Redefining entertainment

2005 Annual Report

CINEPLEX GALAXY INCOME FUND

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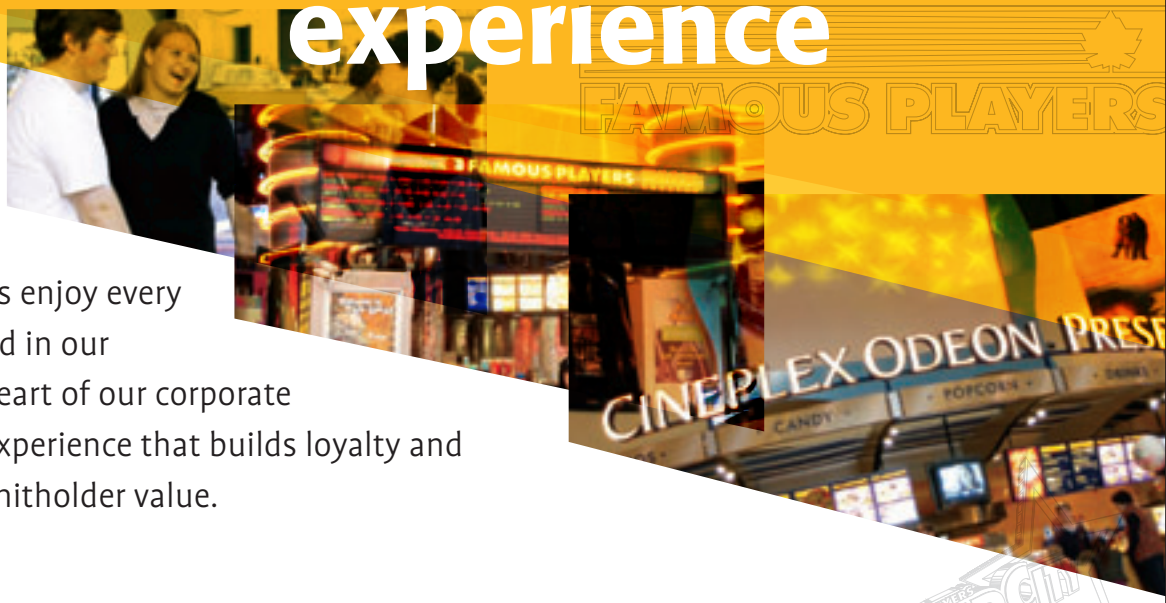
FRONT COVER: *Connor Bell is wearing 3D glasses as he watches Walt Disney Pictures' Chicken Little, in Disney Digital 3D. This new patented technology created by Dolby Digital Cinema and REAL D Cinema in conjunction with Industrial Light & Magic, offers moviegoers the first true digital three-dimensional major motion picture experience. The film was presented in 3D exclusively in Cineplex Entertainment theatres in Canada.*

Passionately delivering an exceptional entertainment experience



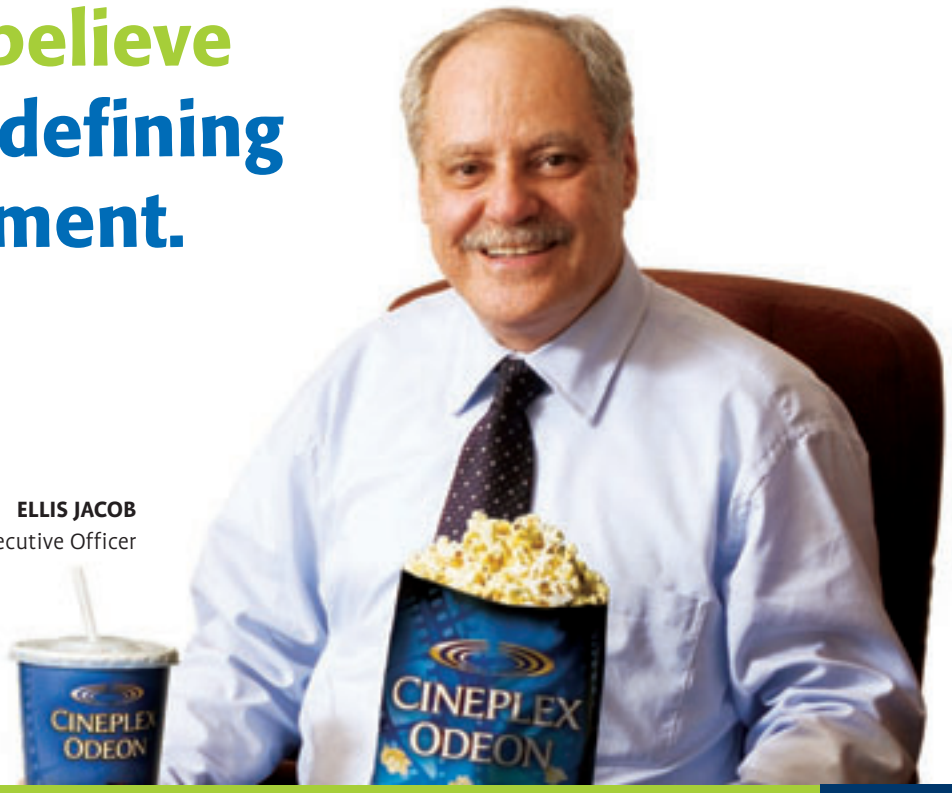
Ensuring our guests enjoy every moment they spend in our theatres is at the heart of our corporate mission. It is this experience that builds loyalty and ultimately drives unitholder value.

COMPANY PROFILE: Cineplex Galaxy Income Fund owned 50.5% of Cineplex Entertainment LP, the largest motion picture exhibitor in Canada with 1,275 screens in 130 theatres as of December 31, 2005. Headquartered in Toronto, Canada, the company operates theatres with these top-tier brands: Cineplex Odeon, Galaxy and Famous Players, including SilverCity, Coliseum and Colossus. Proudly Canadian, the units of Cineplex Galaxy Income Fund are listed on the Toronto Stock Exchange under the symbol CGX.UN.

We now operate the top theatre brands in Canada: Cineplex Odeon, Galaxy and Famous Players, including SilverCity, Coliseum and Colossus.

Letter to unitholders

2005 was an extraordinary year for Cineplex Galaxy Income Fund. Our acquisition of Famous Players in July created a film exhibition company unlike any other, with greatly expanded market share, a superb management team and world class theatres. We truly believe we are redefining entertainment.



ELLIS JACOB
President and Chief Executive Officer

With 1,275 screens in 130 theatres from Quebec to British Columbia we own and operate the top brands in Canada capturing 64% of box office revenue.

Our first step in the integration of Cineplex Galaxy and Famous Players was to identify and adopt the best practices of both organizations to make Cineplex Entertainment as effective, efficient and profitable as possible. We have consolidated the two head offices, reduced staff and created a wholly owned media and advertising business – Cineplex Media. These measures alone will allow us to exceed our original target of $20 million in synergies. We now anticipate reaching $25 million in synergies by the end of March 2006.

At the same time, we were negotiating the sale of 34 theatres with 282 screens and annual box office revenue of approximately $100 million. The sale of these theatres was required under a Consent Agreement with Canada's Commissioner of Competition. By the end of September we had sold 27 theatres in Ontario and Western Canada to Empire Theatres Limited. We expect the sale of the remaining seven theatres in Quebec to be completed soon.

With our growth and change, we believe we are better positioned than at any time in the past to passionately deliver an exceptional entertainment experience. With 1,275 screens in 130 theatres from Quebec to British Columbia, we own and operate the top brands in Canada capturing 64% of box office revenue.

The acquisition of Famous Players was an exceptional corporate achievement. However, we were disappointed with our operating performance in 2005. The industry across Canada suffered an 8.6% decline in box office revenue. The movies released in November and December – Harry Potter and the Goblet of Fire, The Chronicles of Narnia: The Lion, The Witch and The Wardrobe and King Kong – packed the theatres, but there were few blockbuster movies that drew crowds to the theatres during the critical summer months. Our results were further affected by the one-time costs of acquiring Famous Players.

Expanding revenue opportunities

Despite a weak box office, we were able to achieve improvements in several key drivers. Total revenue per patron increased 9.2% to $12.27 in 2005 compared to $11.24 in 2004. Other income increased 211.7% to push ancillary revenues to $44.3 million in 2005 from $20.9 million in 2004. This growth reflects the revenue from Famous Players theatres since acquisition.

In 2006, our focus will be to increase revenues in several areas by:

- Expanding our advertising revenues through Cineplex Media, which is capable of reaching 85% of the Canadian movie-going public. This reach provides the opportunity to improve revenues by offering advertisers a national audience in our theatres and entertainment magazines.
- Adopting digital technology to expand our content to live events such as hockey, wrestling and rock concerts. This technology also allows us to offer a digital pre-show to provide advertisers with the ability to present a richer full screen, full motion experience.

- Expanding our website – www.cineplex.com – to become the destination for entertainment information on the Internet in Canada. This will allow us to offer targeted, sponsored content to visitors and advertisers.
- Building theatre rental revenues by expanding the use of our facilities to corporate meetings, such as annual general meetings and employee events.
- Generating revenue from a brand partner in renaming the four Paramount-branded theatres in Vancouver, Calgary, Toronto and Montreal.

Poised for industry leading earnings growth

As we enter 2006, industry trends and our market position have converged to create an environment of sustainable earnings growth:

- The motion picture industry has proven to be a resilient business. After last year's declining box office attendance and revenue throughout the North American industry, we believe the films to be released in 2006 should stimulate attendance, resulting in increased revenues.
- We have developed a more robust entertainment experience. We believe that our theatres are among the best in the world, and that a night – or afternoon – at the movies, particularly at a Cineplex Entertainment theatre, continues to provide incomparable value for every entertainment dollar.
- We have a leading position in both urban and smaller community markets from Quebec to British Columbia with well-established brands – Cineplex Odeon, Galaxy and Famous Players, including SilverCity, Coliseum and Colossus. When Canadians think of entertainment, they think of our theatres.
- We will continue to grow through strategic expansion into areas that are not well served with theatres today. We currently have five new theatres scheduled to open in 2006.
- Our market position allows us to manage film, concession and other theatre costs for maximum operating efficiency. We have been aggressive in achieving operating savings by implementing best practices and will continue to negotiate improved supplier pricing in our agreements.

Heartfelt appreciation

I would like to thank the management team of Cineplex Entertainment for the speed and efficiency with which Famous Players was integrated into Cineplex Galaxy's operations. There is still work to do, but much of it will consist of finding ways to build upon the solid foundation that has already been established. With the combined experience and expertise of two major film exhibition chains now working toward one goal, the future looks very promising for both our guests and our unitholders.

I would also like to express my sincere gratitude to our employees who continually serve our guests with passion and enthusiasm. They are at the heart of our business, shaping the experience of our guests, and making the continued growth of Cineplex possible. I would like to thank our Board of Directors and Trustees, who have provided tremendous insight and support during the challenges of the past year. And to our guests, the lifeblood of our business, thank you for your continued patronage of our theatres. I promise we will remain committed to delivering an exceptional entertainment experience. As we look to the future, I firmly believe that we are poised to become the best entertainment company in Canada.

Signed:

Ellis Jacob
Chief Executive Officer
March 6, 2006

Our lobbies are exciting destinations offering a number of services which, along with our newly acquired Famous Magazines, enhance the movie-going experience.

Last July, we pledged $20 million in synergies by mid 2006. We now expect these synergies to reach $25 million.

Combining the best practices of both companies has produced substantial benefits.

By early October, the financial reporting systems of the two businesses had been integrated and the groundwork for significant cost savings established. By the end of 2005, we had identified sufficient initiatives to achieve our $20 million target. We now expect these synergies to reach $25 million by March 2006.

There were three core synergies:

Synergy #1: Reducing overhead costs and adopting best practices.

We consolidated the two head offices by the end of the year, reduced staff by 35%, eliminated redundancies and identified opportunities to reduce operating costs across our portfolio of theatres. Within one week of the acquisition we had informed every employee of their future with the company, a testament to the efficiency of our integration process.

Identifying and adopting the best practices within both companies not only resulted in operating savings, it has enhanced revenues. Over the year we increased concession revenue per patron as well as the ancillary revenue that we earn from advertising and games.

Prior to the acquisition, Cineplex Galaxy operated at an EBITDA margin of approximately 20% compared to 9% at Famous Players. Our pro forma consolidated margin would have been approximately 13% without synergies and approximately 17% after achieving the $25 million in cost savings and revenue enhancements.

Synergy #2: Media sales efficiencies and effectiveness.

We combined the Cineplex CineMarketing Sales Division and Famous Players Media Inc. to create Cineplex Media, a wholly owned media business of Cineplex Entertainment. Cineplex Media sells on-screen advertising in all of our theatres, as well as the seven theatres owned by AMC Entertainment Inc., the 27 theatres sold to Empire Theatres Limited, Landmark Cinemas and several other independent theatres for which we provide sales representation.

Synergy #3: Improved purchasing and merchandising opportunities.

Our opportunities to build unitholder value extend beyond the obvious synergies made possible by our acquisition of Famous Players. It also created opportunities to evaluate vendor contracts, merchandising strategies and the management of our concessions – including our retail branded outlets within our theatres – to ensure we are achieving optimum returns.

Providing digital content, such as live hockey broadcasts, will drive non-film traffic to more theatres more often.

Making sophisticated technological improvements to provide an exceptional entertainment experience.

Upgrading our point-of-sale systems was one improvement in 2005, and continues into 2006.

We are leading the industry in technological advancements. By constantly pursuing innovative ways to use new technology to provide an exceptional entertainment experience, we are building brand loyalty and revenue.

Innovation #1: Digital pre-show enhances advertising capabilities and the guest experience.

During 2005, we introduced a digital pre-show network to 359 screens in 32 Cineplex Odeon, Galaxy and Famous Players locations in Toronto and its surrounding communities. The pre-show consists of 20 minutes of full-screen, full-motion content, which can be tailored to the location or film.

With a mix of 50% entertainment and 50% advertising, the digital technology provides a more enjoyable pre-show experience for guests and expands the scope of offerings to potential advertisers. Early in 2006, we'll extend the digital pre-show across the country.

Innovation #2: Alternative content.

Digital technology has also made it possible for our theatres to provide live broadcasts of hockey, wrestling and concerts. We have enjoyed consistent success with these events and intend to expand the alternative content offered in order to drive non-film traffic to more theatres more often.

Innovation #3: Point-of-sale system upgrades.

During 2005, we completed the installation of our new Vista point-of-sale systems in all Cineplex Odeon and Galaxy theatres. In 2006, this will be expanded to all Famous Players theatres to create a single point-of-sale system for all of our brands by the end of the summer. These upgrades lay the foundation for other technological advancements to improve our operational effectiveness and the experience of our quests.

Innovation #4: Building the most popular entertainment website in Canada.

Our corporate website is being re-developed to provide significantly expanded entertainment content and improved functionality. We intend to capitalize on the traffic to the Cineplex sites – already ranked fourth in combined volume of visits among entertainment websites in Canada – to generate revenue through targeted advertising. By creating a website that is an important part of the entertainment experience, we can earn ancillary revenues whether or not our guests visit a theatre.

Major releases, such as Harry Potter and the Goblet of Fire, continue to drive theatre traffic and produce revenue for Cineplex.

Cineplex Entertainment theatres represent 64% of box office revenues in Canada.

The reach of Cineplex Media presents a significant growth opportunity.

Our leading position in the market place, world-class theatres and established consumer loyalty in major urban centres and rural communities across Canada position Cineplex Entertainment for growth in both revenue and income through improved value to our guests and advertisers.

Growth opportunity #1: Strategic expansion to serve under developed markets.

Cineplex Entertainment will continue to grow as we develop new theatres that meet our strategic and financial criteria, typically in under served markets. Our established goal is to open on average three new theatres each year. We opened two theatres in 2005, both under the Cineplex Odeon brand. In 2006, we plan to open five theatres.

Growth opportunity #2: Customer loyalty programs.

The installation of an upgraded point-of-sale system will make it possible to introduce a customer loyalty program, providing us with a more comprehensive understanding of the demographics and movie-going habits of our audience. This will also allow us to extend special offers to our guests, implement tailored marketing programs and deliver targeted messages. There will also be new revenue generating opportunities as we refine our ability to collect, analyze and use information.

Growth opportunity #3: Cineplex Media.

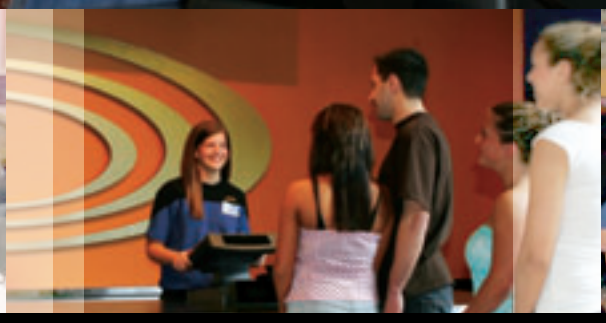
Cineplex Media is a powerful platform for growth for three reasons. First, it not only offers our advertisers 85% of the Canadian movie-going public, it is the ideal channel for reaching 12- to 24-year-old Canadians, a highly sought-after market. Second, with the acquisition of Famous Players Media, we also acquired Canada's leading entertainment magazine business with three branded publications – Famous Magazine, Le Magazine Famous Quebec, and Famous Kids. Not only does Famous have a circulation of 525,000 copies and the fastest-rising readership of any entertainment magazine in the country, it represents a fresh opportunity in a medium that is new to Cineplex Entertainment.

Finally, by combining the editorial, creative, production and sales teams of the former CineMarketing Sales and Famous Players Media groups, we have established a pool of marketing and advertising talent that will be able to create new options for advertisers.

Growth opportunity #4: Alternative theatre usage.

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

The cast members in our theatres are the true public face of our company, and their continued dedication has made our growth possible.



At the heart of any great business, there are great people.

Cineplex CEO Ellis Jacob presenting a cheque for $350,000 to the Canadian Breast Cancer Foundation.

Movie-going is a quintessential social event. Movies provide topics of conversation and thrilling shared experiences for countless people around the world every single day.

Our goal is to bring that collective entertainment experience to as many Canadians as we can. That experience is still at the heart of our business, and we believe that at the heart of any great business, there are great people. In our case, this includes a cast of thousands, ranging from our theatre cast members to our senior management.

Quality employment for young Canadians

The 8,500+ cast members in our theatres are the true public face of our company, and their continued dedication to providing our guests with an exceptional entertainment experience has made our growth possible. Our cinema managers are committed to best practices in hiring and our employee training is comprehensive from the first day on the job to the advanced training we make available as an employee's role within the theatre changes. Incentive programs, both immediate and sales-based, are offered within our theatres to maintain high levels of customer service.

We pride ourselves on offering quality employment to countless young Canadians. Our theatres are destinations in the neighborhoods and communities in which they operate.

Supporting our communities

Cineplex Entertainment theatres are an integral part of the communities in which they operate. Our support for those communities is highly focused to ensure our efforts are as effective as possible. In 2005 alone, Cineplex Entertainment's charitable support generated in excess of $1 million for Canadian charities. At the corporate level, we raised a record $350,000 for Spotlight on the Cure, a signature program we created a few years ago to support the Canadian Breast Cancer Foundation. Cineplex Galaxy and Famous Players raised $500,000 for Variety – The Children's Charity through pin sales in theatres across the country. We also work closely with the Canadian Safe Schools Network and Toronto's Hospital for Sick Children to build awareness and increase fund raising.

At the theatre level, our Starlight Film Festival teen fundraising program, which we created for our Galaxy cinemas, raised over $100,000 for various local charities in 2005. The Starlight Festival was designed to provide teens with an entertaining way to understand the importance of giving back to the community and raise funds while having a good time at our theatres. When we open a new theatre, our staff gets very involved in the local community in a variety of ways. One example of the support that we provide communities that we enter is the opening of our new theatre in Barrhaven, Ontario where we raised more than $10,000 for Child Find Ontario. We also provide various organizations with pre-show screen time for public service announcements and run countless charity-based promotions across the country.

We are committed to a corporate culture that builds upon the abilities of our people and benefits the communities in which we operate in addition to being a good employer and responsible corporate citizen.

