Partnership") from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (note 3(c)).
The accompanying notes are an integral part of these consolidated financial statements.

Notes to consolidated financial statements

December 31, 2008 and 2007

(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 Entertainment Limited Partnership (the "Partnership") and shares of Cineplex Entertainment 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"). In 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. As of December 31, 2008, the Fund indirectly owns 76.0% of the Partnership. Non-controlling investors of the Partnership include COC, Cineplex Odeon (Quebec) Inc., Onex Corporation ("Onex") and other former investors in GEI. The Partnership is currently Canada's largest film exhibition organization, with theatres in six provinces.

Note 27 describes the Fund's indirect ownership increase to 97% of the Partnership subsequent to December 31, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Fund prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements of the Fund include its accounts and those of the Trust, and of the Partnership, its majority-owned subsidiary, which in turn consolidates its own subsidiaries and proportionately consolidates its joint venture interests. Prior to April 2, 2007, the results of the Partnership were accounted for by the equity method (note 3(c)).

The Fund also consolidates a trust administered by a third party that acts as trustee for the Long-Term Incentive Plan ("LTIP"). When required under the terms of the LTIP, the Partnership funds the LTIP trust subsequent to which the trustee acquires Fund Units on the open market. The unvested Fund Units, recorded at their carrying amount, are held in the LTIP trust to be distributed under the terms of the LTIP. The LTIP trust is considered a variable interest entity ("VIE") under The Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15 ("AcG 15"), *Consolidation of Variable Interest Entities*, as the total investment at risk is not sufficient to permit the LTIP trust to finance its activities without additional support. The Fund holds a variable interest in the LTIP trust and has determined that it is the primary beneficiary of the LTIP trust, and, therefore, has consolidated the LTIP trust. The Fund has not guaranteed the value of the units held by the LTIP trust should the market value of the Fund's units decrease from the value at which the LTIP trust acquired the Fund Units. As at December 31, 2008, consolidating the LTIP trust resulted in a $5,493 (2007 – $1,802) decrease in assets and unitholders' capital and had no impact on the net income of the Fund.

The Fund has an interest in six 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.

ACCOUNTING CHANGES REQUIRING REVISION OF PRIOR PERIODS' FINANCIAL STATEMENTS

FUTURE INCOME TAXES

In August 2008, the CICA issued Emerging Issues Committee ("EIC") EIC-171, *Future Income Tax Consequences of Exchangeable Interests in an Income Trust or Specified Investment Flow-Through*, which concludes that temporary differences associated with assets and liabilities attributable to exchangeable interests should not be recorded prior to the conversion of the exchangeable interests. The conversion of an exchangeable interest is a capital transaction, and the future income taxes recognized on the exchanged interests should be charged or credited to equity at that time.

In accordance with then-applicable GAAP, the Fund previously recorded the future income taxes, based on all temporary differences of its assets and liabilities, including those attributable to the exchangeable interests. The balance of the temporary differences associated with assets and liabilities attributable to exchangeable interests was previously reflected in non-controlling interests on the consolidated balance sheets.

EIC-171 requires retrospective application to the period ended June 30, 2007, the period during which income tax proposals pertaining to the taxation of the Fund became substantially enacted. In addition to the effect on future income taxes and non-controlling interests relating to the derecognition of the temporary differences attributable to the exchangeable interests, goodwill and future income taxes have been revised to reflect the adjusted fair value associated with the April 2, 2007 exchange of Partnership units for Fund Units (note 3(C)), as impacted by EIC-171. Unitholders' capital has been revised to reflect the adjusted balance of non-controlling interests that was reclassified to unitholders' capital on the March 2008 exchange of Partnership units (note 17). Net income was not affected by the retrospective application of EIC-171.

The following are the effects of the revision on previously reported periods:

CONSOLIDATED BALANCE SHEETS	June 30, 2007	September 30, 2007	December 31, 2007	March 31, 2008	June 30, 2008
Future income taxes – previously reported	$ 14,297	$ 7,879	$ 10,188	$ 8,166	$ 11,083
Adjustment	(1,115)	447	(2,481)	(1,964)	(2,665)
Future income taxes – revised	$ 13,182	$ 8,326	$ 7,707	$ 6,202	$ 8,418
Goodwill – previously reported	$ 595,548	$ 599,644	$ 600,975	$ 601,035	$ 601,052
Adjustment	(752)	(752)	(752)	(752)	(752)
Goodwill – revised	$ 594,796	$ 598,892	$ 600,223	$ 600,283	$ 600,300
Non-controlling interests – previously reported	$ 180,290	$ 179,065	$ 174,787	$ 165,622	$ 162,394
Adjustment	(1,867)	(305)	(3,233)	(2,709)	(3,410)
Non-controlling interests – revised	$ 178,423	$ 178,760	$ 171,554	$ 162,913	$ 158,984
Unitholders' capital – previously reported	$ 570,467	$ 570,595	$ 570,728	$ 570,267	$ 570,647
Adjustment	–	–	–	(7)	(7)
Unitholders' capital – revised	$ 570,467	$ 570,595	$ 570,728	$ 570,260	$ 570,640

CONSOLIDATED STATEMENTS OF OPERATIONS – QUARTERLY	Three months ended June 30, 2007	Three months ended September 30, 2007	Three months ended December 31, 2007	Three months ended March 31, 2008	Three months ended June 30, 2008
Provision for (recovery of) future income taxes – previously reported	$ (7,669)	$ 6,418	$ (12,030)	$ 2,023	$ (2,917)
Adjustment	1,867	(1,562)	2,928	(486)	701
Provision for (recovery of) future income taxes – revised	$ (5,802)	$ 4,856	$ (9,102)	$ 1,537	$ (2,216)
Non-controlling interests – previously reported	$ 2,100	$ 3,404	$ 259	$ (2,218)	$ 469
Adjustment	(1,867)	1,562	(2,928)	486	(701)
Non-controlling interests – revised	$ 233	$ 4,966	$ (2,669)	$ (1,732)	$ (232)

CONSOLIDATED STATEMENTS OF OPERATIONS – YEAR TO DATE	Six months ended June 30, 2007	Nine months ended September 30, 2007	Year ended December 31, 2007	Three months ended March 31, 2008	Six months ended June 30, 2008
Provision for (recovery of) future income taxes – previously reported	$ (7,669)	$ (1,251)	$ (13,281)	$ 2,023	$ (894)
Adjustment	1,867	305	3,233	(486)	215
Provision for (recovery of) future income taxes – revised	$ (5,802)	$ (946)	$ (10,048)	$ 1,537	$ (679)
Non-controlling interests – previously reported	$ 2,100	$ 5,504	$ 5,763	$ (2,218)	$ (1,749)
Adjustment	(1,867)	(305)	(3,233)	486	(215)
Non-controlling interests – revised	$ 233	$ 5,199	$ 2,530	$ (1,732)	$ (1,964)

CHANGES IN ACCOUNTING POLICIES

UNIT BASED COMPENSATION

The Fund accounts for its Fund Unit options in accordance with the fair value based method. The fair value of Fund Unit options that will be settled in cash is measured at each balance sheet date, based on the market price of Fund Units and is recorded as compensation expense on a graded basis over the Fund Unit options' vesting periods. Forfeitures are not estimated, but recorded when they occur. The Fund Unit options are disclosed in note 20.

CAPITAL DISCLOSURES

In December 2006, the CICA issued Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Fund adopted this new standard effective January 1, 2008. Capital disclosures are described in note 5.

FINANCIAL INSTRUMENTS – DISCLOSURES AND PRESENTATION

In December 2006, the CICA issued Handbook Section 3862, *Financial Instruments – Disclosures*, and CICA Handbook Section 3863, *Financial Instruments – Presentation*. These standards enhance existing disclosures in previously issued CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*. CICA Handbook Section 3862 places greater emphasis on disclosures about risks related to recognized and unrecognized financial instruments and how those risks are managed. CICA Handbook Section 3863 carries forward the same presentation standards as CICA Handbook Section 3861. These new standards are effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Fund adopted these new standards effective January 1, 2008. Additional disclosures required by CICA Handbook Section 3862 are provided in note 4.

