

**CINEPLEX GALAXY INCOME FUND
2003 ANNUAL REPORT**

BOX OFFICE

NOW PLAYING

THE JUNGLE BOOK
AUGUST 15 - SEP 15

**CINEPLEX
ODEON**
CINEPLEX

GALAXY
CINEPLEX

CINEPLEX GALAXY LP IS A LEADING EXHIBITOR OF MOTION PICTURES IN THE ENTERTAINMENT INDUSTRY. HEADQUARTERED IN TORONTO, CANADA, CINEPLEX GALAXY LP CURRENTLY OPERATES 83 THEATRES WITH A TOTAL OF 750 SCREENS IN 6 PROVINCES ACROSS CANADA. CINEPLEX ODEON CINEMAS, GALAXY CINEMAS AND THE ASSOCIATED BRANDS ARE OWNED AND OPERATED BY CINEPLEX GALAXY LP.

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63 THEATRES / 583 SCREENS



20 THEATRES / 167 SCREENS



Letter to Shareholders

The Cineplex Galaxy Income Fund was created to indirectly acquire an interest in the Cineplex Galaxy Limited Partnership. This Partnership is Canada's second largest film exhibition company and manages two top-tier film exhibition brands – *Cineplex Odeon Cinemas* and *Galaxy Cinemas*.

Creating this new company has been an exciting, challenging and, ultimately, enormously rewarding endeavour. We brought together the "best of the best" from the former companies to create a strong, stable and experienced entrepreneurial management team both at head office and at the theatre level. I want to pay tribute to their success in mobilizing and integrating the two companies to create a new reality in which we think and act as one. The team is focused on controlling costs while continuing to strategically expand the number of locations, maximize shareholder value and provide an outstanding movie-going experience for all of our guests.

The Cineplex Odeon brand is a well-recognized entertainment brand operating predominantly in major urban markets. The Galaxy brand is also very well known and respected in each of the mid-sized communities in which we operate. What may not be as well known is the tremendous quality of the assets behind these brands. More than 69% of current Cineplex Odeon, and 95% of Galaxy screens, are less than seven years old. Both brands feature newer theatres, with state-of-the-art amenities such as stadium seating, digital sound and interactive games areas.

Food concessions are a major revenue source for us that we have worked hard to develop. In addition to the must-have traditional movie fare of popcorn and soft drinks, Cineplex Odeon theatres feature our own in-house branded outlets – *Outtakes* and *Alan Smithee's* – offering a wide range of upscale products from fresh-cut fries and pizzas to luscious desserts and specialty coffees. Galaxy theatres feature well-known brands such as *New York Fries*, *Pizza Pizza* and *Yogen Früz*.

We are committed to providing each of our 32 million annual guests with an exceptional movie-going experience and have a customer service goal of exceeding guest expectations whenever possible. We integrate this goal into all of our training, recruiting and incentive programs. We also encourage our staff and management to become involved with the local community and participate in charitable fundraising and community events. We are very proud of our relationship with the United Way and the Canadian Breast Cancer Foundation's Spotlight on the Cure; together we have raised hundreds of thousands of dollars for these worthy organizations.

Cineplex Galaxy LP is all about great assets. We have an exceptional head office management team that will continue to provide us with a competitive edge, committed front-line management and staff at our theatres, two great brands, strategic theatre locations and state-of-the-art entertainment destinations.

We have themed this report *More than Movies* to reflect some of the key areas of our business – Destinations, People, Experience and Growth. I hope you enjoy learning more about us.

Sincerely yours,

"Ellis Jacob"

Ellis Jacob
President and Chief Executive Officer



CINEPLEX ODEON
QUEENSWAY CINEMAS
TORONTO, ONTARIO

DESTINATIONS



MODERN MULTIPLEXES GENERATE HIGHER REVENUES VERSUS TRADITIONAL THEATRES. EXPANDED CONCESSION OFFERINGS, SPECIALTY MARKETING PROGRAMS AND THE ADDITION OF NEW PRODUCTS SUCH AS PAY PER VIEW, ARE ALL DESIGNED TO ATTRACT NEW AUDIENCES AND INCREASE OUR ANCILLARY REVENUE BUSINESS.

Cineplex Galaxy theatres offer more than movies. They are entertainment destinations where guests can experience a broad range of film genres from the latest Hollywood blockbusters to a wide range of specialty films. We also offer special event programming on the big screen including live Pay-Per-View events such as NHL hockey games, World Wrestling Entertainment and the hottest recording artists. For fun and games, we have entertainment centres featuring the best in electronic video games and interactive entertainment. Hungry appetites can be deliciously satisfied with a selection from one of our many different refreshment centres that offer specialty products in addition to the traditional movie fare. While at a Cineplex Odeon cinema, you could sample a treat from *Outtakes* or *Alan Smithee's*, our own in-house branded outlets. While at a Galaxy cinema, a selection from *New York Fries*, *Yogen Fruz* or *Pizza Pizza* might fit the bill. Whatever the choice, there is something for everyone.

We have created and built our theatres to appeal to all ages from tots to teens and young adults to baby boomers. In addition, more and more of our theatres have become destinations for groups, who use our theatres extensively for fundraisers, community events and corporate meetings.

We have located our theatres strategically across the country covering every province from British Columbia to Quebec. Our new partnership is truly a complementary marriage between the two brands. Currently, 63 Cineplex Odeon Cinemas are featured in major urban centres and 20 Galaxy Cinemas dominate the mid-sized markets. Many of them are the focal point of entertainment activity within their respective communities.



NOW PLAYING

ALONG DAVE POLLY (PG) 6:58 9:25
 BIG FISH (PG) 6:48 9:45
 CALENDAR GIRLS (PG) 7:05 9:35
 COLD MOUNTAIN (14RD) 6:38 9:40
 LORD OF THE RINGS - ROTK (14RD) 7:40
 MONSTER (14RD) 6:45 9:15

THE BIG BOUNCE (14RD) 7:18 9:20
 THE BUTTERFLY EFFECT (14RD) 7:28 10:00
 THE PERFECT SCORE (PG) 7:38 9:58
 WIN A DATE WITH TAD HAMILTON (PG) 7:00 9:38

Welcome to Galaxy Cinemas - Adult - \$13.00 - Senior/Child - \$8.75 - Tuesdays and Matinees - \$8.50

Admission Prices	Adult	Senior/Child	Tuesdays and Matinees
Galaxy	\$13.00	\$8.75	\$8.50
Galaxy Elite	\$15.00	\$10.00	\$9.50
Galaxy VIP	\$17.00	\$12.00	\$11.50
Galaxy Platinum	\$19.00	\$14.00	\$13.50
Galaxy Diamond	\$21.00	\$16.00	\$15.50

GALAXY
ÉLITE

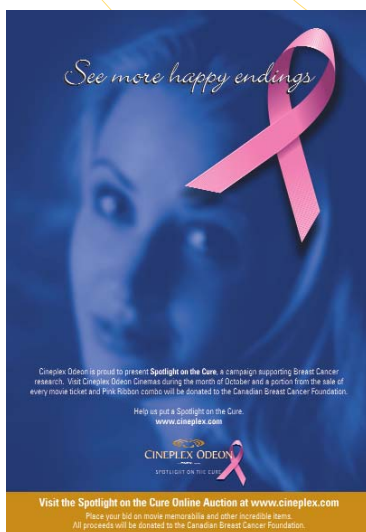
www.galaxycinemas.com

- JOIN É
- SEE M
- EARN
- GET R

GALAXY CINEMAS
 GUELPH, ONTARIO

PEOPLE

WE HAVE SUPPORTED THE CANADIAN BREAST CANCER FOUNDATION'S SPOTLIGHT ON THE CURE FOR THE PAST TWO YEARS. TO DATE, OUR THEATRES HAVE RAISED MORE THAN \$260,000 AND WE ARE COMMITTED TO CONTINUING OUR SUPPORT.



Beyond buildings, our key strengths are our people, our experience and our commitment to the communities where we operate.

Merging the two companies enabled us to select the “best of the best” to create our management and executive teams. We believe that people with passion and commitment are key to our success. Our years of experience, dedication and vision for a new and improved exhibition industry distinguish us from others.

At the theatre level, local management and staff receive extensive training and are empowered to make quality service decisions to provide our guests with the best experience possible. Our service motto is to “treat our guests as we would like to be treated.” Customer feedback recognizes and compliments the helpful and proactive attitude our guests have experienced at our theatres.

Our community involvement is very important to us. Every theatre team is encouraged to get involved with local charity events and fundraisers that raise dollars to benefit the local community. Our theatres have become true community destinations as we provide access to local movie clubs and host numerous special events throughout the year.





GALAXY CINEMAS
REGINA, SASKATCHEWAN

EXPERIENCE



BIRTHDAY PARTY PACKAGES ARE FUN AT CINEPLEX AND GALAXY CINEMAS. THEY ARE JUST ONE OF SEVERAL SPECIALTY PROGRAMS OFFERED. THE COMBINATION OF COMFORTABLE THEATRE SEATS, GIANT SCREENS, DIGITAL PROJECTION CAPABILITIES FOR PRESENTATIONS AND ATTRACTIVE AND SPACIOUS LOBBIES MAKES US A POPULAR CHOICE FOR VARIED EVENTS.

People love going to the movies. It provides an opportunity to escape reality for a little while. Our goal is to create an atmosphere that exceeds guest expectations and provides them with an exceptional entertainment experience.

We are committed to providing our customers with the best technology and theatre environment possible. Most of our cinemas feature digital sound, stadium seating, spacious lobbies and the latest in interactive and electronic games. Many of our theatres offer tickets for sale online or at ATMs outside the box office, making it easier and more convenient to purchase tickets.

From a marketing perspective, our strategy will be to continue to partner our theatre brands with other premium brands to create promotions that provide added value, increase frequency and build market share. Our e-marketing initiatives focus on our website and *reelm@il* programs, allowing us to create an extensive database for customer relationship management. We are also expanding our Galaxy *Elite* loyalty program to include Cineplex Odeon theatres, in addition to enhancing the program to provide increased benefits and special offers to reward our regular movie-going guests. *Stars and Strollers* is a relatively new specialty-marketing program designed to cater to a more targeted demographic – Moms and tots. We will be expanding this program into more Cineplex Odeon and Galaxy cinemas throughout the year as well.



[illegible]

CALGARY, ALBERTA

GROWTH

CINEPLEX AND GALAXY CINEMAS HAVE A CONSISTENT TRACK RECORD OF EXCELLENT CASH RETURN ON INVESTMENT. ALL NEW PROJECTS ARE PLANNED IN A STRATEGIC AND DISCIPLINED MANNER TO ENSURE THEY PROVIDE AN ACCRETIVE RETURN TO UNIT HOLDERS.



Cineplex Galaxy is selectively adding new theatres and expanding existing locations. In 2004 and beyond our target will be to add approximately three new theatres per year. In 2004 we opened the new Galaxy Cinemas Guelph and plan to open a new Galaxy Cinema in Orillia, ON and a Cineplex Odeon theatre in Pitt Meadows, BC. Current projects include extensive renovations to the Galaxy Cinema in Sherbrooke, QC along with the addition of four new screens and renovations to, and rebranding of, the Cineplex Odeon theatre in Lethbridge, AB.

