

CINEPLEX GALAXY INCOME FUND

ANNUAL INFORMATION FORM

March 22, 2006

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CINEPLEX GALAXY INCOME FUND

ANNUAL INFORMATION FORM

EXPLANATORY NOTES

The information in this Annual Information Form is stated as of December 31, 2005, unless otherwise indicated.

For an explanation of the capitalized terms and expressions, please refer to the “Glossary of Terms” at the end of the Annual Information Form. Unless otherwise indicated or the context otherwise requires, “Fund” refers to Cineplex Galaxy Income Fund, “Trust” refers to Cineplex Galaxy Trust, “Cineplex Entertainment GP” refers to the Cineplex Entertainment Corporation and “Cineplex Entertainment LP” or the “Partnership” refers to Cineplex Entertainment Limited Partnership. Unless otherwise indicated, all dollar amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars.

Certain statements in this Annual Information Form may constitute “forward-looking” statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Fund or Cineplex Entertainment LP, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this Annual Information Form, such statements use such words as “may”, “will”, “expect”, “believe”, and other similar terms. These statements reflect current expectations regarding future events and operating performance and speak only as of the date of this Annual Information Form. Forward-looking statements involve significant risk and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including but not limited to, the factors discussed under “Risk Factors”. Although the forward-looking statements contained in this Annual Information Form are based upon what management of Cineplex Entertainment LP believes are reasonable assumptions, neither the Fund nor Cineplex Entertainment LP can assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of the Annual Information Form, and the Fund and Cineplex Entertainment LP assume no obligation to update or revise them to reflect new events or circumstances.

CORPORATE STRUCTURE

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario that indirectly owns LP Units, representing approximately 50.5% of the outstanding LP Units of Cineplex Entertainment LP (excluding the Class C LP Units), and approximately 50.5% of the outstanding shares of Cineplex Entertainment GP. The remaining LP Units of Cineplex Entertainment LP (other than the Class C LP Units) and outstanding shares of Cineplex Entertainment GP are held by Cineplex Odeon Corporation (“COC”) and its subsidiary Cineplex Odeon (Quebec) Inc. (“COQ”) and the former shareholders of Galaxy Entertainment Inc. (“GEI”). All of the Class C LP Units are held by the Trust.

On July 22, 2005, Cineplex Entertainment LP completed the acquisition (the “FP Acquisition”) of Famous Players Limited Partnership (“Famous Players LP”) from Viacom Inc. (“Viacom”) and Viacom Canada Inc. (“Viacom Canada”), to become Canada’s largest film exhibition operator with theatres in six provinces.

The Trust is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario. The Trust was created to: (i) acquire and hold LP Units of Cineplex Entertainment

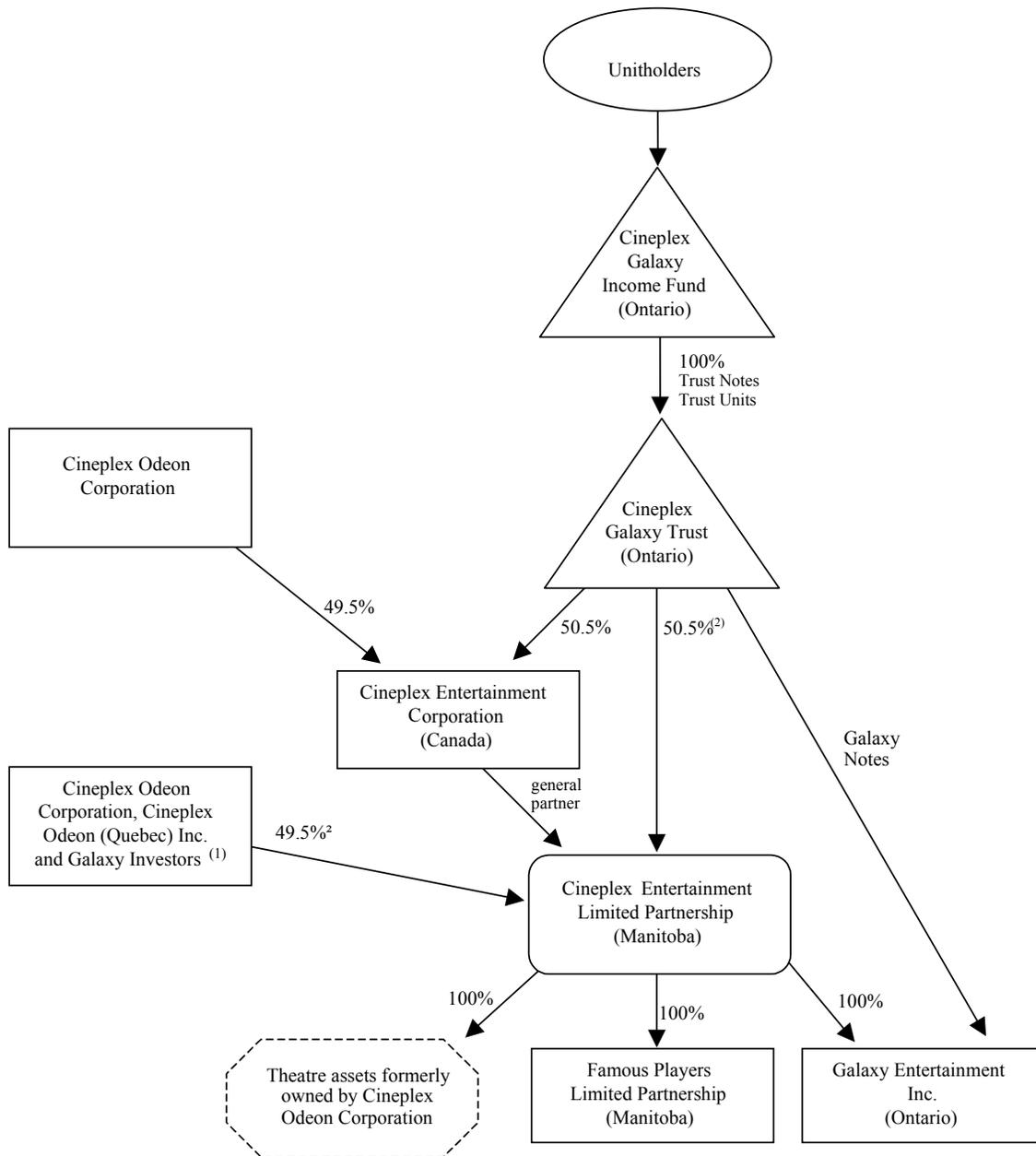
LP; (ii) acquire and hold common shares of Cineplex Entertainment GP; and (iii) advance funds under the Galaxy Notes to GEI.

Cineplex Entertainment LP is a limited partnership formed under the laws of the Province of Manitoba. Cineplex Entertainment LP was created to acquire and hold substantially all of the theatre business assets previously owned by COC and its subsidiary COQ and all the shares of GEI.

The principal and head office of the Fund, the Trust, Cineplex Entertainment LP and Cineplex Entertainment GP is located at 1303 Yonge Street, Toronto, Ontario, M4T 2Y9.

The Partnership is the leading film exhibition company in Canada. As at December 31, 2005, the Partnership owns, leases or has a joint venture interest in 130 theatres with 1,275 screens in six provinces (after giving effect to the seven theatres in Quebec to be divested pursuant to the Consent Agreement). The Partnership operates theatres under the following six brands: Cineplex Odeon, Coliseum, Colossus, Famous Players, Galaxy and SilverCity.

The following chart illustrates the structure of the Fund as at December 31, 2005 (including jurisdiction of establishment/incorporation of the various entities):



(1) Cineplex Odeon Corporation and its subsidiary Cineplex Odeon (Quebec) Inc. together own 38.4% of Cineplex Entertainment Limited Partnership.

(2) Excluding the Class C LP hits.

INDUSTRY OVERVIEW

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and production of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary initial distribution channel for new motion picture releases. The theatrical success of a movie is typically the most important factor in determining its popularity and value in later forms of exhibition, such as home video, digital video disk (“DVD”), pay-per-view, network and syndicated television.

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

Importance of Theatrical Success in Establishing Movie Brands and Subsequent Markets

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

Increased Investment in Production and Marketing of Films by Studios

Additional revenues generated by films in domestic, international and downstream markets have driven the major studios in North America to increase the average spending on producing and marketing new theatrical releases from US\$54.1 million per title in 1995 to US\$96.2 million per title in 2005, a compound annual growth rate of 5.9%.

Increased Supply of Successful Films

Studios are increasingly producing films in series, such as *Shrek*, *Harry Potter*, *Lord of the Rings*, *Chronicles of Narnia* and *Spiderman*. When the first film in a series is successful, subsequent films in that series benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film exhibitors. The studios’ success in producing and marketing a wide variety of diverse yet commercially appealing movies such as *Brokeback Mountain*, *Crash*, *March of the Penguins*, *Good Night and Good Luck*, *Water* and *Capote* has expanded the demographic base of regular movie-goers and also contributed to greater per capita attendance.

In addition, the studios’ strong pipeline of new releases and sequels provides good visibility for future box office revenue, such as *The DaVinci Code*, *Mission Impossible 3*, *Superman*, *Poseidon*, *X Men 3*, *Pirates of the Caribbean: Dead Man’s Chest* and *Over the Hedge*.

Favourable Demographic Attendance Trends

The demographic segment of the movie-going population in the U.S. that attends the most movies is between 12 to 24 years of age. This group is expanding and continues to be the largest segment of movie-goers. The “baby boom” generation, currently between the ages of 40 and 58, is also attending more movies in the U.S. Management believes that similar trends exist in Canada. According to Statistics Canada, these segments of the population are expected to increase in Canada over the next few years. Management believes that these demographic trends will result in higher attendance levels and continued growth in the film exhibition business.

Convenient and Affordable Form of Out-of-Home Entertainment

With an average movie ticket price in Canada of only \$7.55 in 2003 and \$7.70 in 2004, the movie-going experience continues to provide value and compares favourably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre.

Reduced Seasonality of Revenues

Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. More recently, the seasonality of motion picture exhibition attendance has become less

pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods.

This trend has benefited exhibitors by facilitating more effective leverage of the fixed cost base throughout the year, while providing greater stability of revenue and profitability. Management believes this trend has reduced the traditional seasonality of cashflows in the film exhibition industry and has increased aggregate box office revenue as improved attendance in non-peak hour periods has not impacted attendance in traditional peak periods. In addition, the release of “blockbuster” films during non-peak periods means less rivalry for customers from theatres showing competing “blockbuster” films at the same time.

Diversification of Revenue Streams

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

GENERAL DEVELOPMENT OF THE BUSINESS

General

On completion of the Fund’s initial public offering (“IPO”) on November 26, 2003 the Fund issued 17,500,000 Units at a price of \$10 per Unit for aggregate gross proceeds of \$175,000,000. On December 24, 2003 the Fund issued a further 1,900,000 Units also at a price of \$10 per unit upon the exercise of the over-allotment option granted to the underwriters of the IPO for additional gross proceeds of \$19,000,000. The net proceeds of the IPO were used by the Fund to indirectly acquire 40.8% of the outstanding LP Units of Cineplex Entertainment LP and 40.8% of the outstanding shares of Cineplex Entertainment GP. Cineplex Entertainment LP in turn purchased substantially all of the theatre assets of COC and all of the shares of GEI in consideration for 59.2% of the LP Units and shares of Cineplex Entertainment GP and cash to COC and the Galaxy Investors. In the year ended December 31, 2005, the Fund issued an aggregate of 980,303 Units in connection with the exercise of certain exchange rights granted to the Investors under the provisions of the Exchange Agreement (as described under “Description of Cineplex Entertainment LP – Exchange Agreement”) which permits the Investors to indirectly exchange LP Units in consideration for Units of the Fund. On July 11, 2005, the Fund issued 6,835,000 Units pursuant to a prospectus offering as part of the financing of the FP Acquisition. As a result of such offering and exchange transactions, as at December 31, 2005 the Fund indirectly owned approximately 50.5% of the outstanding LP Units of Cineplex Entertainment LP (excluding the Class C LP Units).