FINANCIAL STATEMENT PRESENTATION

In April 2007, the CICA Accounting Standards Board amended CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*. These amendments require management to disclose any uncertainties that cast significant doubt on the entity's ability to continue as a going concern. In assessing whether the going concern assumption is appropriate, management must take into account all available information about the future, which is at least, but is not limited to, 12 months from the balance sheet date. This standard was adopted on January 1, 2008 on a prospective basis and did not affect the consolidated financial statements.

INVENTORIES

In June 2007, the CICA issued Handbook Section 3031, *Inventories*, which replaces CICA Handbook Section 3030, *Inventories*. The standard requires inventory to be measured at the lower of cost or net realizable value and requires any writedowns to be reversed if the value subsequently recovers, provides expanded guidance on the determination of cost, including the allocation of certain overhead costs, and expands disclosures. There was no effect on the consolidated financial statements when the new standard was adopted on January 1, 2008.

SIGNIFICANT ACCOUNTING POLICIES

ACCOUNTING CHANGES

The Fund reviews all changes in GAAP to determine the impact, if any, on the consolidated financial statements. The Fund voluntarily changes accounting policies only when they result in the financial statements providing reliable and more relevant information. All changes in accounting policy are applied retrospectively, unless doing so is prohibited by a revised accounting standard or is impracticable. Prior periods' errors are corrected retrospectively and the effects of changes in accounting policies, estimates and errors on the consolidated financial statements are disclosed.

CASH AND CASH EQUIVALENTS

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

FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification, as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments as follows:

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the year are recorded as interest income;`
- Accounts receivable are classified as loans and receivables;
- Interest rate swap agreements are accounted for as cash flow hedges;
- Distributions payable, due to related parties and accounts payable and accrued expenses are classified as other liabilities; and
- Bank indebtedness, long-term debt and the liability component of convertible debentures are accounted for as other financial liabilities measured at amortized cost.

Settlement date accounting continues to be used for all financial assets, except that changes in fair value between the trade date and settlement date for held-for-trading financial assets are reflected in the consolidated statements of operations, while changes in fair value between trade date and settlement date for available-for-sale financial assets are reflected in other comprehensive income ("OCI").

HELD-FOR-TRADING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Held-for-trading financial assets and financial liabilities are measured at fair value at the dates of the consolidated balance sheets. Interest paid or earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in the consolidated statements of operations. The Fund has not designated any non-derivative financial liabilities as fair value financial liabilities.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets that are initially recognized at fair value and, thereafter, are accounted for at cost or amortized cost using the effective interest method.

OTHER LIABILITIES

Other liabilities are non-derivative financial liabilities that are initially recognized at fair value and, thereafter, are recorded at cost or amortized cost.

DERIVATIVES

Derivatives, including embedded derivatives that meet separate recognition criteria, are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value. Changes in fair value during the year are recorded in the consolidated statements of operations, unless the derivative is designated and qualifies for hedge accounting. As at December 31, 2008, the only derivatives outstanding are the Fund's interest rate swap agreements, which are accounted for as cash flow hedges. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred.

TRANSACTION COSTS

Transaction costs are expensed as incurred. Transaction costs do not include debt premiums or discounts or financing costs, which are netted against the carrying amount of the liability and then amortized over the expected life of the instrument using the effective interest method. In addition, transaction costs do not include direct transaction costs in a business combination that are included as part of the purchase price of the acquisition.

DETERMINATION OF FAIR VALUE

The fair value of a financial instrument is the amount of consideration that would be agreed on in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of a financial instrument on initial recognition is the transaction price, which is the fair value of the consideration given or received. Subsequent to initial recognition, the fair values of financial instruments that are quoted in active markets are based on bid prices for financial assets held and offer prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques that refer to observable market data.

INVENTORIES

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

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 Fund assesses the recoverability of its long-lived assets by determining whether the carrying amounts of these assets over their remaining lives 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 Fund 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 Fund 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 amounts of the assets, the assets would be written down to their estimated fair values.

CAPITALIZED INTEREST

The Fund capitalizes interest on amounts drawn on the Revolving Facility that are used to finance the ongoing development of theatre projects. Interest is capitalized on projects under development up to the date each theatre enters productive use.

DEFERRED CHARGES

Deferred charges consist principally of payments made with respect to the early termination of leases and are amortized according to the terms of the termination agreement.

INTANGIBLE ASSETS AND LIABILITIES

Intangible assets represent the value of trademarks, trade names, leases and advertising contracts of the Fund. As the useful lives of the Partnership, GEI and Famous Players trademarks and trade names are indefinite, no amortization is recorded. Intangible assets with indefinite service lives 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 amount. 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 on a straight-line basis over the remaining term of the lease against occupancy expense.

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. Goodwill is allocated to operating segments, which comprise groups of theatres within areas of geographic operating and financial management responsibility. The operating segments are considered reporting units for the purposes of impairment testing. A goodwill impairment loss is recognized in net income when the estimated fair value of the goodwill of an operating segment is less than the carrying amount of that operating segment.

LEASES

Leases are classified as either capital or operating. Leases that transfer substantially all of the risks and benefits of ownership to the Fund 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.

ASSET RETIREMENT OBLIGATIONS

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 are recognized in the year in which they are 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 operating expense for the year.

The Fund 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 properties.

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 extend to December 2028, has been estimated to be $1,993. The credit-adjusted, risk-free rate at which the cash flows have been discounted ranges from 5.30% to 6.27%.

EMPLOYEE FUTURE BENEFITS

The Fund is the sponsor of a number of employee benefit plans. These plans include defined benefit pension plans, a defined contribution pension 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.

b) Defined contribution pension plan

Costs for the Fund's defined contribution pension plan are recognized in income during the period in which the employees' services are provided.

REVENUES

Box office and concession sales are recognized, net of applicable taxes, when sales are recorded at the theatre. 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 year earned or redeemed.

GIFT CERTIFICATES, GIFT CARDS AND LOYALTY POINTS

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

MULTIPLE DELIVERABLE ARRANGEMENTS

The Fund 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 Fund 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 unit 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 residual method calculation. 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 on the terms of the respective film licence agreements. In some cases, the final film cost is dependent on the ultimate duration of the film's play and, until this is known, management uses its best estimate of the final settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the year the Fund settles with the distributors. Actual settlement of these film costs could differ from those estimates.

CONSIDERATION RECEIVED FROM VENDORS

The Fund receives rebates from certain vendors with respect to the purchase of concession goods. In addition, the Fund receives payments from vendors for advertising undertaken by the theatres on behalf of the vendors. The Fund recognizes rebates earned for purchases of each vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as other revenue.

THEATRE SHUTDOWN AND LEASE BUYOUTS

Theatre lease costs and other closure expenses are recognized at the time a theatre closes. Where the theatre has ceased operations but the lease has not been terminated, costs are recorded in occupancy expenses in the consolidated statements of operations, unless the theatre's operating results are included in discontinued operations. If the costs have arisen as the result of the termination of the lease, costs are recorded in gain (loss) on disposal of theatre assets, 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.

DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

Per CICA Handbook Section 3475, *Disposal of Long-lived Assets and Discontinued Operations*, a long-lived asset must be classified as an asset held-for-sale in the period during which all required criteria have been met. A long-lived asset to be disposed of by sale must be measured at the lower of its carrying amount or fair value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Financial assets and financial liabilities classified as held-for-sale are recorded in the consolidated balance sheets as financial assets held-for-sale and as financial 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 Fund's component, disposed of by sale, by withdrawal or being classified as held-for-sale, be included in discontinued operations if the operations or cash flows of the component have been, or will be, eliminated from the Fund's current operations pursuant to the disposal, and if the Fund does not have significant continuing involvement in the operations of the component after the disposal transaction. Each theatre is considered a component of the Fund, as the operations and cash flows can be individually distinguished.

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 are allocated to discontinued operations.

PRE-OPENING COSTS

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

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. Income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders.