1 **Gord Nelson**
Chief Financial Officer

2 **Jeff Kent**
Chief Technology Officer

3 **Salah Bachir**
President Cineplex Media

4 **Bill Tishler**
Vice President
Design & Construction

5 **Michael McCartney**
Sr. Executive Vice President
Film Programming

6 **Susan Campbell**
Vice President Finance

7 **Rick Wood**
Vice President Real Estate

8 **Fabrizio Stanghieri**
Vice President
Real Estate & Corporate Affairs

9 **Dan McGrath**
Executive Vice President

10 **Paul Nonis**
Senior Vice President
National Operations

11 **Ian Shaw**
Vice President Purchasing &
Supply Management

12 **Michael Kennedy**
Executive Vice President
Film & Marketing

13 **Ellis Jacob**
President & CEO

14 **Pat Marshall**
Vice President Communications &
Investor Relations

15 **Greg Mason**
Vice President Marketing

16 **Jeff Rush**
Senior Vice President
Merchandising & Corporate Sales

17 **Daniel Seguin**
Vice President Operations Quebec
& Western Canada

18 **Anne Fitzgerald**
Senior Vice President,
General Counsel

19 **Robert Brown**
Vice President Cineplex Media

20 **Tariq Malik**
Vice President Merchandising

21 **Brad LaDouceur**
Vice President
Business Development

Experienced, dedicated and cohesive: a management team with the breadth of capabilities to redefine entertainment.

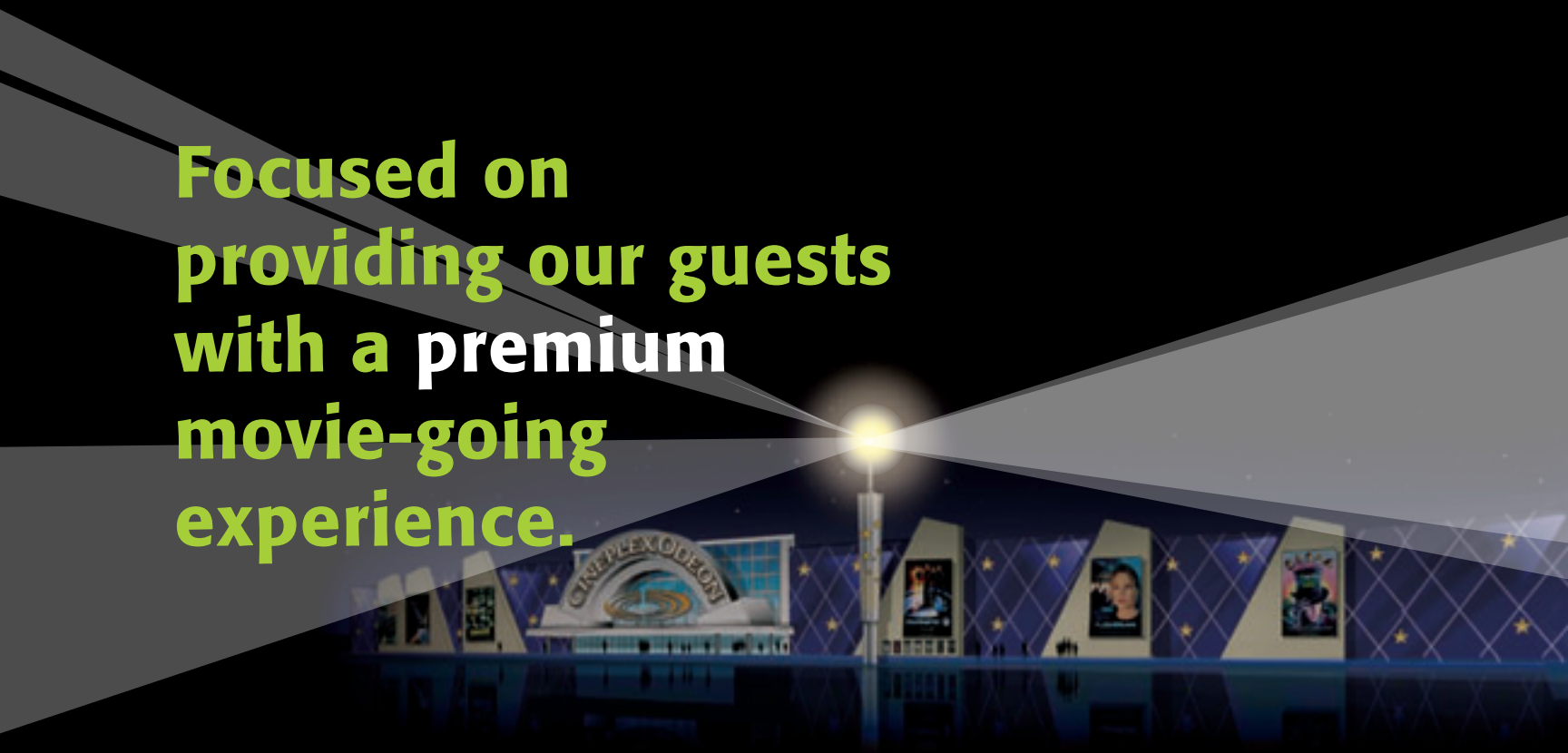
Our focus is on producing unitholder value

We have combined the senior talent of Cineplex Galaxy and Famous Players to create a management team that is profoundly capable of building unitholder value. Most of the men and women in our team have worked in the Canadian and U.S. film exhibition industries for most of their lives, bringing to this company a breadth and diversity of experiences and skills. At the same time, many of us share years of working together, building a common understanding and mutual respect.

As a group, this management team has an unmatched breadth of experience. Our goal is to use our shared knowledge to accomplish our common goal – to make Cineplex Entertainment the best entertainment company in Canada.

Management's discussion and analysis

Focused on providing our guests with a premium movie-going experience.



As of December 31, 2005, Cineplex Galaxy Income Fund indirectly owns an approximate 50.5% interest in Cineplex Entertainment Limited Partnership. Cineplex Galaxy Income Fund does not consolidate the results and operations of Cineplex Entertainment Limited Partnership. For this reason we present audited financial statements with accompanying notes therein for both Cineplex Galaxy Income Fund and Cineplex Entertainment Limited Partnership. The following management's discussion and analysis of the Cineplex Entertainment Limited Partnership financial condition and results of operations should be read together with the financial statements and related notes. This management's discussion and analysis (MD&A) contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning synergies and divestitures and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our annual information form and in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry; the risks associated with world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions and infectious diseases; 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 Entertainment, its financial or operating results or its securities. Additional information, including Cineplex Galaxy Income Fund's Annual Information Form (AIF) can be found on SEDAR at www.sedar.com.

Overview

On July 22, 2005 Cineplex Entertainment Limited Partnership (the "Partnership") completed the acquisition (the "Acquisition") of the Famous Players Limited Partnership ("Famous Players") movie exhibition business from Viacom Inc. ("Viacom") and Viacom Canada Inc. ("Viacom Canada"), becoming Canada's largest film exhibition operator with theatres in six provinces. The Partnership's theatre circuit is concentrated in major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. As of December 31, 2005, the Partnership owned, operated or had an interest in 1,275 screens in 130 theatres (after giving effect to the divestiture of seven theatres remaining to be divested pursuant to a consent agreement with the Canadian Commissioner of Competition entered on May 27, 2005 ("Consent Agreement")). This total includes 71 screens in 10 theatres held in joint ventures.

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

Under the provisions of an Exchange Agreement designed to facilitate the exchange of units of the Partnership ("Units") into units of the Fund ("Fund Units"), the Fund issued 980,303 Fund Units during the year ended December 31, 2005 in exchange for Notes and units from the Trust and, as a result, indirectly increased its ownership in the Partnership. As a result of the transactions surrounding the acquisition of Famous Players, discussed below, and the issuance of Fund Units by the Fund during 2004 and 2005, in a one-for-one exchange of Fund Units for LP Units, as at December 31, 2005 the Fund indirectly owned approximately 50.5% of the Partnership (excluding the Class C Limited Partnership Units ("Class C LP Units")).

The Acquisition and related transactions

During the second quarter, the Partnership announced that it had agreed to purchase the Famous Players Canadian movie exhibition business from Viacom. The total consideration paid by the Partnership for the Acquisition amounted to $468.8 million in cash plus transaction costs. The transaction closed on July 22, 2005.

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

The Partnership, Viacom and Viacom Canada entered into a purchase agreement dated June 10, 2005 ("Purchase Agreement") pursuant to which the Partnership agreed to acquire Famous Players and its general partner, Famous Players Co., which together hold substantially all the assets and liabilities of Viacom Canada's film exhibition business formerly operated by its Famous Players division, including its subsidiaries' shares and joint venture interests, and excluding liabilities to related parties other than to related parties relating solely to film distributions rights on arm's length terms. The Acquisition was completed on July 22, 2005. On closing of the transaction, total consideration paid by the Partnership amounted to $468.8 million in cash plus transaction costs. The Purchase Agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. This purchase price adjustment has not yet been finalized.

In order to finance the Acquisition, the Partnership entered into a number of transactions. The Partnership issued indirectly to the Fund 6,835,000 Class A Limited Partnership

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

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

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

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

On June 29, 2005, the Partnership entered into a letter of intent to sell real estate interests in four theatre locations

(two of which were Famous Players theatres) for $67 million to RioCan Real Estate Investment Trust ("Riocan"), at the time a related party ("the "Riocan Transaction"). As part of the agreement, the Partnership leased back the four theatres. The transaction closed in August 2005 and proceeds of the sale were used to repay amounts borrowed to finance a portion of the purchase price for the Acquisition. Subsequent to the transaction, Riocan ceased to be a related party (see discussion under "Related Party Transactions").

On July 22, 2005, the Partnership issued 500,000 Class D LP Units, a new class of LP Units, at an estimated value of $8.1 million to be held in trust for certain of its executives upon closing the Acquisition. This amount was recorded as compensation expense during the year ended December 31, 2005. These units are not exchangeable for units of the Fund and will be entitled to receive distributions on substantially the same basis as the Class B LP Units. At the next meeting of unitholders of the Fund, unitholders will be asked to approve a resolution which would make the Class D LP Units exchangeable for Fund Units. Upon approval of this resolution, the Class D LP Units will be distributed to the executives.

In addition, the Partnership agreed to pay Onex, a related party, a transaction fee of $4 million in connection with advisory services rendered by Onex in connection with the Acquisition, the issuance of Fund Units and Convertible Debentures, and the Amended Credit Facilities. The Partnership did not engage a third party for these services. The fee was satisfied by the issuance of 248,447 Class D LP Units upon completion of the Acquisition.

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

Assets and liabilities acquired:	
Property, plant and equipment	$316.6
Advertising contracts	23.3
Trademarks and trade names	33.2
Goodwill	197.1
Fair value of leases – assets	17.1
Fair value of leases - liabilities	(22.0)
Net pension liability	(6.6)
Net working capital deficiency	(36.1)
Other liabilities	(9.8)
Capital leases	(40.0)
Net assets	$472.8
Less: Cash from the Acquisition	(20.1)
	$452.7
Consideration given:	
Cash paid for acquisition of Famous Players, net of cash from the Acquisition	$468.8
Transactions costs associated with the Acquisition	4.0
Less: Cash from the Acquisition	(20.1)
	$452.7

The above allocation of purchase price is preliminary and the actual calculation and allocation of the purchase price will be based on the estimated fair value of the assets acquired and liabilities assumed at the effective date of the Acquisition. Accordingly, the purchase price allocation will be adjusted subsequent to completion of the Acquisition and the final purchase price allocation process; variations may be material.

In contemplation of completing the Acquisition, on May 27, 2005 the Partnership entered into the Consent Agreement with the Canadian Commissioner of Competition. Under the terms of the Consent Agreement, upon completion of the Acquisition, the Partnership agreed to divest 34 specified theatres, held by both the Partnership and Famous Players within a specified period of time on the terms and conditions set out in the Consent Agreement. Until May 27, 2010, the Partnership must provide the Commissioner with prior written notice of any acquisition by it of any non-Partnership theatre or assumption of lease where the remaining term exceeds two years.

The Partnership also may not, during this time, re-acquire any of the divested theatres without prior approval of the Commissioner.

Under the terms of the Amended Credit Facilities the Partnership is required to make repayments of the secured non-revolving term credit facility for 100% of all net cash proceeds of any sale required under the Consent Agreement. In addition, the Partnership intends to sell its interest in the Alliance Atlantis branded theatres.

During the year ended December 31, 2005 the Partnership completed the divestiture of 27 of the specified theatres as required under the Consent Agreement for gross proceeds of $83 million which, net of costs, was used to repay a portion of the secured non-revolving term credit facility. In addition, the Partnership and its joint venture partner completed the sale of two of the Alliance Atlantis branded theatres. The Partnership's share of the proceeds was $3.0 million. As part of these dispositions, the Partnership has entered into an agreement with each of the respective purchasers to sell screen advertising for the disposed theatres on behalf of the purchaser. As a result of these agreements, the Partnership books and collects screen advertising revenue for the disposed locations and in exchange provides a minimum financial commitment to the purchaser based on attendance levels.

During the fourth quarter of 2005, the Partnership entered into a media sales governing agreement, which allowed for the termination and wind-up of Famous Players Media Inc. and the acquisition of three Famous Players branded entertainment magazines. The total consideration for acquisition was $1.3 million with $1.0 million payable on January 1, 2006 and $0.1 million payable on January 15, 2006, January 15, 2007 and January 15, 2008. The agreement also has a purchase price adjustment based on the net income for a component of the business for three years effective from January 1, 2006. This purchase price adjustment has not been finalized and no adjustments have been recognized as the purchase price adjustment and outcome cannot be reasonably estimated at this time.

The purchase price has been allocated as follows:

Assets acquired	
Equipment	$ 0.1
Goodwill	1.2
	$ 1.3
Consideration	
Amounts payable	$ 1.3

Revenue and expenses

Revenues

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

Expenses

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

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

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

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

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

Accounting for joint ventures

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

Disclosure controls

Management of the Fund is responsible for establishing and maintaining disclosure controls and procedures for the Fund as defined under Multilateral Instrument 52-109. Management has designed such disclosure controls and procedures, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries, is made known to management by others within those entities, particularly during the period in which the annual filings are being prepared. In addition, the effectiveness of these controls and procedures has been evaluated as of the end of the period covered by the annual filings.

As a result of this evaluation, management has concluded that the design and effectiveness of these controls and procedures provide reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries will be made known to management on a timely basis to ensure adequate disclosure.

Results of operations

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

(expressed in thousands of dollars except per Unit and per patron data)	2005	2004	2003
Total Revenue	**$ 490,299**	$ 315,786	$ 295,540
Cost of Operations	**421,529**	248,818	242,636
Income before undernoted	**68,770**	66,968	52,904
Amortization	**42,948**	22,530	18,404
Loss on extinguishment of debt	**4,156**	-	-
Impairment of assets	**4,296**	-	-
Loss (gain) on disposal of theatre assets	**122**	(111)	(92)
Interest on long-term debt	**18,401**	8,280	4,020
Interest on loan from Cineplex Galaxy Trust	**14,000**	14,000	1,381
Interest income	**(378)**	(473)	(922)
Foreign exchange gain	**-**	-	(3,696)
Income taxes	**(1,463)**	(1,149)	366
Income from discontinued operations	**28,116**	6,357	6,184
Non-controlling interest	**1,828**	-	304
Net Income	**$ 12,976**	$ 30,248	$ 39,323
Net income per unit (iv)	**$ 0.25466**	$ 0.63590	$ n/a (ii)
Total Assets	**798,751**	325,436	319,262
Total long term financial liabilities (iii)	**343,500**	225,512	210,067
Cash distributions declared per unit	**$ 1.1496**	$ 1.1496	$ 0.1118 (i)
Distributable income per unit	**1.0273**	1.2283	0.2421
Box office revenue per patron	**7.73**	7.45	7.28
Concession revenue per patron	**$ 3.44**	$ 3.04	$ 2.91
Film Cost as a percentage of box office revenue	**51.7%**	51.6%	52.1%
Attendance	**39,945**	28,096	27,073

(i) Distribution declared in 2003 related to the period November 26 to December 31, 2003.

(ii) The formation of the Partnership was accounted for under the continuity of interests approach, as there was no substantive change in the ultimate ownership interests. Accordingly, the consolidated financial statements reflect the results of operations as if the Partnership has always carried on the businesses formerly carried on by COC and GEI. For the year ended December 31, 2003 there were no units outstanding.

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

(iv) Computed using weighted average number of units outstanding for the year.

Management calculates distributable income per unit for the Partnership as follows :

(expressed in thousands of dollars except per unit data)	**Year ended December 31, 2005**	Year ended December 31, 2004	November 26, 2003 to December 31, 2003
Cash used in operating activities (i)	**$ 66,208**	$ 43,818	$ 29,623
Less: Changes in operating assets and liabilities (ii)	**(14,806)**	7,808	(19,181)
Tenant inducements (iii)	**(7,662)**	(3,708)	-
Capital lease payments	**(532)**	-	-
Dividends paid by subsidiary to non-controlling interest	**(1,862)**	-	-
Total capital expenditures	**(31,419)**	(22,803)	(962)
Add: Interest on loan from Cineplex Galaxy Trust (iv)	**14,000**	14,000	1,381
New theatre and project capital expenditures (v)	**24,464**	17,653	653
POS/Rebranding capital expenditures (vi)	**2,949**	1,659	-
Non cash components in operating assets and liabilities (vii)	**602**	-	-
Expenses funded through integration and restructuring reserve (viii)	**849**	-	-
Distributable income	**$ 52,791**	$ 58,427	$ 11,514
Number of Units outstanding (ix)	**51,389,862**	47,566,974	47,566,974
Distributable income per Unit	**$ 1.0273**	$ 1.2283	$ 0.2421

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

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

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

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

(v) The total capital expenditures noted above includes new theatre and maintenance capital expenditures of which the new theatre capital expenditures and Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities – Revolving Facilities") and therefore are added back to calculate distributable cash.

(vi) Point-of-Sale ("POS") and rebranding capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005 (see discussion under "Future Obligations").

(vii) Reflects non-cash expenses including accretion on Class C LP Units, amortization of deferred gain on Riocan sale-leaseback transaction and amortization of swap on extinguished debt (see discussion under "The Acquisition and Related Transactions").

(viii) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash flow. See discussion under "Future Obligations" below.

(ix) Units outstanding for the year ended December 31, 2005 reflect the issuance on July 22, 2005 of 6,835,000 Class A LP Units to fund the Acquisition.

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

(expressed in thousands of dollars except per unit data)	**Year ended December 31, 2005**	Year ended December 31, 2004	November 26, 2003 to December 31, 2003
Income before undernoted	**$ 68,770**	$ 66,968	$ 11,682
Adjust for:			
Interest on long-term debt	**(18,401)**	(8,280)	(685)
Interest income	**378**	473	14
Income taxes - current portion	**(2,461)**	(404)	(12)
Maintenance capital expenditures (i)	**(4,006)**	(3,491)	(309)
Dividends paid by subsidiary to non-controlling interest	**(1,862)**	-	-
Principal component of capital lease obligations	**(532)**	-	-
Expenses funded through integration and restructuring reserve (iii)	**849**	-	-
Income before amortization from discontinued operations	**3,019**	7,563	1,168
Non-cash items	**-**	-	-
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	**(3,201)**	(5,352)	(415)
Amortization of debt issuance costs	**1,586**	950	68
Issuance of Class D LP Units included in general and administrative expenses	**8,050**	-	-
Other (ii)	**602**	-	3
Distributable Income	**$ 52,791**	$ 58,427	$ 11,514

(i) Total capital expenditures less New Theatre and Project capital expenditures, less POS/Rebranding capital expenditures.

(ii) Includes accretion on Class C LP units, amortization of deferred gain on Riocan sale-leaseback transaction and amortization of swap on extinguished debt and the asset retirement obligation retroactive application during the period November 26, 2003 to December 31, 2003.

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

Year ended December 31, 2005 Compared to the Year ended December 31, 2004 for the Partnership

Total revenues. Total revenues for the year ended December 31, 2005 increased $174.5 million to $490.3 million. Of this increase, $182.5 million related to the Acquisition and a reduction of $8.0 million related to the Cineplex Odeon and Galaxy Entertainment brand theatres (the "Cineplex Galaxy circuit"). A discussion of the factors affecting the changes in box office, concession and other revenues for these periods in comparison to the same periods in 2004 is provided below.