History of the Partnership

Cineplex Entertainment LP was formed in November 2003 through the combination of the Cineplex Odeon and Galaxy film exhibition businesses. Prior to the FP Acquisition, the Partnership operated theatres under the Cineplex Odeon brand, which has enjoyed an established urban market presence in Canada for over 20 years, and the newer Galaxy brand, which has rapidly developed a reputation as a primary entertainment destination in mid-sized communities.

Acquisition of Famous Players

On July 22, 2005 the Partnership completed the FP Acquisition. The FP Acquisition combined Canada’s two leading theatre exhibition companies. Famous Players operated a total of 80 theatres with 785 screens across the country, including theatres in its joint ventures with IMAX and Alliance Atlantis

Cinemas. Famous Players theatres include the Coliseum, Colossus, Famous Players, Paramount and SilverCity brands.

The Partnership, Viacom and Viacom Canada entered into a purchase agreement dated June 10, 2005 (“Purchase Agreement”) pursuant to which the Partnership agreed to acquire Famous Players LP and its general partner, Famous Players Co., which together held substantially all the assets and liabilities of Viacom Canada’s film exhibition business formerly operated by its Famous Players division, including its subsidiaries’ shares and joint venture interests. On closing of the transaction, total consideration paid by the Partnership amounted to \$468.8 million in cash plus transaction costs. The Purchase Agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the FP Acquisition was for the account of the Partnership in the form of a purchase price adjustment. This purchase price adjustment has not yet been finalized.

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

The Fund financed the acquisition of the Class A LP Units and Class C LP Units through the issuance of 6,835,000 Units at \$16.10 per Unit to raise gross proceeds of approximately \$110 million and the issuance of \$105 million convertible extendible unsecured subordinated debentures (the “Debentures”), bearing interest at a rate of 6% per annum, payable semi-annually and convertible, at the option of the holder into Units at \$18.75 per unit. Upon conversion of the Debentures to Units, distributions on Class C LP Units will automatically adjust such that the holder of Class C LP Units will receive distributions in the same manner as distributions are made on the corresponding number of Class A LP Units. On redemption or at the December 31, 2012 Final Maturity Date, the Fund may, at its option, on not more than 60 days’ and not less than 30 days’ prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the Debentures by issuing and delivering Units. As a result of the Fund’s investment in Class A LP Units, the Fund’s investment in the Partnership increased by 6.4% from 43.8% as at June 30, 2005 to 50.2% as at July 22, 2005.

In August 2005, the Partnership sold its real estate interests in four theatre locations (two of which were Famous Players theatres) for \$67 million to RioCan Real Estate Investment Trust (the “RioCan Transaction”). As part of the agreement, the Partnership leased back the four theatres. The proceeds of the sale were used to repay amounts borrowed under the New Credit Facility.

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

During the fourth quarter of 2005, the Partnership entered into a media sales governing agreement, which allowed for the termination and wind-up of Famous Players Media Inc. and the acquisition of three Famous Players branded entertainment magazines. The total consideration for acquisition was \$1.3 million with \$1.0 million payable on January 1, 2006 and \$0.1 million payable on each of January

15, 2006, January 15, 2007 and January 15, 2008. The agreement also has a purchase price adjustment based on the net income for a component of the business for three years effective from January 1, 2006.

Class D LP Units

Cineplex Entertainment LP paid certain of its executives a bonus upon closing of the FP Acquisition in recognition of their contribution to the successful completion of the FP Acquisition. The bonus was satisfied through the issuance of an aggregate of 500,000 Class D LP Units which are not exchangeable for Units of the Fund and which are entitled to receive distributions on substantially the same basis as the Class B LP Units.

In addition, Cineplex Entertainment LP paid Onex Corporation a transaction fee of \$4 million in connection with advisory services rendered by it in connection with the FP Acquisition and its financing. This fee was satisfied by the issuance of 248,447 Class D LP Units to Onex Corporation upon the completion of the FP Acquisition.

At the next meeting of Unitholders of the Fund, Unitholders will be asked to approve a resolution which would make the Class D LP Units exchangeable for Units of the Fund. If Unitholders do not approve the resolution making the Class D LP Units exchangeable, the Board of Directors intends to develop other alternative forms of compensation for the executives and Onex Corporation, one of which may involve a cash payment in exchange for the Class D LP Units.

Consent Agreement

On May 27, 2005, Cineplex Entertainment LP entered into a consent agreement (the "Consent Agreement") with The Commissioner of Competition (the "Commissioner") in respect of its proposal to acquire the business of Famous Players.

Under the terms of the Consent Agreement, the Partnership agreed to divest 34 theatres within a specified period of time on the terms and conditions set out in the Consent Agreement and, as a result, the Commissioner agreed to consent to the FP Acquisition. The specified theatres to be sold generated theatre level income of approximately \$12 million for the year ended December 31, 2004 and are a combination of theatres currently owned by Cineplex Entertainment LP and Famous Players LP. Until the Divestitures are completed, the Partnership is required to take such steps as are reasonable and necessary to maintain the competitive viability of the theatres to be sold. As described above, the Partnership has already divested 27 of these theatres. The Partnership hopes to announce the divestiture of the seven Quebec theatres in the near future. In addition, during 2006, the Partnership intends to sell its interest in the three Alliance Atlantis branded theatres in Ontario.

The Consent Agreement also provides that the Partnership shall, for a period of five years from May 27, 2005, provide the Commissioner with prior written notice of any acquisition by it of any non-Cineplex theatre or assumption of a lease in respect of an operating non-Cineplex theatre where the remaining term of the lease exceeds two years. The Partnership also may not, during this time, re-acquire any of the divested theatres without the prior approval of the Commissioner.

Recognized Synergies

On the acquisition of Famous Players, the Partnership disclosed an expected \$20 million annualized in synergies by mid-2006. Since closing the acquisition, the financial reporting systems of the two businesses have been integrated and the groundwork for significant cost savings established. By the end of 2005, the Partnership had identified sufficient initiatives to achieve the \$20 million target. The Partnership is now expecting to achieve annualized synergies of \$25 million by the end of the first quarter and it will continue to investigate and pursue other efficiencies and synergies. Those synergies include the following:

Media Sales efficiencies and effectiveness. With the combination of the Cineplex CineMarketing Sales division and Famous Players Media Inc., the Partnership created Cineplex Media, a wholly owned media business of Cineplex Entertainment LP. Cineplex Media sells on-screen advertising in all of the Partnership's theatres, as well as the seven theatres owned by AMC Entertainment Inc., Landmark Cinemas, the 27 theatres sold to Empire Theatres Limited and several other independent theatres.

Reducing overhead costs and adopting best practices. The Partnership consolidated the two head offices by the end of the year, reduced staff by 35%, eliminated redundancies and identified opportunities to reduce operating costs across the portfolio of theatres. Identifying and adopting best practices within both companies not only resulted in operating savings, it has enhanced revenues. Over the year, the Partnership increased concession revenue per patron as well as ancillary revenue earned from advertising and games.

Improved purchasing and merchandising opportunities. The acquisition of Famous Players created opportunities to evaluate vendor contracts, merchandising strategies and the management of concession offerings, including within the branded retail outlets within some of the Partnership's theatres, thus achieving optimum value.

Other Recent Developments

In the last year, the Partnership has made a number of changes designed to both improve operations and achieve growth in revenue and profitability, including:

- *New Builds and Expansions.* In 2005, the Partnership expanded its operations by building two new Cineplex Odeon branded theatres in Aurora and Barrhaven, Ontario. These additions and expansions brought 17 more screens to the circuit and allowed the Partnership to reach audiences in areas previously unserved by a modern multiplex.
- *Digital Pre-Show.* During 2005, the Partnership introduced a digital pre-show advertising network to 359 screens in 32 Cineplex Odeon, Galaxy and Famous Players locations in Toronto and its surrounding communities. An additional 39 theatres with 457 screens will be installed by April 2006. The pre-show consists of 20 minutes of full-screen, full-motion content, which can be tailored to the location or film. The Partnership is scheduled to continue the roll-out of the digital pre-show network. This digital delivery and projection technology has further improved the quality of the media that the Partnership offers to advertisers, enabling the Partnership to streamline the delivery of advertising content, allowing for more interactive and targeted marketing and an expanded advertising base.
- *Alternate Content.* Digital technology has also made it possible for the Partnership's theatres to provide live broadcasts of hockey, wrestling and concerts. The events presented in 2005 brought consistent success such that the Partnership intends to expand the alternative content offered in order to drive non-film traffic to more theatres more often. In addition, the technology has allowed the Partnership to expand pay-per-view events such as WWE, sporting events and concerts, or offer corporations the ability to rent the theatres for product launches, educational programs, seminars and expanded meeting rental capabilities.
- *Point-of-Sale System Upgrades.* During 2005, the Partnership completed the installation of the Vista point-of-sale systems in all Cineplex Odeon and Galaxy theatres. In 2006, this will be expanded to all Famous Players theatres to create a single point-of-sale system for all of the Partnership's theatres.

BUSINESS OF THE PARTNERSHIP

Theatre Circuit

The Partnership owns, leases or has a joint venture interest in 130 theatres with 1,275 screens with an average of 9.5 screens per Cineplex Odeon branded theatre, an average of 8.5 screens per Galaxy branded theatre, an average of 10.9 screens per Famous Player branded theatre (including Colossus, Coliseum, SilverCity and Paramount-branded theatres) and an average of 4.7 screens per Alliance Atlantis branded theatre. The Canadian film exhibition industry as a whole has an average of approximately seven screens per theatre. Approximately 64.2% of the Partnership's screens have an age of eight years or less, approximately 74.3% of the Partnership's auditoriums feature stadium seating and approximately 83.1% of the Partnership's auditoriums have digital sound.

The Partnership's modern multiplex theatres are designed to provide guests with a premium movie-going experience and maximize profitability by matching the number of screens and seats with the size of the market served. In addition, the Partnership's auditorium seating capacities are varied within individual theatres, enabling it to maximize revenues by shifting films to smaller or larger auditoriums in response to changing attendance levels.

The table below shows the locations of screens and theatres operated by the Partnership:

	<u>Cineplex Odeon Theatres</u>		<u>Galaxy Theatres</u>		<u>Famous Players Theatres</u>	
	<u>Screens</u>	<u>Theatres</u>	<u>Screens</u>	<u>Theatres</u>	<u>Screens</u>	<u>Theatres</u>
Alberta	80	7	30	3	46	4
British Columbia	43	5	8	1	145	15
Manitoba	0	0	0	0	32	4
Ontario	226	23	111	13	292	27
Quebec	109	12	34	4	76	6
Saskatchewan	21	3	22	3	0	0
Total	479	50	205	24	591	56

The Partnership owns four theatres, leases 116 theatres independently and leases 10 theatres with joint venture partners. In general, the Partnership leases theatres under long-term leases, with original terms typically ranging from 15 to 20 years (with lease payment increases typically every five years) and containing various renewal options, usually in intervals of five to ten years and, in some cases, termination rights. Leases for 28 theatres expire within five years (23 of which have renewal or extension options). The Partnership's theatre leases generally provide for minimum rental payments. The leases for several of the Cineplex Odeon theatres which were renegotiated during COC's restructuring provide both the tenant and the landlord the right to terminate the lease by providing notice, in some cases only upon the occurrence of certain events beyond the Partnership's control. However, at the majority of these locations, the Partnership owns the equipment at the theatre, which would make it economically difficult for a landlord to bring in a new theatre tenant.

Operations

The Partnership's revenues are primarily generated from box office and concession sales, which in turn are driven by attendance and price levels. In addition, ancillary revenues from sources such as advertising and promotions are an increasingly important component of the Partnership's overall revenues and future growth. Despite a weak box office in 2005, the Partnership was able to achieve improvements in several key drivers. Total revenue per patron increased 9.2% to \$12.27 in 2005 compared to \$11.24 in 2004, driven primarily by increased concession spending. Income from advertising and games increased 211.7% to push ancillary revenues to \$44.3 million in 2005 from \$20.9 million in 2004. This growth reflects the

revenue from the acquired Famous Players theatres as well as the improved value the Partnership can offer advertisers as a result of strong national positioning in the marketplace.