Currently, the Fund does not pay taxes on income it distributes to its unitholders. Income tax changes substantively enacted into law on June 12, 2007 will result in the Fund's income being subject to income taxes at the trust level effective January 1, 2011.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income 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 year 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 Fund 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 dates of the transactions. Foreign currency exchange gains and losses arising from translation are included in net income.

USE OF ESTIMATES

The preparation of consolidated financial statements in accordance 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 business combinations; the assessment of theatre cash flows to identify potential asset impairments; the assessment of the fair value of the theatres in the Partnership 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 cards that remain unutilized and in circulation for revenue recognition purposes; the estimation of film cost payable accrual; estimates of the useful lives of property, equipment and leaseholds; the fair value of the interest rate swap agreements; 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.

NET INCOME PER FUND UNIT

Basic net income per Fund Unit is computed by dividing the net income available for unitholders by the weighted average number of Fund Units outstanding during the year. Diluted income per Fund Unit is 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.

FUTURE CHANGES IN ACCOUNTING POLICIES

The Fund reviews all changes to the CICA Handbook when issued. The following is a discussion of relevant items that were released, revised or will become effective after December 31, 2008:

CONVERSION TO AN INCORPORATED ENTITY

In April 2008, the CICA issued EIC-170, *Conversion of an Unincorporated Entity to an Incorporated Entity*, which describes accounting and presentation by businesses that undergo such a conversion after the issuance of EIC-170. EIC-170 had no effect on the consolidated financial statements for the current period.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Fund is analyzing the impact of IFRS on its consolidated financial statements.

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which replaces CICA Handbook Section 3062, *Goodwill and Other Intangible Assets*, and CICA Handbook Section 3450, *Research and Development Costs*. The new standard is not expected to have any effect on the Fund's consolidated financial statements when adopted on January 1, 2009.

BUSINESS COMBINATIONS

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaces CICA Handbook Section 1581, *Business Combinations*. The new standard must be adopted on or before January 1, 2011 and will be applied prospectively; previous business combinations will not be restated. While there will be no impact on the consolidated financial statements on adoption of the new standard, differences in recognition and measurement may result in a materially different future financial position and results of operations from business combinations accounted for in accordance with the existing standard.

CONSOLIDATED FINANCIAL STATEMENTS AND MINORITY INTERESTS

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-controlling Interests*, which together replace CICA Handbook Section 1600, *Consolidated Financial Statements*. The new standards must be adopted on or before January 1, 2011. The Fund is analyzing the impact on its consolidated financial statements.

3. BUSINESS ACQUISITIONS

A) FORMER JOINT VENTURE

On December 31, 2007, the Fund acquired the other venturer's interest in a joint venture, representing a 50% interest in three theatres in Quebec. On closing, the Fund controls 100% of the former joint venture. The Fund paid consideration in the amount of $1,409, net of cash acquired. The acquisition has been accounted for using the purchase method; accordingly, results of operations of the business acquired have been included in the consolidated financial statements from the acquisition date, and the purchase price is allocated to the assets and liabilities acquired, based on their estimated fair values. Based on management's best estimate, the purchase price has been allocated as follows:

ASSETS ACQUIRED		
Net working capital	$	27
Property, equipment and leaseholds		1,208
Goodwill		292
NET ASSETS		1,527
Less: Cash from acquisition		91
	$	1,436
CONSIDERATION GIVEN		
Cash paid for acquisition	$	1,500
Payable to vendor		27
Less: Cash from acquisition		91
	$	1,436

The purchase price allocation was finalized in 2008, with no adjustments to the initial purchase price allocation.

B) CINEMA CITY

On July 13, 2007, the Fund acquired Cinema City branded theatres located in Winnipeg, Manitoba and Edmonton, Alberta. The Fund paid consideration in the amount of $6,193, before transaction costs. The acquisition has been accounted for using the purchase method; accordingly, the results of operations of the business acquired have been included in these consolidated financial statements since the acquisition date, and the purchase price is allocated to the assets and liabilities acquired, based on their fair values.

The final allocation of the purchase price has been allocated to the assets as follows:

ASSETS ACQUIRED		
Net working capital	$	124
Trade name – estimated 15-year life		370
Property, equipment and leaseholds		2,017
Goodwill		3,813
NET ASSETS		6,324
Less: Cash from acquisition		31
	$	6,293
CONSIDERATION GIVEN		
Cash paid for acquisition	$	6,224
Less: Cash from acquisition		31
		6,193
Transaction costs associated with acquisition		100
	$	6,293

The amount of goodwill arising from this transaction that is deductible for income tax purposes is estimated to be $3,000.

C) ACQUISITION OF CONTROL AND CONSOLIDATION OF CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

As a result of the various step acquisitions (the "Step Acquisitions") that took place prior to December 31, 2006, the Fund's indirect ownership of the Partnership, held through the Trust, was approximately 59.7% as at April 1, 2007. These step acquisitions were a result of subscriptions of Partnership units as well as exchanges of Fund Units for Class B LP Units and Class D LP Units, indirectly through the Trust, on a one-for-one basis.

On April 2, 2007, under the provisions of the Exchange Agreement, COC exchanged 9,122,751 Class B, Series 1 and Series 2-C LP Units for 9,122,751 Fund Units. The Fund recorded the Partnership units it acquired at the fair market value of the Fund Units, which was $143,136 on the date of the transaction.

Prior to the April 2, 2007 Step Acquisition, the Fund accounted for its ownership interest in the Partnership under the equity method. As a result of the April 2, 2007 exchange, the Fund indirectly acquired an additional 16.0% interest in the Partnership, increasing its ownership in the Partnership to 75.7%. The acquisition of the additional interest in the Partnership is accounted for as a step acquisition as at April 2, 2007 for the purpose of purchase price allocation and the assigning of costs to identifiable assets and liabilities, intangible assets and goodwill.

As a result of all of the Fund's Step Acquisitions in the Partnership, the Fund acquired control of the Partnership and applied consolidation accounting effective April 2, 2007. The Step Acquisitions have been accounted for by the purchase method, with the non-controlling interests accounted for in accordance with EIC-151, *Exchangeable Securities Issued by Subsidiaries of Income Trusts*; accordingly, the results of operations of the Partnership have been included in these consolidated financial statements, effective with the change in control on April 2, 2007. Based on management's best estimates, the cumulative purchase

price has been allocated to the assets and liabilities of the Partnership as follows:

ASSETS AND LIABILITIES ACQUIRED	
Property, equipment and leaseholds	$ 485,450
Advertising contracts – amortized over three to five years	54,967
Trademarks and trade names – indefinite useful lives	76,385
Goodwill (revised from $597,925) (NOTE 2)	597,173
Fair value of interest rate swap agreements	2,121
Fair value of leases – assets	10,216
Future income taxes (revised from ($3,094) (NOTE 2)	(2,342)
Other assets	1,185
Net working capital deficiency (including cash of $27,504)	(39,576)
Bank indebtedness	(5,000)
Long-term debt	(250,280)
Net pension liability	(2,513)
Other liabilities	(91,071)
Capital leases	(37,539)
Non-controlling interests	(181,172)
NET ASSETS	$ 618,004
CONSIDERATION GIVEN	
Initial investments in Partnership, net of Fund's share of accumulated Partnership income and distributions	$ 265,914
Investment in Partnership on April 2, 2007	143,136
Due from Galaxy Entertainment Inc.	100,000
Investment in Class C Partnership units	105,000
Distributions and interest receivable from the Partnership	3,678
	617,728
Transaction costs associated with acquisition	276
	$ 618,004

The purchase price allocation was finalized during the first quarter of 2008, with goodwill and transaction costs increasing $76 from the allocation disclosed in the 2007 annual consolidated financial statements. The allocation was revised in the third quarter of 2008 to reduce goodwill and future income taxes by $752 in accordance with the retrospective application of EIC-171 (note 2).

Prior to the Fund's Step Acquisitions of the Partnership, the Fund and the Partnership entered into a reimbursement agreement under which fees associated with the acquisitions were reimbursed by the Partnership. Therefore, certain of the transaction costs are included in the acquired net assets of the Partnership.

The Partnership 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 this Step Acquisition, the amount of goodwill that is deductible by the Fund for income tax purposes was estimated to be $209,000.