Box office revenues. Box office revenues for the year ended December 31, 2005 increased $99.2 million to $308.7 million. Of this increase, $112.1 million related to the Acquisition which was offset by a reduction of $12.9 million or 6.1% in the Cineplex Galaxy circuit. Canadian industry box office declined 8.6% for 2005 primarily due to the lack of successful film product during the period. The Cineplex Galaxy decrease in box office revenues was due to decreased same store attendance levels ($17.0 million) and a reduction in average box office revenues per patron ($0.7 million) offset by the operation of new theatres ($4.8 million). The average box office revenue per patron of

the Partnership increased from $7.45 to $7.73. The average box office revenue per patron of Famous Players was $8.28 and for Cineplex Galaxy was $7.44. For the Cineplex Galaxy locations, the average box office revenue per patron decreased $0.01 or 0.1% from $7.45 for the year ended December 31, 2004 to $7.44 for the year ended December 31, 2005. The decrease in average box office revenue per patron was a result of shift in attendance mix to lower priced admission categories and an increase in the sales of discounted corporate tickets. In November 2005, the Partnership implemented a number of admission price changes reflecting a theatre-based pricing strategy based to a large extent on local demographics.

Concession revenues. Concession revenues for the year ended December 31, 2005 increased $51.9 million to $137.3 million. Of this increase, $51.4 million related to the Acquisition and $0.5 million or 0.5% in the Cineplex Galaxy circuit. The Cineplex Galaxy increase in concession revenues was due to additional revenues from operation of new theatres ($2.6 million) and an improvement in average concession revenues per patron ($4.8 million) which was offset by lower same store attendance levels ($6.9 million). The average concession revenue per patron of the Partnership increased from $3.04 to $3.44. The average concession revenue per patron of Famous Players was $3.80 and for Cineplex Galaxy was $3.25. The Cineplex Galaxy average concession revenue per patron increased $0.21 or 6.9% from $3.04 for the year ended December 31, 2004 to $3.25 for the year ended December 31, 2005. In November 2005, the Partnership implemented a number of pricing and size changes for its core concession products.

Other revenues. Other revenues for the year ended December 31, 2005 increased $23.4 million to $44.3 million. Of this increase, $19.0 million related to the Acquisition and $4.4 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, other revenues increased $4.4 million or 21.0% mainly as a result of higher advertising revenues. It should be noted that the Partnership launched its digital advertising network in its 21 Toronto extended market area theatres on April 1, 2005 and accordingly, there is no revenue from this activity included in the first quarter results. Other revenues for 2005 and 2004 reflect the Partnership's retroactive adoption at December 31, 2004 of the provisions of EIC-144 (discussed in "Accounting Policies and Recent Developments – Recent Accounting Developments"). On November 1, 2005, The Partnership announced the formation of Cineplex Media, which was formed through the combination of Cineplex Entertainment's CineMarketing Sales division and Famous Players Media Inc. Coincident with this formation, the Partnership acquired 100% of the media business for the combined circuit and added the Famous magazine assets. The Partnership had launched its digital advertising network in its 21 Toronto extended market area theatres on April 1, 2005. With the integration of Famous Players, the Partnership's focus was to first ensure that it could deliver the pre-show experience across the majority of the circuit, which included using a combination of a digital network and a distributed DVD system. At the acquisition date, the Partnership had established an integration reserve, which was to be used in part, to fund the integration from a distributed DVD system to a networked pre-show system (see "Future Obligations").

Film cost. Film cost for the year ended December 31, 2005 increased $51.5 million to $159.5 million. Of this increase $58.1 million related to the Acquisition offset by a decrease of $6.6 million related to the Cineplex Galaxy circuit. As a percentage of box office revenue, film cost increased marginally to 51.7% for the year ended December 31, 2005 from 51.6% for the year ended December 31, 2004. This increase is due to a combination of lower film rental terms paid in the year ended December 31, 2004 on specific strong releases and higher film rental terms paid on specific strong releases during the year ended December 31, 2005.

Cost of concessions. Cost of concessions for the year ended December 31, 2005 increased $9.8 million to $27.0 million. Of this increase, $9.3 million related to the Acquisition and a $0.5 million increase related to the Cineplex Galaxy circuit. The Cineplex Galaxy increase in cost of concessions was due primarily to the costs associated with new theatres that were opened ($0.6 million) and increased incidence ($1.3 million)

which was offset by decreased same store attendance ($1.4 million). As a percentage of concession revenues, cost of concessions decreased from 20.1% for the year ended December 31, 2004, to 19.7% for the year ended December 31, 2005. Concession costs for 2005 and 2004 reflect the Partnership's retroactive adoption at December 31, 2004 of the provisions of EIC-144 (discussed in "Accounting Policies and Recent Developments – Recent Accounting Developments").

Occupancy expense. Occupancy expense for the year ended December 31, 2005 increased $47.3 million to $93.3 million. Of this increase, $45.5 million related to the Acquisition and $1.8 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the overall increase in occupancy expense was due to the incremental costs associated with new theatres that were opened ($1.7 million) and an increase in same store locations ($0.1 million).

Other theatre operating expenses. Other theatre operating expenses for the year ended December 31, 2005 increased $43.3 million to $106.3 million. Of this increase, $38.4 million related to the Acquisition and $4.9 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($1.5 million) and the impact of additional business activities and inflationary increases ($3.4 million).

General and administrative costs. General and administrative costs for the year ended December 31, 2005 increased $21.2 million to $35.2 million. General and administrative costs for 2005 included $10.3 million in costs related to the Acquisition including $8.1 million in compensation expense related to the issuance of 500,000 Class D LP units to management, $0.7 million in severance costs to former Cineplex Galaxy employees and $1.5 million in legal and accounting professional fees related to the Acquisition. In addition, $0.2 million in recruitment and resource costs related to the establishment of an information technology department in the Canadian head office which allowed the Partnership to terminate the services agreement for management information systems support and eliminated the Loews Cineplex Theatres Inc. ("LCT") management fee, and $0.5 million in consulting fees related to preparation for Bill 198 compliance.

Management fee. Effective November 26, 2003, the Partnership entered into a services agreement with Cineplex Odeon Corporation ("COC") (subsequently assumed by LCT) under which management information systems (MIS support) support was provided to the Partnership at a cost of US$0.5 million per annum. The Partnership terminated the services agreement during the second quarter of 2005 and accordingly there are no costs for this item in the third or fourth quarter of 2005. The Partnership had recruited additional staff and acquired additional hardware and software licenses to repatriate this MIS function. Included in the first six months of 2005 are both the cost of these additional resources and the management fee paid up to the date of the contract termination.

Income before undernoted. The Partnership reported income before undernoted for the year ended December 31, 2005 of $68.8 million as compared to income before undernoted of $67.0 million for the year ended December 31, 2004. This change was due to the aggregate effect of the factors described above.

Amortization. For the year ended December 31, 2005 amortization costs increased $20.4 million to $42.9 million. Of this increase, $17.4 million related to the Acquisition and $3.0 million related to the Cineplex Galaxy circuit. The increase in the Cineplex Galaxy circuit was due primarily to the incremental impact of new theatres.

Gain on disposal of theatre assets. The gain on disposal of theatre assets represents the gains on theatre assets that were sold or otherwise disposed of. For the year ended December 31, 2005 the Partnership recorded a loss of $122 thousand as compared to a gain of $111 thousand for the year ended December 31, 2004.

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

Loss on impairment of assets. Property, equipment and leaseholds are evaluated for impairment according to CICA handbook Section 3063, "Impairment of Long-Lived Assets". Management has performed a reassessment of expected future cash flows at the theatre level and recorded an impairment charge of $4.3 million.

Interest on long-term debt. Interest on long-term debt for the year ended December 31, 2005 increased to $18.4 million from $8.3 million for the year ended December 31, 2004 primarily as a result of the additional borrowings in the third quarter to finance the Acquisition. Interest expense is comprised of the amortization of $1.6 million of deferred financing fees, interest on capital leases of $1.2 million, interest and accretion expense on the Class C LP Units of $3.9 million and $12.5 million of interest on long-term debt offset by interest expense of $0.8 million allocated to discontinued operations for the year ended December 31, 2005. For the year ended December 31, 2004 interest expense includes $1.0 million for the amortization of deferred financing fees and $7.3 million of interest on long-term debt.

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

Interest income. Interest income was $0.4 million for the year ended December 31, 2005 and $0.5 million for the year ended December 31, 2004.

Income taxes. For the year ended December 31, 2005, a subsidiary of the Partnership recorded a future tax income tax recovery of $3.9 million (2004- $1.6 million) offset by current taxes of $2.4 million of which $2.1 million arose from the media sales subsidiary of Famous Players, Famous Players Media Inc.

Income from discontinued operations. Income from discontinued operations for the year ended December 31, 2005 amounted to $28.1 million, of which $25.8 million related to the gain on the sale of 27 locations to Empire Theatres Limited and the sale of two Alliance Atlantis branded theatres and $2.3 million related to the income from operations of the 34 locations and the Alliance Atlantis branded theatres. This compares to income from discontinued operations for the year ended December 31, 2004 of $6.4 million which relates solely to income from operations from the Cineplex Galaxy theatres to be disposed of under the Consent Agreement.

Non-controlling interests. Non-controlling interests for the year ended December 31, 2005 of $1.8 million (2004 – nil) represents the minority interest in FP Media Inc. held by the non-controlling partner.

Net income. Net income for the year ended December 31, 2005 decreased to $13.0 million from $30.2 million for the year ended December 31, 2004, primarily due to the net effect of all of the other factors described above.

EBITDA

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

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

(expressed in thousands of dollars)	**Year ended December 31, 2005**	Year ended December 31, 2004	Year ended December 31, 2003
Net income	**$ 12,976**	$ 30,248	$ 39,323
Amortization	**42,948**	22,530	18,404
Interest on long-term debt	**18,401**	8,280	4,020
Interest on loan from Cineplex Galaxy Trust	**14,000**	14,000	1,381
Interest income	**(378)**	(473)	(922)
Income tax expense	**(1,463)**	(1,149)	366
EBITDA	**$ 86,484**	$ 73,436	$ 62,572
Non-controlling interest	**1,828**	-	304
Loss on extinguishment of debt	**4,156**	-	-
Income from discontinued operations	**(28,116)**	(6,357)	(6,184)
Foreign exchange gain	**-**	-	(3,696)
Non-recurring management fee	**-**	-	7,664
Impairment of long-lived assets	**4,296**	-	-
Loss/(gain) on disposal of theatre assets	**122**	(111)	(92)
Adjusted EBITDA	**$ 68,770**	$ 66,968	$ 60,568

Seasonality and quarterly results

Historically, the Partnership's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures are generally released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. In order to stabilize cash flow during the slower first and second quarters, the Partnership has available for its use up to $15 million of its Working Capital facility (see "Credit Facilities" discussed below) to fund distributions. As of December 31, 2005 there are no outstanding amounts drawn on the Working Capital facility.

Summary of quarterly results

(expressed in thousands of dollars except per unit data)	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1
Total Revenue	$ 193,186	$ 151,879	$ 75,197	$ 70,037	$ 76,847	$ 85,060	$ 83,436	$ 70,442
Cost of Operations	157,735	140,883	63,688	59,223	60,694	65,458	65,724	56,943
Income from Operations	35,451	10,996	11,509	10,814	16,153	19,602	17,712	13,501
Amortization	16,235	14,136	6,364	6,213	6,227	5,858	5,310	5,135
Loss (gain) on disposal of theatre assets	(54)	195	(19)	–	3	(72)	(36)	(6)
Loss on extinguishment of debt	–	4,156	–	–	–	–	–	–
Impairment of long-lived assets	–	4,296	–	–	–	–	–	–
Interest on long-term debt	7,691	6,160	2,344	2,206	2,307	2,068	1,904	2,001
Interest on loan from Cineplex Galaxy Trust	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Interest Income	(91)	(109)	(60)	(118)	(118)	(200)	(61)	(94)
Income Taxes	(925)	(712)	119	55	(1,320)	74	61	36
Income from Discontinued Operations	(620)	26,912	981	843	1,274	2,068	1,743	1,272
Non-Controlling Interest	1,214	614	–	–	–	–	–	–
Net Income	$ 7,261	$ 5,672	$ 242	$ (199)	$ 6,828	$ 10,442	$ 8,777	$ 4,201
Net income per unit (ii)	$ 0.132	$ 0.106	$ 0.005	$ (0.004)	$ 0.144	$ 0.220	$ 0.185	$ 0.088
Cash Flows from Operations (i)	$ 59,857	$ 2,336	$ 3,794	$ 221	$ 27,091	$ 13,001	$ 9,721	$ (5,995)
Cash flows from investing activities	(12,799)	(288,680)	(20,706)	2,471	(10,661)	(10,760)	(5,417)	(3,449)
Cash flows used in financing activities (i)	(26,697)	302,255	2,292	(17,212)	(3,607)	(2,729)	(6,759)	(5,300)
Net change in cash	$ 20,361	$ 15,911	$ (14,620)	$ (14,520)	$ 12,823	$ (488)	$ (2,455)	$ (14,744)

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

(ii) Computed using weighted average number of units outstanding for the year.

Distributable cash

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

(expressed in thousands of dollars except per unit data)	2005 Q4	2005 Q3	2005 Q2	2005 Q1	2004 Q4	2004 Q3	2004 Q2	2004 Q1
Cash provided by / used in operating activities (i)	$ 59,857	$ 2,336	$ 3,794	$ 221	$ 27,091	$ 13,001	$ 9,721	$ (5,995)
Less: Changes in operating assets and liabilities (ii)	(30,580)	6,913	2,532	6,329	(13,728)	2,801	3,802	14,933
Tenant Inducements (iii)	(5,497)	(269)	(605)	(1,291)	(2,730)	(428)	(250)	(300)
Capital lease payments	(322)	(210)	-	-	-	-	-	-
Dividends paid to minority interest shareholder	(490)	(1,372)	-	-	-	-	-	-
Total Capital expenditures	(13,556)	(9,497)	(3,225)	(5,141)	(8,586)	(8,759)	(3,386)	(2,072)
Add: Interest on loan from Cineplex Galaxy Trust (iv)	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
New theatre and Project capital expenditures (v)	11,639	7,351	1,279	4,195	5,958	7,749	2,226	1,720
POS/Rebranding capital expenditures (vi)	435	1,556	642	316	1,281	378	-	-
Non Cash components in operating assets and liabilities (vii)	319	283	-	-	-	-	-	-
Expenses funded through integration and restructuring reserve (viii)	65	784	-	-	-	-	-	-
Distributable cash	$ 25,370	$ 11,375	$ 7,917	$ 8,129	$ 12,786	$ 18,242	$ 15,613	$ 11,786
Number of Units outstanding (ix)	55,150,421	55,150,421	47,566,974	47,566,974	47,566,974	47,566,974	47,566,974	47,566,974
Distributable cash per unit	$ 0.4600	$ 0.2063	$ 0.1664	$ 0.1709	$ 0.2688	$ 0.3835	$ 0.3282	$ 0.2478

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

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

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

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

(v) The total capital expenditures noted above includes new theatre and maintenance capital expenditures of which the new theatre capital expenditures and Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities – Revolving Facilities) and therefore are added back to calculate distributable cash.

(vi) Point-of-Sale ("POS") and rebranding capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005. (see discussion under "Future Obligations").

(vii) Reflects non-cash expenses including accretion on Class C LP Units, amortization of deferred gain on Riocan sale-leaseback transaction and amortization of swap on extinguished debt (see discussion under "The Acquisition and Related Transactions").

(viii) Amounts financed by the reserve set up upon completion of the Acquisition not considered a use of distributable cash flow. See discussion under "Future Obligations" below.

(ix) Units outstanding for three months and year ended December 31, 2005 reflect the issuance on July 22, 2005 of 6,835,000 Class A LP Units and Class D LP Units to fund the Acquisition.

Operating results for the fourth quarter

Box office revenues. Box office revenues for the three months ended December 31, 2005 increased $68.3 million to $118.0 million. Of this increase, $66.1 million related to the Acquisition and an increase of $2.2 million or 4.4% in the Cineplex Galaxy circuit. Canadian industry box office increased 0.8% for the fourth quarter of 2005. The Cineplex Galaxy increase in box office revenues was due to increased same store attendance levels ($0.2 million), an increase in the average ticket price ($0.5 million) and the operations of new theatres ($1.5 million). The average box office revenue per patron of the Partnership increased from $7.40 to $7.97. The average box office revenue per patron of Famous Players was $8.38 and for Cineplex Galaxy was $7.50. For the Cineplex Galaxy locations, the average box office revenue per patron for the three months ended December 31, 2005 increased $0.10 to $7.50 from $7.40 for the three months ended December 31, 2004.

Concession revenues. Concession revenues for the three months ended December 31, 2005 increased $33.7 million to $54.6 million. Of this increase, $30.7 million related to the Acquisition and an increase of $3.0 million or 14.6% in the Cineplex Galaxy circuit. The Cineplex Galaxy increase in concession revenues was due to increased same store attendance levels ($0.1 million), additional revenues from the operation of new theatres ($0.8 million) and an improvement in concession revenues per patron ($2.1 million). The average concession revenue per patron of the Partnership increased from $3.10 to $3.68. The average concession revenue per patron of Famous Players was $3.89 and for Cineplex Galaxy was $3.45. The Cineplex Galaxy average concession revenue per patron increased $0.35 or 11.3% from $3.10 for the three months ended December 31, 2004 to $3.45 for the three months ended December 31, 2005. The increase is due to a combination of factors including pricing and sizing changes on core products implemented during the fourth quarter, expanded product offerings, the introduction of new combination products with expanded options at a higher price point and film product that drew audiences more likely to have an increased likelihood of purchase incidence.

Other revenues. Other revenues for the three months ended December 31, 2005 increased $14.4 million to $20.6 million. Of this increase, $12.2 million related to the Acquisition and $2.2 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, other revenues increased $2.2 million or 34.3%. Other revenues for 2005 and 2004 reflect the Partnership's retroactive adoption at December 31, 2004 of the provisions of EIC-144 (discussed in "Accounting Policies and Recent Developments – Recent Accounting Developments").

Film cost. Film cost for the three months ended December 31, 2005 increased $36.0 million to $61.4 million. Of this increase, $34.7 million related to the Acquisition in addition to an increase of $1.3 million related to the Cineplex Galaxy circuit. As a percentage of box office revenue, film cost increased to 52.0% for the three months

ended December 31, 2005 from 51.0% for the three months ended December 31, 2004. This increase is due primarily to higher film rental terms paid in the three months ended December 31, 2005 on specific strong releases including Harry Potter and the Goblet of Fire, The Chronicles of Narnia and King Kong.

Cost of concessions. Cost of concessions for the three months ended December 31, 2005 increased $6.3 million to $10.2 million. Of this increase, $5.5 million related to the Acquisition and $0.8 million related to the Cineplex Galaxy circuit. The Cineplex Galaxy increase in cost of concessions was due primarily to the costs associated with new theatres that were opened ($0.1 million) and increased purchase incidence ($0.7 million). As a percentage of concession revenues, cost of concessions remained flat at 18.8%. Concession costs for 2005 and 2004 reflect the Partnership's retroactive adoption at December 31, 2004 of the provisions of EIC-144 (discussed in "Accounting Policies and Recent Developments – Recent Accounting Developments").

Occupancy. Occupancy expense for the three months ended December 31, 2005 increased $26.2 million to $37.3 million. Of this increase, $25.5 million related to the Acquisition and $0.7 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the overall increase in occupancy expense was primarily due to the incremental costs associated with new theatres that were opened ($0.4 million) and an increase in same store locations ($0.3 million).

Other theatre operating expenses. Other theatre operating expenses for the three months ended December 31, 2005 increased $22.9 million to $39.5 million. Of this increase, $20.4 million related to the Acquisition and $2.5 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($0.3 million) and the impact of additional business activities and inflationary increases ($2.2 million).

General and administrative costs. General and administrative costs for the three months ended December 31, 2005 increased $5.8 million to $9.3 million principally as a result of the Acquisition. Of the total synergy amount estimated to be achieved on the Acquisition, approximately $15 million related to savings in general and administrative costs. The Partnership had initially thought that it would take up to 12 months to realize the synergies in this area, however management now believes that these synergies will be fully achieved on a run-rate basis with the start of the second quarter of 2006. During the third quarter the Partnership provided notice to terminate the employment services of approximately 35% of the combined general and administrative workforce.

Income before undernoted. The Partnership reported income before undernoted for the three months ended December 31, 2005 of $35.5 million as compared to income before undernoted of $16.2 million for the three months ended December 31, 2004. This change was due to the aggregate effect of the factors described above.

Amortization costs. For the three months ended December 31, 2005 amortization costs increased $10.0 million to $16.2 million. Of this increase, $9.7 million related to the Acquisition and $0.3 million related to the Cineplex Galaxy circuit. The increase in the Cineplex Galaxy circuit was due primarily to the incremental impact of new theatres.