As the second largest exhibitor in Canada, our market share stands at approximately 32% and will increase with the addition of these planned new theatres and screens.

Growth is also expected to occur in the ancillary areas of our business, particularly advertising. Emphasis will also be focused on generating increased revenue from games, specialty marketing and special event programming to maximize our revenue per patron. We are also exploring new digital projection technologies for the future that will expand opportunities for advertisers and generate significant additional revenues.



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

Cineplex Galaxy Income Fund indirectly owns an approximate 40.8% interest in Cineplex Galaxy Limited Partnership. Cineplex Galaxy Income Fund does not consolidate the results and operations of Cineplex Galaxy Limited Partnership. For this reason we present audited financial statements with accompanying notes therein for both Cineplex Galaxy Income Fund and Cineplex Galaxy Limited Partnership. The following management's discussion and analysis of the Cineplex Galaxy Limited Partnership financial condition and results of operations should be read together with the financial statements and related notes. This discussion contains forward-looking statements. Forward looking statements are subject by their nature to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in this discussion. The forward-looking information contained herein is current only as at the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

OVERVIEW

Cineplex Galaxy Limited Partnership (the "Partnership") is Canada's second largest film exhibition company 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, 2003, the Partnership owned, operated or had an interest in 740 screens in 82 theatres including 57 screens in seven 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 Galaxy General Partnership Corporation (the "General Partner"), certain Canadian subsidiaries of Loews Cineplex Theatres, Inc. ("LCT") and 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 created on October 2, 2003 for the express purpose of indirectly acquiring an interest in the Partnership. On November 26, 2003 the Fund issued 17.5 million units at \$10.00 per unit and on December 24, 2003, the underwriters exercised their over-allotment option to purchase an additional 1.9 million units at \$10.00 per unit. After giving effect to the over-allotment the Fund indirectly owns an approximate 40.8% interest in the Partnership.

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 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 (or “firm”) 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 represent 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 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 audit 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”).

RESULTS OF OPERATIONS

The following table presents certain of the Partnership’s financial data as a percentage of total revenues. The amounts for the period ended December 31, 2003 include the results of the Partnership from November 26 to December 31, 2003 and the combined results of COC and GEI from January 1 to November 25, 2003. The comparative amounts for the period ended December 31, 2002 represent the combined results of COC and GEI for the full twelve month period. The combined results include the results of certain COC properties that were not transferred into the Partnership.

	Year Ended December 31, 2003	Year Ended December 31, 2002
Revenues:		
Box office	67.5%	67.9%
Concessions	26.8%	27.0%
Other	5.7%	5.1%
Total operating revenues	100.0%	100.0%
Expenses:		
Film cost	35.1%	35.8%
Cost of concessions	4.9%	5.1%
Occupancy	15.4%	14.8%
Other theatre operating expenses	19.6%	20.4%
General and administrative	4.5%	4.2%
Management fee	2.3%	3.2%
Total expenses	81.8%	83.5%
Operating income	18.2%	16.5%

YEAR ENDED DECEMBER 31, 2003 COMPARED TO THE YEAR ENDED DECEMBER 31, 2002

Total revenues. Total revenues for the year ended December 31, 2003 increased \$9.5 million, or 2.9%, to \$333.8 million from \$324.3 million for the year ended December 31, 2002. A discussion of the factors affecting the changes in box office, concession and other revenues is provided below.

Box office revenues. Box office revenues for the year ended December 31, 2003 increased \$5.0 million, or 2.3%, to \$225.3 million from \$220.3 million for the year ended December 31, 2002. The average ticket price increased \$0.31 or 4.5% from \$6.93 for the year ended December 31, 2002 to \$7.24 for the year ended December 31, 2003. This increase in box office revenues was due to additional revenue from the operation of new theatres (\$11.1 million) and an improvement in average admission revenues per patron (\$7.7 million) which was offset by lower attendance levels (\$11.1 million) at existing theatres due to movie releases that were not as strong as in the prior year and the impact of disposed theatres including theatres not transferred into the Partnership (\$2.7 million).

Concession revenues. Concession revenues for the year ended December 31, 2003 increased \$2.0 million, or 2.3%, to \$89.6 million from \$87.6 million for the year ended December 31, 2002. The average concession revenue per patron increased \$0.12 or 4.4% from \$2.76 for the year ended December 31, 2002 to \$2.88 for the year ended December 31, 2003. The increase in concession revenues was due to additional revenues from the operation of new theatres (\$4.9 million) and an improvement in average concession revenues per patron (\$2.6 million) which was offset by lower attendance levels (\$4.4 million) at existing theatres and the impact of disposed theatres including theatres not transferred into the Partnership (\$1.1 million).

Other revenues. Other revenues for the year ended December 31, 2003 increased \$2.6 million, or 15.9%, to \$19.0 million from \$16.4 million for the year ended December 31, 2002. This increase was due primarily to additional revenue from the operations of new theatres and increases in miscellaneous income.

Film cost. Film cost for the year ended December 31, 2003 increased \$1.3 million, or 1.1%, to \$117.3 million from \$116.0 million for the year ended December 31, 2002. As a percentage of box office revenue, film cost decreased to 52.1% for the year ended December 31, 2003 from 52.7% for the year ended December 31, 2002. This decline was primarily due to higher film rental terms paid in the year ended December 31, 2002 on specific strong releases.

Cost of concessions. Cost of concessions for the year ended December 31, 2003 decreased \$0.2 million, or 1.2%, to \$16.2 million from \$16.4 million for the year ended December 31, 2002. This decrease in cost of concessions was due primarily to lower attendance levels (\$0.8 million) at existing theatres, the impact of disposed theatres including theatres not transferred into the Partnership (\$0.2 million) and a decrease in cost of concessions at existing theatres (\$0.2 million) which was offset by the incremental costs associated with new theatres that were opened (\$1.0 million). As a percentage of concession revenues, cost of concessions decreased from 18.7% in the year ended December 31, 2002, to 18.1% in the year ended December 31, 2003 primarily as a result of the increase in average concession revenue per patron and certain supplier contractual adjustments.

Occupancy. Occupancy expense for the year ended December 31, 2003 increased \$3.4 million, or 7.1%, to \$51.5 million from \$48.1 million for the year ended December 31, 2002. The overall increase in occupancy expense was due to the incremental costs associated with new theatres that were opened (\$1.9 million), general increases over the prior year related to inflationary, lease specific increases and one-time savings reflected in the year ended December 31, 2002 as COC emerged from restructuring (\$2.0 million) which was offset by the incremental impact of disposed theatres (\$0.5 million).

Other theatre operating expenses. Other theatre operating expenses for the year ended December 31, 2003 decreased \$1.1 million, or 1.7%, to \$65.1 million from \$66.2 million for the year ended December 31, 2002. The overall decrease in other theatre operating expenses was due to the incremental impact of disposed theatres including theatres not transferred into the Partnership (\$1.3 million), impact of lower attendance volumes and cost savings initiatives implemented (\$2.4 million) which were offset by costs associated with new theatres that were opened (\$2.6 million). As a percentage of total revenues, other theatre operating expenses decreased to 19.6% in the year ended December 31, 2003 from 20.4% for the year ended December 31, 2002.

General and administrative costs. General and administrative costs for the year ended December 31, 2003 increased \$1.5 million, or 10.9%, to \$15.2 million from \$13.7 million for the year ended December 31, 2002. This increase in general and administrative costs was primarily due to inflationary increases and additional management bonuses paid prior to November 25, 2003. As a percentage of total revenues, general and administrative expenses increased to 4.5% for the year ended December 31, 2003 from 4.2% for the year ended December 31, 2002.

Management fee. The management fee, which was payable to Loews Cineplex, decreased to \$7.7 million for the year ended December 31, 2003 from \$10.5 million for the year ended December 31, 2002 primarily due to the favourable impact of exchange rates and a reduction in the number of months and services covered under the management fee agreement. Effective November 26, 2003 the Partnership has entered into a services agreement with COC under which MIS support will be provided to the Partnership at a cost of US\$ 500,000 per annum. Other than payments under this services agreement there is no management fee payable to COC or LCT.

Income before undernoted. The Partnership reported income before undernoted for the year ended December 31, 2003 of \$60.8 million as compared to income before undernoted of \$53.5 million for the year ended December 31, 2002. This change was due to the aggregate effect of the factors described above.

Amortization costs. Amortization costs for the year ended December 31, 2003 increased \$2.4 million, or 13.4%, to \$20.3 million from \$17.9 million for the year ended December 31, 2002. This increase was due primarily to the incremental impact of new theatres.

Restructuring charges. Restructuring charges were \$nil for the year ended December 31, 2003 and \$7.0 million for the year ended December 31, 2002. Restructuring charges for the period ended December 31, 2002 primarily consist of severance payments associated with headcount reductions.

Gain on disposal of theatre assets. The gain on disposal of theatre assets represents the gains on theatres that were sold or otherwise disposed of. For the year ended December 31, 2003 the Partnership reported a nominal gain as compared to a gain on disposal of theatre assets of \$7.3 million for the year ended December 31, 2002. The gain on disposal of theatre assets for the year ended December 31, 2002, was primarily due to the write-off of unamortized tenant inducements on theatre leases repudiated during COC's reorganization process which was completed in March 2002.

Interest on long-term debt. Interest on long-term debt for the year ended December 31, 2003 increased to \$3.8 million from \$2.4 million for the year ended December 31, 2002. The increase was due primarily to a higher average outstanding debt balance during 2003 versus 2002.

Interest on loan from Cineplex Galaxy Trust. Interest on the loan from the Trust represents the interest on the \$100 million loan from the Trust for the period from commencement of the borrowing on November 26, 2003 to December 31, 2003.

Interest income. Interest income represents interest earned on cash and cash equivalents. Interest income for the year ended December 31, 2003 was \$0.9 million as compared to \$0.4 million for the year ended December 31, 2002. The increase in interest income is primarily due to the increase in cash and cash equivalents.

Reorganization costs. Reorganization costs for the year ended December 31, 2003 were \$nil compared to \$75.5 million for the year ended December 31, 2002. Reorganization costs, directly associated with the reorganization proceedings under COC's CCAA filing, include amounts related to (i) landlord claims related to the repudiation of theatres in Canada and (ii) accruals or payments for professional and advisory fees incurred directly related to and subsequent to the bankruptcy filing on February 15, 2001. These charges were partially offset by the termination of any remaining liabilities of \$2.8 million under the Investment Canada Act due to the change in ownership which resulted from the acquisition of LCT, COC's parent company, by Onex Corporation and OCM Cinema Holdings, LLC.

Exchange loss (gain). The Partnership reported an exchange gain of \$3.7 million for the year ended December 31, 2003 as compared to an exchange loss of \$14.4 million for the period ended December 31, 2002. The change in foreign exchange was due primarily to an increase in the value of COC's functional currency, the Canadian dollar, over the comparable levels in the corresponding period in 2002. In addition, a liability in the amount of US\$ 233.8 million due to LCT was compromised as part of the reorganization proceedings and thus COC's exposure to exchange rate changes was significantly reduced. Going forward the Partnership has minimal foreign exchange exposure as the Partnership's debt is no longer denominated in US dollars.