NON-CONTROLLING INTERESTS – EXCHANGEABLE UNITS

Class B LP Units and Class D LP Units ("exchangeable units") are indirectly exchangeable one-for-one for Fund units in the manner set out in the Exchange Agreement. As a result of the Step Acquisitions and the Fund's acquiring control of the Partnership, exchangeable units are accounted for in accordance with EIC-151.

EIC-151 provides guidance on how the exchangeable units classified as non-controlling interests should be measured. When the Fund acquired the Partnership, it met the criteria for use of the exchange amount. The Fund's acquisition of the Partnership was accomplished by Step Acquisitions after the inception of the Partnership; therefore, the April 2, 2007 exchange amount used to initially record the non-controlling interests is the weighted average of the fair value of the Fund's Step Acquisitions of the Partnership. Since the exchangeable units are presented as non-controlling interests in these consolidated financial statements and were recorded at the exchange amount, any subsequent exchange after April 2, 2007 is accounted for as a rollover to unitholders' equity at that same value.

In March 2008, 174,502 Partnership units were exchanged for 174,502 Fund Units and $2,139 was reclassified from non-controlling interests to unitholders' capital. The Fund's indirect ownership of the Partnership increased 0.3% to 76.0% as a result of these exchanges.

D) FAMOUS PLAYERS MAGAZINES

During 2005, the Partnership entered into a Media Sales Governing Agreement, which allowed for the termination and wind-up of Famous Players Media Inc. ("FP Media") 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 includes 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. During 2007, prior to April 2, the Partnership paid the additional 2006 consideration and the scheduled initial acquisition payment. During 2007, the Fund incurred additional consideration of $287, resulting in a $287 addition to goodwill. During 2008, the Fund paid the additional 2007 consideration and scheduled initial acquisition payment and incurred final additional consideration of $264, resulting in a $264 addition to goodwill.

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 final purchase price has been allocated as follows:

ASSETS ACQUIRED		
Equipment	$	113
Goodwill		2,044
NET ASSETS	$	2,157
CONSIDERATION		
Amounts paid	$	1,893
Amounts payable		264
	$	2,157

4. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and distributions payable are reflected in the consolidated financial statements at carrying amounts that approximate fair values because of the short-term maturities of these financial instruments.

The long-term debt has a market value approximately equal to its face value of $235,000, due to its market rate of interest.

The convertible debentures are publicly traded on the Toronto Stock Exchange, and are recorded at amortized cost. Based on the published trading prices, management estimates that the convertible debentures have a fair value of $94,496 as at December 31, 2008 (2007 – $104,995).

In 2005, the Fund entered into interest rate swap contracts, maturing in July 2009, to effectively fix the interest rate on $200,000 of the long-term debt, reducing the exposure to interest rate changes. Under these interest rate swap agreements, the Fund pays a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap contracts have a fair value liability of approximately $3,300 as at December 31, 2008.

In 2008, the Fund entered into three future interest rate swap agreements. Under these interest rate swap agreements, the Fund will pay a fixed rate of 3.97% per annum, plus an applicable margin, and will receive a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. The interest rate swap agreements have a term of three years, commencing in July 2009 and maturing in July 2012, and an aggregate notional principal amount of $235,000. These interest rate swap agreements have a fair value liability of approximately $17,328 as at December 31, 2008.

The fair value effects on the interest rate swap agreements are based on outputs from a derivative valuation model, which utilizes spot and forward interest rates and discounted cash flow analysis.

The purpose of the interest rate swap agreements is to act as a cash flow hedge to manage the floating interest rate payable under the Term Facility (note 13). The Fund considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with CICA Handbook Section 3865, *Hedges*.

CREDIT RISK

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Management believes the credit risk on cash and cash equivalents is low because the counterparties are banks with high credit ratings.

Accounts receivable include trade and other receivables. Trade receivables are amounts billed to customers for the sales of goods and services. Other receivables include amounts due from suppliers, landlords, municipal tax authorities and other miscellaneous amounts. The Fund's credit risk is primarily related to its trade receivables, as other receivables generally are recoverable through ongoing business relationships with the counterparties.

The Fund grants credit to customers in the normal course of business. The Fund typically does not require collateral or other security from customers; however, credit evaluations are performed prior to the initial granting of credit when warranted and periodically thereafter. Based on historical experience, the Fund records a reserve for estimated uncollectible amounts, which management believes reduces credit risk. Management assesses the adequacy of the reserve quarterly, taking into account historical experience, current collection trends, the age of receivables and, when warranted and available, the financial condition of specific counterparties. Management focuses on trade receivables outstanding for more than 120 days in assessing the Fund's credit risk and records a reserve when required to mitigate that risk. When collection efforts have been exhausted, specific balances are written off.

The Fund's trade receivables had a carrying amount of $40,154 as at December 31, 2008, representing the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 45 days. Approximately 21% of trade receivables were past due as at December 31, 2008. Approximately 3% of trade receivables were outstanding for more than 120 days.

The following schedule reflects the changes in the allowance for trade receivables during 2008:

Allowance for trade receivables – Beginning of year	$	734
Allowance recorded against current year's sales		581
Adjustment based on collection experience		297
Amounts written off		(548)
Allowance for trade receivables – End of year	$	1,064

Due to the Fund's diversified client base, management believes the Fund does not have a significant concentration of credit risk.

LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities.

The table below reflects the contractual maturity of the Fund's undiscounted cash flows for its financial liabilities and interest rate swap agreements:

					Payments due by period
CONTRACTUAL OBLIGATIONS	Total	Within 1 year	2–3 years	4–5 years	After 5 years
Accounts payable and accrued expenses	$ 86,140	$ 86,140	$ –	$ –	$ –
Interest rate swap agreements	33,688	8,032	18,659	6,997	–
Long-term debt	235,000	–	–	235,000	–
Capital leases	52,151	4,187	8,797	8,880	30,287
Total contractual obligations	$ 406,979	$ 98,359	$ 27,456	$ 250,877	$ 30,287

The Fund also has significant contractual obligations in the form of operating leases (note 21) and new theatre and other capital commitments (note 24), as well as contingent obligations in the form of letters of credit, guarantees and long-term incentive and option plans.

The Fund expects to fund lease commitments through cash flows from operations. New theatre capital commitments not funded through cash flows from operations will be funded through the Fund's committed Revolving Facility.

Management believes the Fund's cash flows from operations and Revolving Facility will be adequate to support all of its financial liabilities.

CURRENCY RISK

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency exchange rates.

Substantially all of the Fund's revenues are in Canadian dollars, as are all but an insignificant portion of expenses, which are denominated in US dollars. Management considers currency risk to be low and does not hedge its currency risk. As variations in foreign currency exchange rates are not expected to have a significant impact on the results of operations, a sensitivity analysis is not presented.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to interest rate risk on its cash and cash equivalents and long-term debt, which earn and bear interest at floating rates.

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2008, the Fund recorded a non-cash interest expense of $1,312 relating to the cash flow hedge (2007 – non-cash interest expense reduction of $1,226). The Fund expects to reclassify $3,844 from accumulated other comprehensive loss to the consolidated statement of operations in 2009.

The following table shows the Fund's exposure to interest rate risk and the pre-tax effects on net income and OCI for the year ended December 31, 2008 of a 1% change in interest rates management believes is reasonably possible:

		Pre-tax effects on net income and OCI – increase (decrease)			
		1% decrease in interest rates		1% increase in interest rates	
	Carrying amount of liability	Net income	OCI	Net income	OCI
Long-term debt	$ (232,861)	$ 2,350	$ –	$ (2,350)	$ –
Interest rate swap agreements – net	(20,628)	(2,000)	(8,418)	2,000	8,080
		$ 350	$ (8,418)	$ (350)	$ 8,080

5. CAPITAL DISCLOSURES

The Fund's objectives when managing capital are to:

a) maintain financial flexibility to preserve its ability to meet financial obligations and growth objectives, including future investments;

b) deploy capital to provide an appropriate investment return to its unitholders; and

c) maintain a capital structure that allows multiple financing options to the Fund, should a financing need arise.