Gain on disposal of theatre assets. The gain on disposal of theatre assets represents the gains on theatre assets that were sold or otherwise disposed of. For the three months ended December 31, 2005 the partnership recorded a gain of $54 thousand as compared to a loss of $3 thousand for the three months ended December 31, 2004.

Interest on long-term debt. Interest on long-term debt for the three months ended December 31, 2005 increased to $7.7 million from $2.3 million for the three months ended December 31, 2004 as a result of the additional borrowings to finance the Acquisition of Famous Players. Interest expense is comprised of the amortization of $0.7 million of deferred financing fees, interest on capital leases of $0.7 million, interest and accretion expense on the Class C LP Units of $2.2 million and $4.1 million of interest on long-term debt for the three months ended December 31, 2005. For the three

months ended December 31, 2004 interest expense includes $0.3 million for the amortization of deferred financing fees and $2.0 million of interest on long-term debt.

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

Income taxes. During the three months ended December 31, 2005, a subsidiary of the Partnership recorded a future income tax recovery of $2.3 million (2004 – $1.6 million) offset by current taxes of $1.4 million of which $1.3 million arose from the media sales subsidiary of Famous Players.

Income from discontinued operations. Income from discontinued operations represents the income from the remaining theatres required to be disposed of as outlined in the Consent Agreement and the Alliance Atlantis branded theatres which was $0.6 million for the three months ended December 31, 2005 including a loss of $0.8 million on disposed theatres compared to income from discontinued operations for the three months ended December 31, 2004 of $1.3 million.

Non controlling interests. Non-controlling interests for the three months ended December 31, 2005 of $1.2 million (2004 – nil) represents the minority interest in FP Media Inc held by the non controlling partner.

Net income. Net income for the three months ended December 31, 2005 increased to $7.3 million from $6.8 million for the three months ended December 31, 2004, primarily due to the net effect of all of the other factors described above.

Balance sheet

Assets

Assets increased $473.3 million to $798.8 million as at December 31, 2005. This increase is due primarily to the Acquisition.

Accounts receivable. Accounts receivable increased $10.9 million to $21.8 million as at December 31, 2005 from $10.9 million as at December 31, 2004. This increase was due to the Acquisition ($8.0 million) and increased business volumes.

Fixed assets. The increase in fixed assets from $225.9 million at December 31, 2004 to $435.0 million at December 31, 2005 is due to the Acquisition ($316.6 million) offset by the sale of four theatres to Riocan ($58.6 million), the disposition of 27 theatres under the Consent Agreement ($38.2 million), and amortization expenses. Fixed assets related to the remaining seven theatres to be divested have been reclassified to assets held for sale – long term ($3.5 million).

Goodwill. The increase in goodwill by $183.3 million from $22.9 million at December 31, 2004 to $206.2 million at December 31, 2005 is due to the Acquisition ($197.1 million) and the termination and wind-up of FP Media Inc. and acquisition of three Famous Players branded media and magazines ($1.2 million) offset by the allocation of goodwill to the theatres sold under the Consent Agreement ($15 million).

Deferred charges: The increase in deferred charges by $7.2 million from $2.1 million at December 31, 2004 to $9.3 million at December 31, 2005 is due to additional deferred charges resulting from the Amended Credit Facilities and the reimbursement by the Partnership of the fees incurred by the Fund in the issuance of the Convertible Debentures ($9.7 million) offset by the write-off of deferred financing charges on the extinguishment of the former credit facilities.

Other intangibles. The increase in other intangibles by $61.6 million from $1.9 million at December 31, 2004 to $63.5 million at December 31, 2005 is due to the Acquisition ($73.6 million) offset by the disposition of certain intangible assets as a result of the disposition of the theatres sold under the Consent Agreement ($9.4 million).

Liabilities

Liabilities increased $381.6 million from $368.7 million as at December 31, 2004 to $750.3 million as at December 31, 2005 primarily due to the Acquisition.

Accounts payable and accrued expense. Accounts payable and accrued expenses increased from $26.3 million as at December 31, 2004 to $88.2 million as at December 31, 2005. The increase is due to the Acquisition ($47.5 million) and higher business volumes.

Deferred revenue. Deferred revenues increased by $27.4 million to $41.0 million as at December 31, 2005 from $13.6 million as at December 31, 2004. This was due to the Acquisition ($22.6 million) and the increased gift certificates and corporate tickets that were sold during the holiday season in 2005.

Capital leases. Capital leases increased from a nil balance at December 31, 2004 to $1.4 million current portion of capital lease obligations and $38.1 million long-term capital lease obligations as at December 31, 2005 as a result of the Acquisition.

Current and long-term debt. Current debt decreased $17 thousand at December 31, 2005. Although $25 million was borrowed under the Working Capital Facility to finance a portion of the Acquisition, this amount was subsequently repaid in the third and fourth quarter of 2005 (see discussion under "Credit Facilities" below). Long term debt increased from $125.5 million at December 31, 2004 to $243.5 million at December 31, 2005 as a result of the Acquisition of Famous Players (see discussion under "Credit Facilities" below) and incremental borrowings to finance new theatre construction.

Other liabilities. Other liabilities increased by $40.9 million from $83.1 million at December 31, 2004 to $124.0 million as at December 31, 2005 as a result of the Acquisition. Included are other liabilities arising from the market valuation of rental obligations ($22.0 million).

Accrued pension liability. Accrued pension liability increased by $4.6 million to $5.2 million as a result of the Acquisition of Famous Players. Effective October 2005 the Famous Players defined benefit plan will be curtailed and members of the plan who have continued employment subsequent to the Acquisition will become members of the Partnership's defined contribution pension plan.

Class C units – liability component. Class C Units – liability component increased from a nil balance at December 31, 2004 to $97.6 million as at December 31, 2005 as a result of the Acquisition (see discussion under "The Acquisition and Related Transactions" above).

Outstanding fund units

The Fund had the following units issued for the years ended December 31 :

	2005		2004	
(expressed in thousands of dollars)	**Number of Fund Units**	**Amount**	Number of Fund Units	Amount
Fund Units beginning of period	**20,023,689**	**$ 201,477**	19,400,000	$ 194,000
Issuance of Fund Units	**6,835,000**	**$ 110,044**	–	–
Issuance of Convertible Debentures – Equity Component	**–**	**8,546**	–	–
Issuance of Fund Units under Exchange agreement	**980,303**	**14,220**	623,689	7,477
	27,838,992	**$ 334,287**	20,023,689	$ 201,477

Subject to certain restrictions, Class B LP Units of the Partnership may be exchanged for Fund Units. As at December 31, the following Class B LP Units had not been exchanged for Fund Units:

Number of Units	**2005**	2004
Class B Series 1	**20,321,237**	20,325,893
Class B Series 2-C	**2,086,957**	2,086,957
Class B Series 2-G	**4,154,788**	5,130,435
	26,562,982	27,543,285

Liquidity and capital resources

Operating activities

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

Cash generated by operating activities was $66.2 million for the year ended December 31, 2005 as compared to a source of $43.8 million for the year ended December 31, 2004. The primary reason for the difference was due to amortization of property, equipment and leaseholds, deferred charges and intangibles of $43.7 million in 2005, versus $23.7 million in 2004 and changes in operating assets and liabilities, which was a source of $14.8 million in 2005 versus a use of $7.8 million in 2004 offset by a decrease in net income from $30.2 million for the year ended December 31, 2004 to $13.0 million for the year ended December 31, 2005 and an accounting gain on the disposition of fixed assets of $25.7 million.

Investing activities

Cash used by investing activities for the year ended December 31, 2005 of $319.7 million primarily related to capital expenditures ($31.4 million) and the Acquisition ($448.7 million) offset by the sale of four theatres to Riocan ($67.0 million) and the disposition of 27 theatres under the Consent Agreement ($83.0 million) (see discussion under "The Acquisition and Related Transactions" above) offset by the removal of the restrictions on distributions on the Support Theatre Units (discussed in "Liquidity and Capital Resources -Distributions" below).

Cash used in investing activities for the year ended December 31, 2004 was primarily related to capital expenditures on new theatre builds. In addition the Partnership transferred $7.6 million to a segregated account representing distributions on certain Class B Series 2 LP Units ("Support Units") (discussed in "Liquidity and Capital Resources -Distributions" below) during this period.

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

Financing activities

Cash provided by financing activities for the year ended December 31, 2005 of $260.6 million was due primarily to net borrowings under the Former Credit Facilities and Amended Credit Facilities ($118.0 million) and the issuance of Partnership Units net of issuance costs ($207.2 million) offset by distribution payments of $51.9 million and the payment of financing fees of $9.8 million. Distribution payments included payment of distributions of $8.3 million on the Support Units (discussed in "Liquidity and Capital Resources -Distributions" below). For the year ended December 31, 2004 cash used by financing activities ($18.4 million) was due primarily to distribution payments of $33.6 million offset by borrowings under existing credit facilities of $15.5 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 existing credit facilities.

Distributions

Partnership distributions are made on a monthly basis to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. For the year ended December 31, 2005, the Partnership's distributable cash flow per unit was $1.0273 and $1.2283 for the year ended December 31, 2004. The declared distribution per unit and interest on the GEI note per unit for each of these periods totaled $1.1496. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts, as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities. While the Partnership's year to date payout ratio is greater than 100%, a number of factors that are either one time events or that management does not expect to continue have contributed to this result. From inception of the Fund to December 31, 2005, distributions represent 98% of distributable income.

The Partnership made distributions on the Class C LP Units during the year ended December 31, 2005 in the amount of $2.8 million. Distributions on Class C LP Units are deducted by the Partnership in computing its net income and distributable income.

As part of the Partnership's support arrangements with certain limited partners, the amount of the distributions paid in respect of the Support Units in 2004 was dependent on the annual cash flows from seven prescribed new theatres (the "Support Theatres"). Amounts totaling $7.6 million are included in the distribution amounts noted above for the year ended December 31, 2004. During the year ended December 31, 2004 the performance targets were met for the seven Support Theatres and, as a result, the Partnership paid the full amount of the withheld distributions of $8.3 million to the holders of the Support Units during the three months ended March 31, 2005. The support arrangements terminated effective December 31, 2004, and the holders of the Support Units were thereafter fully entitled to receive cash distributions in a manner consistent with the Class B Series 1 LP Units.

For the years ended December 31, 2005 and December 31, 2004, the Fund declared distributions totaling $1.1496 per Fund Unit. The Fund is entirely dependent on distributions from the Partnership and interest payments from GEI to make its own distributions.

The after-tax return to unitholders of the Fund subject to Canadian federal income tax from an investment in Units will depend, in part, on the composition for tax purposes of the distributions paid by the Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital, which are not included in a unitholder's income but which reduce the adjusted cost base of the Fund Units to the unitholder. The composition for tax purposes of these distributions may change over time, thus affecting the after-tax return to such unitholders. For the year ended December 31, 2004, 21.8% of the Fund's distributions ($0.25108 per Fund unit) represented a nontaxable return of capital with the balance representing taxable income to the unitholder.

Credit facilities

In connection with the Acquisition, the Partnership entered into, the Amended Credit Facilities:

(i) a 364-day $50,000 extendible senior secured revolving credit facility ("Working Capital Facility");
(ii) a four-year $315,000 senior secured non-revolving term credit facility ("Term Facility"); and
(iii) a four-year $60,000 senior secured revolving credit facility ("Development Facility").

The Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or banker's acceptance rate, plus an applicable margin, and amended and restated the Partnership's existing

credit facilities under which $141 million was outstanding as at July 22, 2005. The amendment of the previous credit facilities is considered an extinguishment of debt under Emerging Issues Committee ("EIC") Abstract 88, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," and, as a result, deferred financing charges of $1.2 million were charged to the net earnings of the Partnership upon repayment of the previous credit facilities. In addition, upon extinguishment of the previous credit facilities, the Partnership recognized the mark-to-market loss of $2.2 million at July 22, 2005 on the existing interest rate swap agreement.

The Working Capital Facility is a revolving facility available for general corporate purposes, including up to $15 million to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The Working Capital Facility may be extended for a period not to exceed the maturity date of the Term Facility. The Development Facility is to be used for the development or acquisition of theatre projects approved by the Trustees of the Fund. The Development Facility has a term of four years and is payable in full at maturity.

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

During the year ended December 31, 2005 and 2004 the Partnership borrowed $296 million under the Former Credit Facilities and Amended Credit Facilities and repaid $178 million. As at December 31, 2005 the Partnership had no amounts outstanding under the Working Capital Facility, $235.0 million outstanding under the Term Facility and $8.5 million outstanding under the Development Facility both of which are included in long-term debt.

The Partnership obtained a commitment for a senior secured bridge facility in the amount of $300 million (the "Bridge Facility"). The Bridge Facility had a term of one year and was payable in full at maturity, with no scheduled repayments of principal prior to maturity. The Bridge Facility was to be used to finance the purchase price of the Acquisition and to repay a portion of the existing credit facilities had the Offerings not been completed. With the completion of the Offering the Bridge Facility was no longer required and fees of $0.8 million associated with the Bridge Facility were charged to net earnings of the Partnership.

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

The above credit facilities are secured by all of the Partnership's assets and are guaranteed by the Trust.

Interest rate swap. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects the mark-to-market buyout of the previous interest rate swap on the Former Credit Facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200 million. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the four-year senior secured non-revolving term credit facility. The estimated fair market value of the swap is an unrealized gain of $1.9 million (loss of $2.4 million as at December 31, 2004) that is not recognized on the balance sheet or statement of income in accordance with GAAP as it is considered an effective hedge.

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

Future Obligations

As of December 31, 2005, the Partnership had the following contractual commitments:

(expressed in thousands of dollars) Contractual Obligations	Total	Payments Due by Period Within 1 year	2-3 years	4-5 years	After 5 years
Long Term Debt	**$ 243,535**	$ 35	$ –	$ 243,500	$ –
New Theatre Construction	**26,773**	26,773	–	–	–
Point-of-Sale Upgrade	**3,300**	2,900	400	–	–
Digital Preshow	**4,678**	4,678	–	–	–
Capital Leases	**64,650**	4,187	8,374	8,544	43,545
Operating Leases	**1,506,074**	103,192	203,040	195,306	1,004,536
Total Contractual Obligations	**$ 1,846,010**	$ 141,765	$ 211,814	$ 447,350	$ 1,048,081

A portion of the proceeds arising from the issuance of Fund Units, the net borrowings under the Amended Credit Facility and the proceeds of the Riocan Transaction are available for general corporate purposes, including a $25 million reserve for integration and restructuring costs associated with the Acquisition. Of this reserve, severance charges in the amount of $5.0 million were paid during the year ended December 31, 2005.

During 2004, the Partnership announced its plans to move forward with the launch of a digital advertising network in its 21 Toronto extended market area theatres. Digital projectors were installed in 215 theatre auditoriums and the digital advertising network was launched on April 1, 2005. During the three months ended December 31, 2005, the Partnership fully funded its obligations of $3.2 million on the first phase of this project. This project was funded through the Development Facility discussed above.

With the expansion outside the Toronto extended market area and the inclusion of the Famous Players theatres, the total expected cost is in the range of $11 million to $13 million over the next two years. Of this amount, $7 million is included in the $25 million reserve that was established for integration and restructuring costs associated with the Acquisition. As of December 31, 2005, $1.5 million of this reserve had been spent.

As of December 31, 2005 the Partnership had outstanding letters of credit totaling $1.3 million (2004 – nil).

The Partnership conducts a significant part of its operations in leased premises. The Partnership's leases generally provide for minimum rentals and a number of the leases also include percentage rentals 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.

Related party transactions

The Fund has entered into transactions with parties to which it is related. During the year ended December 31, 2005 and 2004, distributions in the amount of $13.0 million and $8.6 million respectively were received from the Partnership. The Fund had distributions receivable from the Partnership at December 31, 2005 and 2004 in the amount of $1.5 million and $0.8 million respectively.

The Fund received interest income from the Partnership with respect to the Class C LP Units during the year ended December 31, 2005 in the amount of $2.8 million (2004 – nil).

The Fund received interest income in the amount of $14.0 million for both years ended December 31, 2005 and 2004 with respect to the Galaxy Note.

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

COC and LCT provided the Partnership with management information systems support pursuant to a service agreement. For the year ended December 31, 2004, the Partnership was charged $0.4 million for these services. As a result of the sale of LCT by Onex on July 30, 2004, LCT, which is no longer a related party, provides these services to the Partnership. This service agreement was terminated during the second quarter of 2005.

COC charged the Partnership $0.5 million for the year ended December 31, 2005 for rent for the Partnership's head office (2004 - $0.5 million). The Partnership charged COC $61 thousand for certain theatre management services during the year ended December 31, 2005 (2004 - $0.1 million).

For the years ended December 31, 2005 and 2004 the Partnership incurred expenses for film rental totaling $25.3 million and $25.8 million, respectively, to Alliance Atlantis Communications Inc. ("Alliance") and its subsidiary Motion Picture Distribution LP ("Motion Picture") Alliance is a former shareholder of GEI and Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the year ended December 31, 2005, the Partnership earned revenue in the amount of $0.8 million with respect to these services (2004 - $0.6 million).

A member of the Trustees of the Fund and a Director of Cineplex Entertainment Corporation received fees for consulting services provided with respect to the Acquisition in the amount of $0.2 million for the year ended December 31, 2005.

A former trustee of the Fund is the President and Chief Executive Officer of Riocan. The trustee resigned from the Board of the Fund effective August 1, 2005. On June 29, 2005, the Partnership entered into a letter of intent to sell real estate interests in four theatre locations (two of which are Famous Players theatres) for an estimated $67 million to Riocan. The transaction closed in August 2005 and proceeds of the sale were used to repay amounts borrowed to finance a portion of the purchase price for the Acquisition.

Up to July 31, 2005, the Partnership incurred rental costs for theatres under lease commitments with Riocan in the amount of $7.3 million. For the year ended December 31, 2004 the Partnership incurred rental costs for theatres under lease commitments with Riocan of $7.8 million.

Distributions paid by the Partnership to related parties consist of:

(expressed in thousands of dollars)	**December 31 2005**	December 31 2004
Fund	**$ 12,953**	$ 8,600
Onex and its subsidiaries	**35,254**	24,214
Alliance	**–**	349
Other related parties	**1,057**	215

Distributions payable by the Partnership to related parties consist of:

(expressed in thousands of dollars)	**As at December 31 2005**	As at December 31 2004
Fund	**$ 1,500**	$ 752
Onex and its subsidiaries	**2,480**	8,116
Alliance	**–**	781
Other related parties	**72**	712

During the year ended December 31, 2005 Ellis Jacob, Chief Executive Officer of the Partnership, exchanged 146,149 Class B LP units for 146,149 Fund Units under the provisions of the Exchange Agreement. The exchange has been recorded at fair market value as required by EIC Abstract 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which is effective for financial statements issued subsequent to January 19, 2005 (see "Recent accounting developments" below).

During the year ended December 31, 2005 Alliance exchanged 679,498 Fund Units under the provision of the Exchange Agreement. The exchange has been recorded at fair market value as required by EIC Abstract 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which is effective for financial statements issued subsequent to January 19, 2005 (see "Recent accounting developments" below).

During the year ended December 31, 2004 Ellis Jacob, Chief Executive Officer of the Partnership, exchanged 148,870 Class B LP units for 148,870 Fund Units under the provisions of the Exchange Agreement. The exchange has been restated to reflect fair market as required by EIC Abstract 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which is effective for financial statements issued subsequent to January 19, 2005 (see "Recent accounting developments" below).

The Partnership issued 500,000 Class D LP Units, a new class of Partnership units, at an estimated value of $8.1 million to certain of its executives upon closing the Acquisition. This amount was recorded as compensation expense during the year ended December 31, 2005. These units are not currently exchangeable for units of the Fund and will be entitled to receive distributions on substantially the same basis as the Class B LP Units. At the next meeting of unitholders of the Fund, unitholders will be asked to approve a resolution which would make the Class D LP Units exchangeable for Fund Units. During the year ended December 31, 2005, the Partnership paid distributions in the amount of $0.2 million on the Class D Units held in trust for management.

The Partnership agreed to pay Onex, a related party, a transaction fee of $4 million in connection with advisory services rendered by Onex in connection with the Acquisition, issuance of Fund Units and Convertible Debentures, and entering into the Amended Credit Facilities. The Partnership did not engage a third party for these services. The fee was satisfied by the issuance of 248,447 Class D LP Units upon completion of the Acquisition. During the year ended December 31, 2005, the Partnership paid distributions in the amount of $0.1 million on the Class D Units held by Onex.