Gain on settlement of liabilities subject to compromise. The Partnership reported a gain on settlement of liabilities subject to compromise of \$457.4 million for the year ended December 31, 2002, compared to \$nil for the period ended December 31, 2003. The gain recorded for the year ended December 31, 2002 was related to COC's emergence from CCAA protection and the forgiveness of certain liabilities as a result of the CCAA filing.

Net income. Net income for the year ended December 31, 2003 decreased to \$39.3 million from \$399.8 million for the year ended December 31, 2002, primarily representing the impact of the gain on settlement of liabilities subject to compromise recognized in the year ended December 31, 2002 offset by 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 loss (gain) on disposal of theatre assets, the gain on settlement of liabilities subject to compromise and other restructuring charges and reorganization costs. 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 companies due to differences in methods of calculation. The calculations of EBITDA and adjusted EBITDA are based on the combined financial statements and include the results of certain COC properties that were not transferred into the Partnership and are shown below (expressed in thousands of Canadian dollars):

	Year Ended December 31, 2003	Year Ended December 31, 2002
Net income	\$ 39,346	\$ 399,848
Non-controlling interest	304	927
Amortization	20,323	17,921
Interest on long-term debt	3,799	2,445
Interest on loan from Cineplex Galaxy Trust	1,381	-
Interest income	(922)	(370)
Income tax expense	366	429
EBITDA	64,597	421,200
Restructuring charges	-	7,023
Gain on disposal of theatre assets	(92)	(7,253)
Reorganization costs	-	75,531
Gain on settlement of liabilities subject to compromise	-	(457,435)
Exchange (gain) loss	(3,696)	14,420
Adjusted EBITDA	\$ 60,809	\$ 53,486

SEASONALITY OF REVENUES

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. The Partnership's second and fourth quarters include most of the summer and holiday periods, respectively, and typically represent its strongest quarters based on total revenue. More recently, the seasonality of film exhibition has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods.

LIQUIDITY AND CAPITAL RESOURCES

Distributions

Partnership distributions will accrue on a monthly basis to holders of record of Class A LP Units and Class B LP Units on the last business day of each month. For the period from November 26, 2003 to December 31, 2003, Partnership distributable cash flow per unit was \$0.2421. The declared distribution per unit for this period was \$0.1118. Distributions totaling \$3,937 were accrued as at December 31, 2003 and were paid to the Trust and holders of Class B LP units on January 30, 2004. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

The Partnership has reconciled distributable cash beginning with cash provided by operations as required by Canadian Securities Administrators. Distributable cash flow per unit is calculated as follows:

Cash provided by operating activities	\$ 29,623
Less: Changes in operating assets and liabilities (i)	(18,766)
Capital expenditures	(962)
Non-cash occupancy adjustments (ii)	(415)
Add: Interest on loan from Cineplex Galaxy Trust (iii)	1,381
New theatre capital expenditures (iv)	653
Distributable Cash	\$ 11,514
Number of units outstanding	47,566,974
Distributable cash per unit	\$ 0.2421

- (i) changes in operating assets and liabilities are not considered a source of distributable cash
- (ii) related to the amortization of deferred tenant inducements and the difference between the straight-line rent expense and cash rent payments actually made
- (iii) subject to "Catch-up Payment" provision and is considered part of distributable cash
- (iv) the capital expenditures total includes new theatre and maintenance capital expenditures of which the new theatre capital expenditures are to be funded out of the Partnership development loan facility.

For the period ended December 31, 2003, the Fund declared a distribution of \$0.1118 which was paid on January 30, 2004. The Fund is entirely dependent on distributions from the Partnership and interest payments from GEI to make its own distributions.

As of December 31, 2003, the Partnership was holding approximately \$5.5 million in cash which is to be used for certain expenditures (point-of-sale upgrades and rebranding).

Assets

Assets increased \$19.3 million to \$319.2 million as at December 31, 2003 from \$299.9 million as at December 31, 2002. This increase is due primarily to increases in property, equipment and leasehold improvements related to new theatres and increases in goodwill related to the acquisition of a minority interest in GEI offset by a decrease in cash and cash equivalents. The decrease in cash and cash equivalents is due primarily to cash held in COC which was not acquired on the Partnership's acquisition of assets from COC.

Deferred Revenue

Deferred revenues increased \$1.6 million to \$11.2 million as at December 31, 2003 from \$9.6 million as at December 31, 2002 due primarily to an increase in gift certificate sales, advance ticket sales and long-term screen advertising agreements outstanding.

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 generally collected in advance of the payment of certain expenses. Operating revenue levels are directly related to the success and appeal of the film product produced and distributed by the studios.

Cash provided by operating activities for the year ended December 31, 2003 and the period ended December 31, 2002 was primarily due to theatre cash flow, partially offset by cash used to pay restructuring and reorganization related costs. Cash provided by operating activities for the year ended December 31, 2003 was higher primarily due to higher operating income, a reduction in the amounts paid under COC's restructuring and an increase in net working capital.

Investing Activities

Cash used in investing activities for the year ended December 31, 2003 was primarily related to the acquisition of the COC and GEI businesses by the Partnership, capital expenditures on new theatre builds and approximately \$29.4 million in advances by COC to LCT. Cash used in investing activities for the year ended December 31, 2002 was primarily related to capital expenditures on new theatre builds.

The Partnership funds maintenance capital expenditures through internally generated cash flow and cash on hand. The Partnership will fund new theatre capital expenditures through the development loan facility discussed below.

Financing Activities

Cash provided by financing activities for the year ended December 31, 2003 was due primarily to borrowings under new credit facilities, the issuance of Partnership units and the loan from the Trust. In addition, cash used in financing activities include a repayment of \$31.5 million in GEI long-term debt. In the year ended December 31, 2002, cash provided by financing activities included additional borrowings under GEI's credit facility and the receipt of tenant inducements which was partially offset by the repurchase of GEI common shares in the amount of \$4.2 million. There was approximately \$30.0 million in COC long-term debt which was not transferred into the Partnership.

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 agreements.

Credit Facilities

Revolving Facilities. On November 26, 2003, the Partnership entered into two senior secured revolving credit facilities, one in the principal amount of \$20 million (the "Working Capital Facility") and the other in the principal amount of \$40 million (the "Development Facility"). The Working Capital Facility is for general corporate purposes, including up to \$10 million to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The Development Facility is to be used for the development or acquisition of theatre projects approved by the Trustees of the Fund. Both facilities have a term of three years and are repayable in full at maturity. These revolving credit facilities bear interest at a floating rate based on the Canadian dollar prime rate or on the bankers acceptance rates plus, in each case, an applicable margin to those rates. No amounts were drawn under the above facilities as at December 31, 2003.

Term Facility. On November 26, 2003, the Partnership entered into a senior secured term facility in the amount of \$110 million (the “Term Facility”). The Term Facility matures in three years with no scheduled repayments of principal required prior to maturity. The Term Facility bears interest at a floating rate based on the Canadian dollar prime rate or on the bankers acceptance rates plus, in each case, an applicable margin to those rates. The Term Facility was fully drawn as at December 31, 2003.

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

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 Notes”). The Galaxy Notes bear interest at a rate of 14% per annum and have no scheduled repayments prior to maturity. The Galaxy Notes mature on November 26, 2028 at which time they are payable in full. The Galaxy Notes are subordinated to the bank credit facilities discussed above.

Future Obligations

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.

MARKET RISK

The Partnership is exposed to financial market risks, including changes in interest rates and other relevant market prices. As of December 31, 2003, the Partnership had an interest rate swap agreement in place whereby the Partnership pays an interest rate of 4.29% and receives a floating rate. The swap is for a term of three years, expiring November 26, 2006 and the initial principal outstanding is \$44 million. The principal outstanding under the swap increases to \$77 million on August 26, 2004 and to \$110 million on May 26, 2005.

INTEREST RATE RISK

As of December 31, 2003, the Partnership had long-term debt or other obligations (including current maturities) of \$210.1 million. Approximately \$110.1 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 \$138 per year. Offsetting this risk is the impact of the interest rate swap referred to above.

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.

Disposal of Theatre Assets

Costs associated with theatre closures are recognized when management determines to dispose of a non-performing or non-strategic theatre property. These costs generally include the net book value of the related asset, and estimates made by management related to the cost of winding down operations at a particular theatre location and the expected payments due under lease agreements to landlords, if applicable.

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.

RECENT ACCOUNTING DEVELOPMENTS

In 2002, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3110, "Asset Retirement Obligations", which will be 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 impact of adopting this standard has not yet been determined by management.

In June 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 impact of adopting the Guideline has not yet been determined by management.

RISKS AND UNCERTAINTIES

Investment in the 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 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 April 5, 2004 for a more detailed description of risks facing the Partnership.

OUTLOOK

The Partnership believes that its new 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.

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

"Ellis Jacob"

Ellis Jacob
Chief Executive Officer of
Cineplex Galaxy General Partner Corporation

Toronto, Ontario
January 20, 2004

"Stephen Brown"

Stephen Brown
Chief Financial Officer of
Cineplex Galaxy General Partner Corporation

Auditors' Report

January 20, 2004

To the Trustees of Cineplex Galaxy Income Fund

We have audited the consolidated balance sheet of **Cineplex Galaxy Income Fund** (the "Fund") as at December 31, 2003 and the consolidated statements of earnings, unitholders' equity and cash flows for the period from October 2, 2003 to December 31, 2003. 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 audit.