The Fund defines its capital as follows:

a) unitholders' equity and non-controlling interests;

b) long-term debt and capital leases, including the current portion;

c) convertible debentures; and

d) cash and cash equivalents and short-term investments.

It is the Fund's policy to distribute annually to unitholders available cash from operations after cash required for maintenance capital expenditures, working capital and other reserves at the discretion of the Trustees.

The Fund is subject to certain covenants on the Partnership's credit facilities agreement, which defines certain non-GAAP terms and measures. The Partnership's total leverage ratio may not exceed 3.00 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 3.50 to 1 for a 12-month period before reverting automatically to 3.00 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit agreement) for the past four quarters. The Partnership also must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the Fund's covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. The Fund has complied with all covenant requirements during the years ended December 31, 2008 and 2007. Management also monitors the Partnership's annualized payout ratio, calculated as distributions declared divided by distributable cash. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

The basis for the Fund's capital structure is dependent on the Fund's expected growth and changes in the business and regulatory environments. To maintain or adjust its capital structure, the Fund may purchase Fund Units for holding or cancellation, issue new Fund Units, raise debt or refinance existing debt with different characteristics.

While objectives and strategies are reviewed periodically, the Fund's capital and objectives in managing capital have remained substantially unchanged over the past two completed fiscal years. Management is currently reviewing the capital structure of the Fund in response to the Fund's income being subject to income taxes at the trust level effective January 1, 2011.

6. PROPERTY, EQUIPMENT AND LEASEHOLDS

Property, equipment and leaseholds consist of:

			2008
	Cost	Accumulated amortization	Net
Land	$ 17,839	$ –	$ 17,839
Buildings and leasehold improvements	440,730	158,904	281,826
Buildings and leasehold improvements under capital lease	34,339	7,835	26,504
Equipment	336,898	221,022	115,876
Equipment under capital lease	17,977	8,726	9,251
Construction-in-progress	4,589	–	4,589
	$ 852,372	$ 396,487	$ 455,885

			2007
	Cost	Accumulated amortization	Net
Land	$ 10,969	$ –	$ 10,969
Buildings and leasehold improvements	410,072	137,337	272,735
Buildings and leasehold improvements under capital lease	34,339	5,517	28,822
Equipment	324,310	187,847	136,463
Equipment under capital lease	17,977	6,113	11,864
Construction-in-progress	653	–	653
	$ 798,320	$ 336,814	$ 461,506

Total amortization during the year ended December 31, 2008 was $70,319 (2007 – $66,782). Included in this amount is amortization of property under capital lease of $4,931 (2007 – $4,873).

7. FUTURE INCOME TAXES

The future income taxes recorded reflect temporary differences primarily expected to reverse in 2011 and, thereafter, at a tax rate of 28.0% as follows:

	2008	2007
		(Revised – note 2)
Future income tax assets		
Property, equipment and leaseholds and deferred tenant inducements – difference between net carrying amount and undepreciated capital cost	$ 20,699	$ 15,220
Accounting provisions not currently deductible	2,887	2,683
Rent averaging liabilities	6,774	5,550
Financing costs	66	203
Deferred revenue	89	109
Interest rate swap agreements	1,857	–
Losses available for carry-forward	4,536	3,407
Total gross future income tax assets	36,908	27,172
Future income tax liabilities		
Intangible assets	(16,692)	(16,721)
Goodwill	(5,757)	(2,598)
Other	(277)	(146)
Total gross future income tax liabilities	(22,726)	(19,465)
Net future tax asset before valuation reserve	14,182	7,707
Valuation reserve	(1,083)	–
Net future income tax asset	$ 13,099	$ 7,707

Current income taxes arise with respect to GEI and certain other subsidiaries of the Fund.

The provision for (recovery of) income taxes included in the consolidated statements of operations differs from the statutory income tax rate for the years ended December 31, 2008 and 2007 as follows:

	2008	2007
		(Revised – note 2)
Income before income taxes and non-controlling interests	$ 27,983	$ 23,712
Combined Canadian federal and provincial income tax rate	28.00%	28.00%
Income taxes payable at statutory rates	7,835	6,639
Income not taxable in the Fund	(8,253)	(6,997)
Change in tax rate for future income taxes	95	(10,048)
Permanent differences	37	352
Other	–	11
Change in estimated future income tax balance at December 31, 2010 caused by current year activity	(3,322)	–
Adoption of new accounting standard	69	–
Recovery of income taxes	$ (3,539)	$ (10,043)

As at December 31, 2008, GEI has losses available for carry-forward with the following expiry dates:

2013	$ 3,938
2014	7,598
2025	3,115
2028	945
	$ 15,596

8. INTANGIBLE ASSETS

Intangible assets consist of the following:

A) INTANGIBLE ASSETS SUBJECT TO AMORTIZATION

	2008		
	Cost	Accumulated amortization	Net
Advertising contracts	$ 65,835	$ 33,238	$ 32,597
Fair value of leases – assets	10,756	2,597	8,159
Trademarks and trade names	370	35	335
	$ 76,961	$ 35,870	$ 41,091

	2007		
	Cost	Accumulated amortization	Net
Advertising contracts	$ 65,835	$ 20,285	$ 45,550
Fair value of leases – assets	11,139	1,841	9,298
Trademarks and trade names	370	–	370
	$ 77,344	$ 22,126	$ 55,218

Amortization during the year ended December 31, 2008 was $13,828 (2007 – $11,664).

B) INTANGIBLE ASSETS NOT SUBJECT TO AMORTIZATION

	2008	2007
Trademarks and trade names	$ 76,385	$ 76,385

9. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	2008	2007
Accounts payable – trade	$ 19,970	$ 6,280
Film and advertising payables	31,121	31,568
Accrued salaries and benefits	13,733	14,282
Sales tax payable	5,764	7,263
Accrued occupancy costs	3,617	4,044
Other payables and accrued expenses	11,935	17,872
	$ 86,140	$ 81,309

10. DISTRIBUTIONS PAYABLE

The Fund has declared the following distributions during the year:

	2008		2007	
Record date	Amount	Amount per unit	Amount	Amount per unit
January	$ 4,324	$ 0.1000	$ 3,268	$ 0.0958
February	4,324	0.1000	3,268	0.0958
March	4,341	0.1000	3,268	0.0958
April	4,341	0.1000	4,142	0.0958
May	4,558	0.1050	4,324	0.1000
June	4,558	0.1050	4,324	0.1000
July	4,558	0.1050	4,324	0.1000
August	4,558	0.1050	4,324	0.1000
September	4,558	0.1050	4,324	0.1000
October	4,558	0.1050	4,324	0.1000
November	4,558	0.1050	4,324	0.1000
December	4,558	0.1050	4,324	0.1000

The distributions are paid within 30 days following the end of each month. Distributions are determined by reducing the amounts received by the Fund by all interest, expenses and repayment of borrowings incurred or reasonably expected to be incurred by the Fund, including any income tax liabilities of the Fund, and all amounts which are related to the redemption of the convertible debentures or Fund Units. Distributions paid are at the discretion of the Board of Trustees of the Fund. In addition to the above, the Partnership has amounts payable as at December 31, 2008 to the non-controlling interests of $1,443 (2007 – $1,391).

11. CAPITAL LEASE OBLIGATIONS

The Fund has 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:

2009	$ 4,187
2010	4,357
2011	4,440
2012	4,440
2013	4,440
Thereafter	30,287
	52,151
Less: Amount representing interest (average rate of 7.3%)	17,320
	34,831
Less: Current portion	1,700
	$ 33,131

Interest expense related to capital lease obligations was $2,606 for the year ended December 31, 2008 (2007 – $1,681).

12. RELATED PARTY TRANSACTIONS

On December 30, 2008, the Fund acquired from COC the land and building of its head office location and three drive-in theatre properties, which the Fund historically has operated. The Fund paid consideration of $9,600, based on independent valuations. The transactions were not in the ordinary course of business for either party. Prior to the transactions, COC charged the Fund $521 in rent for the head office during 2008 (2007 – $391). This expense is included in general and administrative expenses.

The Fund provides COC with certain management services for which it charged COC $nil during 2008 (2007 – $32). This revenue is included in other revenue. All payables and receivables with COC are due on demand and are non-interest bearing.