In April 2004, the Partnership acquired from COC two theatres for nominal consideration. The transaction has been recorded by the Partnership at $24 thousand, the amount for which the asset had been carried in the books of COC. The difference between COC's carrying value and the consideration paid by the Partnership has been credited to the Partners' Equity in accordance with Section 3840 of the Handbook.

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

Accounting policies and recent developments

Critical accounting policies

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

Revenues

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

Film rental costs

Film rental costs are recorded based upon the terms of the respective film license agreements. In some cases the final film cost is dependent upon the ultimate duration of the film play and until this is known, management uses its best

estimate of the ultimate settlement of these film costs. Film costs and the related film costs payable are adjusted to the final film settlement in the period the Partnership settles with the distributors. Actual settlement of these film costs could differ from those estimates.

Leases

Leases are classified as either capital or operating. Leases that transfer substantially all of the risks and benefits of ownership to the Partnership and meet the criteria for capital leases set out in CICA Handbook Section 3065, "Leases", are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measure at the present value of minimum lease payments. Related building and equipment are amortized on a straight-line basis over the term of the lease. All other leases are accounted for as operating leases wherein rental payments are charged to income as incurred.

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

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

Goodwill

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

Intangible assets

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

Income taxes

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

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

Disposal of long-term assets and discontinued operations

As per CICA Handbook Section 3475, "Disposal of Long-Term Assets and Discontinued Operations," a long-term asset must be classified as an asset held for sale in the period during which all required criteria have been met. A long-term asset to be disposed of by sale must be measured at the lower of its carrying amount or fair market value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Assets and

liabilities classified as held for sale are recorded on the consolidated balance sheets as assets held for sale and as liabilities related to property held for sale. When a disposal group is a portion of a reporting unit that constitutes a business, goodwill is allocated to the disposal group and included in its carrying amount prior to determining any write-down or gain on sale of the discontinued operations. A long-term asset to be disposed of other than by sale, namely abandonment, before the end of its useful service life estimated previously, is classified as an asset held for sale until its disposal and the amortization estimates must be revised according to the assets' abbreviated useful service life. In addition, this standard specifies that the operating results of a company's component disposed of by sale, or by withdrawal, or being classified as held for sale, be included in the discontinued operations if the operations or cash flows of the component have been or will be eliminated from the Partnership's current operations pursuant to the disposal, and if the Partnership does not have significant continuing involvement in the operations of the component after the disposal transaction. Each theatre is considered a component of the Partnership as the operations and cash flows can be distinguished from the rest of the enterprise. Interest on debt that is assumed by the Partnership and interest on debt that is required to be repaid as a result of the disposal transaction is allocated to discontinued operations.

Long-lived assets

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions made by management in the preparation of the financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Famous Players business combination, the assessment of theatre cash flows to identify potential asset impairments, the assessment of the fair value of GEI and Famous Players to identify a potential goodwill impairment, estimating the fair value of the indefinite life assets to identify a potential impairment, the value of gift certificates that remain unutilized and in circulation for revenue recognition purposes, the film cost payable accrual, valuation of future income tax assets and the determination of the asset retirement obligation as certain leases may require the retirement of leaseholds, and this outcome is at the landlords' discretion at the end of the lease. Actual results could differ from those estimates.

Recent accounting developments

In September 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (the "Guideline"). In September 2003, the CICA amended the Guideline to make it effective for annual and interim periods beginning on or after November 1, 2004. The Guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The Fund and the Partnership adopted the Guideline during the first quarter of 2005. As a result of the adoption of the Guideline, the Partnership was required to consolidate the trust that was formed to act as Trustee of the Partnership's Long-Term Incentive Plan. Details of the impact of the application of the Guideline are discussed in Note 3 to the Fund's and Partnership's Consolidated Financial Statements.

In 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3110, "Asset Retirement Obligations", effective for annual and interim periods beginning on or after January 1, 2004. This standard

requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The implementation of Section 3110, requiring retroactive restatement of the financial statements, has had no material impact on the Partnership's financial position or results of operations.

Effective January 1, 2004, the Partnership adopted CICA Accounting Guideline 13 ("AcG 13") "Hedging Relationships". AcG 13 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of, hedge accounting and hedge effectiveness testing requirements. Under the new guideline, the Partnership is required to document its hedging transactions and explicitly demonstrate that hedges are effective in order to continue hedge accounting for positions hedged with derivatives. Any derivative financial instruments that fail to meet the hedging criteria will be accounted for in accordance with EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments". These instruments will be recorded on the balance sheet at fair value, and changes in fair value will be recognized in income in the period in which the change occurs.

In connection with the implementation of AcG 13, the Partnership considered its hedging relationships as at January 1, 2004 and during the year ended December 31, 2005, and determined that its interest rate swap agreement on its Term Facility qualified for hedge accounting for Canadian GAAP purposes and, therefore, the estimated fair value of the swap is not recognized in the balance sheet.

The Partnership receives rebates from certain vendors with respect to the purchase of concession goods. Payments received from vendors are composed of amounts for purchases made by the Partnership from the vendor in addition to amounts paid in return for advertising undertaken by the theatres on behalf of the vendor. The Partnership previously recorded all rebates received as a reduction of concession costs. Under Emerging Issues ("EIC") Abstract 144, Accounting By A Customer (Including a Reseller) For Certain Consideration Received From a Vendor, the Partnership continues to recognize rebates earned for purchases of a vendor's product as a reduction of concession costs; however, it is required to recognize rebates received for services delivered to the vendor as revenue. As a result, the Partnership has recorded rebates received with respect to advertising services performed for the vendor as other revenue. As required by EIC-144, the Partnership has applied this change retroactively resulting in an increase in other revenue and concession costs for the year ended December 31, 2005 of $1.5 million (2004 - $1.5 million).

The Fund implemented, on a retroactive basis with prior periods restated, the new EIC Abstract 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which is effective for financial statements issued subsequent to January 19, 2005. The standard addresses whether or not the exchangeable LP Units should be recorded as equity in the Fund's balance sheet. In addition, it provides guidance on the accounting treatment for the conversion of exchangeable securities that are not presented as part of the Fund's unitholders' equity and it addresses how earnings per Fund Unit should be calculated in the Fund's financial statements.

Class B LP Units are exchangeable for Fund Units. The Class B LP Units are not shown as part of the Fund's unitholders' equity in the balance sheet until they have been exchanged for Fund Units as there are no requirements for the Class B LP Units to be exchanged into Fund Units. As such, the Class B LP Units are considered as part of the calculation of diluted earnings per Fund Unit using the if-converted method.

When Class B LP Units are converted into Fund Units, the Fund accounts for the exchange of Units at fair market value at the date of the exchange. The impact to the Fund's share of the Partnership's income as a result of the retroactive implementation of this new standard is immaterial.

Risks and uncertainties

Investment in the Fund Units is subject to a number of risk factors. Cash distributions to unitholders are dependent upon the ability of the Partnership to generate income. The ability of the Partnership to generate income is susceptible to a number of risk factors which include: (i) the reliance on film production and film performance; (ii) alternative film delivery methods and other forms of entertainment; (iii) increased capital expenditures resulting from the development of digital technologies for film exhibition; (iv) reliance on key personnel; (v) the acquisition and development of new theatre sites; (vi) impact of new theatres; (vii) unauthorized copying of films; (viii) rising insurance and labour costs; and (ix) the ability to generate additional ancillary revenue. See "Risk Factors" detailed in the Fund's Annual Information Form dated March 31, 2005 for a more detailed description of risks facing the Partnership. In addition, related to the Acquisition, the Partnership is susceptible to additional risk factors which include: (i) risks relating to the integration of the combined businesses and (ii) potential undisclosed liabilities relating to the Acquisition. See "Risk Factors" detailed in the Fund's Prospectus dated July 11, 2005 for a more detailed discussion of the risks facing the Partnership.

Market risk

The Partnership is exposed to financial market risks, including changes in interest rates and other relevant market prices. As discussed in "Liquidity and Capital Resources – Credit Facilities" the Partnership has entered into various interest rate swaps agreements. The estimated fair market value of the swap is an unrealized gain of $1.9 million (loss of $2.4 million as at December 31, 2004) that is not recognized on the balance sheet or statement of income in accordance with GAAP.

Interest rate risk

As of December 31, 2005, the Partnership had long-term debt and amounts due to the Trust (including current maturities) of $343.5 million. Approximately $243.5 million of this debt is variable rate debt. An increase or decrease in interest rates would affect interest costs relating to this debt. For comparative purposes, for every change of 0.125% in interest rates, the Partnership's interest costs would change by approximately $0.3 million per year. Offsetting this risk is the impact of the interest rate swap referred to above.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership, Alliance Atlantis Cinemas partnership and Famous Players (the "Respondents") alleging discrimination against hearing impaired individuals for not providing sufficient technology to accommodate their disability. Similar complaints have been filed against other exhibitors and certain film distributors. All complaints have been referred to the Human Rights Tribunal (the "Tribunal") and have been joined together for hearing. There is the potential for a judicial resolution of this matter during the next 12 months. At the present time, the Partnership is unable to assess the magnitude of any potential ruling from the Tribunal however, if the Tribunal ruled against the Respondents and forced the maximum provision of technology, the Respondents could face a substantial financial burden in terms of a capital expenditure.

The Respondents will continue to research changing technologies to determine how they can best accommodate the hearing impaired community. With the anticipated expansion of digital film from distributors in the near future, the specific technology requested by the Complainants is likely to become obsolete in a relatively few number of years to be replaced by alternative digital technology. The Respondents are also in contact with groups that represent both the hearing and vision impaired communities in an effort to reach consensus on what technology each respective community prefers.

The Partnership is a defendant in various lawsuits arising in the ordinary course of business. From time to time, the Partnership is involved in disputes with landlords, contractors, past employees and other third parties. It is the opinion of management that any liability to the Partnership, which may arise as a result of these matters,

will not have a material adverse effect on the Partnership's operating results, financial position or cash flows.

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

Outlook

Management believes that the Acquisition will be immediately accretive to the Fund's distributable cash per Unit. In addition, management believes that the Partnership will benefit from cost-saving opportunities and other synergies through the integration of the operations of the Partnership and Famous Players. Specifically, management expects to realize cost savings through a reduction in consolidated general and administrative expenses, improved supply chain cost management and greater operational efficiency. Management is increasing its synergy estimates and now believes that these synergies will result in annual savings of approximately $25 million once the operations of Famous Players and those of the Partnership have been fully integrated. Management believes that these synergies will be fully achieved on a run-rate basis with the commencement of the second quarter of 2006.

Management believes there are significant opportunities to grow revenue and distributable cash per Unit following the Acquisition. For example, cinema advertising in Canada has only recently been established and represents a significant growth opportunity for the Partnership. Management believes that the larger cinema network resulting from the Acquisition will enhance demand from advertisers, enabling them to reach a broader audience of up to 85 million guest visits annually on a national basis. Management believes that the enhanced demand from advertisers and the sharing of best practices between the Partnership and Famous Players will result in greater advertising revenue and distributable cash per Unit. Other significant revenue growth opportunities include the sale of naming rights on certain theatres and auditoriums, increased revenue from games and the exploitation of benefits related to the Partnership's loyalty programs. In addition, the Acquisition will provide the opportunity to apply each company's core expertise to the other's operations. These improvements are expected to lead to higher revenues and improved operating margins on a combined basis than would be achievable if the entities continued to operate separately.

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

February 9, 2006

Cineplex Galaxy Income Fund

Management's Report to Unitholders

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

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

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

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

Signed:

Ellis Jacob
Chief Executive Officer of
Cineplex Entertainment Corporation

Signed:

Gord Nelson
Chief Financial Officer of
Cineplex Entertainment Corporation

Toronto, Ontario
January 25, 2006

Cineplex Galaxy Income Fund

Auditors' Report

January 25, 2006

To the Trustees of Cineplex Galaxy Income Fund

We have audited the consolidated balance sheets of **Cineplex Galaxy Income Fund** (the "Fund") as at December 31, 2005 and 2004 and the consolidated statements of earnings, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Signed:

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Ontario

Cineplex Galaxy Income Fund

Consolidated Balance Sheets

As at December 31, 2005 and 2004

(expressed in thousands of Canadian dollars)	2005	2004
Assets		
Current assets		
Cash and cash equivalents	$ 1,209	$ 1,179
Distributions receivable from Cineplex Entertainment Limited Partnership (note 4)	1,500	752
	2,709	1,931
Due from Galaxy Entertainment Inc. (note 4)	100,000	100,000
Investment in Cineplex Entertainment Limited Partnership (notes 1 and 2)	206,763	98,046
Investment in Cineplex Entertainment Limited Partnership Class C Units (note 1)	105,000	–
Investment in Cineplex Entertainment Corporation (notes 1 and 2)	2	2
	$ 414,474	$ 199,979
Liabilities		
Current liabilities		
Distributions payable (note 9)	$ 2,667	$ 1,918
Due to Cineplex Entertainment Limited Partnership (note 4)	4	4
	2,671	1,922
Convertible Debentures - liability portion (notes 1 and 7)	96,964	–
	99,635	1,922
Unitholders' Equity	314,839	198,057
	$ 414,474	$ 199,979

Guarantees (note 10)

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

Approved by the Board of Trustees

Signed:

Howard Beck
Trustee

Signed:

Robert Steacy
Trustee

Cineplex Galaxy Income Fund

Consolidated Statements of Earnings

For the years ended December 31, 2005 and 2004

(expressed in thousands of Canadian dollars, except per unit amounts)	2005	2004
Share of income (loss) of Cineplex Entertainment Limited Partnership (note 5)	$ (1,845)	$ 3,258
Interest income (notes 1 and 4)	16,826	14,009
Interest and accretion expense on Convertible Debentures (note 7)	(3,306)	–
Net earnings	$ 11,675	$ 17,267
Basic earnings per unit	$ 0.49	$ 0.88
Weighted average number of units outstanding used in computing basic earnings per unit	23,706,446	19,612,287
Diluted earnings per unit	$ 0.44	$ 0.88
Weighted average number of units outstanding used in computing diluted earnings per unit (note 8)	50,619,316	47,566,974

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

Cineplex Galaxy Income Fund

Consolidated Statements of Unitholders' Equity

For the years ended December 31, 2005 and 2004

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

(expressed in thousands of Canadian dollars)	Unitholders' capital (note 6)	Accumulated earnings	Accumulated distributions	Total
	For the year ended December 31, 2004			
Balance - January 1, 2004	$ 194,000	$ 4,046	$ (2,169)	$ 195,877
Issuance of units under Exchange Agreement (note 6)	7,477	–	–	7,477
Distributions declared (note 9)	–	–	(22,564)	(22,564)
Net earnings for the year	–	17,267	–	17,267
Balance - December 31, 2004	$ 201,477	$ 21,313	$ (24,733)	$ 198,057

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

Cineplex Galaxy Income Fund

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

(expressed in thousands of Canadian dollars)	2005	2004
Cash provided by (used in)		
Operating activities		
Net earnings for the year	$ 11,675	$ 17,267
Items not affecting cash and cash equivalents		
Share of (income) loss from equity investee (note 5)	1,845	(3,258)
Accretion of Convertible Debentures	510	–
Distributions received from Cineplex Entertainment Limited Partnership (note 11)	12,954	8,600
Change in operating assets and liabilities		
Interest receivable from Galaxy Entertainment Inc.	–	1,381
	26,984	23,990
Investing activities		
Investment in Cineplex Entertainment Limited Partnership (note 1)	(110,044)	–
Investment in Cineplex Entertainment Limited Partnership Class C LP Units (note 1)	(105,000)	–
	(215,044)	–
Financing activities		
Issuance of units (note 1)	110,044	–
Issuance of Convertible Debentures (note 1)	105,000	–
Distributions paid	(26,954)	(22,815)
Due to Cineplex Entertainment Limited Partnership	–	(456)
	188,090	(23,271)
Increase in cash and cash equivalents during the year	30	719
Cash and cash equivalents - Beginning of year	1,179	460
Cash and cash equivalents - End of year	$ 1,209	$ 1,179
Supplemental information		
Cash received for interest	$ 16,826	$ 15,390
Cash paid for interest	$ 2,796	$ –

Certain non-cash transactions occurred relating to exchanges of Class B LP Units for Fund units (note 6).
The accompanying notes are an integral part of these consolidated financial statements.

1. Description of the Fund

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

On July 22, 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. (the "Acquisition"), which together hold substantially all the assets and liabilities of Viacom Canada Inc.'s ("Viacom Canada") film exhibition business formerly operated by its Famous Players division, including its subsidiaries' shares and joint venture interests and excluding liabilities to related parties other than to related parties relating solely to film distribution rights on arm's-length terms. On closing of the transaction, total consideration incurred by the Partnership to acquire the net assets noted above amounted to $468,806 in cash plus transaction costs. The purchase agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. This purchase price adjustment has not yet been finalized and no adjustments have been recognized as the purchase price adjustment and outcome cannot reasonably be estimated at this point in time.

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

On July 22, 2005, the Fund indirectly purchased 6,835,000 Class A Limited Partnership units ("Class A LP Units") for an additional 6.4% interest in the Partnership and 6.4% of common shares of Cineplex Galaxy General Partner Corporation for a nominal amount. As a result, the Fund's indirect ownership of the Partnership, held through the Trust, increased to approximately 50.2% as at July 22, 2005. In addition, the Fund indirectly acquired 5,600,000 Class C Limited Partnership units ("Class C LP Units"). The total cash paid for the Class A LP Units and Class C LP Units was $215,044. As a result of the issuance of additional Fund units in a one-for-one exchange of Class B, Series 2-G Partnership units subsequent to July 22, 2005, the Fund's indirect ownership of the Partnership, held through the Trust, increased to approximately 50.5% as at December 31, 2005 (note 6).

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

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

2. Business acquisition

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

As a result of the additional investment in the Partnership, the Fund's 6.4% increased share of the net book value of the underlying identifiable net liabilities, excluding goodwill, of the Partnership was $8,860 at the date of the step acquisition. The cost of the Fund's investment of $110,044 in the Partnership exceeded the underlying carrying value of the net liabilities of the Partnership in the amount of $118,904. This excess has been allocated to property, equipment and leaseholds in the amount of $5,204; advertising contracts in the amount of $624; fair value of leases in the amount of $294; and trademarks in the amount of $2,164. The remaining $110,618 represents equity method goodwill. Amounts allocated to property, equipment and leaseholds will be amortized over a period of approximately 9.5 years, amounts allocated to advertising contracts will be amortized over approximately 5.0 years and amounts allocated to the fair value of leases will be amortized over 3 to 11 years. As the useful lives of trademarks and goodwill are indefinite, no amortization is recorded on these assets. The above allocation of the purchase price is preliminary as the fair value assessment has not been finalized. The actual calculation and allocation of the purchase price will be based on the estimated fair value of the assets acquired and liabilities assumed as at the date of the Acquisition. Accordingly, the purchase price will be adjusted subsequently upon completion of the final purchase price allocation process; variations may be material.

Equity method goodwill as at December 31, 2005 is as follows:

Equity method goodwill as per November 26, 2003 investment in the Partnership	$ 131,247
Equity method goodwill as per July 22, 2005 investment in the Partnership	110,618
	241,865

The Fund's share of the Partnership's net income has been adjusted to reflect the Fund's proportionate share of the amortization of the excess purchase price over net assets acquired (note 5). As at December 31, 2005, the Fund's investment in the Partnership consists of the following:

Equity investment	
26,235,000 Class A LP Units (note 1)	$204,042
1,603,992 Class B LP Units (note 6)	21,697
Accumulated share of Partnership income	4,078
Less: Accumulated distributions received or receivable	(23,054)
	206,763
5,600,000 Class C LP Units (note 1)	105,000
Total investment	$ 311,763

3. Summary of significant accounting policies

Basis of presentation

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). Due to the limited amount of information that these consolidated financial statements provide on the underlying operations of the Partnership, these consolidated financial statements should be read in conjunction with those of the Partnership for the years ended December 31, 2005 and 2004.

Cash and cash equivalents

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

Consolidation and variable interest entities

In June 2003, The Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 15

("AcG 15"), "Consolidation of Variable Interest Entities." In November 2004, CICA amended AcG 15 to make it effective for annual and interim periods beginning on or after November 1, 2004. AcG 15 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company's exposure (variable interest) to the economic risks and potential rewards from the variable interest entity's ("VIE's") assets and activities is the best evidence of control. An enterprise must consolidate a VIE if the enterprise is its primary beneficiary. An enterprise is a primary beneficiary of a VIE if the enterprise holds variable interests that expose it to the majority of the VIE's expected losses or, if no party holds such an exposure, the majority of its expected residual returns. Upon consolidation, the primary beneficiary is generally required to include assets, liabilities and non-controlling interests at fair value and subsequently account for the variable interest as if it were consolidated based on the majority voting interest.