We conducted our audit 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, 2003 and the results of its operations and its cash flows for the period from October 2, 2003 to December 31, 2003 in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Ontario

Cineplex Galaxy Income Fund Consolidated Balance Sheet

As at December 31, 2003 (expressed in thousands of Canadian dollars)

Assets

Current assets

Cash and cash equivalents	\$	460
Interest receivable from Galaxy Entertainment Inc. (note 4)		1,381
Distributions receivable (note 4)		788

2,629

Due from Galaxy Entertainment Inc. (notes 1 and 4) 100,000

Investment in Cineplex Galaxy Limited Partnership (notes 1 and 2) 95,875

Investment in Cineplex Galaxy General Partner Corporation (notes 1 and 2) 2

\$ 198,506

Liabilities

Current liabilities

Distributions payable (note 8)	\$	2,169
Due to Cineplex Galaxy Limited Partnership (note 4)		460

2,629

Unitholders' Equity 195,877

\$ 198,506

Guarantees (note 9)

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

Approved by the Board of Trustees

"Bruce Birmingham"
Trustee

"Edward Sonshine"
Trustee

Cineplex Galaxy Income Fund

Consolidated Statement of Earnings

For the period from October 2, 2003 to December 31, 2003 (expressed in thousands of Canadian dollars, except per unit amounts)

Share of income of Cineplex Galaxy Limited Partnership (note 5)	\$ 2,665
Interest income (note 4)	1,381
Net earnings	\$ 4,046
Basic earnings per unit	\$ 0.23
Weighted average number of units outstanding used in computing earnings per unit	17,922,222
Diluted earnings per unit	\$0.22
Weighted average number of units outstanding used in computing diluted earnings per unit (note 7)	46,089,196

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

Cineplex Galaxy Income Fund

Consolidated Statement of Unitholders' Equity

For the period from October 2, 2003 to December 31, 2003 (expressed in thousands of Canadian dollars)

	Unitholders' capital	Accumulated earnings	Distributions	Total
Issuance of units (notes 1 and 6)	\$ 194,000	\$ -	\$ -	\$ 194,000
Distributions declared (note 8)	-	-	(2,169)	(2,169)
Net earnings for the period	-	4,046	-	4,046
Balance as at December 31, 2003	\$ 194,000	\$ 4,046	\$ (2,169)	\$ 195,877

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

Cineplex Galaxy Income Fund

Consolidated Statement of Cash Flows

For the period from October 2, 2003 to December 31, 2003 (expressed in thousands of Canadian dollars)

Cash provided by (used in)

Operating activities

Net earnings for the period	\$	4,046
Item not affecting cash and cash equivalents		
Share of earnings from equity investee (note 5)		(2,665)
Interest receivable from Galaxy Entertainment Inc. (note 4)		(1,381)
		-

Investing activities

Investment in Cineplex Galaxy Limited Partnership (note 2)		(93,998)
Investment in Galaxy Notes (notes 1 and 4)		(100,000)
Investment in Cineplex Galaxy General Partner Corporation (note 1)		(2)
		(194,000)

Financing activities

Issuance of units (note 1)		194,000
Due to Cineplex Galaxy Limited Partnership (note 4)		460
		194,460

Increase in cash and cash equivalents during the period		460
Cash and cash equivalents - Beginning of period		-
Cash and cash equivalents - End of period	\$	460

Supplemental information

Cash received for interest		-
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The accompanying notes are an integral part of these consolidated financial statements.

Cineplex Galaxy Income Fund

Notes to Consolidated Financial Statements

December 31, 2003 (expressed in thousands of Canadian dollars, except per unit amounts)

1. DESCRIPTION OF THE FUND

Cineplex Galaxy Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on October 2, 2003 pursuant to the Fund Declaration of Trust. The Fund was established to invest, through Cineplex Galaxy Trust (the "Trust"), a newly constituted wholly owned trust, in partnership units of Cineplex Galaxy Limited Partnership (the "Partnership") and shares of Cineplex Galaxy General Partner Corporation (the "General Partner"), the general partner of the Partnership. The Partnership represents Canada's second largest film exhibition organization with theatres in six provinces and 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").

On November 26, 2003, the Fund issued 17,500,000 million units at \$10.00 per unit (the "Offering") and used these funds to subscribe for units (the "Trust Units") and Series 1 notes (the "Series 1 Trust Notes") of the Trust. The Trust subscribed for 17,500,000 Class A Partnership units ("Class A LP Units") in the amount of \$74,998, subscribed for 17,500,000 shares in the capital of the General Partner in the amount of \$2 and advanced \$100,000 (the "Galaxy Notes") to GEI. The investments in the Partnership and the General Partner represented approximately 36.8% of the outstanding Partnership units and General Partner shares. The Partnership used the proceeds from the issuance of Class A LP Units, the proceeds from the Galaxy Notes, the \$110,000 proceeds from its New Credit Facilities (note 9), together with the issuance of Series 1 Class B Partnership units, Series 2-C Class B Partnership units and Series 2-G Class B Partnership units (collectively, "Class B LP Units"), to fund the acquisition of substantially all of the theatre business assets and liabilities of COC, to acquire, through an acquisition company, all of the shares of GEI and to pay the expenses of the Offering. The underwriters' fees and other Offering costs were reimbursed to the Fund pursuant to a reimbursement agreement with the Partnership.

On December 24, 2003, the underwriters of the initial public offering of units of the Fund exercised their over-allotment option to purchase 1,900,000 additional units at a purchase price of \$10.00 per unit, for gross proceeds of \$19,000 (the "Over allotment"). The gross proceeds were used by the Fund to acquire an additional indirect interest of approximately 4.0% in the Partnership. After giving effect to the Over allotment, the Fund indirectly owns an approximate 40.8% interest in the Partnership.

The Partnership's investors are comprised of the Trust, the General Partner, certain Canadian subsidiaries of Loews Cineplex Theatres, Inc. ("LCT"), Onex Corporation and other former investors in GEI.

2. BUSINESS ACQUISITIONS

Following the Offering and the exercise of the Over allotment, the Fund indirectly acquired a 40.8% interest in the Partnership and the General Partner. The total consideration was \$93,998 in cash for the 40.8% interest in the Partnership and \$2 in cash for the 40.8% interest in the General Partner. The investments are accounted for using the equity method and the results of the Partnership have been included in the Fund's consolidated financial statements from the date of acquisition.

The Fund's share of the net book value of the underlying identifiable net liabilities, excluding goodwill, of the Partnership was \$63,478 at the date of acquisition. The \$93,998 cost of the Fund's investment in the Partnership exceeded the \$63,478 underlying carrying value of the net liabilities of the Partnership in the amount of \$157,476. This excess has been allocated to property, equipment and leaseholds in the amount of \$4,898; advertising contracts for \$5,180; and to trademarks in the amount of \$16,151. The remaining \$131,247 represents equity method goodwill. Amounts allocated to buildings, equipment and leaseholds are amortized over a period of approximately 12 years and to advertising contracts over approximately nine years. As the useful lives of trademarks and goodwill are indefinite, no amortization is recorded on these assets.

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, 2003, the investment in the Partnership consists of the following:

Investment in 19,400,000 Class A LP Units	\$	93,998
Share of earnings (note 5)		2,665
Less: Distributions receivable (note 4)		788
	\$	95,875

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and consolidation

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The Fund's consolidated financial statements include the accounts of the Trust. All intercompany transactions have been eliminated. 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 year ended December 31, 2003.

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.

Long-term investments

As the Fund has significant influence over the Partnership and the General Partner, its investments are accounted for using the equity method. Under the equity method, the cost of the investment is increased by the Fund's proportionate share of earnings 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 Galaxy 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 that 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 into units of the Fund at the beginning of the reporting period, or at the time of issuance, if later (note 7).

Financial instruments

a) Fair value of financial instruments

Cash and cash equivalents, due to and due from related parties, and distributions payable are reflected in the financial statements at carrying values, which approximate fair value because of the short-term maturity of these financial instruments. Financial instruments also include the Galaxy Notes that mature on November 26, 2028 and bear interest at 14% per annum. Management considers that no events have occurred subsequent to the arrangement of this loan that would indicate that its fair value differs substantially from its carrying value.

b) Interest rate risk

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

Use of estimates

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

4. RELATED PARTY TRANSACTIONS

The Partnership intends to make distributions on a monthly basis of its available cash to the maximum extent possible to holders of record of Class A LP Units and Class B 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 and Class B LP

Cineplex Galaxy Income Fund

Notes to Consolidated Financial Statements

Unitholders, the Fund receives the distributions on the Class A LP Units held by the Trust (note 8). For the period from November 26, 2003 to December 31, 2003, the Fund has distributions receivable from the Partnership of \$788.

On November 26, 2003, the Trust entered into an agreement with GEI whereby it loaned to GEI \$100,000 (note 1). The Galaxy Notes bear interest at a rate of 14% per annum payable monthly, with principal due on November 26, 2028. Interest receivable represents interest accrued during the period from November 26, 2003 to December 31, 2003.

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

On November 26, 2003, the Fund undertook a series of transactions with related parties resulting in the Fund Offering and investment in the Partnership and the General Partner (notes 1 and 2).

5. SHARE OF PARTNERSHIP INCOME

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

Consolidated Partnership net income for the period from November 26, 2003 to December 31, 2003	\$	8,707
Adjustment for Catch-up Payment from Partnership to Class B LP Unitholders (note 8)		(2,005)
Remaining income to be distributed pro rata to Class A LP and Class B LP Unitholders		6,702
Fund's proportionate 40.8% share (note 2)		2,733
Adjustments for excess of purchase price over net assets acquired (note 2) and other items		(68)
Share of Partnership's income	\$	2,665

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 income, net realized capital gains (other than net realized capital gains distributed to redeeming Unitholders) or other amounts, and in the net assets of the Fund in the event of termination or windup of the Fund.

All units are of the same class with equal rights and privileges. The units issued pursuant to the Offering 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 calendar 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.

Cineplex Galaxy Income Fund

Notes to Consolidated Financial Statements

The Class B LP Units are indirectly exchangeable one-for-one 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 units of the Fund. With respect to the Class B Series 2 LP Units, this exchange may 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 Series 1 Trust Notes.

Issued

	Number of units	Amount
Units - Beginning of period	-	-
Initial offering (note 1)	17,500,000	\$ 175,000
Exercise of Over allotment (note 1)	1,900,000	19,000
Units - End of period	19,400,000	\$ 194,000

7. 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 Class B LP Unitholders' right to exchange Class B LP Units for Fund units. At December 31, 2003, the following Class B LP Units were outstanding:

	Number of units
Class B Series 1	20,949,582
Class B Series 2-C	2,086,957
Class B Series 2-G	5,130,435
	28,166,974

8. DISTRIBUTIONS PAYABLE

The Fund intends to make monthly distributions of its available cash, to the maximum extent possible, 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 commencing in December 2003 less estimated cash amounts required for expenses and other obligations of the Fund and cash redemptions of units. The distributions will be paid within 30 days following the end of each month. The Fund accrued a distribution payable of \$0.1118 per unit for the period ended December 31, 2003 for Unitholders of record on December 31, 2003 amounting to \$2,169.

Subject to certain restrictions, holders of Class B 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 Notes ("Catch-up Payment"). Any remaining amounts available for distribution will be shared pro rata between the holders of Class A LP Units and Class B LP Units. The purpose of the Catch-up Payment is to ensure that distributions on the Class B 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 Notes.

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 Unitholders.

9. GUARANTEES

The Fund has adopted the recommendations of The Canadian Institute of Chartered Accountants' Accounting Guideline 14, "Disclosure of Guarantees." This guideline requires a guarantor to disclose the significant details of guarantees that have been given regardless of whether it will have to make payments under the guarantees.

The Trust has guaranteed the New Credit Facilities undertaken by the Partnership, and has granted a security interest over its assets, including a pledge of its Class A LP Units, shares of the General Partner and the Galaxy Notes. Total debt outstanding under the New Credit Facilities at December 31, 2003 amounts to \$110,000. The Fund has not made any payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements with respect to these guarantees.

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 judgements 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 Galaxy General Partner Corporation (the "Board"), as general partner of Cineplex Galaxy Limited 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 ("Audit Committee"). The Audit Committee meets periodically with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged and to recommend approval of the consolidated financial statements to the Board.

PricewaterhouseCoopers LLP serves as the 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.