The Fund performs certain management and film booking services for the joint ventures in which it is a joint venturer. During the year ended December 31, 2008, the Fund earned revenue in the amount of $540 with respect to these services (2007 – $594).

Prior to acquisition of control and consolidation of the Partnership on April 2, 2007, the Fund recorded the distributions it received on the Class A LP Units, Class B LP Units and Class D LP Units as reductions of the Fund's investment in the Partnership. For the period in 2007 prior to April 2, 2007, the Fund received $6,306 of distributions from the Partnership.

Interest income earned by the Fund from the Class C LP Unit distributions was $1,580 for the period in 2007 prior to April 2, 2007.

During the period prior to consolidation in 2007, the Fund earned $3,500 of interest on a note receivable from GEI.

During the years ended December 31, 2008 and 2007, investors related to the Fund exchanged Class B LP Units and Class D LP Units for Fund Units under the provisions of the Exchange Agreement (notes 3(c) and 17).

Unless otherwise noted, 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.

13. LONG-TERM DEBT

On July 25, 2007, the Fund entered into the second amended and restated credit agreement with a syndicate of lenders consisting of the following facilities (collectively the "Second Amended Credit Facilities"):

a) a five-year, $130,000, senior, secured, revolving, credit facility, maturing on July 25, 2012 (the "Revolving Facility"); and

b) a five-year, $235,000, senior, secured, non-revolving, credit facility, maturing on July 25, 2012 (the "Term Facility").

The Second Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate or on the banker's acceptances rate plus, in each case, an applicable margin to those rates, which will vary based on certain financial ratios. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

The amendment of the previous amended credit facilities was considered a renegotiation of debt under EIC-88, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, and, as a result, deferred financing fees of $578 associated with the Second Amended Credit Facilities were added to the unamortized deferred financing fees of $2,456, associated with the previous amended credit facilities, and are amortized using the effective interest method over the remaining term.

The Revolving Facility is for general corporate purposes and to fund approved projects or investments. There are provisions to increase the $130,000 Revolving Facility commitment amount by an additional $100,000 with the consent of the lenders. The Term Facility is payable in full at maturity, with no scheduled repayment of principal required prior to maturity. Loans under the Second Amended Credit Facilities are repayable without any prepayment penalties.

Long term debt consists of:

	2008	2007
Term Facility	$ 235,000	$ 235,000
Deferred financing fees	(2,139)	(2,735)
	$ 232,861	$ 232,265

As at December 31, 2008, letters of credit of $899 were reserved against the Revolving Facility (2007 – $515).

As at December 31, 2008, the Fund was subject to a margin of 0.625% (2007 – 0.375%) on the prime rate and 1.625% (2007 – 1.375%) on the banker's acceptance rate, plus a 0.125% (2007 – 0.125%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Second Amended Credit Facilities and the previous amended credit facilities was 5.1% for the year ended December 31, 2008 (2007 – 5.8%). The Fund pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.425% as at December 31, 2008 (2007 – 0.350%).

The Second Amended Credit Facilities are secured by all of the Fund's assets, including: (i) the Fund's shares of GEI; (ii) the assets of the Fund, Famous Players, the General Partner and GEI; (iii) the Fund's investment in Famous Players and its general partner, Famous Players Co. The Second Amended Credit Facilities are also guaranteed by GEI. In addition, the Trust has guaranteed the Second 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 GEI note receivable.

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

2009	$ –
2010	–
2011	–
2012	235,000
	$ 235,000

14. ACCRUED PENSION BENEFIT LIABILITY

PENSION AND OTHER RETIREMENT BENEFIT PLANS

The Fund 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. Members with frozen defined benefits were given the option to either convert the value of their frozen defined benefits 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. The full effect of settling the defined benefit obligations is reflected in the 2007 pension expense and the December 31, 2007 disclosure amounts. In addition, the Fund sponsors a supplementary executive retirement plan.

The Fund 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 Fund 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. During 2007, annuities were purchased on behalf of all retired members in receipt of a pension from the Retirement Plan for Salaried Employees of Famous Players Limited Partnership. The purchase of these annuities constitutes a settlement and its impact is reflected in the 2007 pension expense and the December 31, 2007 disclosure amounts. Effective December 31, 2007, the Fund declared a full wind-up of the Retirement Plan for Salaried Employees of Famous Players Limited Partnership. Regulatory approval was granted in December 2008 and all defined benefit pension entitlements will be settled and recognized in 2009.

In addition, the Fund has assumed sponsorship of certain post-retirement health care benefits for a closed group of grandfathered Famous Players retirees.

CASH CONTRIBUTIONS

Cash contributed by the Fund to the Cineplex Entertainment Plan's defined contribution provision was $727 (2007 – $598). Cash contributed by the Fund to the Famous Players defined benefit plan was $372 (2007 – $2,735). Cash payments of $19 (2007 – $14) were made toward the defined benefit provision under the Cineplex Entertainment Plan.

As at December 31, 2008, none of the remaining defined benefit plans were fully funded.

DEFINED BENEFIT PROVISIONS

The Fund 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 Famous Players defined benefit plan for funding purposes was as at December 31, 2008, reflecting the wind-up position.

RECONCILIATION OF THE ACCRUED BENEFIT OBLIGATIONS

	2008	2007
Accrued benefit obligations		
Balance – Beginning of year	$ 16,255	$ –
Acquisitions	–	33,922
Current service cost – defined benefit provisions	198	192
Interest cost	793	1,205
Benefits paid	(530)	(3,157)
Actuarial (gains) losses	(472)	3,118
Settlements	–	(19,025)
Balance – End of year	$ 16,244	$ 16,255

The accrued benefit obligation in respect of post-retirement health care benefits at the end of 2008 is $420 (2007 – $496).

The aggregate accrued benefit obligation for the individual defined benefit pension plans that have deficits is $15,824 and the fair value of plan assets is $12,528 as at December 31, 2008.

RECONCILIATION OF THE FAIR VALUE OF PLAN ASSETS

	2008	2007
Fair value of plan assets		
Balance – Beginning of year	$ 12,655	$ –
Acquisitions	–	32,489
Actual return on plan assets	(109)	50
Employer contributions	512	2,206
Benefits paid	(530)	(3,065)
Settlements	–	(19,025)
Balance – End of year	$ 12,528	$ 12,655

Plan assets consist of:

	Percentage of defined benefit assets	
	2008	2007
Asset category		
Equity securities	–%	59%
Debt securities	35%	31%
Other	65%	10%
	100%	100%

RECONCILIATION OF THE UNFUNDED STATUS OF THE DEFINED BENEFIT PROVISIONS

	2008	2007
Fair value of plan assets	$ 12,528	$ 12,655
Accrued benefit obligations	(16,244)	(16,255)
Unfunded status of plans as at December 31	(3,716)	(3,600)
Unamortized net actuarial loss	2,192	2,579
Unamortized past service costs	592	349
Accrued pension benefit liability	$ (932)	$ (672)

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

	2008	2007
Current service cost – defined benefit provisions	$ 198	$ 192
Interest cost	793	1,205
Actual return on plan assets	109	(50)
Actuarial (gains) losses	(472)	3,118
Settlement loss	–	617
Elements of future pension costs before adjustments to recognize long-term nature	628	5,082
Adjustments to recognize long-term nature of future benefit costs		
Difference between expected and actual return on plan assets	(701)	(1,464)
Difference between recognized and actual actuarial gains	761	(3,118)
Difference between amortization of past service costs and actual plan amendments	85	44
Amortization of transitional obligation asset	–	(73)
	145	(4,611)
Benefit cost recognized	$ 773	$ 471

The benefit cost in respect of post-retirement health care benefits for 2008 is $56 (2007 – $7).