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

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

The Fund holds a significant variable interest in the Partnership through its investment in units of the Partnership. This variable interest originated on November 26, 2003 upon the formation of the Partnership and the Fund's investment therein. As at December 31, 2005, the Fund's indirect ownership of the Partnership, held through the Trust, was approximately 50.5%. The Fund's maximum exposure to loss as a result of its involvement with the Partnership is its $311,763 investment in the Partnership as at December 31, 2005. In addition, the Trust has guaranteed the Amended Credit Facilities undertaken by the Partnership (note 10).

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

However, based on an evaluation of the risks held by the Fund through its variable interests in the Partnership and GEI, respectively, it has been determined that the Fund is not the primary beneficiary of the Partnership or GEI. The Partnership therefore continues to consolidate GEI. The Fund will continue to account for the Partnership under the equity method as Onex Corporation continues to hold both a substantial equity interest in the Partnership and, indirectly, the majority controlling interest in the General Partner that controls the Partnership.

Long-term investments

As the Fund has significant influence over the Partnership and the General Partner, its investment is accounted for using the equity method. Under the equity method, the cost of the Fund's investment in the Partnership is increased by the Fund's proportionate share of income and reduced by any distributions paid or payable to the Fund by the Partnership and the General Partner and by the amortization of property, equipment and leaseholds and certain intangible assets arising as a result of the purchase price allocation (note 2). As set out in the Cineplex Entertainment Limited Partnership Agreement, income and loss of the Partnership for accounting purposes are allocated to each partner in the same proportion as the income or loss is allocated for tax purposes (note 5).

The Fund's investment in the Partnership is reviewed for impairment if conditions arise that indicate the investment

may be impaired. If there is a loss in the value of the investment that is other than a temporary decline, the investment is written down to recognize the loss.

Income taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. As substantially all taxable income will be allocated to the unitholders, no provision for income taxes on earnings has been made in these consolidated financial statements. Income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders.

Earnings per unit

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

Financial instruments

a) Fair value of financial instruments

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

b) Interest rate risk

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

c) Credit risk

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

Exchangeable securities

The Fund implemented, on a retroactive basis with prior periods restated, the new Emerging Issues Committee ("EIC") Abstract 151, "Exchangeable Securities Issued by Subsidiaries of Income Trusts," which is effective for financial statements issued subsequent to January 19, 2005. The abstract addresses whether or not the exchangeable units should be recorded as equity in the Fund's balance sheet. In addition, it provides guidance on the accounting treatment for the conversion of exchangeable securities that are not presented as part of the Fund's unitholders' equity and it addresses how earnings per share should be calculated in the Fund's financial statements.

Certain Class B LP Units are exchangeable for units of the Fund (note 6). The Class B LP Units are not shown as part of the Fund's unitholders' equity in the balance sheet until

they have been exchanged for Fund units as there are no requirements for the Class B LP Units to be exchanged into Fund units. As such, the Class B LP Units are considered as part of the calculation of diluted earnings per unit using the if-converted method.

When Class B LP Units are converted into Fund units, the Fund accounts for the exchange of units at fair value at the date of the exchange. As a result, the Fund's proportionate share of the amortization of the excess purchase price over the net assets acquired (note 5) would be adjusted, including an adjustment to equity method goodwill.

Use of 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, the 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.

4. Related party transactions

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

The Partnership makes distributions of its available cash to the maximum extent possible to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. Any distributions will be paid within seven days of the end of each month. Subject to agreements the Partnership has entered into with its Class A LP, Class B LP and Class D LP unitholders, the Fund receives the distributions on the Class A LP Units and Class B LP Units held by the Trust. For the year ended December 31, 2005, the Fund received $12,954 (2004 - $8,600) of distributions from the Partnership and had $1,500 (2004 - $752) of distributions receivable at December 31, 2005.

Interest income earned by the Fund from the Class C LP Unit distributions was $2,806 (2004 - $nil) (note 2).

On November 26, 2003, the Trust entered into an agreement with GEI whereby it loaned $100,000 to GEI. The Galaxy Note bears interest at a rate of 14% per annum payable monthly, with principal due on November 26, 2028. During the years ended December 31, 2005 and 2004, the Trust earned $14,000 of interest from GEI.

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

During the years ended December 31, 2005 and 2004, investors related to the Fund exchanged their Class B LP Units for Fund units under the provision of the Exchange Agreement (note 6).

See note 10 for a guarantee with a related party.

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

5. Share of income (loss) of the Partnership

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

	2005	2004
Consolidated Partnership net income	**$ 12,976**	$ 30,248
Adjustment for Catch-up Payment from Partnership to Class B LP and Class D LP Unitholders (note 9)	**(16,474)**	(19,964)
Remaining income (loss) to be distributed pro rata to Class A LP, Class B LP and Class D LP Unitholders	**(3,498)**	10,284
Fund's proportionate % share (a)	**(556)**	4,243
Adjustments for excess purchase price over net assets acquired (note 2)	**(1,289)**	(985)
Share of Partnership's income (loss)	**$ (1,845)**	$ 3,258

a) During the year, the Fund's indirect ownership of the Partnership, held through the Trust, increased from approximately 42.1% as at December 31, 2004 to approximately 50.5% as at December 31, 2005. The Fund's proportionate share of the income (loss) available to be distributed to the Class A LP, Class B LP and Class D LP unitholders has been adjusted to reflect its increased ownership since the acquisition date.

The Fund's share of the Partnership's income from discontinued operations is $14,030 (2004 - $2,623).

6. Unitholders' capital

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

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

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

The Class B LP Units 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 may, under certain circumstances, exchange all or any portion of their Class B LP Units for Fund units. At no time may any exchange be made if there exists an uncured event of default arising on Series 1 Trust Notes issued by the Trust to the Fund.

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

During the year ended December 31, 2005, under the provisions of the Exchange Agreement, certain investors, including a related party, exchanged 980,303 Class B, Series 1 and 2-G LP Units (2004 - 623,689 Class B, Series 1 LP Units) for 980,303 (2004 - 623,689) Fund units. Under EIC-151 (note 3), the Fund recorded the Partnership units it acquired at the fair market value of the Fund units on the date of the transaction. The differences between the fair market value and the value at which the Fund units were issued in the amount of $53 (2004 - $(280)) have been charged (credited) to unitholders' equity resulting in a net increase in unitholders' capital of $14,220 (2004 - $7,477).

There are 27,838,992 Fund units issued at December 31, 2005 (2004 - 20,023,689) for $334,287 (2004 - $201,477).

	2005		2004	
	Number of units	**Amount**	Number of units	Amount
Units - Beginning of year	**20,023,689**	**$ 201,477**	19,400,000	$ 194,000
Issuance of units (note 1)	**6,835,000**	**110,044**	–	–
Issuance of Convertible Debentures - equity component (note 7)	**–**	**8,546**	–	–
Issuance of units under Exchange Agreement	**980,303**	**14,220**	623,689	7,477
Units - End of year	**27,838,992**	**$ 334,287**	20,023,689	$ 201,477

7. Convertible Debentures

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

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

The payment of the principal and premium, if any, of, and interest on, the Convertible Debentures is subordinated in right of payment to the prior payment in full of all indebtedness, liabilities and obligations of the Fund. The Convertible Debentures are subordinated to claims of creditors of the Fund's subsidiaries except to the extent that the Fund is a creditor of such subsidiary, ranking at least *pari passu* with such other creditors. The Convertible Debentures will not limit the ability of the Fund to incur additional indebtedness, liabilities and obligations, including indebtedness that ranks senior to the Convertible Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

8. Diluted earnings per unit

The weighted average number of units outstanding used in computing the diluted earnings per unit includes the dilutive effect of the full exercise of the Class B LP unitholders' right to exchange Class B LP Units for Fund units. Convertible Debentures in the amount of $105,000 were excluded from the computation of diluted earnings per unit as their effect would have been antidilutive. If converted when they were issued on July 22, 2005, the weighted average number of units outstanding used in computing diluted earnings per unit would be 2,500,822 units higher.

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

		Number of units
	2005	2004
Class B, Series 1	**20,321,237**	20,325,893
Class B, Series 2-C	**2,086,957**	2,086,957
Class B, Series 2-G	**4,154,788**	5,130,435
	26,562,982	27,543,285

The $105,000 Convertible Debentures can be converted into 5,600,000 Fund units at the option of the holder. As at December 31, 2005, none of the Convertible Debentures have been converted into Fund units.

9. Distributions payable

The Fund makes monthly distributions of its available cash and is dependent upon the ability of the Partnership to make cash distributions to the Fund. Distributions will be made to unitholders of record on the last business day of each month less estimated cash amounts required

for expenses and other obligations of the Fund and cash redemptions of units. The distributions are paid within 30 days following the end of each month.

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

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

10. Guarantees

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

11. Comparative figures

Comparative amounts for distributions received from Cineplex Entertainment Limited Partnership have been reclassified from an investing activity to an operating activity in the consolidated statements of cash flows to conform to the current year's financial statement presentation.

Cineplex Entertainment Limited Partnership

Management's Report to Limited Partners

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

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

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

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

Signed:

Ellis Jacob
Chief Executive Officer of
Cineplex Entertainment Corporation

Signed:

Gord Nelson
Chief Financial Officer of
Cineplex Entertainment Corporation

Toronto, Ontario
January 25, 2006

Cineplex Entertainment Limited Partnership

Auditors' Report

January 25, 2006

To the Directors of Cineplex Entertainment Corporation (formerly Cineplex Galaxy General Partner Corporation), as General Partner of Cineplex Entertainment Limited Partnership

We have audited the consolidated balance sheets of **Cineplex Entertainment Limited Partnership** (the "Partnership") as at December 31, 2005 and 2004 and the consolidated statements of income, partners' equity (deficiency) and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

Signed:

PricewaterhouseCoopers LLP
Chartered Accountants

Toronto, Ontario

Cineplex Entertainment Limited Partnership

Consolidated Balance Sheets

As at December 31, 2005 and 2004

(expressed in thousands of Canadian dollars)	2005	2004 (note 4)
Assets		
Current assets		
Cash and cash equivalents	$ 45,190	$ 38,427
Restricted cash (note 3)	–	7,637
Accounts receivable (note 5)	21,752	10,931
Inventories	4,162	1,899
Prepaid expenses and other current assets	3,803	2,665
Due from related parties (note 13)	32	4
Assets held for sale – current (note 4)	789	481
	75,728	62,044
Property, equipment and leaseholds (note 6)	435,002	225,905
Goodwill (notes 2 and 4)	206,218	22,942
Intangible assets (note 7)	63,464	1,877
Future income taxes (note 19)	5,539	1,615
Deferred charges (note 8)	9,319	2,098
Assets held for sale - long-term (note 4)	3,481	8,949
	$ 798,751	$ 325,430

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

(expressed in thousands of Canadian dollars)	2005	2004 (note 4)
Liabilities		
Current liabilities		
Accounts payable and accrued expenses (notes 10 and 26)	$ 88,243	$ 26,280
Distributions payable	4,117	10,996
Due to related parties (notes 13 and 26)	2,442	1,655
Income taxes payable	667	153
Deferred revenue	41,003	13,580
Current portion of capital lease obligations (note 9)	1,383	–
Current portion of long-term debt (note 11)	35	52
Liabilities related to property held for sale - current (note 4)	843	92
	138,733	52,808
Capital lease obligations – long-term (note 9)	38,078	–
Long-term debt (note 11)	243,500	125,512
Due to Cineplex Galaxy Trust (note 12)	100,000	100,000
Accrued pension liability (note 14)	5,229	589
Other liabilities (note 15)	123,950	83,067
Class C Limited Partnership units – liability component (note 2)	97,555	-
Liabilities related to property held for sale – long-term (note 4)	3,235	6,717
	750,280	368,693
Non-controlling interest	1,030	–
Partners' Equity (Deficiency)		
Partners' equity (deficit)	47,441	(43,263)
	$ 798,751	$ 325,430

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

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

Approved by the Board of Directors

Signed:

Ellis Jacob
Director

Signed:

Anthony Munk
Director

Cineplex Entertainment Limited Partnership

Consolidated Statements of Income

For the years ended December 31, 2005 and 2004

(expressed in thousands of Canadian dollars)	2005	2004 (note 4)
Revenue		
Box office	$ 308,673	$ 209,440
Concessions	137,323	85,423
Other	44,303	20,923
	490,299	315,786
Expenses		
Film cost	159,518	108,013
Cost of concessions	26,986	17,158
Occupancy	93,283	45,990
Other theatre operating expenses	106,308	63,028
General and administrative (note 2)	35,210	13,979
Management fee (note 13)	224	650
	421,529	248,818
Income before undernoted	68,770	66,968
Amortization	42,948	22,530
Loss (gain) on disposal of theatre assets	122	(111)
Loss on extinguishment of debt (note 11)	4,156	–
Impairment of long-lived assets (note 23)	4,296	–
Interest on long-term debt and capital lease obligations	18,401	8,280
Interest on loan from Cineplex Galaxy Trust (note 12)	14,000	14,000
Interest income	(378)	(473)
(Loss) income before income taxes, non-controlling interest and discontinued operations	(14,775)	22,742
Provision for (recovery of) income taxes		
Current	2,461	404
Future	(3,924)	(1,553)
	(1,463)	(1,149)
(Loss) income before non-controlling interest and discontinued operations	(13,312)	23,891
Non-controlling interest	1,828	–
(Loss) income from continuing operations	(15,140)	23,891
Income from discontinued operations (note 4)	28,116	6,357
Net income	$ 12,976	$ 30,248

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

Cineplex Entertainment Limited Partnership

Consolidated Statements of Partners' Equity (Deficiency)

For the years ended December 31, 2005 and 2004

(expressed in thousands of Canadian dollars)	Partners' capital (note 16)	Deficit (note 3)	Accumulated earnings	Accumulated distributions	Total
Balance – January 1, 2005	**$ 110,203**	**$ (147,795)**	**$ 38,949**	**$ (44,620)**	**$ (43,263)**
Distributions declared	–	–	–	(45,044)	(45,044)
Issuance of Limited Partnership units – net of costs	114,290	–	–	–	114,290
Issuance of Class C Limited Partnership units – equity component (note 2)	8,546	–	–	–	8,546
Investment in Cineplex Galaxy Income Fund units	(267)				(267)
LTIP compensation obligation	203	–	–	–	203
Net income	–	–	12,976	–	12,976
Balance - December 31, 2005	**$ 232,975**	**$ (147,795)**	**$ 51,925**	**$ (89,664)**	**$ 47,441**

(expressed in thousands of Canadian dollars)	Partners' capital (note 16)	Deficit (note 3)	Accumulated earnings	Accumulated distributions	Total
Balance – January 1, 2004 as restated	$ 110,425	$ (147,819)	$ 8,701	$ (3,937)	$ (32,630)
Distributions declared	–	–	–	(40,683)	(40,683)
Formation of Partnership issuance costs	(222)	–	–	–	(222)
Contribution of capital on acquisition of theatres	–	24	–	–	24
Net income	–	–	30,248	–	30,248
Balance - December 31, 2004	$ 110,203	$ (147,795)	$ 38,949	$ (44,620)	$ (43,263)

Business acquisitions (note 2)

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

Cineplex Entertainment Limited Partnership

Consolidated Statements of Cash Flows

For the years ended December 31, 2005 and 2004

(expressed in thousands of Canadian dollars)	2005	2004
Cash provided by (used in)		
Operating activities		
Net income	$ 12,976	$ 30,248
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangibles	43,686	23,736
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(3,201)	(5,352)
Amortization of debt issuance costs	1,586	950
Future income taxes	(3,924)	(1,553)
Loss on extinguishment of debt	4,156	–
Impairment of long-lived assets	4,296	–
Issuance of Class D Limited Partnership units (note 2)	8,050	–
Gain on disposal of theatre assets (note 4)	(25,713)	(111)
Non-controlling interest	1,828	–
Tenant inducements (note 26)	7,662	3,708
Changes in operating assets and liabilities (note 20)	14,806	(7,808)
	66,208	43,818
Investing activities		
Proceeds from sale of theatre assets	67,097	122
Proceeds from sale of discontinued operations (note 4)	85,690	–
Capital expenditures	(31,419)	(22,803)
Acquisition of Famous Players Limited Partnership and Famous Players Co. – net of cash acquired (note 2)	(448,688)	–
Cash received from segregated account for distribution (note 3)	8,297	–
Cash transferred to segregated account for future distributions (note 3)	(691)	(7,606)
	(319,714)	(30,287)
Financing activities		
Borrowings under credit facility	296,000	15,500
Repayment of credit facility	(178,029)	(49)
Payments under capital leases	(532)	–
Issuance of Limited Partnership units – net of issuance costs (note 2)	207,240	–
Formation of Partnership issuance costs paid	–	(222)
Dividends paid to non-controlling interest	(1,862)	–
Distributions paid	(51,923)	(33,624)
Investment in Cineplex Galaxy Income Fund units (notes 3 and 16)	(423)	–
Deferred financing fees (note 2)	(9,833)	–
	260,638	(18,395)
Increase (decrease) in cash and cash equivalents during the year	7,132	(4,864)
Cash and cash equivalents – Beginning of year (note 4)	38,663	43,527
Cash and cash equivalents – End of year (note 4)	$ 45,795	$ 38,663
Supplemental information		
Cash paid for interest	$ 27,482	$ 21,140
Cash paid for income taxes - net	$ 1,358	$ 218

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

Cineplex Entertainment Limited Partnership

Notes to consolidated financial statements

December 31, 2005 and 2004 (expressed in thousands of Canadian dollars, except per unit amounts)

1. Description of business

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

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

2. Business acquisitions

Under the terms of the purchase agreement ("Purchase Agreement"), on July 22, 2005 the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. (the "Acquisition"), which together hold substantially all the assets and liabilities of Viacom Canada Inc.'s ("Viacom Canada") film exhibition business formerly operated by its Famous Players division, including its subsidiaries' shares and joint venture interests and excluding liabilities to related parties other than to related parties relating solely to film distribution rights on arm's-length terms. On closing of the transaction, total consideration incurred by the Partnership to acquire the net assets noted above amounted to $468,806 in cash plus transaction costs. The Purchase Agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. This purchase price adjustment has not yet been finalized and no adjustments have been recognized as the purchase price adjustment and outcome cannot be reasonably estimated at this point in time.

In order to fund the Acquisition, the Partnership issued indirectly to the Fund 6,835,000 Class A Limited Partnership units ("Class A LP Units") for gross proceeds of approximately $110,044, and 5,600,000 Class C Limited Partnership units ("Class C LP Units") for gross proceeds of $105,000. The holders of Class C LP Units will be entitled to a distribution on the business day before June 30 and December 31 each year, in priority to distributions paid on Class A LP Units, Class B Limited Partnership units ("Class B LP Units") and Class D Limited Partnership units ("Class D LP Units"), equal to 6.02% per annum. The Fund financed the acquisition of the Class A LP Units and Class C LP Units through the issuance of 6,835,000 units at $16.10 per unit to raise gross proceeds of approximately $110,044, and the issuance of $105,000 convertible, extendible, unsecured, subordinated debentures (the "Convertible Debentures"), bearing interest at a rate of 6.0% per annum, payable semi-annually, and convertible at the option of the holder into Fund units at $18.75 per unit (collectively, "the Offering"). Upon conversion of the Convertible Debentures to Fund units, distributions on Class C LP Units will automatically adjust such that the holder of Class C LP Units will receive distributions in the same manner as distributions are made on the corresponding number of Class A LP Units. The Partnership and the Fund entered into a reimbursement agreement under which fees associated with the issuance of the Fund units and Convertible Debentures in the amounts of $5,502 and $4,200, respectively, were reimbursed by the Partnership. The Partnership recorded the fees in partners' equity and deferred charges, respectively, and will amortize the deferred charges into interest expense over 3.5 years.

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

Distributions and accretion on the Class C LP Units are included in interest expense.

The Partnership issued 500,000 Class D LP Units, a new class of Partnership units, at an estimated value of $8,050, to certain of its executives upon closing of the Acquisition. This amount was recorded as compensation expense as at July 22, 2005 and is included in general and administrative expenses. The Class D LP Units are not exchangeable for Fund units (note 16). The Class D LP Units are entitled to receive distributions on substantially the same basis as the Class B LP Units. In addition, the Partnership agreed to pay Onex, a related party, a transaction fee of $4,000 for advisory services rendered by Onex in connection with the Acquisition, issuance of Fund units and Convertible Debentures, and entering into amended credit facilities. The fee was satisfied by the issuance of 248,447 Class D LP Units on completion of the Acquisition. At the next meeting of unitholders of the Fund, unitholders will be asked to approve a resolution which would make the Class D LP Units exchangeable for Fund units (note 16).