"Ellis Jacob"

Ellis Jacob
Chief Executive Officer

"Stephen Brown"

Stephen Brown
Chief Financial Officer

Toronto, Ontario
January 20, 2004

Auditors' Report

January 20, 2004

**To the Directors of Cineplex Galaxy General Partner Corporation, as general partner of
Cineplex Galaxy Limited Partnership**

We have audited the consolidated balance sheets of **Cineplex Galaxy Limited Partnership** (the "Limited Partnership") as at December 31, 2003 and 2002 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 Limited 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 Limited Partnership as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

"PricewaterhouseCoopers LLP"

Chartered Accountants
Toronto, Ontario

Cineplex Galaxy Limited Partnership Consolidated Balance Sheets

As at December 31, 2003 and 2002 (expressed in thousands of Canadian dollars)

	2003	2002
Assets		
Current assets		
Cash and cash equivalents	\$ 43,527	\$ 60,979
Accounts receivable (note 3)	7,801	8,522
Inventories	1,987	1,653
Prepaid expenses and other current assets	3,901	1,766
Due from related parties (note 9)	1,860	-
	59,076	72,920
Property, equipment and leaseholds (note 4)	232,184	217,745
Goodwill (note 1)	22,942	7,944
Future income taxes (note 15)	62	-
Deferred charges and other intangibles	4,919	1,287
	\$ 319,183	\$ 299,896
Liabilities		
Current liabilities		
Bank indebtedness (note 5)	\$ -	\$ 19,500
Accounts payable and accrued expenses (note 6)	34,110	35,643
Distribution payable (note 13)	3,937	-
Amounts due under Plan of Compromise (note 1)	-	5,455
Due to related parties (note 9)	5,108	8,912
Income taxes payable	234	947
Deferred revenue	11,215	9,594
Current portion of long-term debt (note 7)	46	1,082
	54,650	81,133
Long-term debt (note 7)	110,067	35,121
Due to Cineplex Galaxy Trust (note 8)	100,000	-
Accrued pension liability (note 10)	465	340
Future income taxes (note 15)	-	50
Other liabilities (note 11)	86,504	82,827
	351,686	199,471
Non-controlling interests	-	8,897
	351,686	208,368
Partners' Equity (Deficiency)		
Partners' deficit	(32,503)	-
Capital stock	-	480,300
Contributed surplus	-	120,590
Deficit	-	(509,362)
	(32,503)	91,528
	\$ 319,183	\$ 299,896

Basis of presentation (note 2)

Commitments and contingencies (notes 17 and 19)

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

Approved by the Board of Directors

"Ellis Jacob"

Director

"Anthony Munk"

Director

Cineplex Galaxy Limited Partnership

Consolidated Statements of Income

For the years ended December 31, 2003 and 2002 (expressed in thousands of Canadian dollars)

	For the period from January 1, 2003 to November 25, 2003	For the period from November 26, 2003 to December 31, 2003	For the period from January 1, 2003 to December 31, 2003	For the period from January 1, 2002 to December 31, 2002 (i)
Revenue				
Box office	\$ 197,009	\$ 28,295	\$ 225,304	\$ 173,875
Concessions	77,651	11,908	89,559	68,881
Other	16,042	2,918	18,960	13,020
	290,702	43,121	333,823	255,776
Expenses				
Film cost	102,425	14,884	117,309	92,281
Cost of concessions	14,064	2,145	16,209	13,015
Occupancy	46,251	5,284	51,535	37,765
Other theatre operating expenses	58,352	6,772	65,124	52,299
General and administrative	14,052	1,121	15,173	10,956
Management fee (note 9)	7,602	62	7,664	7,867
	242,746	30,268	273,014	214,183
Income before undernoted	47,956	12,853	60,809	41,593
Amortization	18,173	2,150	20,323	14,170
Gain on disposal of theatre assets	(92)	-	(92)	(304)
Interest on long-term debt	3,182	617	3,799	2,127
Interest on loan from Cineplex Galaxy Trust (note 8)	-	1,381	1,381	-
Interest income	(908)	(14)	(922)	(136)
Foreign exchange gain	(3,696)	-	(3,696)	(468)
Income before income taxes and non-controlling interests	31,297	8,719	40,016	26,204
Provision for (recovery of) income taxes (note 15)				
Current	466	12	478	517
Future	(112)	-	(112)	(218)
	354	12	366	299
	30,943	8,707	39,650	25,905
Non-controlling interests	304	-	304	927
Net income	\$ 30,639	\$ 8,707	\$ 39,346	\$ 24,978

(i) Cineplex Odeon Corporation for the nine months ended December 31, 2002 and Galaxy Entertainment Inc. for the twelve months ended December 31, 2002

Basis of presentation (note 2)

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

Cineplex Galaxy Limited Partnership Consolidated Statements of Partners' Equity (Deficiency)

For the years ended December 31, 2003 and 2002 (expressed in thousands of Canadian dollars)

	Partners' capital (note 12)	Capital stock (note 12)	Contributed surplus (note 12)	Equity (deficit)	Accumulated earnings	Distributions	Total
Balance - Beginning of period*	\$ -	\$ 483,328	\$ 120,590	\$ (533,194)	\$ -	\$ -	\$ 70,724
Repurchase of common shares	-	(3,028)	-	(1,146)	-	-	(4,174)
Net income	-	-	-	24,978	-	-	24,978
Balance - December 31, 2002	-	480,300	120,590	(509,362)	-	-	91,528
Net income for the period January 1, 2003 to November 25, 2003	-	-	-	30,639	-	-	30,639
Balance - November 25, 2003	\$ -	\$ 480,300	\$ 120,590	\$ (478,723)	\$ -	\$ -	\$ 122,167
Formation of Partnership (note 1)	\$ -	\$ -	\$ -	\$ (147,698)	\$ -	\$ -	\$ (147,698)
Issuance of units - net of issuance costs	110,425	-	-	-	-	-	110,425
Distributions	-	-	-	-	-	(3,937)	(3,937)
Net earnings for the period	-	-	-	-	8,707	-	8,707
Balance - December 31, 2003	\$ 110,425	\$ -	\$ -	\$ (147,698)	\$ 8,707	\$ (3,937)	\$ (32,503)

* As at April 1, 2002 for Cineplex Odeon Corporation and January 1, 2002 for Galaxy Entertainment Inc.

Basis of presentation (note 2)

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

Cineplex Galaxy Limited Partnership

Consolidated Statements of Cash Flows

For the years ended December 31, 2003 and 2002 (expressed in thousands of Canadian dollars)

	For the period from January 1, 2003 to November 25, 2003	For the period from November 26, 2003 to December 31, 2003	For the period from January 1, 2003 to December 31, 2003	For the period from January 1, 2002 to December 31, 2002 (i)
Cash provided by (used in)				
Operating activities				
Net income	\$ 30,639	\$ 8,707	\$ 39,346	\$ 24,978
Adjustments to reconcile net income to net cash provided by operating activities				
Amortization	18,173	2,150	20,323	14,170
Future income taxes	(112)	-	(112)	(218)
Gain on disposal of theatre assets	(92)	-	(92)	(304)
Non-controlling interests	304	-	304	927
Restructuring charges paid during the period	(4,924)	-	(4,924)	(602)
Reorganization costs paid during the period	(16)	-	(16)	(1,392)
Amounts paid under Plan of Compromise	-	-	-	(24,646)
Changes in operating assets and liabilities (note 16)	(3,564)	18,766	15,202	(1,220)
	40,408	29,623	70,031	11,693
Investing activities				
Proceeds from sale of theatre assets	187	-	187	1,439
Acquisition of minority interest in GEI (note 1)	-	(17,260)	(17,260)	-
Advance to Loews Cineplex Theatres, Inc.	(29,356)	-	(29,356)	-
Capital expenditures	(46,019)	(962)	(46,981)	(15,467)
	(75,188)	(18,222)	(93,410)	(14,028)
Financing activities				
Borrowings under credit facility - net of fees paid (note 7)	12,000	107,533	119,533	7,400
Borrowings from Cineplex Galaxy Trust (note 8)	-	100,000	100,000	-
Issuance of Partnership units - net of issuance costs (note 1)	-	110,425	110,425	-
Return of capital to COC shareholders	-	(217,186)	(217,186)	(232)
COC cash not transferred into Partnership (note 1)	-	(33,751)	(33,751)	-
Repayment of Priority Secured Credit Agreement	(216)	-	(216)	-
Repurchase of GEI common shares	-	(46,666)	(46,666)	(4,174)
Tenant inducements	5,942	-	5,942	3,816
Repayment of long-term debt	(654)	(31,500)	(32,154)	(1,027)
	17,072	(11,145)	5,927	5,783
Increase (decrease) in cash and cash equivalents during the period	(17,708)	256	(17,452)	3,448
Cash and cash equivalents - Beginning of period	60,979	43,271	60,979	57,531
Cash and cash equivalents - End of period	\$ 43,271	\$ 43,527	\$ 43,527	\$ 60,979
Supplemental information				
Cash paid for interest	3,037	1,975	5,012	2,372
Cash paid for income taxes - net	656	10	666	448

(i) Cineplex Odeon Corporation for the nine months ended December 31, 2002 and Galaxy Entertainment Inc. for the twelve months ended December 31, 2002

Basis of presentation (note 2)

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

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

December 31, 2003 and 2002 (expressed in thousands of Canadian dollars, except per unit amounts)

1. DESCRIPTION OF BUSINESS

Cineplex Galaxy Limited 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 represents Canada's second largest film exhibition organization with theatres in six provinces. The Partnership serves both major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. The Partnership operates theatres under the Cineplex Odeon and Galaxy names. As of December 31, 2003, the Partnership owns, or has interests in, and operates 740 screens at 82 locations. Included in the screen and theatre counts are 57 screens in seven theatres in which the Partnership holds a partnership interest.

The Partnership's investors are comprised of Cineplex Galaxy Trust (the "Trust"), Cineplex Galaxy General Partnership Corporation (the "General Partner"), certain Canadian subsidiaries of Loews Cineplex Theatres, Inc. ("LCT"), 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 Ontario on October 2, 2003. On November 26, 2003, the Fund issued 17,500,000 units at \$10.00 per unit and used these funds to subscribe for units (the "Trust Units") and Series 1 notes (the "Series 1 Trust Notes") of the Trust. The Trust in turn subscribed for Class A Partnership units ("Class A LP Units") representing approximately 36.8% of the outstanding Partnership units, subscribed for shares in the capital of the General Partner representing approximately 36.8% of the outstanding shares of the General Partner and advanced \$100,000 (the "Galaxy Notes") to Cineplex Galaxy Acquisition Inc. ("Cineplex Galaxy Acquisition"). The Partnership used the proceeds from the sale of the Partnership units, the proceeds from the issuance of the Galaxy Notes, the proceeds from the New Credit Facilities (note 7), together with the issuance of Class B Series 1 and Series 2 Partnership units ("Class B LP Units") to fund the acquisition of substantially all of the theatre business assets and liabilities of COC, to subscribe for the shares of Cineplex Galaxy Acquisition and to pay the expenses of the Fund Offering (the "Offering"). The underwriters' fees and other Offering costs were reimbursed to the Fund pursuant to a reimbursement agreement with the Partnership.

Cineplex Galaxy Acquisition used funds from the Galaxy Notes to acquire the shares of GEI in exchange for shares of Cineplex Galaxy Acquisition and Class B LP Units. Subsequent to the amalgamation of Cineplex Galaxy Acquisition and GEI, \$31,500 borrowed by GEI under its demand operating credit facility was repaid in full. Of this repaid debt, \$8,000 represented banker's acceptances that were not cancelled until maturity in 2004 despite full repayment made in 2003 (note 2).