SIGNIFICANT ASSUMPTIONS

The significant assumptions used are as follows:

	2008	2007
Accrued benefit obligations as at December 31		
Discount rate		
Famous Players Plans – members < 55	4.75% for 10 years, 5.00% thereafter	4.75% for 10 years, 5.00% thereafter
Famous Players Plans – members > 55	4.25%	4.25%
All other plans	7.00%	5.50%
Rate of compensation increase	–	–
Benefit cost for year ended December 31		
Discount rate		
Famous Players Plans – members < 55	4.75% for 10 years, 5.00% thereafter	5.00%
Famous Players Plans – members > 55	4.25%	5.00%
All other plans	5.50%	5.00%
Expected long-term rate of return on plan assets	4.75%	6.50%
Rate of compensation increase	–	–
Health care cost trend rates as at December 31		
Initial rate	8.50%	9.00%
Ultimate rate	4.50%	4.50%
Year ultimate rate reached	2014	2014

SENSITIVITY ANALYSIS

	2008	
	Benefit obligation	Benefit expense
Impact of 1% increase in health care cost trend rate	$ 10	$ 1
Impact of 1% decrease in health care cost trend rate	$ (9)	$ (1)

DEFINED CONTRIBUTION PROVISION

	2008	2007
Total cost recognized for defined contribution provision	$ 727	$ 598

15. OTHER LIABILITIES

Other liabilities consist of the following:

	2008	2007
Deferred tenant inducements	$ 47,395	$ 42,491
Excess of straight-line amortization over lease payments	22,397	16,202
Fair value of leases – liabilities	27,142	30,013
Asset retirement obligations	482	466
Deferred gain on sale-leaseback transaction	9,158	8,553
Theatre shutdown and lease buyout accrual	139	1,374
Other	1,667	2,916
	$ 108,380	$ 102,015

16. CONVERTIBLE DEBENTURES

The convertible debentures were issued on July 22, 2005, have a final maturity date of December 31, 2012, and bear interest at a rate of 6.0% per annum, payable semi-annually on June 30 and December 31 each year. Each debenture is convertible into Fund Units at the option of the holder at a conversion price of $18.75 per Fund Unit. 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 on 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.

During the year ended December 31, 2007, convertible debentures having a face value of $5 were converted to 266 Fund Units at the option of a debentureholder.

The convertible debentures have characteristics of both debt and equity and, as such, on issuance, an amount of $96,454 was initially classified as a liability and the remaining $8,546 recorded in equity for total proceeds equal to the face value of $105,000. As a result, interest expense includes a charge for interest as well as accretion of the liability to the convertible debentures' aggregate face value outstanding of $104,995 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.

17. UNITHOLDERS' CAPITAL

The Fund may issue an unlimited number of Fund Units. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, whether of net income, 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 wind-up of the Fund.

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

Fund Units are redeemable at any time on demand by the unitholders. The redemption price per Fund Unit is equal to the lesser of 90% of the market price on the date of surrender of the unit for redemption and 100% of the closing market price on the redemption date. 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.

In March 2008, 174,502 Class B LP Units and Class D LP units were exchanged for 174,502 Fund exchangeable Units and $2,139 was reclassified from non-controlling interests to unitholders' capital. There are no exchangeable Class D LP units remaining.

During the year ended December 31, 2007, under the provisions of the Exchange Agreement, certain investors, including related parties, exchanged 9,122,751 Class B, Series 1 and 2-G LP Units and Class D LP Units for 9,122,751 Fund Units. The Fund recorded the Partnership units it acquired at the $143,136 fair market value of the Fund Units on the date of the transactions, resulting in a corresponding increase in unitholders' capital.

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. During the year ended December 31, 2007, convertible debentures having a face value of $5 were converted at the option of a debentureholder, and the Fund issued 266 Fund Units.

Unitholders' capital as at December 31 and transactions during the year are as follows:

	2008		2007	
	Number of Fund Units	Amount	Number of Fund Units	Amount
OPENING BALANCE – BEGINNING OF YEAR				
Fund Units	43,239,715	$ 562,960	34,116,698	$ 419,819
Convertible debentures – equity component	–	8,546	–	8,546
LTIP compensation obligation	–	1,024	–	–
LTIP Fund Units	(117,491)	(1,802)	–	–
	43,122,224	570,728	34,116,698	428,365
TRANSACTIONS DURING THE YEAR				
Issuance of Fund Units under the Exchange Agreement (NOTE 3)	174,502	$ 2,139	9,122,751	$ 143,136
LTIP compensation obligation, net of vested Fund Units	–	2,225	–	1,024
Purchase of LTIP Fund Units	(410,949)	(6,887)	(117,491)	(1,802)
Settlement of LTIP obligation through transfer of Fund Units to LTIP participants	196,014	3,196	–	–
Issuance of Fund Units on conversion of debentures	–	–	266	5
	(40,433)	673	9,005,526	142,363
Fund Units	43,414,217	565,099	43,239,715	562,960
Convertible debentures – equity component	–	8,546	–	8,546
LTIP compensation obligation	–	3,249	–	1,024
LTIP Fund Units	(332,426)	(5,493)	(117,491)	(1,802)
CLOSING BALANCE – END OF YEAR	43,081,791	$ 571,401	43,122,224	$ 570,728

The Fund treats its investment in Fund Units relating to the LTIP as treasury stock and nets this investment against unitholders' capital. The LTIP compensation obligation is recorded as an accrued liability until the corresponding LTIP pool of funds is utilized to acquire Fund Units, at which point, it is reclassified to unitholders' capital, as the Fund is 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.

18. SHARE OF LOSS OF CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

The Fund's share of the Partnership's loss prior to the Fund's acquisition of control and subsequent consolidation of the Partnership has been calculated as follows:

	2007
Consolidated Partnership net loss	$ (3,775)
Adjustment for Catch-up Payment from Partnership to Class B LP and Class D LP unitholders	(2,364)
Remaining loss to be distributed pro rata to Class A LP, Class B LP and Class D LP unitholders	$ (6,139)
Fund's proportionate percentage share	$ (3,665)
Adjustments for excess purchase price over net assets acquired	(576)
Share of Partnership's loss	$ (4,241)

19. DILUTED NET INCOME PER FUND UNIT

The weighted average number of Fund Units outstanding used in computing the diluted net income per unit includes the dilutive effect of the full exercise of the non-controlling interest unitholders' right to exchange their Partnership units for Fund Units. Convertible debentures in the amount of $104,995 were excluded from the computation of diluted net income per Fund unit, as their effect would have been anti-dilutive. The $104,995 of convertible debentures can be converted into 5,599,734 Fund Units at the option of the holders. If converted, the weighted average number of Fund Units outstanding used in computing diluted net income per Fund Unit would be 5,599,734 units higher (2007 – 5,599,734).

The following Partnership units have not been exchanged for Fund Units as at December 31:

Number of Partnership units	2008	2007
Class B, Series 1	626,589	626,589
Class B, Series 2-G	1,733,762	1,779,264
Class D	–	129,000
CELP 2007 LP Units	11,376,119	11,376,119
	13,736,470	13,910,972

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 note receivable from GEI (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.

20. FUND UNIT BASED COMPENSATION

FUND UNIT OPTION PLAN

The Fund has an incentive unit option plan (the "Plan") for certain employees of the Partnership. The aggregate number of Fund Units that may be issued under the Plan is limited to 4,500,000. Fund Unit options issued under the Plan vest at the rate of one third on each of the three subsequent anniversaries of the grant date. All of the Fund Unit options must be exercised over specified periods not to exceed five years from the date granted. The Fund Unit options may be exercised in one of three ways, at the optionee's election: by purchasing from treasury the Fund Units for the exercise price; by surrendering the Fund Unit options and receiving cash equal to the difference between the current market price of the Fund Units on the date of surrender and the exercise price for the Fund Units underlying the options surrendered; or by surrendering the Fund Unit options and receiving the number of Fund Units from treasury computed by dividing the difference between the current market price of the Fund Units on the date of surrender and the exercise price for the Fund Units underlying the Fund Unit options surrendered by the market price at the date of surrender. The Fund has the overriding right to substitute Fund Units issued from treasury where an optionee has elected cash.

On February 12, 2008, 1,250,000 Fund Unit options with an exercise price equal to the market price of $17.03 were granted to 21 employees. The Fund Unit options vest one third on each of the successive anniversaries of the grant date, and expire five years after the grant date if unexercised. No options became exercisable or were forfeited during this period.