Box Office and Concessions

Box office revenues accounted for approximately 63% of the Partnership's revenues for the year ended December 31, 2005. The Partnership strives to provide its guests with a premium movie-going experience, including a high level of customer service. This level of service, combined with targeted film selection and the overall appeal of those films, drives attendance at the Partnership's theatres. Tickets are sold at the Partnership's theatres through box offices and automated ticketing machines, as well as remotely via the Internet. The Partnership also offers corporate sales, group ticketing and gift certificates.

Concession revenues accounted for approximately 28% of the Partnership's revenues for the year ended December 31, 2005. Concession sales have a much higher margin than admission sales. The Partnership's theatres feature prominent and appealing primary concession stations designed for rapid and efficient service. In addition, retail branded outlets offering a wide variety of products are also located throughout many of the Partnership's larger theatres for additional sales. The Partnership seeks to increase concession sales by:

- Optimizing the product mix and introducing new product offerings, including offering "combos" of a variety of concession items.
- Provision of alternate products through retail branded outlets.
- Training employees to cross-sell and up-sell products and providing incentives for such sales.
- Reviewing appropriate pricing.
- Running special promotions.
- Targeting concession offerings to accommodate local tastes and patron requests.

Management believes that the Partnership has favourable concession supply contracts and has developed an efficient concession purchasing and distribution supply chain. The Partnership negotiates directly with manufacturers for many of its concession items in order to obtain competitive prices and to ensure adequate supplies.

Ancillary Revenues

The Partnership has introduced initiatives to develop and expand its revenue streams from sources other than box office and concession revenues. Ancillary revenues accounted for 9% of the Partnership's revenues for the year ended December 31, 2005. Some of these ancillary revenues include advertising, games revenue and other as described below.

Advertising. Advertising currently represents the Partnership's largest source of ancillary revenues. The Partnership's in-theatre advertising programs currently consist of the digital pre-show, slides, rolling stock commercials, video monitors, display signage, third party branding and product sampling. Through Cineplex Media, the Partnership offers advertisers a variety of packages that include options such as on-screen and in-lobby advertising, as well as third party branding and product sampling. In-theatre advertising generates high margins because it utilizes existing theatre assets and personnel with minimal incremental capital and operating costs. The Partnership acts as an agent on a commission basis for selling in-theatre advertising for several other theatre exhibition circuits, including AMC Entertainment, Empire Theatres, Landmark Cinemas and several independent operators. Management believes that the

concentration of Partnership theatres in major metropolitan markets and the Partnership's role as an agent for other exhibitors in Canada provides an attractive platform for advertisers by allowing them to target a large and desirable customer base.

In-theatre advertising is more broadly used by advertisers in many international markets than it is in Canada. For example, in-theatre advertising spending as a proportion of all advertising expenditures is three times higher in Europe than in Canada. Management believes that Canadian advertising sales will grow as in-theatre media becomes more accepted and new technologies are implemented.

As part of its effort to increase advertising revenue, the Partnership has expanded its digital pre-show cinema network to 359 screens in 32 Cineplex Odeon, Galaxy and Famous Players locations in the extended Toronto market. An additional 39 theatres with 457 screens will be installed by April 2006. This digital delivery and projection technology has improved the quality of the media that the Partnership offers to advertisers, enabling the Partnership to streamline the delivery of advertising content, allowing for more interactive and targeted marketing and an expanded advertising base. In addition the technology allows the Partnership to expand pay-per-view events such as WWE, sporting events and concerts, or offer corporations the ability to rent the theatres for product launches, educational programs, seminars and expanded meeting rental capabilities.

Games revenue. The Partnership's theatre experience is complemented by games rooms featuring a broad variety of current and popular game machines. The game machines are owned by third party suppliers, with the Partnership receiving a percentage of all sales. The third parties service and rotate game machines on a regular basis.

Other. The Partnership also generates ancillary revenues by leasing its theatres for motion picture premieres and screenings, broadcasting sporting events, other entertainment related events, corporate events and private parties. Some of the Partnership's theatres have earned reputations as the "preferred" theatres for these events within their markets. Other sources of ancillary revenues include management fees (for booking and operating non-owned theatres) and fees from ATMs located in theatre lobbies. The Partnership also has promotional partnerships, which enhance its marketing capabilities. The Partnership is continually exploring additional ancillary revenue opportunities.

Business Strategy

The Partnership business strategy is to continue to enhance its position as a leading exhibitor in the Canadian market by focusing on providing customers with a premium movie-going experience.

Key elements of this strategy include:

Maximizing the Guest Experience

The Partnership's mission is "Passionately delivering an exceptional entertainment experience". All of our efforts are focused towards this mission and it is the Partnership's goal to consistently provide guests with an exceptional entertainment experience at a fair value. With this in mind, the Partnership plans to implement new initiatives to improve the overall movie going experience. This includes enhanced in-theatre services, improved operating strategies, alternative pricing strategies, a gift card program and enhanced merchandising programs.

Customer Loyalty Program

The installation of the new point-of-sale system will make it possible to introduce a customer loyalty program, providing the Partnership with a more comprehensive understanding of the demographics and movie-going habits of its audience. This will also allow the Partnership to extend special offers to its guests, implement tailored marketing programs and deliver targeted messages. New revenue generating

opportunities are expected as the Partnership refines its ability to collect, analyze and use information. It is the Partnership's intent to introduce a customer loyalty program during 2006 and 2007.

Website

In conjunction with the customer loyalty program, the Partnership intends to expand its website, www.cineplex.com, to become the destination for entertainment information on the internet in Canada. This will allow the Partnership to offer targeted, sponsored content to visitors and advertisers.

Cineplex Media

The Cineplex Media group is a powerful platform for growth for three reasons. First, it not only offers advertisers approximately 85% of the movie-going Canadian public, it is the ideal channel for reaching 17- to 25-year-old Canadians, a highly sought-after market. Second, with the acquisition of Famous Players Media Inc., the Partnership has also acquired Canada's leading entertainment magazine business with three branded publications – *Famous Magazine*, *Le Magazine Famous Quebec* and *Famous Kids*. Not only do the three magazines combined have a circulation of 835,000 copies and the fastest-rising readership of any entertainment magazine in the country, it represents a fresh opportunity in a medium that is new to the Cineplex and Galaxy branded theatres. Finally, by combining the editorial, creative, production and sales teams of the former CineMarketing Sales and Famous Players Media Inc. groups, the Partnership has established a pool of production and advertising talent that will be able to create new options for advertisers.

With the acquisition of Famous Players, the Partnership also acquired four flag-ship locations that currently operate as Paramount-branded theatres. The Cineplex Media group will work in 2006 to generate ancillary revenue from a brand partner in renaming the four Paramount-branded theatres in Calgary, Montreal, Toronto and Vancouver.

Maximizing Operating Efficiencies

The Partnership's prominent market position enables it to effectively manage film, concession and other theatre-level costs, thereby maximizing operating efficiencies. The Partnership seeks to achieve incremental operating savings by, among other things, implementing best practices and negotiating improved supplier contracts.

Capitalizing on Ancillary Revenue Opportunities

The Partnership seeks to expand and further develop ancillary revenue opportunities, such as advertising, promotions, games and special events. These activities generate attractive margins and involve limited incremental operating expense. Management believes that the Partnership's size and market position allow it to exploit new ancillary revenue opportunities more quickly and profitably than most of its competitors. With the continued development of digital technology, the Partnership will expand content to live events such as hockey, wrestling and music concerts. This technology also allows the Partnership to offer a digital advertising pre-show to provide advertisers with the ability to present a richer full screen, full motion experience.

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

Pursuing Selected Growth Opportunities

The Partnership will continue to seek to enhance its competitive position by selecting complementary development opportunities, improving and refurbishing theatres and pursuing certain acquisition opportunities. The Partnership intends to only pursue expansion opportunities that meet certain strategic and financial return criteria. The Partnership's new theatre strategy focuses on locations unserved by a modern multiplex theatre in expanding urban and suburban markets as well as mid-sized communities. Management believes that the Partnership has the financial strength, experience and flexibility to pursue attractive development and acquisition opportunities that are accretive to the Fund. During the balance of 2006 and 2007, the Partnership expects to open seven new theatres and has aggregate capital commitments of approximately \$27 million related to these locations. These commitments will be funded by drawings under the Partnership's development credit facility. The new theatres to be opened include: (a) a six screen theatre in Brockville, Ontario; (b) a 16 screen theatre in Brossard, Quebec; (c), a seven screen theatre in Collingwood, Ontario; (d) an eight screen theatre in Milton, Ontario; (e) a 12 screen theatre in Oakville, Ontario; and (f) a 12 screen theatre in Saskatoon, Saskatchewan.

Employees

The Partnership employs approximately 8,570 people, of which approximately 10% are full-time employees and approximately 90% are part-time employees. Approximately 4% of the Partnership's employees are represented by unions.

Seasonality

Historically, the Partnership's revenues have been seasonal with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. More recently, the seasonality of film exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. In addition, the Partnership's theatres located in major metropolitan markets give the Partnership access to a patronage that enjoys a wide variety of film genres, many of which are released on a less seasonal basis.

Trademarks

Management believes the trademarks "Cineplex", "Cineplex Odeon", "Galaxy", "Famous Players", "Coliseum", "Colossus" and "SilverCity" enjoy significant brand awareness in the Canadian film exhibition market. The Partnership has the right to operate theatres under the Paramount brand name for

a period after the closing of the FP Acquisition, during which time the Partnership intends to sell the naming rights to the Paramount theatres and re-brand them. COC and its affiliates are permitted to use certain trademarks, including the “Cineplex” and “Cineplex Odeon” trademarks pursuant to a license agreement with the Cineplex Entertainment LP.

Competition

The Partnership competes with other exhibitors on a local market-by-market basis. Management believes that the principal competitive factors in the industry are:

- The ability to secure an appropriate variety of film product on favourable licensing terms.
- The seating capacity, location, quality and reputation of an exhibitor’s theatres.
- The level of customer service and amenities such as stadium seating and variety of concession offerings.
- The quality of projection and sound equipment at an exhibitor’s theatres.
- The ability and willingness to promote the films to be exhibited.

The Partnership’s theatres are subject to varying degrees of competition in the locations in which they operate because competitors vary substantially in size, number and proximity at each location. A total of 77.7% of the Partnership’s theatres are in free film zones, including 38 of the Cineplex Odeon branded theatres, 43 of the Famous Players branded theatres and 20 of the Galaxy branded theatres. Whether a film zone is “free” or a “competitive” zone is a determination made by each distributor. A free film zone is an area in which one or more distributors do not consider the theatre to be in direct competition with any other theatre, and therefore, the distributors will allow that theatre the opportunity to play all films available. Competitive film zones are areas in which one or more distributors consider a theatre to be in direct competition with another theatre that is in close proximity, and therefore, the distributor will not allow these competing theatres to play the same movie at the same time.

The building of new theatres or the addition of screens to existing theatres by competitors in areas in which the Partnership operates may result in excess capacity in those areas that could reduce attendance levels at Partnership theatres. In addition to competing for guests at its existing theatres, the Partnership also faces competition in acquiring and developing new theatre sites and acquiring existing theatres.

In most competitive local markets, the Partnership has a number of significant theatrical exhibition competitors, including AMC Entertainment, Empire and Landmark theatres.

In addition to competing with other first-run movie exhibitors, the Partnership competes for the public’s leisure time and disposable income with alternative forms of out-of-home entertainment such as sporting events, music concerts, live theatre and restaurants. The Partnership also competes with a number of at-home entertainment alternatives and secondary movie distribution channels, such as cable and satellite television, DVDs and video cassettes, as well as pay-per-view services and downloads via the Internet.

Management believes that movie theatres compete well with alternative forms of out-of-home entertainment as a result of their lower cost and higher availability. Management also believes that with the advent of modern multiplex theatres, the cinema has become a meeting place as well as an entertainment destination.