On December 24, 2003, the underwriters of the Offering exercised their over-allotment option to purchase 1,900,000 additional units at a purchase price of \$10.00 per unit, for gross proceeds of \$19,000. The gross proceeds were used by the Fund to acquire an additional indirect interest of approximately 4.0% in the Partnership. After giving effect to the over-allotment, the Fund indirectly owns an approximate 40.8% interest in the Partnership.

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

The following table is a summary of the transactions and details of the formation of the Partnership:

	Units	Amount
The Fund		
Issuance of units	19,400,000	\$ 194,000
Investment in Trust Units	19,400,000	(17,460)
Investment in Series 1 Trust Notes	-	(176,540)
The Trust		
Issuance of units to the Fund	19,400,000	17,460
Issuance of Series 1 Trust Notes to the Fund	-	176,540
Investment in Class A LP Units	19,400,000	(93,998)
Investment in General Partner	-	(2)
Issuance of Galaxy Notes	-	(100,000)
The Consolidated Partnership		
Issuance of Class A LP Units to the Trust	19,400,000	93,998
General Partner contribution to the Partnership	-	2
Costs of Offering	-	(14,520)
Issuance of Galaxy Notes to the Trust	-	100,000
New Credit Facilities - net of fees	-	107,533
Repayment of GEI credit facility	-	(31,500)
Return of capital to COC shareholders	-	(217,186)
Acquisition of minority interest in GEI	-	(17,260)
Repurchase of GEI common shares	-	(46,666)
Issuance of Class B, Series 1 units to acquire COC assets and GEI shares (*)	20,949,582	16,860
Issuance of Class B, Series 2-C units to acquire COC assets (*)	2,086,957	-
Issuance of Class B, Series 2-G units to acquire GEI shares (*)	5,130,435	14,085

* The equity value of certain non-cash related party transactions was recorded at a nominal value.

In aggregate, the following COC assets and liabilities were not transferred into the Partnership:

Cash	\$ 33,751
Net working capital and other items	(12,927)
Due from LCT	10,820
Property, equipment and leaseholds	15,714
Long-term debt	(29,973)
	\$ 17,385

The difference in value of the COC net assets acquired at their carrying value and the consideration paid by the Partnership were recorded as a charge to partner's equity (deficiency) as these are related party transactions. The payment of expenses of the Offering was also recorded as a charge to partner's equity (deficiency).

Prior to the acquisition, GEI was controlled by Onex, a majority shareholder of LCT, with the remaining 27% interest held by other investors. As a result of the acquisition of the shares in GEI from non-controlling interests by the Partnership, the exchange of shares of GEI for cash, shares of Cineplex Galaxy Acquisition and Class B LP Units has been accounted for as a step-by-step purchase and has been measured at fair value. Application of these provisions has resulted in a step up in the carrying value of GEI's property, equipment and leaseholds in the amount of \$1,885, and intangible assets including trade name and advertising contracts of \$1,566 and \$351, respectively. Additional goodwill in the amount of \$14,998 has been recorded to reflect the excess of the purchase price of the non-controlling shareholders' interest in GEI over the fair value of the identifiable assets and liabilities.

Creditor protection proceedings

On March 21, 2002, COC emerged from protection under the Companies' Creditors Arrangement Act ("CCAA") having received approval from its creditors for a Plan of Compromise and Arrangement (the "Plan"). Under the terms of the Plan, COC was required to make a net distribution of \$76,924 against total liabilities subject to compromise of \$534,359 resulting in a gain of \$457,453 on settlement of the liabilities. COC borrowed US\$20,000 under the Priority Secured Credit Agreement (note 7) to fund this obligation. In June 2002, COC made interim distribution payments. As of December 31, 2002, \$5,455 remained due under the Plan. This obligation was not transferred into the Partnership.

2. 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 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 reflect the financial position, results of operations and cash flows as if the Partnership has always carried on the businesses formerly carried on by COC and GEI. The comparative consolidated financial statements of the Partnership prior to the legal formation of the Partnership on November 26, 2003 are not necessarily indicative of the results that would have been attained if COC and GEI had operated as a single legal entity during the periods presented and, therefore, are not necessarily indicative of future operating results. No adjustments have been made to the Partnership financial statements prior to November 26, 2003 to reflect incremental changes to the cost structure as a result of the legal formation of the Partnership on November 26, 2003.

All assets and liabilities are recorded at historical cost with the exception of those assets and liabilities attributed to the non-controlling interest in GEI (note 1).

Consolidation

Majority-owned companies are consolidated and investments in joint ventures are accounted for using proportionate consolidation. Significant intercompany accounts and transactions have been eliminated.

The comparative consolidated financial statements include the accounts of the Partnership and its wholly owned subsidiaries and GEI. The consolidated financial statements include the operations of COC for the nine months ended December 31, 2002 and GEI for the year ended December 31, 2002.

COC and GEI became entities under the common control of Onex upon COC's emergence from the creditor protection proceedings on March 21, 2002. As the period between March 21, 2002 and March 31, 2002 was not considered by COC to be material for accounting purposes, these consolidated financial statements account for the emergence from creditor protection as of March 31, 2002.

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.

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.

Advertising

The cost of advertising and marketing programs is charged to operations in the period incurred. Total advertising and marketing expenses for the years ended December 31, 2003 and 2002 were \$2,843 and \$1,951, respectively.

Inventories

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

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at historical 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 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 The Canadian Institute of Chartered Accountants' ("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 the 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 are written down to their estimated fair values.

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. GEI is the only entity with goodwill recorded in the consolidated financial statements. 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 the trade name and advertising contracts of GEI. As the useful life of the trademark is indefinite, no amortization is recorded. The advertising contracts have a limited life and are amortized over the remaining useful life, estimated to be approximately nine years.

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. Pre-opening costs for the years ended December 31, 2003 and 2002 were \$1,214 and \$229, respectively.

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.

Financial instruments

a) Fair value of financial instruments

Cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses due to and due from related parties and distribution payable are reflected in the financial statements at carrying values, which approximate fair value because of the short-term maturity of these financial instruments or, in the case of long-term debt, the rate of interest applicable to the corresponding item. Financial instruments include the Galaxy Notes that mature on November 26, 2028 and bear interest at 14% per annum. Management considers that no events have occurred subsequent to the arrangement of this loan that would indicate that its fair value differs substantially from its carrying value.

- b) Foreign currency risk
COC was exposed to foreign currency risks primarily as a result of its borrowings denominated in U.S. dollars. These borrowings were not assumed by the Partnership.
- c) Interest rate risk
The Partnership is exposed to interest rate risk as a result of the \$100,000 fixed rate Galaxy Notes (note 1). Interest rate risk is the risk that the fair value of the financial instrument will fluctuate due to changes in market interest rates.

From time to time, the Partnership enters into interest rate swap agreements to limit its exposure to interest rate fluctuations. As these contracts are accounted for as hedges, unrealized gains and losses are recognized as income as they are settled (note 7).

Leases

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.

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 subsidiary, GEI, 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 have been 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 of 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.

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

In substance defeasance of debt

Under CICA handbook Section 3860, the Partnership has offset the outstanding liability under GEI's unsettled banker's acceptances in the amount of \$8,000 against the equivalent amount repaid and held by the issuer of the banker's acceptances (note 1). The offset results in no amount being recorded in the financial statements.

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 assessment of theatre cash flows to identify potential asset impairments and the value of gift certificates that remain unutilized and in circulation for revenue recognition purposes. Actual results could differ from those estimates.

3. ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES

Accounts receivable consist of:

	2003	2002
Trade receivables	\$ 5,301	\$ 4,672
Mortgage receivable	-	2,767
Other	2,500	1,083
	\$ 7,801	\$ 8,522

The mortgage receivable, and accrued interest thereon, relate to a property sale that took place in 2001. The mortgage receivable, in the principal amount of \$2,500, had a maturity date of March 12, 2002 and bore interest at a rate of 8.0%. As at December 31, 2002, accrued and unpaid interest totalled \$267. The principal amount and all accrued interest were paid in full in July 2003.

4. PROPERTY, EQUIPMENT AND LEASEHOLDS

Property, equipment and leaseholds consist of:

	Cost	2003 Accumulated amortization	Net
Land	\$ 11,369	\$ -	\$ 11,369
Buildings and leasehold improvements	230,914	82,893	148,021
Equipment	158,006	91,724	66,282
Construction-in-progress	6,512	-	6,512
	\$ 406,801	\$ 174,617	\$ 232,184

Cineplex Galaxy Limited Partnership
Notes to Consolidated Financial Statements

	Cost	2002 Accumulated amortization	Net
Land	\$ 18,988	\$ -	\$ 18,988
Buildings and leasehold improvements	191,563	78,232	113,331
Equipment	154,293	76,090	78,203
Construction-in-progress	7,223	-	7,223
	\$ 372,067	\$ 154,322	\$ 217,745

5. BANK INDEBTEDNESS

On July 21, 2000, GEI entered into a demand operating credit facility of up to \$20,000. On April 11, 2002, the operating credit facility was increased to \$25,000, and on April 17, 2003, the operating credit facility was further increased to \$35,000. The credit facility was used to finance working capital requirements and capital expenditures relating to theatre development, acquisitions, construction and renovations. The credit facility bore interest at variable rates based on the prime lending rate or banker's acceptances and was secured by certain assets of GEI. The Company paid a standby fee on the unadvanced portion of the credit facility at a rate of 0.25% per annum. At December 31, 2002, \$5,500 was available under this facility.

As at November 25, 2003, GEI had drawn \$31,500 under the demand operating credit facility. This amount was repaid in its entirety on November 26, 2003 (note 1) and the facility is no longer available.

As summarized below, GEI entered into interest rate swap agreements, whereby GEI received floating rates of interest and paid fixed rates of interest. These swap agreements were cancelled on November 26, 2003, and the mark-to-market adjustment on the old swaps was transferred into the terms of the new interest rate swap agreement as per note 7.

Date entered into	Amount	Fixed rate %	Term
December 2001	\$ 2,000	3.86	3 years
April 2002	2,000	5.12	2 years
July 2002	2,000	5.30	3 years
June 2003	2,000	4.05	2 years

The fair value of these financial instruments at December 31, 2002 was approximately \$197.

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

6. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	2003	2002
Accounts payable - trade	\$ 6,100	\$ 4,628
Film and advertising payables	12,648	12,872
Bonus payable (note 9)	-	4,844
Other payables and accrued expenses	15,362	13,299
	\$ 34,110	\$ 35,643

7. LONG-TERM DEBT

Long-term debt consists of:

	2003	2002
Credit facility due November 26, 2006	\$ 110,000	\$ -
Exit financing term loan due March 2007 (US\$19,850)	-	31,316
Mortgage payable due February 2007 - 7.38%	-	4,579
Other	113	308
	110,113	36,203
Less: Current portion	46	1,082
	\$ 110,067	\$ 35,121

On November 26, 2003, the Partnership entered into a credit agreement with a syndicate of banks consisting of the following facilities (collectively, the "New Credit Facilities"):

- a) a \$20,000 senior secured revolving term facility maturing November 26, 2006 (the "Working Capital Facility");
- b) a \$40,000 senior secured revolving term facility maturing November 26, 2006 (the "Development Facility"); and
- c) a \$110,000 senior secured term facility maturing November 26, 2006 (the "Term Facility").