During the third quarter of 2005, the Partnership sold real estate interests in four theatre locations (two of which are Famous Players theatres) for proceeds of $67,000 to RioCan Real Estate Investment Trust ("RioCan"), a related party. Subsequent to these transactions, RioCan is no longer a related party. As part of the agreement, the Partnership leased back the four theatres. Proceeds of the sale were used to repay amounts borrowed to finance a portion of the purchase price for the Acquisition. The four leases are treated as operating leases under the provisions of CICA handbook Section 3065, "Leases." The four sale-leaseback transactions were recorded at the exchange amount as there was a substantial change in ownership interest and the exchange amount was supported by independent evidence. A gain was realized on one of the properties in the amount of $12,916 (note 15). As required under CICA handbook Section 3065, this gain has been deferred and will be amortized against occupancy expense over the term of the lease. A loss of $196 was realized on the sale-leaseback of the remaining three properties and recorded in loss on disposal of theatre assets.

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

Using the proceeds from the above transactions, the Partnership acquired all of the limited partnership units of Famous Players and all of the shares of Famous Players Co. for total consideration of $452,698. The Acquisition has been accounted for by the purchase method; accordingly, the results of operations of the business acquired have been included in the consolidated financial statements since the acquisition date. Based on management's best estimates, the purchase price has been allocated to the assets and liabilities of Famous Players as follows:

Assets and liabilities acquired	
Property, equipment and leaseholds	$ 316,555
Advertising contracts – amortized over five years	23,300
Trademarks and trade names - indefinite useful life	33,200
Goodwill	197,090
Fair value of leases - assets	17,058
Fair value of leases - liabilities	(22,016)
Net pension liability	(6,632)
Net working capital deficiency	(36,062)
Other liabilities	(9,684)
Capital leases	(39,993)
Net assets	472,816
Less: Cash from the Acquisition	(20,118)
	452,698
Consideration given	
Cash paid for Acquisition of Famous Players	$ 468,806
Less: Cash from the Acquisition	(20,118)
	448,688
Transaction costs associated with the Acquisition	4,010
	$ 452,698

The above allocation of the purchase price is preliminary as the fair value assessments have not been finalized. The actual calculation and allocation of the purchase price will be based on the estimated fair value of the assets acquired and liabilities assumed at the effective date of the Acquisition. Accordingly, the final purchase price allocations will be adjusted subsequent to completion of the final fair value assessment process; variations may be material.

Famous Players and the Partnership are not subject to income or capital taxes as income, if any, is taxed in the hands of the individual partners. The amount of goodwill that is deductible for tax purposes is estimated to be $119,000.

As a result of the Acquisition, the Partnership has identified areas where a duplication of functions existed and has undertaken a restructuring of the workforce in both the Partnership and in Famous Players. Involuntary termination benefits were communicated to the corresponding employees and the anticipated date of completion of services to be provided by the terminated employees is October 2006. In accordance with Emerging Issues Committee ("EIC") Abstract 114, "Liability Recognition for Costs Incurred on Business Combinations," included in the purchase price allocation is a liability for involuntary termination benefits for employees of Famous Players in the amount of $8,948. During the year ended December 31, 2005, $4,136 was paid to certain terminated employees and accretion expense of $109 was charged to the consolidated statement of income. During the year ended December 31, 2005, the Partnership has accrued involuntary termination charges for Cineplex Entertainment Limited Partnership employees of $740 in general and administrative expenses in accordance with EIC-134, "Accounting for Severance and Termination Benefits." Termination payments of $315 have been charged to the accrual during the year ended December 31, 2005.

During the fourth quarter of 2005, the Partnership entered into a Media Sales Governing Agreement, which allowed for the termination and windup of Famous Players Media Inc. and the acquisition of three Famous Players branded entertainment magazines. The total consideration for the acquisition was $1,300 with $1,000 payable on January 1, 2006 and $100 payable on January 15, 2006, January 15, 2007 and January 15, 2008. The agreement also has a purchase price adjustment based on the net income for a component of the business for three years effective from January 1, 2006. This purchase price adjustment has not been finalized and no adjustments have been recognized as the purchase price adjustment and outcome cannot be reasonably estimated at this time.

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

Assets acquired	
Equipment	$ 113
Goodwill	1,187
	$ 1,300
Consideration	
Amounts payable	$ 1,300

3. Summary of significant accounting policies

Basis of presentation

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

Consolidation and variable interest entities

In June 2003, the CICA issued Accounting Guideline 15 ("AcG 15"), "Consolidation of Variable Interest Entities." In November 2004, the CICA amended AcG 15 to make it effective for annual and interim periods beginning on or after November 1, 2004. AcG 15 addresses the

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

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

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

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

The Partnership has an interest in seven joint ventures through which it holds investments in ten theatres. The joint ventures were determined not to be VIEs; accordingly, they continue to be accounted for using proportionate consolidation.

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

Cash and cash equivalents

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

Restricted cash

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

2004, distributions on the Support Units were held in a segregated account until the end of the 2004 fiscal year, when a determination was made regarding the actual cash flows of the new theatres. A shortfall in the performance of the new theatres would result in a reduction in the distributions to the holders of the Support Units. The term of the provisions of certain support arrangements (the "Support Arrangements") contained in the Partnership's Limited Partnership Agreement was dependent on the performance of the new theatres.

For the year ended December 31, 2004, the performance targets established in connection with the Fund's initial public offering were met for the seven new theatres and, as a result, the Partnership released the full amount of the escrowed distributions of $8,297 to the holders of the Class B, Series 2 LP Units on February 25, 2005. Additionally, the Support Arrangements were terminated effective December 31, 2004, and the holders of the Class B, Series 2 LP Units are hereafter fully entitled to receive cash distributions in a manner consistent with the Class B, Series 1 LP Units (note 17).

Revenues

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

Film rental costs

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

Inventories

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

Disposal of long-term assets and discontinued operations

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

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

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	life of lease but not in excess of the useful lives

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

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

Leases

Leases are classified as either capital or operating. Leases that transfer substantially all of the risks and benefits of ownership to the Partnership and meet the criteria for capital leases set out in CICA handbook Section 3065, "Leases," are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related buildings and equipment are amortized on a straight-line basis over the term of the lease but not in excess of its useful life. 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.

Under a business combination, 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 an other liability and amortized against occupancy expense.

Theatre shutdown and lease buyouts

Theatre lease costs and other closure expenses are recognized at the time a theatre closes and are recorded to loss (gain) on disposal of theatre assets in the consolidated statements of income. 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.

Consideration received by a vendor

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

Asset retirement obligation

CICA handbook Section 3110, "Asset Retirement Obligations," addresses the recognition and measurement of legal obligations associated with the retirement of property, equipment and leaseholds when those obligations result from the acquisition, construction,

development or normal operation of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is identified if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset and amortized over the estimated remaining life of the asset. The asset retirement obligation accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to other theatre operating expense for the period.

The Partnership has recognized a discounted liability associated with obligations arising from specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms and the removal of certain property, equipment and leaseholds from the leased building (note 15). The impact on net earnings for 2005 and 2004 was negligible.

The total undiscounted amount of the cash flows required to settle the obligations, factoring in the effect of inflation and the dates that the leases are expected to end, which range from September 2006 to December 2028, has been estimated to be $1,586. The credit-adjusted risk-free rate at which the cash flows have been discounted is in the range of 5.44% to 6.27%.

Capitalized interest

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

Goodwill

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

Intangible assets

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

Pre-opening costs

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

Deferred charges

Deferred charges consist principally of debt issuance costs and long-term assets. Debt issuance costs are amortized over the term of the related debt and included in interest expense.

Employee future benefits

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

a) Defined benefit plans

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

Upon formation of the Partnership, it continued to amortize COC's transitional asset on a straight-line basis over the average remaining service life of its

active employees, which is estimated to be until March 2015. Upon acquiring Famous Players, the Partnership recognized the entire deficit under the Famous Players Plans as at July 22, 2005.

b) Defined contribution plan

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

Financial instruments

a) Fair value of financial instruments

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

b) Interest rate risk

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

c) Credit risk

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

Effective January 1, 2004, the Partnership prospectively adopted CICA Accounting Guideline 13 ("AcG 13"), "Hedging Relationships." AcG 13 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of, hedge accounting and hedge effectiveness testing requirements. Under the new guideline, the Partnership is required to document its hedging transactions and explicitly demonstrate that hedges are effective in order to continue hedge accounting for positions hedged with derivatives. Any derivative financial instruments that fail to meet the hedging criteria will be accounted for in accordance with EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments." These instruments will be recorded on the balance sheets at fair value and changes in fair value will be recognized in income in the period in which the change occurs.

The Partnership enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt (note 11). These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which

the payments are based. The estimated fair value of the interest rate swap is not recognized on the balance sheets if the derivative financial instrument qualifies for hedge accounting. Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swaps.

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

Income taxes

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

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

Foreign currency translation

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

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

Use of estimates

The preparation of 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. The most significant assumptions made by management in the preparation of the financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Famous Players business combination; the assessment of theatre cash flows to identify potential asset impairments; the assessment of the fair value of GEI and Famous Players to identify a potential goodwill impairment; estimating the fair value of the indefinite life intangible assets to identify a potential impairment; the value of gift certificates that remain unutilized and in circulation for revenue recognition purposes; the film cost payable accrual, valuation of future income tax assets; and the determination of the asset retirement obligation as certain leases may require the retirement of leaseholds, and this outcome is at the landlords' discretion at the end of the lease. Actual results could differ from those estimates.

4. Discontinued operations

The Partnership entered into a consent agreement (the "Consent Agreement") with the Commissioner of Competition (the "Commissioner") in respect of its acquisition of Famous Players on July 22, 2005. Under the terms of the Consent Agreement, the Partnership agreed to divest a total of 34 specified theatres, held by both the Partnership and Famous Players, within a specified period of time on the terms and conditions set out in the Consent Agreement. Should the required theatres not be divested in the time required, a divestiture trustee appointed under the agreement would be entitled to divest certain theatres on the terms and conditions set out in the Consent Agreement. Until May 27, 2010, the Partnership must provide the Commissioner with prior written notice of any acquisition by it of any non-Partnership theatre or assumption of lease where the remaining term exceeds two years. The Partnership also may not, during this time, reacquire any of the divested theatres without prior approval of the Commissioner. In addition, the Partnership and its joint venture partner intend to sell the remainder of the Alliance Atlantis brand theatres.

As at December 31, 2005, the Partnership had disposed of 27 of the theatres as required under the Consent Agreement and two of the Alliance Atlantis brand theatres for gross proceeds of $85,690. A gain in the amount of $25,835 was recognized on the sale of the assets held for sale, after allocating $15,001 of goodwill from the Famous Players acquisition, and is included in income from discontinued operations. Revenue of $47,355 (2004 - $37,952) and income before income tax in the amount of $2,281 (2004 - $6,357) is included in income from discontinued operations.

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

	2005	2004
Cash	$ 605	$ 236
Property, equipment and leaseholds	3,481	8,949
Other	184	245
	$ 4,270	$ 9,430
Accounts payable	$ 685	$ 92
Deferred revenue	158	–
Other	3,235	6,717
	$ 4,078	$ 6,809

Prior period amounts in the consolidated balance sheets and statements of income have been reclassified to conform with CICA handbook Section 3475, "Disposal of Long-Lived Assets and Discontinued Operations."

5. Accounts receivable

Accounts receivable consist of:

	2005	2004
Trade receivables	$ 21,781	$ 9,521
Other	5	1,416
	21,786	10,937
Less: Accounts receivable classified as held for sale (note 4)	34	6
	$ 21,752	$ 10,931

6. Property, equipment and leaseholds

Property, equipment and leaseholds consist of:

	2005 Cost	2005 Accumulated amortization	2005 Net
Land	$ 9,357	$ –	$ 9,357
Buildings and leasehold improvements	337,808	98,312	239,496
Buildings and leasehold improvements under capital lease	32,920	963	31,957
Equipment	252,456	112,997	139,459
Equipment under capital lease	14,157	843	13,314
Construction- in-progress	4,900	–	4,900
	651,598	231,115	438,483
Less: Property, equipment and leaseholds classified as held for sale (note 4)	6,563	3,082	3,481
	$ 645,035	$ 210,033	$ 435,002

	2004 Cost	2004 Accumulated amortization	2004 Net
Land	$ 11,379	$ –	$ 11,379
Buildings and leasehold improvements	251,509	94,728	156,781
Equipment	169,683	103,364	66,319
Construction-in-progress	375	–	375
	432,946	198,092	234,854
Less: Property, equipment and leaseholds classified as held for sale (note 4)	12,475	3,526	8,949
	$ 420,471	$ 194,566	$ 225,905

Total amortization during the year ended December 31, 2005 was $40,095 (2004 - $22,201). Included in this amount is amortization of property under capital lease of $1,806 (2004 - $nil).

7. Intangible assets

Intangible assets consist of the following:

a) Intangible assets subject to amortization

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

	2004 Cost	2004 Accumulated amortization	2004 Net
Advertising contracts	$ 351	$ 40	$ 311
Fair value of leases - assets	–	–	–
	$ 351	$ 40	$ 311

Amortization during the year ended December 31, 2005 was $2,603 (2004 - $40).

b) Intangible assets not subject to amortization

	2005	2004
Trademarks and trade names	$ 34,766	$ 1,566

8. Deferred charges

Deferred charges consist of:

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

	2004 Cost	2004 Accumulated amortization	2004 Net
Deferred financing fees	$ 2,741	$ 1,018	$ 1,723
Other long-term assets	2,035	1,660	375
	$ 4,776	$ 2,678	$ 2,098

Amortization during the year ended December 31, 2005 was $1,836 (2004 - $403).

9. Capital lease obligations

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

2006	$ 4,187
2007	4,187
2008	4,187
2009	4,187
2010	4,357
Thereafter	43,545
	64,650
Less: Amounts representing interest (average rate of 7.3%)	25,189
	39,461
Less: Current portion	1,383
	$ 38,078

Interest expense related to capital lease obligations was $1,201 (2004 - $nil).

10. Accounts payable and accrued expenses

Accounts payable and accrued expenses consist of:

	2005	2004
Accounts payable - trade	**$ 9,514**	$ 1,538
Film and advertising payables	**30,928**	8,878
Other payables and accrued expenses	**48,486**	15,956
	88,928	26,372
Less: Accounts payable and accrued expenses classified as liabilities related to property held for sale (note 4)	**685**	92
	$ 88,243	$ 26,280

11. Long-term debt

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

a) A 364-day $50,000 extendible senior secured revolving credit facility maturing July 22, 2009 (the "Working Capital Facility");

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

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

The Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or on the banker's acceptance rates plus, in each case, an applicable margin to those rates, which will vary based on certain financial ratios. The Amended Credit Facilities adjusted and restated the Partnership's previous credit facilities ("Previous Credit Facilities") under which $141,000 was outstanding as at July 22, 2005. The amendment of the Previous Credit Facilities is considered an extinguishment of debt under EIC-88, "Debtor's Accounting for a Modification or Exchange of Debt Instruments," and, as a result, deferred financing charges of $1,200 were expensed as a loss on extinguishment of debt upon repayment of the Previous Credit Facilities. Deferred financing fees of $5,250 associated with the Amended Credit Facilities are amortized over the four-year term of the facilities. In addition, upon extinguishment of the Previous Credit Facilities, the Partnership recognized the mark-to-market loss of $2,206 as at July 22, 2005 on the previous interest rate swap agreement ("Previous Interest Rate Swap"). As it is no longer an effective hedge instrument, this amount was expensed as a loss on extinguishment of debt and the corresponding liability is amortized against interest expense over the term of the Amended Credit Facilities. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects

the mark-to-market buyout of the Previous Interest Rate Swap on the Previous Credit Facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200,000. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the Term Facility. The Partnership considered its hedging relationships and determined that its interest rate swap agreements on its Term Facility qualified for hedge accounting (note 3). As at December 31, 2005, the estimated fair value of the interest rate swap is an unrealized gain of $1,936 (2004 - unrealized loss of $2,355 on the Previous Interest Rate Swap). In accordance with GAAP, these gains/losses have not been recognized on the balance sheets.

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

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

Long-term debt consists of:

	2005	2004
Term Facility due July 22, 2009	**$235,000**	$ –
Development Facility due July 22, 2009	**8,500**	–
Previous Term Facility	**–**	110,000
Previous Development Facility	**–**	15,500
Other	**35**	64
	243,535	125,564
Less: Current portion	**35**	52
	$243,500	$ 125,512

As at December 31, 2005, the Partnership was subject to a margin of 1.5% (2004 - 1.50%) on the prime rate and 2.50% (2004 - 2.50%) on the banker's acceptance rate, plus a 0.125% (2004 - 0.125%) per annum fee for letters of credit issued on the Working Capital Facility and the Development Facility. The average interest rate on borrowings under the Amended Credit Facilities and the Previous Credit Facilities was 6.0% for the year ended December 31, 2005 (2004 - 5.7%). The Partnership will pay a commitment fee on the daily unadvanced portion of the Working Capital Facility and the Development Facility, which will vary based on certain financial ratios, and was 0.50% at December 31, 2005 (2004 - 0.575%). The Amended Credit Facilities provide for certain restrictive undertakings and covenants to be complied with by the Partnership. As of December 31, 2005, the Partnership was in compliance with its debt covenants.

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

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

2006	$ 35
2007	–
2008	–
2009	243,500
	$ 243,535

On November 26, 2003, the Partnership entered into the Previous Credit Facilities agreement with a syndicate of banks consisting of the following facilities:

a) A $20,000 senior secured revolving term facility maturing November 26, 2006 (the "Previous Working Capital Facility");

b) A $40,000 senior secured revolving term facility maturing November 26, 2006 (the "Previous Development Facility"); and

c) A $110,000 senior secured term facility maturing November 26, 2006 (the "Previous Term Facility").

Effective November 26, 2003, the Partnership entered into the Previous Interest Rate Swap. In accordance with this agreement, the Partnership paid an interest rate of 4.29% per annum and received a floating rate. The swap was for a term of three years and the initial principal outstanding was $44,000. The principal outstanding under the Previous Interest Rate Swap increased to $77,000 on August 26, 2004 and to $110,000 on May 26, 2005.

12. Due to Cineplex Galaxy Trust

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

13. Related party transactions

Due from related parties consists of:

	2005	2004
Due from the Fund	**$ 2**	$ 2
Due from the Trust	**2**	2
Due from COC	**28**	–
	$ 32	$ 4

Due to related parties consists of:

	2005	2004
Due to COC	**–**	373
Due to Alliance Atlantis Communications Inc. and Motion Picture Distribution LP	**2,442**	1,282
	$ 2,442	$ 1,655

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

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

The Partnership incurred interest expense of $14,000 for the year ended December 31, 2005 (2004 - $14,000) on the Galaxy Note.

Under the terms of a services agreement entered into between COC and the Partnership dated November 26, 2003, COC provided management information systems support to the Partnership through its former parent, Loews Cineplex Theatres, Inc. ("LCT"). These services included systems administration and maintenance as well

as applications development and support. For the period from January 1, 2004 to July 30, 2004, during which LCT was a related party, the Partnership was charged $390. As a result of the sale of LCT by Onex on July 30, 2004, LCT, which is no longer a related party, provided these services directly to the Partnership until May 2005 and charged $224 (2004 - $650). This expense is included in management fees. In addition, COC charged the Partnership $521 in rent for the head office during the year ended December 31, 2005 (2004 - $521). This expense is included in general and administrative expense. The Partnership provides COC with certain management services for which it charged COC $61 during 2005 (2004 - $108). This revenue is included in other revenue. The Partnership has a receivable of $28 at December 31, 2005. The Partnership had a payable to COC at December 31, 2004 of $373 arising from favourable property tax reassessments received by the Partnership relating to periods prior to the Partnership's formation. All payables and receivables with COC are due on demand and are non-interest-bearing.

For the years ended December 31, 2005 and 2004, the Partnership incurred film rental expenses totalling $25,340 and $25,777, respectively, to Alliance Atlantis Communications Inc. ("Alliance") and its subsidiary Motion Picture Distribution LP ("Motion Picture"). These expenses are included in film cost. Alliance is a former shareholder of GEI and Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance.

During 2005, the Partnership reimbursed Onex $nil (2004 - $74) for costs related to the formation of the Partnership. In April 2004, the Partnership acquired from COC two theatres for nominal consideration (note 16).