Regulatory Environment

Quebec Cinema Act

In the province of Quebec, film distributors and theatre operators must be licensed under the Quebec Cinema Act and must obtain a permit for the exhibition of each print of a film. Generally, a permit will only be issued for English language prints if the distributor also makes the same number of French dubbed prints of the same film available to exhibitors for exhibition at the same time. However, distributors may obtain a provisional permit if a French dubbed version does not exist when an application is made, allowing a distributor to distribute any number of English language prints for an initial 45 day period. In the Partnership's experience, most major English language films are released simultaneously in both English and French.

Environmental

The Partnership owns, manages and/or operates theatres and other properties which are subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Partnership may incur costs to clean up contamination present on, at or under its leased and owned properties, even if such contamination was present prior to the commencement of the Partnership's operations at the site and was not caused by its activities. Management is currently not aware of any such situations.

Human Rights

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership alleging discrimination against hearing impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against Famous Players, Alliance Atlantis Cinemas, AMC Theatres, Universal Studios Canada and Rainbow Cinemas. All complaints have been referred to the Human Rights Tribunal and have been joined together for hearing. The matter is not presently scheduled for hearing, but the Partnership anticipates that the matter will be heard by the Tribunal in 2006 and 2007. Were the Human Rights Tribunal to rule against the Partnership and force the maximum provision of technology to the complainants, the Partnership could face a substantial capital expenditure burden. The Partnership has been and will continue to research changing technologies to make a determination about how it can best accommodate the hearing impaired community. The Partnership has allocated funds in its 2006 budget to provide for increased technology to accommodate hearing impaired guests. The Partnership is also in contact with groups that represent both the hearing and vision impaired communities in an effort to reach consensus on what technology each respective community prefers.

Other

The Partnership's operations are subject to federal, provincial and local laws governing matters such as construction, renovation and operation of theatres (including accessibility for disabled people), as well as wages and working conditions, health and sanitation requirements and licensing. Management believes that the Partnership's theatres are in material compliance with all such laws.

Credit Facility

On the closing of the FP Acquisition on July 22, 2005, the Partnership, as borrower, entered into a credit agreement (the “New Credit Agreement”) with a syndicate of lenders pursuant to which the lenders made available to the Partnership: (i) a 364-day \$50 million extendible senior secured revolving credit facility, (ii) a four-year \$315 million senior secured non-revolving term credit facility and (iii) a four-year \$60 million senior secured revolving credit facility (collectively, the “New Credit Facility”).

As of December 31, 2005 approximately \$243.5 million of the New Credit Facility was outstanding.

The following is a summary of the material terms and conditions contained in the New Credit Facility. This summary is qualified in its entirety by reference to the provisions of the New Credit Agreement which contains a complete statement of those terms and conditions.

Summary of Facilities

The New Credit Facility includes the following:

Revolving Facilities: Two senior secured revolving credit facilities, one in the principal amount of \$50 million (the “Working Capital Facility”) and the other in the principal amount of \$60 million (the “Development Facility”). The Working Capital Facility is for general corporate purposes, including up to \$15 million to stabilize monthly cash distributions to be paid by the Partnership throughout the year. \$25 million of the Working Capital Facility was used to pay a portion of the purchase price of the FP Acquisition. The Working Capital Facility is a 364 day extendible facility and will convert into a two-year, non-revolving facility if not extended on or before the 364th day. The Development Facility is to be used for the development or acquisition of theatre projects approved by the Trustees of the Fund. The Development Facility has a term of four years and is payable in full at maturity. These revolving credit facilities are available to be drawn down by way of prime rate loans, banker’s acceptances and letters of credit, and shall 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 based on the Partnership’s ratio of total debt to *pro forma* Adjusted EBITDA from time to time.

Term Facility: The term facility is a senior secured facility in the amount of up to \$315 million (the “Term Facility”). The Term Facility has a term of four years and is payable in full at maturity, with no scheduled repayments of principal required prior to maturity. The Term Facility was used to finance a portion of the purchase price in the FP Acquisition and to repay and cancel a prior \$110 million term facility and a prior \$40 million development facility. The Term Facility is available to be drawn down by way of prime rate loans, banker’s acceptances and letters of credit, and 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 based on the Partnership’s ratio of total debt to *pro forma* Adjusted EBITDA from time to time.

Security and Guarantees

The obligations under the New Credit Agreement are secured by a first ranking charge over all of the personal property and all of the real property, owned by Cineplex Entertainment LP, GEI, the FP Partnership and their subsidiaries (collectively, the “New Credit Agreement Security”). The obligations of Cineplex Entertainment LP under the New Credit Agreement are guaranteed by the Trust.

Covenants

The New Credit Agreement contains customary affirmative, reporting and negative covenants.

Pursuant to the terms of the New Credit Facility, the Partnership is required to maintain, on a rolling four quarter basis, (i) a prescribed ratio of total debt (excluding the Debentures) to *pro forma* Adjusted EBITDA, (ii) a prescribed ratio of EBITDAR (Adjusted EBITDA plus rent expense for such quarter) to fixed charges (the sum of taxes, maintenance capital expenditures, debt service (including capital lease payments) and rent expense for such quarter). In addition, the New Credit Agreement imposes restrictions on the ability of the Partnership to incur additional debt, make liens, dispose of assets, consolidate, merge or acquire other businesses, pay dividends and interest or make other distributions and amend or terminate material contracts. These covenants restrict numerous aspects of the business of the Partnership.

Events of Default

The New Credit Agreement contains customary events of default, including an event of default upon a Change of Control (as defined in the New Credit Agreement).

Failure to comply with the terms of the New Credit Facility would entitle the lenders to accelerate all amounts outstanding under the New Credit Facility, and upon such acceleration, the lenders would be entitled to begin enforcement of security granted to the lenders by the Partnership or the Trust to recover assets of the Partnership or the Trust, including accounts receivable, inventory, equipment and material contracts. The lenders would then be repaid from the proceeds of such security, using all available assets. Only after such repayment and the payment of any other secured and unsecured creditors would the holders of Units receive any proceeds from the liquidation of the Partnership's assets.

The New Credit Facility in certain circumstances restricts the Fund's, the Trust's, the Partnership's and their subsidiaries' ability to make payments in respect their securities, including the Units, unless sufficient funds are available for the repayment of indebtedness and the payment of interest, expenses and taxes.

In addition to the bank credit facilities discussed above, in 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.

DESCRIPTION OF THE FUND

General

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust. It is intended that the Fund qualify as a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. Reference is made to the Fund Declaration of Trust for a complete description of the Units and the full text of its provisions.

Activities of the Fund

The Fund Declaration of Trust provides that the Fund is restricted to:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of the Trust and other corporations, partnerships, trusts or other persons engaged, directly or indirectly, in the business of film exhibition, as well as activities ancillary thereto, and such other investments as the Trustees may determine;

- (b) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of any of the Trust, Cineplex Entertainment GP, Cineplex Entertainment LP or their respective subsidiaries in connection with the Fund's obligations under the Exchange Agreement;
- (c) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund, paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to Unitholders;
- (d) issuing Units and other securities of the Fund (including securities convertible or exchangeable into Units, or warrants, options or other rights to acquire Units or other securities of the Fund) (a) for obtaining funds to conduct the activities of the Fund, including raising funds for acquisitions and development; (b) in satisfaction of any non-cash distribution; (c) pursuant to any distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, the Trust, Cineplex Entertainment GP, Cineplex Entertainment LP or their respective subsidiaries; or (d) under the Exchange Agreement;
- (e) issuing debt securities (including debt securities convertible into, or exchangeable for, Units or other securities of the Fund) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- (f) guaranteeing the payment of any indebtedness, liability or obligation of the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP or any of their respective subsidiaries or the performance of any obligation of any of them, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of its assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness;
- (g) disposing of any part of the assets of the Fund;
- (h) issuing or redeeming rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (i) repurchasing securities issued by the Fund, subject to the provisions of the Fund Declaration of Trust and applicable laws;
- (j) satisfying the obligations, liabilities or indebtedness of the Fund; and
- (k) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust,

provided the Fund will not undertake any activity, take any action, omit to take any action or make any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act, or would result in the Units being treated as "foreign property" for the purposes of the Tax Act.

Description of Capital Structure

An unlimited number of Units may be issued pursuant to the Fund Declaration of Trust. 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 winding-up 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.

Except as set out under “Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

Issuance of Units

The Fund Declaration of Trust provides that the Units or rights to acquire Units may be issued at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including pursuant to any Unitholder rights plan or any incentive option or other compensation plan established by the Fund. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis to the extent that the Fund does not have available cash to fund such distributions. The Fund Declaration of Trust also provides, unless the Trustees determine otherwise, that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder’s share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

Description of the Debentures

The Debentures were issued under an indenture dated July 22, 2005 (the “Indenture”) between the Fund and the Debenture Trustee. The following is a description of the terms of the Indenture, a copy of which has been filed with the Canadian securities regulatory authorities. Capitalized terms used in this “Description of the Debentures” section and not otherwise defined have the meanings set forth in the Indenture. The following summary of certain provisions of the Indenture is subject to, and is qualified in its entirety by reference to, all the provisions of the Indenture.

General

The Debentures were issued under the Indenture. The Debentures authorized for issue to finance the FP Acquisition were limited in aggregate principal amount to \$105,000,000. The Fund may, however, from time to time, without the consent of the holders of the Debentures but subject to the limitations described herein, issue additional debentures of the same series or of a different series under the Indenture, in addition to the Debentures offered hereby. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof.

The Debentures were dated as of July 22, 2005. The maturity date of the Debentures is December 31, 2012 (the “Final Maturity Date”).

The Debentures bear interest from the date of issue at 6.0% per annum, which is payable semi-annually in arrears on June 30 and December 31 in each year, commencing December 31, 2005. The first interest payment included interest accrued from July 22, 2005 to but excluding December 31, 2005.

The principal amount of the Debentures is payable in lawful money of Canada or, at the option of the Fund and subject to applicable regulatory approval, by payment of Units. See “— Payment upon Redemption or Maturity” and “— Redemption and Purchase”. The interest on the Debentures is payable

in lawful money of Canada including, at the option of the Fund and subject to applicable regulatory approval, in accordance with the Unit Interest Payment Election as described under “— Interest Payment Option”. Payments to non-resident beneficial owners of Debentures, whether paid in cash or Units, are subject to Canadian withholding tax.

The Debentures are direct obligations of the Fund and are not secured by any mortgage, pledge, hypothec or other charge and are subordinated to all other indebtedness, liabilities and obligations of the Fund. See “— Subordination”. The Indenture does not restrict the Fund from incurring additional indebtedness for borrowed money or other liabilities or from mortgaging, pledging or charging its properties to secure any indebtedness.

Conversion Privilege

Each Debenture is convertible at the holder’s option into fully paid and non-assessable Units at any time prior to the close of business on the Final Maturity Date or, if called for redemption, on the business day immediately preceding the date specified by the Fund for redemption of the Debentures, at a conversion price of \$18.75 per Unit (the “Conversion Price”), being a conversion rate of approximately 53.3333 Units for each \$1,000 principal amount of Debentures. No adjustment will be made to the record dates for distributions on the Units issuable upon conversion of, or for interest accrued on, Debentures surrendered for conversion; however, holders converting their Debentures will receive all accrued and unpaid interest thereon to the date of conversion. Holders converting their Debentures shall become holders of record of Units of the Fund on the business day immediately after the conversion date. Notwithstanding the foregoing, no Debentures may be converted during the five business days preceding June 30 and December 31, in each year, commencing December 31, 2005, as the registers of the Debenture Trustee will be closed during such periods.