The Working Capital Facility is for general corporate purposes, including up to \$10,000 to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The purpose of the Development Facility is to finance the development or acquisition of theatre projects approved by the Trustees of the Fund. Both the Working Capital Facility and Development Facility are repayable at maturity with no scheduled repayments of principal required prior to maturity.

Loans under the New Credit Facilities are repayable without any prepayment penalties and 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. As at December 31, 2003, the Partnership was subject to a margin of 1.25% on the prime

rate and 2.25% on the banker's acceptance rate, plus a 0.125% per annum fee for letters of credit issued on the Working Capital Facility and the Development Facility. The average interest rate on borrowing under the New Credit Facilities was 5.4% for the period ended December 31, 2003. 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 0.575% at December 31, 2003. The New Credit Facilities provide for certain restrictive undertakings and covenants to be complied with by the Partnership. As of December 31, 2003, the Partnership was in compliance with its debt covenants.

The New Credit Facilities are secured by all of the Partnership's assets, including (i) the Partnership's shares of GEI; and (ii) the assets of the Partnership, the General Partner and GEI. The New Credit Facilities are also guaranteed by GEI. In addition, the Trust has guaranteed the New Credit Facilities and has granted a security interest over its assets, including a pledge of its Class A LP Units, shares of the General Partner and the Galaxy Notes.

As at December 31, 2003, the Term Facility was fully drawn while the Working Capital Facility and the Development Facility had not been drawn upon.

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

2004	\$	46
2005		37
2006		110,019
2007		10
2008		1
	\$	110,113

Effective November 26, 2003, the Partnership entered into an interest rate swap. In accordance with this swap agreement, the Partnership pays an interest rate of 4.29% and receives a floating rate. The swap is for a term of three years and the initial principal outstanding is \$44,000. The principal outstanding under the swap increases to \$77,000 on August 26, 2004 and to \$110,000 on May 26, 2005. The purpose of the swap is to act as a cash flow hedge to manage the floating rate payable under the Term Facility.

As at December 31, 2003, the estimated fair value of the swap is an unrealized loss of \$1,500 that is not recognized on the balance sheet in accordance with GAAP.

On March 21, 2002, pursuant to the terms of the Plan, LCT entered into a US\$140 million Priority Secured Credit Agreement (the "Credit Agreement") with Bankers Trust Company, as administrative agent for the U.S. financial institution lenders, and Deutsche Bank AG, Canada Branch, as administrative agent for the Canadian financial institution lenders. The Credit Agreement was comprised of two tranches: (i) a US\$85,000 Exit Revolving Credit Facility (including US\$10,000 available to COC);

and (ii) a US\$55,000 Exit Term Loan Facility (including US\$20,000 available to COC). On March 21, 2002, COC borrowed US\$20,000 under the Exit Term Loan for the purposes of claim distribution payments. COC did not borrow any amounts under the Exit Revolving Credit Facility.

The facilities under the Credit Agreement were guaranteed and secured by, among other things, a pledge of the stock of LCT's subsidiaries and liens on substantially all of LCT's and COC's assets. The maturity date of the Credit Agreement was March 31, 2007. Principal repayments were made quarterly and commenced May 31, 2002. The Exit Term Loan bore interest at the base rate (as defined) plus 2.75% or the Adjusted Eurodollar Rate (as defined) plus 3.75% for U.S. dollar loans and at the Canadian Prime Rate (as defined) plus 2.75% or the BA Rate (as defined) plus 3.75% for Canadian dollar revolving loans. The average interest rate on borrowings under the Credit Agreement was 5.8% for the period ending December 31, 2002. The credit facilities included various financial covenants, which were required to be met on a consolidated basis by LCT. As of December 31, 2002, LCT was in compliance with its debt covenants. In addition, the agreements governing the Company's and LCT's debt obligations contain certain restrictive covenants that limit its ability to take specific actions or require it to not allow specific events to occur. The outstanding balance under the Exit Term Loan was not assumed by the Partnership.

The mortgage payable was not assumed by the Partnership.

8. DUE TO CINEPLEX GALAXY TRUST

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

9. RELATED PARTY TRANSACTIONS

Due from related parties consists of:

	2003	2002
Due from the Fund	\$ 2	\$ -
Due from the Trust	458	-
Due from former investors of COC and GEI	1,400	-
	<u>\$ 1,860</u>	<u>\$ -</u>

Due to related parties consists of:

	2003	2002
Due to the Trust	\$ 1,381	\$ -
Due to COC	3,727	-
Due to LCT	-	8,912
	<u>\$ 5,108</u>	<u>\$ 8,912</u>

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.

On November 26, 2003, the Partnership was formed through a series of transactions with related parties (note 1). Due from the former investors of COC and GEI represents their share of the fund offering costs arising from the formation of the Partnership.

LCT provided certain services to COC relating to the following activities: finance, administration and management information systems support. The net amount charged to the Partnership for these services amounted to \$7,602 for the period ended November 25, 2003 and \$7,867 for the nine months ended December 1, 2002. The liability related to these services was not transferred into the Partnership (note 1).

Under the terms of a Services Agreement entered into between COC and the Partnership dated November 26, 2003, COC provides management information systems support to the Partnership. These services include systems administration and maintenance as well as applications development and support. For the period from November 26, 2003 to December 31, 2003, the Partnership was charged \$62 for these services. In addition, the Partnership was charged \$51 in rent for the head office during this period. The Partnership provided COC with certain management services during the period subsequent to November 25, 2003 for which it charged COC \$7. The Partnership has a liability to COC at December 31, 2003 of \$3,727, which includes the obligation for net working capital acquired by the Partnership. All payables and receivables with COC are due on demand and are non-interest bearing.

On January 10, 2003, the Company paid Mr. Karp, former president and chief executive officer of COC, a bonus in the amount of \$4,844, in full. Mr. Karp ceased to be related to the Partnership as of November 26, 2003.

In April 2003, COC advanced US\$20,000 to its parent company, LCT. This advance is also non-interest bearing and due on demand. This advance was not transferred into the Partnership. For the years ended December 31, 2003 and 2002, the Partnership incurred expenses for film rental totalling \$27,372 and \$12,360, respectively, to Alliance Atlantis Communications Inc. ("Alliance"). The Partnership had a liability to Alliance at December 31, 2003 of \$3,337 and at December 31, 2002 of \$3,038. 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.

A trustee of the Fund is the President and Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). Twelve of the Partnership's theatre properties are under lease commitments with Riocan. Payments to Riocan during the years ended December 31, 2003 and 2002 for these properties were \$6,388 and \$4,119, respectively.

Cineplex Galaxy Limited Partnership
Notes to Consolidated Financial Statements

Future minimum rental commitments at December 31, 2003 under the Riocan operating leases are set forth as follows:

2004	\$ 5,413
2005	5,431
2006	5,486
2007	5,623
2008	5,457
Thereafter	45,225
	\$ 72,635

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

10. EMPLOYEE AND POST-RETIREMENT BENEFIT PLANS

Employee health and welfare and other post-retirement benefits

The Partnership does not provide health and welfare benefits and post-retirement benefits to any employees.

Pension plans

The Partnership has a pension 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 to a defined contribution plan. At the date of conversion, benefits under the defined benefit plan were frozen. The defined contribution plan is being funded by the surplus of the defined benefit plan.

	2003	2002
Market value of plan assets	\$ 2,224	\$ 2,539
Projected benefit obligation	1,980	2,170
Surplus	244	369
Net unamortized transitional obligation	1,531	1,655
Net unamortized gain	822	946
Accrued pension liability	\$ 465	\$ 340

The cost and accrued benefit obligations associated with the pension plan were calculated utilizing a discount rate of 6% and a long-term rate of return of 7% for the year ended December 31, 2003 and 6.5% and 7%, respectively, for the year ended December 31, 2002. The unamortized transitional obligation is being amortized over the expected average remaining service life of employees, which is 15 years.

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

11. OTHER LIABILITIES

Other liabilities consist of the following:

	2003	2002
Deferred tenant inducements	\$ 71,723	\$ 70,181
Excess of straight-line amortization over lease payments	10,831	8,943
Other	3,950	3,703
	\$ 86,504	\$ 82,827

12. PARTNERS' CAPITAL

The Partnership is authorized to issue an unlimited number of Class A LP Units, an unlimited number of Series 1 Class B Partnership units, an unlimited number of Series 2-C Class B Partnership units and an unlimited number of Series 2-G Class B Partnership units. The Class B LP Units are indirectly exchangeable for Fund units in the manner set out in an 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 units of the Fund. With respect to the Series 2 Class B LP units, this exchange may 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 Series 1 Trust Notes. Class A LP Units and Class B LP Units will have voting rights that are equivalent in all respects; however, under the Limited Partnership Agreement governing the Partnership, Class A LP Units and Class B LP Units have differing distribution rights (note 13).

Partnership units issued December 31, 2003 (note 1)

	Units	Amount
Class A Partnership units	19,400,000	\$ 79,480
Class B, Series 1 Partnership units	20,949,582	16,860
Class B, Series 2-C Partnership units	2,086,957	-
Class B, Series 2-G Partnership units	5,130,435	14,085
Outstanding at December 31, 2003	47,566,974	\$ 110,425

Share capital December 31, 2002

Authorized - COC

Unlimited number of common shares

Unlimited number of first preference shares

Authorized - GEI

Unlimited number of Class A common shares

Unlimited number of Class B common shares

Unlimited number of Class C common shares

Unlimited number of Class D common shares

Cineplex Galaxy Limited Partnership

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Issued – COC

	Amount
109,372,539 common shares	\$ 444,334

Issued – GEI

570,000 Class A common shares	3,907
430,000 Class B common shares	3,076
1,150,442 Class C common shares	6,500
3,280,983 Class D common shares	22,483
	35,966

Total share capital	\$ 480,300
---------------------	------------

During the year ended December 31, 2002, GEI repurchased and cancelled 442,007 common shares for an aggregate cost of \$4,174, and the excess of cash paid over the stated value, \$1,146, was charged to deficit.

The combined contributed surplus originated with COC. The contributed surplus and the COC share capital were not transferred into the Partnership.

13. DISTRIBUTION PAYABLE

Distributions will accrue on a monthly basis to holders of record of Class A LP Units and Class B LP Units on the last business day of each month subject to the provisions of certain support arrangements contained in the Partnership's Limited Partnership Agreement (the "Support Arrangements"). Distributions will be paid within seven days of the end of each month.

Under the terms of the Support Arrangement, distributions for 5,130,435 Class B Series 2-G units and 2,086,957 Class B Series 2-C units (the "Support Units") of the Partnership are dependent on the performance of seven new theatres that, as at November 26, 2003, had either not yet been opened or had been open for less than one year. For periods commencing January 2004, distributions on the support units will be held in a segregated account until the end of the fiscal year when a determination is made regarding the actual cash flows of the new theatres. A shortfall in the performance of the new theatres will result in a reduction in the distributions to the holders of the Support Units. The Support Arrangements may continue in effect until December 31, 2006 or may terminate as early as December 31, 2004 dependent on performance of the seven new theatres.