Distributions paid to related parties consist of:

	2005	2004
Trust	**$ 12,953**	$ 8,600
Onex and its subsidiaries	**35,254**	24,214
Alliance	**–**	349
Other related parties	**1,057**	215

Distributions payable to related parties consist of:

	2005	2004
Trust	**$ 1,500**	$ 752
Onex and its subsidiaries	**2,480**	8,116
Alliance	**–**	781
Other related parties	**72**	712

A former Trustee of the Fund is the President and Chief Executive Officer of RioCan. This Trustee resigned from the Board of the Fund effective August 1, 2005; therefore, RioCan is no longer considered a related party after July 31, 2005. Lease occupancy expenses for theatre properties under lease commitments with RioCan during 2005 when RioCan was a related party and for the year ended December 31, 2004 were $7,294 and $7,817, respectively. Prior to August 1, 2005, the Partnership received $449 (2004 - $1,900) in tenant inducements from RioCan.

A Trustee of the Fund and Director of the General Partner received $206 (2004 - $nil) fees for consulting services provided with respect to the Acquisition. This Trustee was also a member of the Board of Directors for the Toronto International Film Festival (the "Festival"). During the year, the Partnership provided services to the Festival for which it received payment in the amount of $170 (2004 - $60). This amount is included in other revenue. Recorded in general and administrative costs are expenses of $nil (2004 - $35) for the Partnership's sponsorship in the Festival.

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

14. Accrued pension liability

Pension and other retirement benefit plans

The Partnership sponsors the Pension Plan for Employees of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment Plan") covering substantially all full-time employees. Prior to January 1, 1993, this plan was a defined benefit plan and, effective on that date, it was converted

into a defined contribution plan. At the date of conversion, benefits under the defined benefit plan were frozen. Member contributions to the pension plan are not permitted.

As a result of the acquisition of Famous Players, the Partnership has assumed sponsorship of the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, as at the effective date of the acquisition, July 22, 2005. In addition, the Partnership assumed additional unfunded defined benefit obligations for former Famous Players employees in the form of a Retirement Excess Plan and post-retirement health-care benefits for certain grandfathered Famous Players retirees. The Retirement Plan for Salaried Employees of Famous Players Limited Partnership and the Retirement Excess Plan are collectively known as the "Famous Players Plans."

As a result of the acquisition, involuntary termination benefits were communicated to certain Famous Players employees and the completion of services to be provided by the last of the terminated employees is October 2006. In addition, the Partnership has elected to freeze the future accrual of defined benefits under the Famous Players Plans effective October 23, 2005 and move continuing employees into the Cineplex Entertainment Plan for future accrual. As a result, a curtailment of the Famous Players Plans has occurred and the impact of the curtailment was incorporated into the July 22, 2005 fair value assessments of the assets and liabilities of Famous Players as part of the allocation of the purchase price.

As at December 31, 2005, none of the plans were fully funded.

Cash contributions

Cash contributed by the Partnership to its defined contribution plan provision was $486 (2004 - $100). Cash contributed by the Partnership to the Famous Players defined benefit plan was $2,079. In addition, there were benefit payments made of $157 for the unfunded Retirement Excess Plan and post-retirement health-care benefits. There were no cash payments made towards the defined benefit provision under the Cineplex Entertainment Plan.

Defined benefits

The Partnership measures its accrued benefit obligations and the fair values of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the defined benefits provided under the Cineplex Entertainment Plan for funding purposes was as of December 31, 2002, and the next required valuation will be effective as of December 31, 2005. The most recent actuarial valuation of the Famous Players defined benefit plan for funding purposes was as of December 31, 2004, and the next required valuation will be as of December 31, 2007.

Reconciliation of the accrued benefit obligations

	2005	2004
Accrued benefit obligations		
Balance – Beginning of year	**$ 2,012**	$ 1,980
Current service cost - defined benefit provision	**424**	–
Interest cost	**838**	115
Benefits paid	**(2,342)**	(129)
Actuarial losses	**1,791**	46
Acquisitions	**35,752**	–
Balance - End of year	**$ 38,475**	$ 2,012

The benefit obligation in respect of post-retirement health-care benefits at the end of 2005 is $218.

Reconciliation of the fair value of plan assets

	2005	2004
Fair value of plan assets		
Balance - Beginning of year	**$ 2,033**	$ 2,224
Actual return on plan assets	**947**	180
Employer contributions (transfer to defined contribution plan)	**2,079**	(242)
Employee contributions	**–**	–
Benefits paid	**(2,186)**	(129)
Acquisitions	**29,120**	–
Balance - End of year	**$ 31,993**	$ 2,033

Plan assets consist of:

Percentage of defined benefit assets	Cineplex Entertainment Plan 2005	Cineplex Entertainment Plan 2004	Famous Players Plan 2005
Asset category			
Equity securities	**60.5**	60.0	**62.3**
Debt securities	**32.8**	38.4	**26.5**
Other	**6.7**	1.6	**11.2**
Total	**100.0**	100.0	**100.0**

Reconciliation of the funded status of the defined benefit provisions

	2005	2004
Fair value of plan assets	**$ 31,993**	$ 2,033
Accrued benefit obligations	**(38,475)**	(2,012)
Funded status of plans as of December 31	**(6,482)**	21
Unamortized net actuarial loss	**2,511**	784
Unamortized past service costs	**–**	–
Unamortized transitional obligation	**(1,258)**	(1,394)
Accrued benefit liability	**(5,229)**	(589)

Elements of benefit costs for defined benefit provisions recognized in the year

	2005	2004
Current service cost - defined benefit provisions	$ 424	$ -
Interest cost	838	115
Actual return on plan assets	(947)	(180)
Actuarial losses	1,791	46
Elements of future pension costs before adjustments to recognize long-term nature	2,106	(19)
Adjustments to recognize long-term nature of future benefit costs		
Difference between expected and actual return on plan assets	20	37
Difference between recognized and actual actuarial gain	(1,747)	-
Amortization of transitional asset	(136)	(136)
	(1,863)	(99)
Benefit cost recognized	$ 243	$ (118)

The benefit cost in respect of post-retirement health-care benefits for 2005 is $5.

Significant assumptions

The significant assumptions used are as follows:

	2005	2004
Accrued benefit obligations as of December 31		
Discount rate	5.00%	5.75%
Benefit cost for years ended December 31		
Discount rate	5.75%	6.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Health-care cost trend rates as of December 31		
Initial rate	9.00%	n/a
Ultimate rate	4.50%	n/a
Year ultimate rate reached	2014	n/a

Sensitivity analysis

	Benefit obligations	Benefit expense
Impact of 1% increase in health-care cost trend rate	28	0.4
Impact of 1% decrease in health-care cost trend rate	(26)	(0.7)

Defined contribution provision

The total cost recognized for the defined contribution provision is as follows:

	2005	2004
Total cost paid from defined benefit provision surplus	$ –	$ 242
Total cost paid by cash contributions from Partnership	486	100
Total cost recognized for defined contribution provision	$ 486	$ 342

15. Other liabilities

Other liabilities consist of the following:

	2005	2004
Deferred tenant inducements	$ 70,382	$ 74,458
Excess of straight-line amortization over lease payments	13,721	10,915
Fair value of leases - liabilities	20,974	–
Asset retirement obligation	588	228
Deferred gain on sale-leaseback transaction	12,647	–
Theatre shutdown and lease buyout accrual	6,894	–
Other	1,979	4,183
	127,185	89,784
Less: Other liabilities classified as liabilities related to property held for sale (note 4)	3,235	6,717
	$ 123,950	$ 83,067

16. Partners' capital

The Partnership is authorized to issue an unlimited number of Class A LP Units; an unlimited number of Class B, Series 1 LP Units; an unlimited number of Class B, Series 2-C LP Units; an unlimited number of Class B, Series 2-G LP Units; an unlimited number of Class C LP Units; and an unlimited number of Class D LP Units. The Class B LP Units are indirectly exchangeable for Fund units in the manner set out in the Exchange Agreement dated November 26, 2003. Under the terms of the Exchange Agreement, COC and the former shareholders of GEI may, under certain circumstances, exchange all or any portion of their Class B LP Units for Fund units. With respect to the Class B, Series 2 LP units, this exchange could not occur until after December 31, 2004. At no time may any exchange be made if there exists an uncured event of default arising on the notes payable by the Trust to the Fund (the "Series 1 Trust Notes"). Class A LP Units, Class B LP Units and Class D LP Units will have voting rights that are equivalent in all respects. Under the Partnership's Limited Partnership Agreement, Class A LP Units have differing distribution rights from Class B LP Units, Class C LP Units and Class D LP Units (note 17).

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

in order to provide the Fund with sufficient cash to repay, repurchase or redeem the Convertible Debentures.

As set forth in the first amendment to the Amended and Restated Limited Partnership Agreement, Class D LP Units may be exchanged by the General Partner for Class B LP Units on a one-for-one basis upon the General Partner providing notice to holders of Class D LP Units that the Fund unitholders have approved a resolution for the conversion of Class D LP Units into Class B LP Units and permitting the exchange of these Class B LP Units for Fund units.

During 2004, additional costs in the amount of $222, relating to issuance costs arising from the formation of the Partnership in November 2003, were charged to partners' capital.

In April 2004, the Partnership acquired from COC, a related party, two theatres for nominal consideration. The transaction has been recorded by the Partnership at $24, the carrying amount recorded by COC. The difference between COC's carrying value and the consideration paid by the Partnership has been credited to partners' deficit.

As part of the Acquisition, the Partnership issued Class A LP Units, Class C LP Units and Class D LP Units (note 2). Partnership units outstanding as at December 31 are as follows:

	2005		2004	
	Number of units	**Amount**	Number of units	Amount
Opening balance				
Class A LP Units	**19,400,000**	**$ 79,480**	19,400,000	$ 79,480
Class B, Series 1 LP Units	**20,949,582**	**16,860**	20,949,582	16,860
Class B, Series 2-C LP Units	**2,086,957**	**–**	2,086,957	–
Class B, Series 2-G LP Units	**5,130,435**	**14,085**	5,130,435	14,085
Formation of Partnership issuance costs	**–**	**(222)**	–	–
	47,566,974	**110,203**	47,566,974	110,425
Transactions during the year				
Class A LP Units - net of issuance costs	**6,835,000**	**102,240**	–	–
Class C LP Units	**5,600,000**	**8,546**	–	–
Class D LP Units	**748,447**	**12,050**	–	–
Formation of Partnership issuance costs	**–**	**–**	–	(222)
Investment in Fund units	**–**	**(267)**	–	–
LTIP compensation obligation	**–**	**203**	–	–
Outstanding at December 31				
Class A LP Units	**26,235,000**	**181,720**	19,400,000	79,480
Class B, Series 1 LP Units	**20,949,582**	**16,860**	20,949,582	16,860
Class B, Series 2-C LP Units	**2,086,957**	**–**	2,086,957	–
Class B, Series 2-G LP Units	**5,130,435**	**14,085**	5,130,435	14,085
Class C LP Units	**5,600,000**	**8,546**	–	–
Class D LP Units	**748,447**	**12,050**	–	–
Formation of Partnership issuance costs	**–**	**(222)**	–	(222)
Investment in Fund units	**–**	**(267)**	–	–
LTIP compensation obligation	**–**	**203**	–	–
Outstanding as at December 31, 2005	**60,750,421**	**$ 232,975**	47,566,974	$ 110,203

As the Fund's only investment is in the Partnership, the Partnership treats its $267 investment in Fund units relating to the LTIP as treasury stock and nets this investment against partners' capital. The LTIP compensation obligation is recorded as a liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point in time it is reclassified as partners' capital as the Partnership is now obligated to deliver a fixed number of Fund units, the value of which will vary with the market value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

17. Distributions payable

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

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

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

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

18. Long-term incentive plan

On January 1, 2004, the officers and key employees of the Partnership became eligible to participate in the Partnership's LTIP. Pursuant to the LTIP, the Partnership will set aside a pool of funds based upon the amount, if any, by which the Fund's distributable cash per unit (as per the November 3, 2004 amended LTIP agreement), for the entire fiscal year, exceeds certain defined distributable cash threshold amounts. This pool of funds will be transferred to a trustee, who will use the entire amount to purchase Fund units on the open market and will hold the Fund units until such time as ownership vests to each participant. Generally, one-third of these units will vest 30 days after the Fund's consolidated financial statements for the corresponding fiscal year are approved by its board of trustees, with an additional one-third vesting on the first and second anniversaries of this date. LTIP participants will be entitled to receive distributions on all Fund units held for their account prior to the applicable vesting date. Unvested units held by the trustee for LTIP participants will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those Fund units will be sold and the proceeds returned to the Partnership and excluded from future LTIP calculations.

Initially, the LTIP will provide for awards that may be earned based on the amount by which the Fund's distributable cash per unit exceeds a base distribution threshold of $1.15 per unit per annum. The base distribution threshold is subject

to adjustment at least every three years. The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below, subject to a $4,000 maximum in any fiscal year.

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

LTIP costs are estimated at the grant date based on expected performance results and then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are recognized as they occur as a reduction to compensation costs. For the year ended December 31, 2005, the Partnership recognized $146 of compensation costs under the LTIP (2004 - $211).

19. Income taxes

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

	2005	2004
Future income tax assets		
Property, equipment and leaseholds – difference in net book value and undepreciated capital cost	**$ 1,901**	$ –
Financing costs	**1,119**	1,507
Losses available for carry-forward	**1,842**	245
Other	**677**	258
Total gross future income tax assets	**5,539**	2,010
Future income tax liabilities		
Property, equipment and leaseholds - difference in net book value and undepreciated capital cost	**–**	395
Net future income tax asset	**$ 5,539**	$ 1,615

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

	2005		2004	
	Assets	**Liabilities**	Assets	Liabilities
Financial statement carrying amount	**$ 690,459**	**$ 617,295**	$ 207,734	$ 275,713
Tax value	**$ 773,000**	**$ 525,000**	$ 234,000	$ 176,000

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

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

	2005	2004
Income before income taxes, discontinued operations and minority interest	$ (14,775)	$ 22,742
Combined Canadian federal and provincial income tax rates	35.68%	35.73%
Income tax payable at statutory rates	(5,272)	8,126
Change in valuation allowance	–	(1,742)
Benefit of share issuance costs	–	1,615
Utilization of loss carry-forwards	–	(245)
Income not taxable in the Partnership	3,139	(9,307)
Large corporations tax	180	201
Other	490	203
Recovery of income taxes	$ (1,463)	$ (1,149)

20. Cash flow statement

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

	2005	2004
Accounts receivable	$ (1,239)	$ (1,845)
Inventories	615	(136)
Prepaid expenses and other current assets	(636)	1,221
Due from related parties	(27)	1,856
Deferred charges and intangibles	(575)	(337)
Accounts payable and accrued expenses (note 26)	12,131	(4,337)
Due to related parties (note 26)	(374)	(6,854)
Income taxes payable	798	(81)
Deferred revenue	4,984	2,365
Accrued pension liability	(1,992)	124
Other liabilities	1,090	247
Restricted cash	31	(31)
	$ 14,806	$ (7,808)
Non-cash investing activities		
Capital asset purchases financed through accrued liabilities	$ 5,928	$ 2,332

21. Leases

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

The Partnership's, and the Partnership's proportionate share of the joint ventures', future minimum rental commitments as at December 31, 2005 under the above-mentioned operating leases are set forth as follows:

2006	$ 103,192
2007	101,919
2008	101,121
2009	98,555
2010	96,751
Thereafter	1,004,536
	$ 1,506,074

Minimum rent expense related to operating leases on a straight-line basis was $69,335 (2004 – $36,322). In addition to the minimum rent expense noted above, the Partnership incurred percentage rent charges of $2,788 (2004 – $3,709).

22. Joint ventures

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

	2005	2004
Assets	**$ 6,089**	$ 4,899
Liabilities	**$ 1,925**	$ 960
Revenues	**$ 9,201**	$ 7,396
Expenses	**$ 8,439**	$ 6,387
Net income	**$ 762**	$ 1,009

23. Impairment of long-lived assets

In accordance with CICA handbook Section 3062, "Impairment of Long-Lived Assets," the Partnership assessed the recoverability of its theatre assets and determined that three theatres had estimated future cash flows that are not expected to be sufficient to recover the carrying amount of the theatre assets. The three theatres incurred a $4,296 impairment charge during the year ended December 31, 2005 in order to write down the theatre assets to their estimated fair values.

24. Commitments, guarantees and contingencies

Commitments

As of December 31, 2005, the Partnership has aggregate capital commitments of $26,773 (2004 - $23,329) primarily related to the completion of construction of seven theatre properties comprising 71 screens. The Partnership expects to complete construction and to open these theatres during 2006 and 2007.

As of December 31, 2005, the Partnership has commitments of approximately $3,300 (2004 - $1,488) related to point-of-sale equipment and rebranding upgrades.

As at December 31, 2005, the Partnership had outstanding letters of credit totalling $1,281 (2004 - $nil).

As of December 31, 2005, the Partnership has commitments of approximately $4,678 (2004 - $nil) related to digital pre-show equipment.

Guarantees

During the six months ended December 31, 2005, the Partnership and Famous Players sold 29 theatres to third parties of which 24 were leased properties. The Partnership and Famous Players are guarantors under the leases for the remainder of the lease term in the event that the purchaser of each theatre does not fulfill its obligations under the respective lease. No amounts have been provided in the accounts for these guarantees as the occurrence of the guarantees being exercised is not determinable and the total future minimum lease payments guaranteed by the Partnership are not estimable. Should the purchasers of these theatres fail to fulfill their lease commitment obligations, the Partnership would face a substantial financial burden.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership, Alliance Atlantis Cinemas Partnership and Famous Players Limited Partnership (the "Respondents") alleging discrimination against hearing-impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against other exhibitors and certain film distributors. All complaints have been referred to the Human Rights Tribunal (the "Tribunal") and have been joined together for hearing.
The Respondents cannot anticipate when this matter will be resolved but there is a potential for a judicial resolution in the next 12 months. At the present time, the Partnership is unable to assess the magnitude of any potential ruling from the Tribunal. However, were the Tribunal to rule against the Partnership and force the maximum provision of technology to the complainants, the Respondents could face a substantial financial burden in terms of a capital expenditure. No amounts have been provided in the accounts related to these claims.

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

25. Segment information

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

26. Comparative amounts

Comparative amounts for tenant inducements have been reclassified from a financing activity to an operating activity in the consolidated statements of cash flows. Comparative amounts for due to related party balances have been reclassified from accounts payable and accrued expenses to due to related parties in the consolidated balance sheets and statements of cash flows. These and certain other changes have been made to conform to the current year's financial statement presentation.

Investor Information

Trustees and Directors

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Toronto, ON

Mr. Howard Beck
Corporate Director
Toronto, ON

Mr. Bruce Birmingham
Corporate Director
Toronto, ON

Mr. Robert Steacy
Corporate Director
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Directors

Mr. Timothy Duncanson
Managing Director
Onex Corporation
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Stock Exchange Listing

The Toronto Stock Exchange
CGX.UN

Auditors

PricewaterhouseCoopers LLP
Toronto, ON

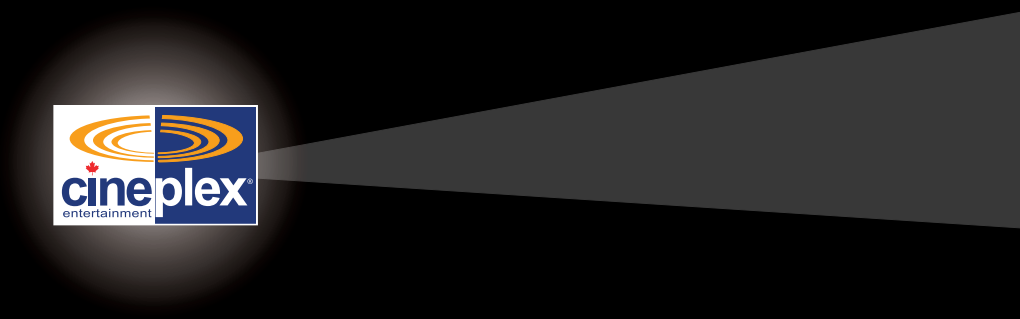
Transfer Agent

CIBC Mellon Trust Company
Toronto, ON

Annual Meeting

Thursday, May 11, 2006
10:00AM Eastern Standard Time
Paramount Toronto Cinemas
259 Richmond Street West
Toronto, ON

Design: Craib Design & Communications www.craib.com



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