Subject to the provisions thereof, the Indenture provides for the adjustment of the Conversion Price in certain events including: (a) the subdivision or consolidation of the outstanding Units; (b) the distribution of Units to holders of Units by way of distribution or otherwise, other than an issue of securities to holders of Units who have elected to receive distributions in securities of the Fund in lieu of receiving cash distributions paid in the ordinary course and other than in the case of a reconsolidation of Units; (c) the issuance of options, rights or warrants to holders of Units entitling them to acquire Units or other securities convertible into Units at less than 95% of the then current market price (as defined below) of the Units; and (d) the distribution to all holders of Units of any securities or assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (b), (c) or (d) above if the holders of the Debentures are allowed to participate as though they had converted their Debentures prior to the applicable record date or effective date. The Fund is not required to make adjustments in the Conversion Price unless the cumulative effect of such adjustments would change the conversion price by at least 1%.

In the case of any reclassification or capital reorganization (other than a change resulting from consolidation or subdivision) of the Units or in the case of any consolidation, arrangement, amalgamation or merger of the Fund with or into any other entity, or in the case of any sale or conveyance of the properties and assets of the Fund as, or substantially as, an entirety to any other entity, or a liquidation, dissolution or winding-up of the Fund, the terms of the conversion privilege shall be adjusted so that each holder of a Debenture shall, after such reclassification, capital reorganization, consolidation, amalgamation, merger, sale, conveyance, liquidation, dissolution or winding-up, be entitled to receive the number of securities such holder would be entitled to receive if on the effective date thereof, it had been the holder of the number of securities into which the Debenture was convertible prior to the effective date of such reclassification, capital reorganization, consolidation, amalgamation, merger, sale, conveyance, liquidation, dissolution or winding-up.

No fractional Units will be issued on any conversion but in lieu thereof the Fund shall satisfy fractional interests by a cash payment equal to the current market price of any fractional interest.

The term “current market price” is defined in the Indenture to mean the volume weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the date of the applicable event.

Redemption and Purchase

The Debentures are not redeemable on or prior to December 31, 2008. After December 31, 2008 and on or prior to December 31, 2010, the Debentures are redeemable in whole or in part from time to time at the option of the Fund on not more than 60 days and not less than 30 days prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted average trading price of the Units on the TSX for the 20 consecutive trading days ending on the fifth trading day preceding the day prior to the date upon which the notice of redemption is given is at least 125% of the Conversion Price. After December 31, 2010, the Debentures are redeemable prior to Maturity in whole or in part from time to time at the option of the Fund on not more than 60 days and not less than 30 days prior notice at a price equal to the principal amount thereof plus accrued and unpaid interest.

In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a *pro rata* basis or in such other manner as the Debenture Trustee deems equitable.

The Fund or any of its affiliates have the right to purchase Debentures in the market, by tender or by private contract, provided however, that if an event of default under the Indenture has occurred and is continuing, the Fund or any of its affiliates do not have the right to purchase Debentures by private contract.

Payment upon Redemption or Maturity

On redemption or at maturity, the Fund will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured, together with accrued and unpaid interest thereon. The Fund may, at its option, on not more than 60 and not less than 30 days prior notice and subject to applicable regulatory approval, elect to satisfy its obligation to pay the principal amount of the Debentures which are to be redeemed or the principal amount of the Debentures which are due on the Final Maturity Date, as the case may be, by issuing freely tradeable Units to the holders of the Debentures. Any accrued and unpaid interest thereon will be paid in cash. The number of Units to be issued will be determined by dividing the aggregate principal amount of the outstanding Debentures which are to be redeemed or which have matured by 95% of the current market price on the date fixed for redemption or the Final Maturity Date, as the case may be. No fractional Units will be issued on redemption or maturity but in lieu thereof the Fund shall satisfy fractional interests by a cash payment equal to the current market price of any fractional interest.

Subordination

The payment of the principal and premium, of any of, and interest on, the Debentures are subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness. “Senior Indebtedness” of the Fund is defined in the Indenture to include the principal of and premium, if any, and interest on and other amounts in respect of all indebtedness, liabilities and obligations of the Fund (whether outstanding as of the date of the Indenture or thereafter created, incurred, assumed or guaranteed) and including, for greater certainty, claims of trade and other creditors, other than indebtedness evidenced by the Debentures and all other existing and future debentures or other instruments of the Fund which, by the terms of the instrument creating or evidencing the indebtedness, is

expressed to be *pari passu* with each other debenture, and with all other present and future subordinated and unsecured indebtedness of the Fund except for sinking provisions (if any) applicable to different series of debentures or similar types of obligations of the Fund.

The Indenture provides that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Fund, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or other winding-up of the Fund, whether or not involving insolvency or bankruptcy, or any marshalling of the assets and liabilities of the Fund, then those holders of Senior Indebtedness, including trade creditors of the Fund, will receive payment in full before the holders of Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Debentures or any unpaid interest accrued thereon. The Indenture also provides that the Fund will not make any payment, and the holders of Debentures will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including without any limitation by set-off, combination of accounts or realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (a) in any manner inconsistent with the terms (as they exist on the date of issue) of the Debenture or (b) at any time where an event of default has occurred under the Senior Indebtedness and is continuing and notice of such event has been given by or on behalf of the holders of Senior Indebtedness to the Fund, unless the Senior Indebtedness has been repaid in full.

The Debentures are also effectively subordinate to claims of creditors of the Fund's subsidiaries except to the extent the Fund is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. Specifically, the Debentures are effectively subordinated in right of payment to the prior payment in full of all indebtedness under the New Credit Facility.

Priority Over Distributions

The Declaration of Trust provides that certain expenses of the Fund must be deducted in calculating the amount to be distributed to Unitholders. Accordingly, the funds required to satisfy the interest payable on the Debentures, as well as the amount payable upon redemption or maturity of the Debentures or upon an Event of Default (as defined below), will be deducted and withheld from the amounts that would otherwise be payable as distributions to Unitholders.

Change of Control of the Fund

Upon the occurrence of a change of control of the Fund involving the acquisition of voting control or direction over 70% or more of the Units (on a fully diluted basis, including assuming the exchange of all Class B LP Units) (a "Change of Control") by any person or group of persons acting jointly or in concert, each holder of Debentures may require the Fund to purchase, on the date which is 30 days following the giving of notice of the Change of Control as set out below (the "Put Date"), the whole or any part of such holder's Debentures at a price equal to 101% of the principal amount thereof (the "Put Price") plus accrued and unpaid interest to the Put Date. The Indenture contains notification provisions requiring to the following effect: (i) the Fund will promptly give written notice to the Debenture Trustee of the occurrence of a Change of Control and the Debenture Trustee will thereafter give to the holders of Debentures notice of the Change of Control, the repayment right of the holders of Debentures and the right of the Fund to redeem untendered Debentures under certain circumstances, and (ii) a holder of Debentures, to exercise the right to require the Fund to purchase its Debentures, must deliver to the Debenture Trustee, not less than five business days prior the Put Date, written notice of the holder's exercise of such right, together with the Debentures with respect to which the right is being exercised, duly endorsed for transfer.

If 90% or more in aggregate principal amount of the Debentures outstanding on the date of the giving of notice of the Change of Control have been tendered for purchase on the Put Date, the Fund will have the right to redeem all the remaining Debentures on such date at the Put Price, together with accrued and unpaid interest to such date. Notice of such redemption must be given by the Fund to the Debenture Trustee prior to the Put Date, and as soon as possible thereafter, by the Debenture Trustee to the holders of the Debentures not tendered for purchase.

Interest Payment Option

The Fund may elect, from time to time, to satisfy its obligation to pay interest on the Debentures (the “Interest Obligation”), on the date it is payable under the Indenture (an “Interest Payment Date”), by delivering sufficient Units to the Debenture Trustee to satisfy all or any part of the Interest Obligation in accordance with the Indenture (the “Unit Interest Payment Election”). The Indenture provides that, upon such election, the Debenture Trustee shall: (a) accept delivery from the Fund of Units; (b) accept bids with respect to, and consummate sales of, such Units, each as the Fund shall direct in its absolute discretion; (c) invest the proceeds of such sales in short-term permitted government securities (as defined in the Indenture) which mature prior to the applicable Interest Payment Date, and use the proceeds received from such permitted government securities, together with any proceeds from the sale of Units not invested as aforesaid, to satisfy the Interest Obligation; and (d) perform any other action necessarily incidental thereto.

The Indenture sets forth the procedures to be followed by the Fund and the Debenture Trustee in order to effect the Unit Interest Payment Election. If a Unit Interest Payment Election is made, the sole right of a holder of Debentures in respect of interest will be to receive cash from the Debenture Trustee out of the proceeds of the sale of Units (plus any amount received by the Debenture Trustee from the Fund attributable to any fractional Units) in full satisfaction of the Interest Obligation, and the holder of such Debentures will have no further recourse to the Fund in respect of the Interest Obligation.

Neither the Fund’s making of the Unit Interest Payment Election nor the consummation of sales of Units will: (a) result in the holders of the Debentures not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date; or (b) entitle such holders to receive any Units in satisfaction of the Interest Obligation.

Events of Default

The Indenture provides that an event of default (“Event of Default”) in respect of the Debentures will occur if any one or more of the following described events, among others, has occurred and is continuing with respect to the Debentures: (a) failure for 15 days to pay interest on the Debentures when due; (b) failure to pay principal or premium, if any, when due on the Debentures, whether at maturity, upon redemption, by declaration or otherwise; (c) certain events of bankruptcy, insolvency or reorganization of the Fund under bankruptcy or insolvency laws; or (d) default in the observance or performance of any material covenant or condition of the Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Debenture Trustee to the Fund specifying such default and requiring the Fund to rectify the same. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall upon request of holders of not less than 25% in principal amount of Debentures, declare the principal of and interest on all outstanding Debentures to be immediately due and payable. In certain cases, the holders of a majority of the principal amount of the Debentures then outstanding may, on behalf of the holders of all Debentures, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Offers for Debentures

The Indenture contains provisions to the effect that if an offer is made for the Debentures which is a take-over bid for Debentures within the meaning of the *Securities Act* (Ontario) and not less than 90% of the Debentures (other than Debentures held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Debentures held by the holders of Debentures who did not accept the offer on the terms offered by the offeror.

Modification

The rights of the holders of the Debentures as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, among others, the Indenture contains certain provisions which will make binding on all debenture holders resolutions passed at meetings of the holders of debentures by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the debentures. In certain cases, the modification will, instead or in addition, require assent by the holders of the required percentage of debentures of each particularly affected series.

Limitations on Non-Resident Ownership

The Fund shall not be established nor at any time maintained primarily for the benefit of non-residents and the Fund shall inform the Debenture Trustee and the transfer agent and registrar of the Units of this restriction. The Debenture Trustee may, upon receipt of written direction of the Fund, require declarations as to the jurisdictions in which beneficial owners of Debentures are resident. If the Fund becomes aware as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of 40% or more of the Units then outstanding on a fully diluted basis, assuming conversion of the Debentures for Units are, or may be, non-residents or that such a situation is imminent, the Fund may make a public announcement thereof and shall notify the Debenture Trustee in writing and the Debenture Trustee shall not accept a subscription for Debentures from or issue or register a transfer of Debentures to a person unless the person provides a declaration in the form and content satisfactory to the Fund that the person is not a non-resident. If, notwithstanding the foregoing, the Fund determines that more than 40% of the Units, on a fully diluted basis, assuming conversion of the Debentures for Units, are held by non-residents, the Fund may send a notice to non-resident holders of Debentures or Units, chosen in inverse order to the order of acquisition or registration of the Debentures and Units or in such other manner as the Fund may consider equitable and practicable, requiring them to sell their Debentures or Units or a portion thereof within a specified period of not more than 30 days. If the Debentureholders or Unitholders receiving such notice have not sold the specified number of Debentures or Units or provided the Fund with satisfactory evidence that they are not non-residents within such period, the Fund may on behalf of such Debentureholder or Unitholder sell such Debentures or Units, as the case may be, and, in the interim, shall suspend the rights attached to such Debentures or Units, as the case may be. Upon such sale, the affected holders shall cease to be holders of the relevant Debentures or Units as the case may be, and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such Debentures or Units. The Fund may direct the Debenture Trustee and/or the transfer agent and registrar of the Units to do any of the foregoing.