The Fund anticipates that Fund Unit optionholders will exercise, and that the administrators of the Plan will settle, the Fund Unit options for cash. The Fund, therefore, accounts for options issued under the Plan as cash-settled liabilities. The options are recorded at fair value at each balance sheet date, based on the market price of Fund Units in excess of the exercise price, taking into the account the Fund Unit options vested on a graded schedule. Forfeitures are recorded as they occur.

From May 14, 2008, the date of approval of the Plan by the Fund's unitholders, through December 31, 2008, no compensation expense or liability was recorded, as the average market price of Fund Units did not exceed the exercise price throughout this period.

A summary of Fund Unit option activities in 2008 is as follows:

	Weighted average remaining contractual life (years)	Number of underlying Fund Units	Weighted average exercise price
Fund Unit options outstanding, January 1, 2008	–	–	$ –
Granted	4.12	1,250,000	17.03
Cancelled	–	–	–
Exercised	–	–	–
Fund Unit options outstanding, December 31, 2008	4.12	1,250,000	$ 17.03

LONG-TERM INCENTIVE PLAN

Officers and key employees of the Partnership are eligible to participate in the Fund's LTIP. Pursuant to the LTIP, the Fund sets aside a pool of funds based on the amount, if any, by which the Fund's distributable cash per Fund Unit, for the entire fiscal year, exceeds certain defined distributable cash threshold amounts. This pool of funds is transferred to a trustee, who will use the entire amount to purchase Fund Units on the open market and holds the Fund Units until such time as ownership vests to each participant. Generally, one third of these Fund Units vests 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 that date. LTIP participants will be entitled to receive distributions on all Fund Units held for their accounts prior to the applicable vesting date. Unvested Fund 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 Fund and excluded from future LTIP calculations.

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, 2008, the Fund recognized $7,278 (2007 – $3,634) of compensation costs under the LTIP.

Effective as of January 1, 2007, awards may be earned based on the amount by which the Fund's distributable cash per Fund Unit exceeds a base distribution threshold of $1.20 per Fund Unit per annum. The base distribution threshold is subject to adjustment at a minimum every three years. The percentage amount of that excess, which forms the LTIP incentive pool, will be determined as follows, subject to a $10,000 maximum in any fiscal year:

Percentage by which Fund distributions per Fund 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%

21. LEASES

The Fund conducts a significant part of its operations in leased premises. Leases generally provide for minimum rentals and, in certain situations, percentage rentals based on sales volume or other identifiable targets, 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 Second Amended Credit Facilities.

The Fund's and the Fund's proportionate share of the joint ventures' future minimum rental commitments as at December 31, 2008 under the above-mentioned operating leases are set forth as follows:

2009	$ 105,451
2010	103,509
2011	101,651
2012	100,747
2013	100,043
Thereafter	810,439
	$ 1,321,840

Minimum rent expense relating to operating leases on a straight-line basis in 2008 was $107,294 (2007 – $78,920). In addition to the minimum rent expense noted above, in 2008, the Fund incurred percentage rent charges of $2,094 (2007 – $1,515).

22. JOINT VENTURES

The Fund 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 loss therein:

	2008	2007
Assets	$ 2,475	$ 3,355
Liabilities	7,467	4,593
Revenues	4,853	5,453
Expenses	9,685	7,460
Net loss	(4,832)	(2,007)

The 2007 figures include the revenues, expenses and net income of the portion of the joint venture acquired on December 31, 2007 as described in note 3(a).

23. CHANGES IN OPERATING ASSETS AND LIABILITIES

The following summarizes the changes in operating assets and liabilities:

	2008	2007
Accounts receivable	$ (1,165)	$ (22,986)
Inventories	(988)	(176)
Prepaid expenses and other current assets	851	2,932
Accounts payable and accrued expenses	4,750	23,056
Income taxes payable	(17)	80
Due to related parties	–	(2,966)
Deferred revenue	12,319	26,285
Accrued pension benefit liability	260	(1,843)
Other liabilities	(3,354)	(181)
	$ 12,656	$ 24,201
Non-cash investing activities		
Property, equipment and leasehold purchases financed through accrued liabilities	$ 8,529	$ 3,290

24. COMMITMENTS, GUARANTEES AND CONTINGENCIES

COMMITMENTS

As of December 31, 2008, the Fund has aggregate capital commitments as follows:

Capital commitments for five theatres to be completed during 2009 – 2010	$ 20,326
Other capital commitments	13,081
Letters of credit	899

See 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, and to provide advertising services until December 31, 2012. The Fund 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 Fund 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 Fund is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Fund's share in the theatres does not fulfill its obligations under the respective leases. During 2007, one of these theatres was closed with the expiry of its lease.

The Fund has assessed the fair value of the above-noted guarantees and determined that the fair value of these guarantees as at December 31, 2008 is nominal. As such, no amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Fund could face a substantial financial burden.

OTHER

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

25. SEGMENT INFORMATION

The Fund 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. NON-MONETARY TRANSACTIONS

The Fund occasionally enters into non-monetary arrangements with other parties to exchange goods or services. During the year ended December 31, 2008, the Fund provided advertising and media services to third parties and recognized advertising revenues of $1,538. The Fund received sponsorship and advertising services in exchange, recording marketing expenses of $2,427. The difference will be recognized as marketing expenses as the other parties' services are provided in future years. The exchanges were measured at the value of the services provided by the Fund, by reference to similar services provided by the Fund for monetary consideration to arm's-length third parties other than those with whom the transactions were entered into. Non-monetary arrangements in 2007 were not significant.

27. SUBSEQUENT EVENT

On January 5, 2009, under the provisions of the Exchange Agreement, Onex and certain members of Onex's management exchanged their indirect interests in the Partnership for 11,958,818 Fund Units. As a result of the exchange, the Fund increased its indirect ownership in the Partnership to 97%.

Cineplex Entertainment Theatres

AT DECEMBER 31, 2008

BRITISH COLUMBIA

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

ALBERTA

Cinema City Movies 12
Cineplex Odeon Crowfoot Crossing Cinemas
Cineplex Odeon Eau Claire Market Cinemas
Cineplex Odeon Grande Prairie Cinemas
Cineplex Odeon North Edmonton Cinemas
Cineplex Odeon South Edmonton Cinemas
Cineplex Odeon Sunridge Spectrum Cinemas
Famous Players Park Plaza Cinemas
Famous Players Westhills 10 Cinemas
Galaxy Cinemas Lethbridge
Galaxy Cinemas Medicine Hat
Galaxy Cinemas Red Deer
Galaxy Cinemas Sherwood Park
Scotiabank Theatre Chinook
Scotiabank Theatre Edmonton

MANITOBA

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

SASKATCHEWAN

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

ONTARIO

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

QUEBEC

Cineplex Odeon Beauport Cinemas
Cineplex Odeon Boucherville Cinemas
Cineplex Odeon Brossard Cinemas
Cineplex Odeon Carrefour Dorion Cinemas
Cineplex Odeon Chateauguay Encore Cinemas
Cineplex Odeon Delson Cinemas
Cineplex Odeon Gatineau Cinemas
Cineplex Odeon Latin Quarter Cinemas
Cineplex Odeon Place Charest Cinemas
Cineplex Odeon Place La Salle Cinemas
Cineplex Odeon St. Bruno Cinemas
Cineplex Odeon St. Nicolas Drive-In
Cineplex Odeon Ste. Foy Cinemas
Coliseum Kirkland Cinemas
Colossus Laval Cinemas
Fleur-de-Lys Cinemas
Galaxy Cinemas Sherbrooke
Galaxy Cinemas Victoriaville
Odeon Boucherville Drive-In
Scotiabank Theatre Montreal
St. Jean CinéCapitol Cinemas
StarCité Montreal Cinemas

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STOCK EXCHANGE LISTING

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CGX.UN

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TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, ON

ANNUAL MEETING

Wednesday, May 13, 2009
10:30 AM 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

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4. Our cast members provide service-at-your-seat in our VIP auditoriums 5. Tim Hortons at the Scotiabank Theatre Montreal 6. SilverCity Fairview Mall lobby

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