Subject to the restrictions under the Support Arrangements, holders of Class B 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 Notes (the "Catch-up Payment"). Any remaining amounts available for distribution will be shared pro rata between the holders of Class A LP Units and Class B LP Units. The purpose of the Catch-up Payment is to ensure that distributions on the Class B 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 Notes.

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

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

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.

14. LONG-TERM INCENTIVE PLAN

The officers and key employees of the Partnership are eligible to participate in the Partnership's Long-term Incentive Plan (the "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 per unit distributable cash exceeds certain defined distributable cash threshold amounts. The Partnership or a trustee will purchase units in the market with this pool of funds and will hold the units until such time as ownership vests to each participant. Generally, one-third of these units will vest equally in each of the three years following the grant of the awards. LTIP participants will be entitled to receive distributions on all units held for their account prior to the applicable vesting date. Unvested units held by the trustee for an LTIP participant will be forfeited if the participant resigns or is terminated for cause prior to the applicable vesting date, and those units will be sold and the proceeds returned to the Partnership. The LTIP commences on January 1, 2004.

15. INCOME TAXES

As at December 31, 2003, income taxes arise with respect to GEI, a subsidiary of the Partnership. As at December 31, 2002, income taxes relate to COC and GEI. The tax effects of temporary differences that give rise to significant portions of the future tax assets and liabilities at December 31, 2003 and 2002 are presented below:

	2003	2002
Future income tax assets		
Non-capital loss carry-forwards	\$ -	\$ 146,888
Net capital loss carry-forwards	-	119
Property, equipment and leaseholds - difference in net book value and undepreciated capital cost	-	8,160
Tax paid reserves	-	25,238
Financing costs	1,739	99
Other	639	49
Total gross future income tax assets	2,378	180,553
Less: Valuation allowance	1,742	179,694
	636	859
Future income tax liabilities		
Property, equipment and leaseholds - difference in net book value and undepreciated capital cost	574	887
Deferred charges	-	13
Other	-	9
	574	909
Net future income tax asset (liability)	\$ 62	\$ (50)

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

As at December 31, 2002, COC has non-capital losses of approximately \$458,800 available to apply to future years' taxable income. These losses remain with COC having not transferred into the Partnership.

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

	Assets	Liabilities
Financial statement carrying amount	\$ 189,205	\$ 206,675
Tax value	261,385	197,366

The tax values of the Partnership are subject to change depending on certain tax elections to be filed by COC.

The provision for income taxes included in the consolidated statements of operations differs from the statutory income tax rate as follows:

	For the period from January 1, 2003 to November 25, 2003	For the period from November 26, 2003 to December 31, 2003	For the period from January 1, 2003 to December 31, 2003	For the period from January 1, 2002 to December 31, 2002
Income before income taxes	\$ 31,297	\$ 8,719	\$ 40,016	\$ 26,204
Combined Canadian federal and provincial income tax rates	37.02%	36.93%	37.00%	38.40%
Income tax payable at statutory rates	11,586	3,220	14,806	10,062
Change in valuation allowance	(11,484)	-	(11,484)	(10,785)
Utilization of loss carry-forwards	(214)	(434)	(648)	(1,263)
Effect of permanent differences	-	-	-	1,768
Income not taxable in the Partnership	-	(2,786)	(2,786)	-
Large corporations tax	466	12	478	517
Provision for income taxes	\$ 354	\$ 12	\$ 366	\$ 299

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

16. CASH FLOW STATEMENT

The following summarizes the change in operating assets and liabilities:

	For the period from January 1, 2003 to November 25, 2003	For the period from November 26, 2003 to December 31, 2003	For the period from January 1, 2003 to December 31, 2003	For the period from January 1, 2002 to December 31, 2002
Accounts receivable	\$ (538)	\$ (3,693)	\$ (4,231)	\$ (927)
Due from related parties	-	(2)	(2)	-
Inventories	(343)	892	549	104
Prepaid expenses and other current assets	(4,205)	763	(3,442)	2,543
Deferred charges and intangibles	(760)	22	(738)	(903)
Accounts payable and accrued expenses	1,924	13,709	15,633	1,176
Income taxes payable	(183)	12	(171)	284
Deferred revenue	(3,675)	5,298	1,623	3,045
Due to related parties	7,852	2,136	9,988	(3,308)
Accrued pension liability	107	18	125	95
Other liabilities	(3,743)	(389)	(4,132)	(3,329)
	\$ (3,564)	\$ 18,766	\$ 15,202	\$ (1,220)

Certain non-cash transactions occurred related to the business acquisitions. These have been disclosed in note 1 to the financial statements.

17. 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 New Credit Facilities.

Future minimum rental commitments at December 31, 2003 under the above-mentioned operating leases are set forth as follows:

2004	\$ 34,820
2005	35,031
2006	34,873
2007	34,160
2008	31,858
Thereafter	260,396
	\$ 431,138

Minimum rent expense related to operating leases on a straight-line basis was \$34,005. In addition to the minimum rent expense noted above, the Partnership incurred percentage rent charges of \$3,926.

18. 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 and expenses therein:

	2003	2002
Assets	\$ 5,420	\$ 5,253
Liabilities	622	908
Revenues	6,685	5,553
Expenses	6,090	5,213

19. COMMITMENTS AND CONTINGENCIES

Commitments

As of December 31, 2003, the Partnership has aggregate capital commitments of \$20,914 primarily related to the completion of construction of four theatre properties (comprising 32 screens). The Partnership expects to complete construction and to open these theatres during 2004 and 2005.

Other

The Partnership is a defendant in various lawsuits arising in the ordinary course of business and is involved in certain environmental matters. From time to time, the Partnership is involved in disputes with landlords, contractors 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.

20. 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.

21. COMPARATIVE AMOUNTS (UNAUDITED)

The comparative amounts in these consolidated financial statements include the operations of COC for the nine-month period ended December 31, 2002 and the operations of GEI for the twelve-month period ended December 31, 2002, since this is when COC and GEI came under the common control of Onex. The table below shows the operations as described above with the results of COC for the three-month period ended March 31, 2002:

Cineplex Galaxy Limited Partnership

Notes to Consolidated Financial Statements

	COC for the three-month period ended March 31, 2002	COC for the nine- month period ended December 31, 2002 and GEI for the twelve-month period ended December 31, 2002	COC and GEI combined for the twelve-month period ended December 31, 2002
Revenues			
Box office	\$ 46,410	\$ 173,875	\$ 220,285
Concessions	18,732	68,881	87,613
Other	3,383	13,020	16,403
	68,525	255,776	324,301
Expenses			
Film cost	23,707	92,281	115,988
Cost of concessions	3,390	13,015	16,405
Occupancy	10,307	37,765	48,072
Other theatre operating expenses	13,905	52,299	66,204
General and administrative	2,705	10,956	13,661
Management fees	2,618	7,867	10,485
	56,632	214,183	270,815
Income before undernoted	11,893	41,593	53,486
Amortization	3,751	14,170	17,921
Restructuring charges	7,023	-	7,023
Gain on disposal of theatre assets	(6,949)	(304)	(7,253)
Interest on long-term debt	318	2,127	2,445
Interest income	(234)	(136)	(370)
Reorganization costs	75,531	-	75,531
Gain on settlement of liabilities subject to compromise (note 1)	(457,435)	-	(457,435)
Exchange loss (gain)	14,888	(468)	14,420
Income before income taxes and non-controlling interests	375,000	26,204	401,204
Income tax expense	130	299	429
Income before non-controlling interests	374,870	25,905	400,775
Non-controlling interests	-	927	927
Net income	\$ 374,870	\$ 24,978	\$ 399,848

Certain of the prior year's balances have been reclassified to conform with the current year's consolidated financial statement presentation.

**CINEPLEX GALAXY LP
TRUSTEES AND DIRECTORS**

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CORPORATE DIRECTOR
TORONTO, ON

MR. BRUCE BIRMINGHAM
CORPORATE DIRECTOR
TORONTO, ON

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PRESIDENT & CEO
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ANNUAL MEETING

MAY 20, 2004
10:00AM EASTERN STANDARD TIME
CINEPLEX ODEON VARSITY CINEMAS
55 BLOOR STREET WEST
TORONTO, ON



ELLIS JACOB

*President & Chief Executive Officer,
Director and General Partner*

Mr. Jacob has 17 years experience in the motion picture exhibition industry. Prior to assuming his current position as President & Chief Executive Officer, Mr. Jacob was Chief Executive Officer and co-founder of Galaxy Entertainment Inc. Before founding Galaxy Entertainment Inc., Mr. Jacob represented Alliance Atlantis Communications Inc. as Integration Consultant from September 1998 to the summer of 1999. From 1987 to 1998, Mr. Jacob held various positions with Cineplex Odeon Corporation culminating in the role of Chief Operating Officer.



STEPHEN BROWN

Chief Financial Officer

Mr. Brown is a motion picture executive with more than 14 years in the industry. Prior to assuming his current role as Chief Financial Officer, Mr. Brown was a co-founder and Chief Financial Officer of Galaxy Entertainment Inc. Before founding Galaxy, Mr. Brown held various finance related positions at Cineplex Odeon Corporation. The last position that Mr. Brown held at Cineplex Odeon was Chief Financial Officer.



DAN MCGRATH

Executive Vice President

Mr. McGrath, an industry executive for the past 17 years, is responsible for the areas of design and construction, operations, merchandising, marketing, communications, cinema marketing sales and purchasing. Mr. McGrath joined Galaxy Entertainment Inc. in June 2000. Prior to joining Galaxy, Mr. McGrath held various financial and operational roles within Cineplex Odeon Corporation culminating in the role of Senior Vice President, Operations for Canada.



BILL SOADY

Executive Vice President, Film

Mr. Soady joined Cineplex Galaxy LP (CGLP) in January 2004 to lead the company's film initiatives. Prior to joining CGLP, Bill held senior management positions in sales and distribution for several major studios including Universal Films Canada, MCA/Universal Pictures, Tri-Star Pictures and Polygram Films. In addition to his studio experience, Mr. Soady was also the President and CEO of Showscan Entertainment. Mr. Soady currently resides and works in Los Angeles.



GORD NELSON

Senior Vice President, Finance and MIS

Mr. Nelson has been a senior financial executive in the motion picture exhibition industry for the past several years. Before assuming his current role, Mr. Nelson worked for Cineplex Odeon Corporation for the previous 15 years and most recently was Senior Vice President and Chief Financial Officer. Prior to joining Cineplex Odeon Corporation, Mr. Nelson worked at a public accounting firm.



ROBERT O'BRIEN

Vice President, Human Resources/Payroll

Mr. O'Brien oversees the human resources and payroll areas for company. Prior to assuming his current role, Mr. O'Brien worked for Cineplex Odeon Corporation for the previous six years in progressively senior roles in Human Resources. Before joining Cineplex Odeon Corporation, Mr. O'Brien served for four years as Vice President of Human Resources for Marks and Spencer Canada.



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