Book-Entry System for Debentures

The Debentures were issued in “book-entry only” form and may only be purchased or transferred through a CDS Participant. The Debentures are evidenced by a single book-entry only certificate. Registration of interests in and transfers of the Debentures are made only through the depository service of CDS.

Except as described below, a purchaser acquiring a beneficial interest in the Debentures (a “Beneficial Owner”) is not entitled to a certificate or other instrument from the Debenture Trustee or CDS evidencing that purchaser’s interest therein, and such purchaser will not be shown on the records maintained by CDS, except through a CDS Participant. Such purchaser will receive a confirmation of purchase from the registered dealer from whom Debentures are purchased.

The Fund will not assume any liability for: (a) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or the payments relating thereto; (b) maintaining, supervising or reviewing any records relating to the Debentures; or (c) any advice or representation made by or with respect to CDS and relating to the rules governing CDS or any action to be taken by CDS or at the direction of its CDS Participants. The rules governing CDS provide that it acts as the agent and depositary for the CDS Participants. As a result, CDS Participants must look solely to CDS and Beneficial Owners must look solely to CDS Participants for the payment of the principal and interest on the Debentures paid by or on behalf of the Fund to CDS.

As indirect holders of Debentures, investors should be aware that they (subject to the situations described below): (a) may not have Debentures registered in their name; (b) may not have physical certificates representing their interest in the Debentures; (c) may not be able to sell the Debentures to institutions required by law to hold physical certificates for securities they own; and (d) may be unable to pledge Debentures as security.

The Debentures will be issued to Beneficial Owners in fully registered and certificate form (the “Debenture Certificates”) only if: (a) the Fund is required to do so by applicable law; (b) the Book-Entry System ceases to exist; (c) the Fund or CDS advises the Debenture Trustee that CDS is no longer willing or able to properly discharge its responsibilities as depositary with respect to the Debentures and the Fund is unable to locate a qualified successor; (d) the Fund, at its option, decides to terminate the Book-Entry System through CDS; or (e) after the occurrence of an Event of Default (as defined herein), provided that Participants acting on behalf of Beneficial Owners representing, in the aggregate, more than 25% of the aggregate principal amount of the Debentures then outstanding advise CDS in writing that the continuation of a Book-Entry System through CDS is no longer in their best interest provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture. Upon the occurrence of any of the events described in the immediately preceding paragraph, the Debenture Trustee must notify CDS, for and on behalf of Participants and Beneficial Owners, of the availability through CDS of Debenture Certificates. Upon surrender by CDS of the single certificate representing the Debentures and receipt of instructions from CDS for the new registrations, the Debenture Trustee will deliver the Debentures in the form of Debenture Certificates and thereafter the Fund will recognize the holders of such Debenture Certificates as debentureholders under the Indenture. Interest on the Debentures will be paid directly to CDS while the Book-Entry System is in effect. If Debenture Certificates are issued, interest will be paid by cheque drawn on the Fund and sent by prepaid mail to the registered holder or by such other means as may become customary for the payment of interest. Payment of principal, including payment in the form of Units if applicable, and the interest due, at maturity or on a redemption date, will be paid directly to CDS while the Book-Entry System is in effect. If Debenture Certificates are issued, payment of principal, including payment in the form of Units if applicable, and interest due, at maturity or on a redemption date, will be paid upon surrender thereof at any office of the Debenture Trustee or as otherwise specified in the Indenture.

Trustees

The Fund must have a minimum of three Trustees and a maximum of ten Trustees, the majority of who must be residents of Canada (within the meaning of the Tax Act). Under the terms of the Fund Declaration of Trust, the board of Trustees consists of four members and the LCE Shareholders have the right to appoint one of such Trustees so long as members of the LCE Group own at least 30% of the Units (on a fully diluted basis). The Trustees supervise the activities and manage the affairs of the Fund.

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and supervise the investments and conduct the affairs of the Fund. Subject to such terms and conditions, the Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a holder of the Trust Units, Trust Notes and other securities of the Trust;
- maintaining records and providing reports to Unitholders;
- supervising the activities and managing the investments and affairs of the Fund;
- effecting payments of distributable cash from the Fund to Unitholders; and
- voting in favour of the Fund's nominees to serve as trustees of the Trust.

Any one or more of the Trustees may resign upon 30 days' written notice to the Fund, unless such resignation would cause the number of remaining Trustees to be less than a quorum, and may, except in the case of any Trustee appointed by LCE Shareholders, be removed by an Ordinary Resolution and the vacancy created by the removal or resignation must be filled at the same meeting, failing which it may be filled by the affirmative vote of a quorum of the Trustees.

Trustees are appointed at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting, provided that Unitholders shall not be entitled to vote on the appointment of any Trustee appointed by the LCE Shareholders. A quorum of the Trustees, being the majority of the Trustees then holding office, may fill a vacancy in the Trustees, except a vacancy resulting from an increase in the number of Trustees or from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the required number of Trustees, the Trustees will promptly call a special meeting of the Unitholders to fill the vacancy provided that the Unitholders will not be permitted to fill a vacancy created by an appointee of the LCE Shareholders ceasing for any reason to be a Trustee. If the Trustees fail to call that meeting or if there are not Trustees then in office, any Unitholder may call the meeting. Except otherwise provided in the Fund Declaration of Trust, the Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, but the number of additional Trustees will not at any time exceed one-third of the number of Trustees who held office at the expiration of the immediately preceding annual meeting of Unitholders.

The Fund Declaration of Trust provides that the Trustees must act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty must exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee is entitled to indemnification from the Fund in respect of the exercise of the Trustee's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all the Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful.

See "Cineplex Entertainment GP — Securityholders Agreement".

Cash Distributions

The Fund intends to make distributions of its available cash to the maximum extent possible to the Unitholders. The Fund intends to make equal monthly cash distributions to Unitholders of record on the

last business day of each month, less estimated cash amounts required for expenses and other obligations of the Fund and cash redemptions of Units and any tax liability.

The Fund may make additional distributions in excess of monthly distributions during the year, as the Trustees may determine.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Those additional Units will be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

The Fund makes monthly cash distributions to Unitholders of record on the last business day of each month, and the distributions are paid within 30 days following the end of each month.

Holders of Units who are non-residents of Canada are required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units.

Redemption at the Option of Unitholders

Units are redeemable at any time on demand by the holders thereof. As the Units were issued in book-entry form, a Unitholder who wishes to exercise the redemption right is required to obtain a redemption notice form from the Unitholder's investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the "Redemption Price") equal to the lesser of:

- (a) 90% of the "market price" of a Unit calculated as of the date on which the Units were surrendered for redemption (the "Redemption Date"); and
- (b) 100% of the "closing market price" on the Redemption Date.

For purposes of this calculation, the "market price" of a Unit as at a specified date will be:

- (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;
- (b) an amount equal to the weighted average of the closing prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or
- (c) if there was trading on the applicable exchange or market for fewer than five of the ten trading days, an amount equal to the weighted average of the following prices established for each of the ten consecutive trading days ending on such date: the weighted average of the last bid and last asking prices of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the weighted average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

The "closing market price" of a Unit for the purpose of the foregoing calculations, as at any date, will be:

- (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date and the principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date;
- (b) an amount equal to the closing price of a Unit on the principal market or exchange, if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;
- (c) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or
- (d) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

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, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- (a) the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- (b) at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and
- (c) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period ending on the Redemption Date.

If a Unitholder is not entitled to receive cash upon the redemption of Units as a result of one or more of the foregoing limitations, then each Unit tendered for redemption will, subject to any applicable regulatory approvals, be redeemed by way of a distribution in specie. In such circumstances, Trust Units and Series 1 Trust Notes of a value equal to the Redemption Price will be redeemed by the Trust in consideration of the issuance to the Fund of Series 2 Trust Notes and Series 3 Trust Notes, respectively. The Series 2 Trust Notes and Series 3 Trust Notes will then be distributed in satisfaction of the Redemption Price. No Series 2 Trust Notes or Series 3 Trust Notes in integral multiples of less than \$100 will be distributed and, where the number of securities of the Trust to be received by a Unitholder includes a multiple of less than \$100, that number shall be rounded to the next lowest integral multiple of \$100. The Fund will be entitled to all interest paid on the Trust Notes and the distributions paid on the Trust Units on or before the date of the distribution in specie. Where the Fund makes a distribution in *specie* of a *pro rata* number of securities of the Trust on the redemption of Units of a Unitholder, the Fund currently intends to designate to that Unitholder any income or capital gain realized by the Fund as a result of the redemption of Trust Units and Series 1 Trust Notes in exchange for Series 2 Trust Notes and Series 3 Trust Notes, respectively, or as a result of the distribution of Series 2 Trust Notes or Series 3 Trust Notes to the Unitholder on the redemption of such Units.

It is anticipated that the redemption right described above will not be the primary mechanism for holders of Units to dispose of their Units. Series 2 Trust Notes and Series 3 Trust Notes which may be distributed *in specie* to Unitholders in connection with a redemption will not be listed on any stock exchange and no market is expected to develop in Series 2 Trust Notes or Series 3 Trust Notes and they may be subject to resale restrictions under applicable securities laws. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for trusts governed by Plans depending upon the circumstances at the time.

Repurchase of Units

The Fund is allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase would constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Meetings of Unitholders

The Fund Declaration of Trust provides that meetings of Unitholders shall be called and held annually for the election of Trustees and the appointment of auditors of the Fund. The Fund Declaration of Trust provides that the Unitholders are entitled to pass resolutions that bind the Fund only with respect to:

- the election or removal of Trustees (except in the case of any Trustee appointed by the LCE Shareholders);
- the election or removal of nominees of the Fund to serve as trustees of the Trust;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under “Amendments to the Fund Declaration of Trust”);
- the termination of the Fund;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of the Trust held by the Fund and, subject to the provisions of any securityholders’ agreement among the securityholders of Cineplex Entertainment GP and the terms of the Cineplex Entertainment LP Agreement, securities of Cineplex Entertainment LP or Cineplex Entertainment GP held by the Trust (see “— Exercise of Certain Voting Rights Attached to Securities of the Trust, Cineplex Entertainment GP and Cineplex Entertainment LP”);
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Unitholder approval;
- the dissolution of the Fund prior to the end of its term; and
- any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Unitholders for their approval,

provided that the Unitholders shall not pass any resolution that would cause the Fund, the Trust, Cineplex Entertainment GP, Cineplex Entertainment LP or their respective subsidiaries to breach the terms of the Exchange Agreement, the Services Agreement, the Cineplex Entertainment LP Agreement or the Securityholders Agreement.

No other action taken by Unitholders or any other resolution of the Unitholders at any meeting will in any way bind the Trustees.

A resolution electing or removing nominees of the Fund to serve as trustees of the Trust (except filling casual vacancies) or with respect to the exercise of certain voting rights attached to the securities of the Trust or Cineplex Entertainment GP held by the Fund, a resolution required by securities law, stock exchange rules or other laws or regulations requiring a simple majority of Unitholders, and a resolution appointing or removing the Trustees or the auditors of the Fund must be passed by a simple majority of the votes cast by Unitholders. The balance of the foregoing matters must be passed by a Special Resolution.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned by the holders of not less than 5% of the Units then outstanding by a written requisition. A requisition must state in reasonable detail the business proposed to be transacted at the meeting.

Unitholders may attend and vote at all meetings of the Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two persons present in person or represented by proxy and representing in total at least 10% of the votes attached to all outstanding Units will constitute a quorum for the transaction of business at all meetings.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Unitholders.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Fund Declaration of Trust provides that at no time may non-residents of Canada be the beneficial owners of more than 49.9% of the Units. This 49.9% limitation is applied with respect to the issued and outstanding Units of the Fund on both (i) a non-diluted basis and (ii) a fully-diluted basis calculated on the assumption that any Units issuable at the time of calculation to an Investor pursuant to the Exchange Agreement have been issued and are held by such Investor. The Trustees, in their sole discretion, may require declarations as to the jurisdictions in which beneficial owners of Units are resident. If the Trustees become aware, as a result of requiring such declarations as to beneficial ownership, that the beneficial owners of at least 49.9% of the Units then outstanding are, or may be, non-residents or that such a situation is imminent, the transfer agent and registrar may make a public announcement thereof and shall not accept a subscription for Units from, or issue or register a transfer of Units to, a person unless the person provides a declaration that the person is not a non-resident. If, notwithstanding the foregoing, the Trustees, in their sole discretion, determine that 49.9% or more of the Units are held by non-residents, the Trustees may send a notice to non-resident holders of Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not less than 60 days. If the persons receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-residents within such period, the Trustees may, on behalf of such persons, sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale.

Amendments to the Fund Declaration of Trust

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Unitholders by a Special Resolution.

The Trustees, at their discretion and without the approval of the Unitholders, are entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- (a) which are required for the purpose of ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund, including ensuring that the Fund continues to qualify as a “mutual fund trust” and the Units do not constitute “foreign property”, each within the meaning of the Tax Act;
- (b) which provide additional protection or added benefits for the Unitholders, provided that the Trustees receive a legal opinion from counsel to this effect;
- (c) to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are necessary or desirable and not prejudicial to the Unitholders; and
- (d) which are necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdictions over the Trustees of the Fund.

Notwithstanding the previous sentence, the Trustees may not amend the Fund Declaration of Trust in a manner which would result in (a) the Fund failing to qualify as a “mutual fund trust” under the Tax Act or (b) the Units being treated as “foreign property” for the purposes of the Tax Act.

Term of the Fund

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on October 2, 2003. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term. At any time prior to the expiry of the term of the Fund, the Unitholders may by Special Resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

The Fund Declaration of Trust provides that, upon being required to commence the termination, liquidation or winding-up of the affairs of the Fund, the Trustees will give notice thereof to the Unitholders, which notice shall designate the time or times at which Unitholders may surrender their Units for cancellation and the date at which the register of Units will be closed. After the date the register is closed, the Trustees shall proceed to wind up the affairs of the Fund as soon as may be reasonably practicable and for such purpose shall, subject to any direction to the contrary in respect of a termination authorized by a resolution of the Unitholders, sell and convert into money the Trust Units, the Trust Notes and all other assets comprising the Fund in one transaction or in a series of transactions at public or private sales and do all other acts appropriate to liquidate the Fund. After paying, retiring, discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the Fund and providing for indemnity against any other outstanding liabilities and obligations, the Trustees shall distribute the remaining part of the proceeds of the sale of the Trust Units, the Trust Notes and other assets together with any cash forming part of the assets of the Fund among the Unitholders in accordance with their *pro rata* interests. If the Trustees are unable to sell all or any of the Trust Units, the Trust Notes or other assets which comprise part of the Fund by the date set for termination, the Trustees may distribute the remaining Trust Units, the Trust Notes or other assets in specie directly to the Unitholders in accordance with their *pro rata* interests subject to obtaining all required regulatory approvals.

Take-over Bids

The Fund Declaration of Trust contains provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who did not accept the take-over bid on the terms on which the offeror acquired Units from Unitholders who accepted the take-over bid.

The Cineplex Entertainment LP Partnership Agreement provides that if a non-exempt take-over bid from a person acting at arm's length to holders of LP Units (or any associate or affiliate thereof) is made for the Units and a contemporaneous identical offer is not made for the LP Units held by persons other than the Trust (in terms of price, timing, proportion of securities sought to be acquired and conditions, provided that the offer for the LP Units may be conditional on Units being taken up and paid for under the take-over bid), then, provided that (i) not less than 25% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken-up and paid for pursuant to the non-exempt bid from and after the date of first take-up of Units under the said take-over bid in excess of the foregoing threshold, and (ii) the take-over bid is not for any and all Units tendered or is not structured such that holders of LP Units can exchange into Units conditional on take-up, the LP Units held by persons other than the Trust will be exchangeable at an exchange ratio equal to 110% of the exchange ratio previously in effect, such that, based on the current one-to-one exchange ratio, on exchange the holder of LP Units will receive 1.1 Units for each Unit that the holder would otherwise have received. Notwithstanding any adjustment on completion of an exclusionary offer as described above, the distribution rights attaching to the LP Units will also not be adjusted until the exchange right is actually exercised.

Exercise of Certain Voting Rights Attached to Securities of the Trust, Cineplex Entertainment GP and Cineplex Entertainment LP

The Fund Declaration of Trust provides that the Fund shall not vote any securities of the Trust, nor permit the Trust to vote any securities of Cineplex Entertainment GP or Cineplex Entertainment LP, except as may be required under the Securityholders Agreement, to authorize any transaction which is adverse to the Unitholders including, among other things:

- any sale, lease or other disposition of all or substantially all of the assets of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP, except in conjunction with an internal reorganization of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP;
- any amalgamation, arrangement or other merger of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP with any other entity, except in conjunction with an internal reorganization of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP;
- any material amendment to the Trust Note Indenture other than in contemplation of a further issuance of Notes to the Fund that are identical in all respects to the Notes issued in connection with the Offering or in conjunction with an internal reorganization of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP;
- the winding-up or dissolution of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP prior to the end of the term of the Fund; or
- any material amendment to the constating documents of the Trust, Cineplex Entertainment GP or Cineplex Entertainment LP to change the authorized units, share capital or partnership interests which may be prejudicial to the Fund,

without the authorization of the Unitholders by a Special Resolution. The Fund is also prohibited from taking certain actions without approval of the board of directors of Cineplex Entertainment GP. See “Cineplex Entertainment GP — Securityholders Agreement”.

Information and Reports

The Fund will furnish to Unitholders, in accordance with applicable securities laws, all financial statements of the Fund and Cineplex Entertainment LP (including quarterly and annual financial statements and certifications) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Unitholders, the Trustees will provide to the Unitholders (along with notice of the meeting) all information, together with such certifications, as is required by applicable law and by the Fund Declaration of Trust to be provided to Unitholders.

Cineplex Entertainment LP has undertaken to provide the Fund with a report of any material change that occurs in the affairs of Cineplex Entertainment LP and with quarterly and annual financial statements accompanied by management’s discussion and analysis for the period covered by such financial statements, in each case, in form and content that Cineplex Entertainment LP would be required to file with the Ontario Securities Commission if it were a reporting issuer under Ontario securities laws. All of those reports and financial statements will be provided to the Fund in a timely manner so as to permit the Fund to comply with the continuous disclosure requirements under applicable securities laws relating to reporting of material changes in its affairs and the filing and delivery to securityholders of financial statements as required under applicable securities laws.

In addition, Cineplex Entertainment GP has agreed with the Fund that, for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- issue a press release and deliver to the Fund for filing a material change report in respect of any material change in Cineplex Entertainment LP’s affairs;
- provide to the Fund the information that would be required to be included in an annual information form or any other report required to be filed with the Ontario Securities Commission if Cineplex Entertainment LP were a reporting issuer under Ontario securities law; and
- to the extent that the Fund does not prepare financial statements including Cineplex Entertainment LP’s results of operations, deliver to the Fund quarterly unaudited and annual audited financial statements of Cineplex Entertainment LP for filing with the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and delivery to the Fund’s registered and beneficial Unitholders in accordance with applicable securities laws.

Such releases, forms, reports and statements, in each case, shall be in the form and content that Cineplex Entertainment LP would be required to file with the Ontario Securities Commission if it were a reporting issuer under Ontario securities law. The annual information form and other reports of Cineplex Entertainment LP will be delivered by the Fund to its Unitholders concurrently with the annual information form or other report of the Fund for the corresponding period. The quarterly unaudited and annual audited financial statements of Cineplex Entertainment LP will be delivered by the Fund to its Unitholders concurrently with the financial statements of the Fund for the corresponding period.

Trustees of the Fund are required to file insider reports and comply with insider trading provisions under applicable Canadian securities legislation in respect of trades made by such persons in Units of the Fund.

In addition, Cineplex Entertainment GP has undertaken to the Fund that, for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- require each of its existing directors, as applicable, and senior officers and, promptly upon his or her assumption of office, each of its future directors and senior officers, to provide the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada with an undertaking agreeing that he or she will file in respect of the Fund pursuant to applicable insider reporting requirements as if he or she were an insider of the Fund, reporting transactions in Units and LP Units; and
- require each present and each future principal holder of LP Units (other than the Trust) and each director or officer of each present or future principal holder of LP Units to provide the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada with an undertaking agreeing that he, she or it will file in respect of the Fund pursuant to applicable insider reporting requirements as if he, she or it were an insider of the Fund, reporting transactions in Units and LP Units.

Book-Entry Only System

Registration of interests in and transfers of the Units can be made through a book-based system (the “Book-Entry System”) administered by CDS. Units may be purchased, transferred and surrendered for redemption through a participant in the CDS depository service (a “CDS Participant”). All rights of Unitholders must be exercised through, and all payments or other property to which such Unitholder is entitled must be made or delivered by, CDS or the CDS Participant through which the Unitholder holds such Units. Upon a purchase of any Units, the Unitholder will receive only a customer confirmation from the registered dealer which is a CDS Participant and from or through which the Units are purchased. References in this Annual Information Form to a Unitholder means, unless the context otherwise requires, the owner of the beneficial interest in such Units.

The Fund has the option to terminate registration of the Units through the Book-Entry System in which case certificates for the Units in fully registered form would be issued to beneficial owners of such Units or their nominees.

Conflicts of Interest Restrictions and Provisions

The Fund Declaration of Trust contains “conflict of interest” provisions that serve to protect Unitholders without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the Canada Business Corporations Act, that require each Trustee to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with an affiliate.

DESCRIPTION OF THE TRUST

The Trust Declaration of Trust contains provisions substantially similar to those of the Fund Declaration of Trust relating to the Fund. The principal differences between the Trust Declaration of Trust and the Fund Declaration of Trust are those described below. The description below is a summary only and is qualified in its entirety by reference to the text of the Trust Declaration of Trust and the Fund Declaration of Trust.

General

The Trust is an unincorporated open-ended limited purpose trust established as at the date of the IPO Closing under the laws of the Province of Ontario pursuant to the Trust Declaration of Trust. It is a limited purpose trust and its activities are restricted to, among other things:

- (a) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of Cineplex Entertainment GP and Cineplex Entertainment LP and other corporations, partnerships, trusts or other persons engaged, directly or indirectly, in the business of film exhibition, as well as activities ancillary thereto, and such other investments as the trustees of the Trust may determine;
- (b) investing in securities, including those issued by Cineplex Entertainment LP and Cineplex Entertainment GP;
- (c) issuing Trust Units;
- (d) issuing debt securities, including the Trust Notes;
- (e) redeeming Trust Units;
- (f) purchasing securities issued by the Trust;
- (g) subscribing for the Galaxy Notes;
- (h) guaranteeing the obligations of Cineplex Entertainment LP, or any affiliate of the Trust or Cineplex Entertainment LP pursuant to any good faith debt for borrowed money incurred by Cineplex Entertainment LP or the affiliate, as the case may be, and pledging securities held by the Trust, Cineplex Entertainment LP or any such affiliate, as security for such guarantee; and
- (i) satisfying the obligations, liabilities or indebtedness of the Trust.

The Trust does not intend to hold securities of any entities other than Cineplex Entertainment LP, Cineplex Entertainment GP and the Galaxy Notes, except in connection with its short-term cash management.

Restrictions on Trust's Trustees' Powers

The Trust Declaration of Trust provides that the trustees of the Trust (the "Trust's Trustees") may not, without approval by ordinary resolution of the holders of Trust Units:

- (a) take any action upon any matter which under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules would require approval by ordinary resolution of the holders of Trust Units had the Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading; and
- (b) subject to certain exceptions, appoint or change the auditors of the Trust.

Furthermore, the Trust Declaration of Trust states that the Trust's Trustees may not, without approval by special resolution of the holders of Trust Units:

- (a) take any action upon any matter which under applicable law (including policies of the Canadian securities commissions) or applicable stock exchange rules would require approval by special resolution or super-majority (as defined or described therein) of the holders of Trust Units had the

Trust been a reporting issuer (or the equivalent) in the jurisdictions in which the Fund is a reporting issuer (or the equivalent) and had the Trust Units been listed for trading on the stock exchanges where the Units are listed for trading;

- (b) amend the Trust Declaration of Trust except in certain limited circumstances similar to those under which the Fund Declaration of Trust may be amended without consent of Unitholders;
- (c) amend the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes;
- (d) sell, lease or exchange all or substantially all of the property of the Trust other than in the ordinary course of business or in connection with an internal reorganization;
- (e) authorize the termination, liquidation or winding-up of the Trust, other than at the end of the term of the Trust; or
- (f) authorize the combination, merger or similar transaction of the Trust with any other person.

Redemption Right

The Trust Units are redeemable at any time on demand by the holders thereof upon delivery to the Trust of a duly completed and properly executed notice requiring the Trust to redeem the Trust Units, in a form reasonably acceptable to the Trust's Trustees, together with the certificates for the Trust Units representing the Trust Units to be redeemed and written instructions as to the number of Trust Units to be redeemed. Upon tender of Trust Units by a holder thereof for redemption, the holder of the Trust Units tendered for redemption will no longer have any rights with respect to such Trust Units other than the right to receive the redemption price for such Trust Units. The redemption price for each Trust Unit tendered for redemption will be equal to:

$$\frac{(A \times B) - C + D}{E}$$

Where:

- A = the cash redemption price per Unit calculated as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;
- B = the aggregate number of Units outstanding as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;
- C = the aggregate unpaid principal amount of the Series 1 Trust Notes and accrued interest thereon and any other indebtedness held by or owed to the Fund and the fair market value of any other assets or investments held by the Fund (other than Trust Units) as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder;
- D = the aggregate unpaid liabilities of the Fund (prior to the redemption of Units for such date, if any) as of the close of business on the date the Trust Units were so tendered for redemption by the holder thereof; and
- E = the aggregate number of Trust Units outstanding held by the Fund as of the close of business on the date the Trust Units were so tendered for redemption by a Trust unitholder.

The Trust's Trustees are also entitled to call for redemption, at any time, all or part of the outstanding Trust Units registered in the name of the holders thereof other than the Fund at the same redemption price

as described above for each Trust Unit called for redemption, calculated with reference to the date the Trust's Trustees approved the redemption of Trust Units.

The aggregate redemption price payable by the Trust in respect of any Trust Units tendered for redemption by the holders thereof during any month will be satisfied, at the option of the Trust's Trustees: (i) in immediately available funds by cheque; (ii) by the issuance to or to the order of the holder whose Trust Units are to be redeemed of such aggregate amount of Series 2 Trust Notes as is equal to the aggregate redemption price payable to such holder of Trust Units rounded down to the nearest \$100, with the balance of any such aggregate redemption price not paid in Series 2 Trust Notes to be paid in immediately available funds by cheque; or (iii) by any combination of funds and Series 2 Trust Notes as the Trust's Trustees shall determine in their discretion, in each such case payable or issuable on the last day of the calendar month following the calendar month in which the Trust Units were so tendered for redemption. A holder of Trust Units whose Trust Units are tendered for redemption may elect, at any time prior to the payment of the redemption price, to receive Series 2 Trust Notes pursuant to (ii) above in the place of all or part of the funds otherwise payable, the amount of such Series 2 Trust Notes payable to be equal to the funds otherwise payable, rounded down to the nearest \$100.

Cash Distributions

The Trust intends to make monthly cash distributions to the Fund of its net monthly cash receipts, after satisfaction of its interest obligations, if any, and less any estimated cash amounts required for expenses and other obligations of the Trust, any cash redemptions or repurchases of Trust Units or Trust Notes and any tax liability. Such distributions will be paid within ten days following each calendar month end and are intended to be received by the Fund prior to its related cash distribution to Unitholders.

The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Trust for such year as is necessary to ensure that the Trust will not be liable for ordinary income taxes under the Tax Act in such year.

If the Trust's Trustees determine that the Trust does not have cash in an amount sufficient to make payment of the full amount of any distribution, the payment may include the issuance of additional Trust Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trust's Trustees, to be available for the payment of such distribution. The value of each Trust Unit so issued will be the redemption price thereof.

Any Trust Units transferred to Unitholders pursuant to a distribution in specie may be subject to resale and transfer restrictions and cannot be resold or transferred except as permitted by applicable securities law.

Trust Notes

Trust Notes are issuable in Canadian currency. Trust Notes are issuable in denominations of \$100 and integral multiples of \$100. No Trust Notes in integral multiples of less than \$100 will be distributed and where the number of Trust Notes to be received by a Unitholder includes a fraction, such number shall be rounded to the next lowest whole number. On the IPO Closing, the Trust issued approximately \$159.3 million principal amount of Series 1 Trust Notes to the Fund.

Series 2 Trust Notes will be reserved by the Trust to be issued exclusively to holders of Trust Units as full or partial payment of the redemption price of Trust Units, as the Trust's Trustees may decide or, in certain circumstances, be obliged to issue. Series 3 Trust Notes will be reserved by the Trust to be issued exclusively as full or partial payment of the redemption price of Series 1 Trust Notes.

Interest and Maturity

The Series 1 Trust Notes issued at the IPO Closing are payable on demand, mature on the 25th anniversary of the date of issuance and bear interest at a rate of 3% per annum, payable on the last day of each calendar month that such Series 1 Trust Notes are outstanding. Each Series 2 Trust Note will mature on a date which is no later than the first anniversary of the date of issuance thereof and bear interest at a market rate to be determined by the Trust's Trustees at the time of issuance thereof, payable on the last day of each calendar month that such Series 2 Trust Note is outstanding. Each Series 3 Trust Note will mature on the same date as the Series 1 Trust Notes and bear interest at a market rate to be determined by the Trust's Trustees at the time of issuance thereof, payable on the 30th day of each calendar month that such Series 3 Trust Note is outstanding.

Payment upon Maturity

On maturity, the Trust will repay the Trust Notes by paying to the trustee under the Trust Note Indenture in cash an amount equal to the principal amount of the outstanding Trust Notes which have then matured, together with accrued and unpaid interest thereon.

Redemption

The Trust Notes are redeemable in whole or in part (at a redemption price equal to the principal amount thereof plus accrued and unpaid interest, payable in cash or, in the case of a redemption of Series 1 Trust Notes on an in specie payment of the Redemption Price of Units, in Series 3 Trust Notes) at the option of the Trust prior to maturity.

Subordination

Payment of the principal amount and interest on the Trust Notes is subordinated in right of payment to the prior payment in full of the principal of and accrued and unpaid interest on, and all other amounts owing in respect of, all senior indebtedness which is defined as all indebtedness, liabilities and obligations of the Trust which, by the terms of the instrument creating or evidencing the same, is expressed to rank in right of payment in priority to the indebtedness evidenced by the Trust Note Indenture. The Trust Note Indenture provides that upon any distribution of the assets of the Trust in the event of any dissolution, liquidation, reorganization or other similar proceedings relative to the Trust, the holders of all such senior indebtedness are entitled to receive payment in full before the holders of the Trust Notes are entitled to receive any payment.

Default

The Trust Note Indenture provides that any of the following shall constitute an event of default:

- (a) default in payment of the principal of the Trust Notes when the same becomes due and the continuation of such default for a period of ninety days;
- (b) default in payment of any interest due on any Trust Notes and continuation of such default for a period of ninety days;
- (c) default in the observance or performance of any other covenant or condition of the Trust Note Indenture and continuance of such default for a period of ninety days after notice in writing has been given to the Trust's Trustees specifying such default and requiring the Trust to rectify the same; and
- (d) certain events of dissolution, liquidation, reorganization or other similar proceedings relative to the Trust.

The provisions governing an event of default under the Trust Note Indenture and remedies available thereunder do not provide protection to the holders of Trust Notes which would be comparable to the provisions generally found in debt securities issued to the public.

Unit Certificates

As Trust Units are not intended to be issued or held by any person other than the Fund, registration of interests in, and transfers of, the Trust Units are not to be made through the Book-Entry System administered by CDS. Rather, holders of Trust Units are entitled to receive certificates therefore.

Meetings of Unitholders

An annual meeting of holders of Trust Units may be held at such time and place as shall be prescribed for the purpose of transacting such business as the Trust's Trustees may determine or as may properly be brought before the meeting.

DESCRIPTION OF CINEPLEX ENTERTAINMENT LP

The following is a summary of the material attributes and characteristics of Cineplex Entertainment LP and the LP Units which will be issued under the Cineplex Entertainment LP Partnership Agreement. This summary is qualified in its entirety by reference to the provisions of the Cineplex Entertainment LP Partnership Agreement which contains a complete statement of those attributes and characteristics.

Capitalization

Cineplex Entertainment LP may issue an unlimited number of Class A LP Units, Class B LP Units, Class C LP Units and Class D LP Units to any person. The Cineplex Entertainment LP Partnership Agreement authorizes Cineplex Entertainment GP to cause Cineplex Entertainment LP to issue additional Class A LP Units, Class B LP Units, Class C LP Units or Class D LP Units for any consideration and on any terms and conditions as are established by Cineplex Entertainment GP. Class B LP Units held by the Investors are indirectly exchangeable into Units in accordance with the terms of the Exchange Agreement. Class A LP Units, Class B LP Units and Class D LP Units have economic and voting rights that are equivalent in all respects.

Distributions

Cineplex Entertainment LP intends to make monthly cash distributions to holders of record of Class A LP Units, Class B LP Units, Class C LP Units and Class D LP Units on the last business day of each month of its distributable cash so that distributions to the Investors will be equal on a pro rata basis to the distributions to be made to Unitholders by the Fund. Holders of Class B LP Units and Class D LP Units are entitled to receive distributions of Cineplex Entertainment LP equal to the "catch-up payment" (as described below) before distributions are made to holders of Class A LP Units, provided that, if no amounts are paid to the Trust in respect of the Galaxy Debt in any month, holders of Class B LP Units and Class D LP Units are not entitled to a "catch-up payment". Any remaining amounts available for distribution will be shared pro rata between the holders of Class A LP Units, Class B LP Units and Class D LP Units.

The Class C LP Units are entitled to a distribution on the business day before June 30 and December 31 each year in priority to distributions paid on the Class A LP Units, Class B LP Units and Class D LP Units equal to the amount of interest payable in respect of the Debentures plus a small spread. Such distributions are cumulative and are primarily intended to fund interest payments on the Debentures. The distribution entitlement of the Class C LP Units will automatically adjust on the conversion of any Debenture for Units such that the holder of Class C LP Units will receive (i) distributions in the same manner as distributions are made on the corresponding number of Class A LP Units following such

conversion and (ii) the priority distribution to the extent Debentures are not converted. The Class C LP Units will be entitled to a priority distribution of cash equal to the amount paid by the Fund in cash in respect of any principal repayment, redemption or repurchase of Debentures on the business day immediately prior to such payment. In addition, the Class C LP Units may be redeemed in order to provide the Fund with sufficient cash to repay, repurchase or redeem the Debentures.

Distributions on LP Units other than Class C LP Units will be paid within seven days of the end of each month and are intended to be received by the Trust prior to its related cash distribution to holders of its Trust Units. Distributable cash for a monthly period will consist, in general, of Cineplex Entertainment LP's EBITDA for the particular monthly period less any estimated cash amounts required for debt service obligations of Cineplex Entertainment LP, if any, other expense obligations, maintenance capital expenditures, taxes, reserves (including amounts on account of capital expenditures, and to stabilize distributions to Unitholders), and such other amounts as may be considered appropriate by Cineplex Entertainment GP.

Cineplex Entertainment LP may, in addition, make a distribution at any other time.

On completion of the IPO, Cineplex Galaxy Acquisition Inc. entered into an agreement with the Trust pursuant to which the Trust loaned to Cineplex Galaxy Acquisition Inc. an amount equal to \$100 million (the "Galaxy Notes"), which bear interest at a rate of 14% per annum. Following the amalgamation of Cineplex Galaxy Acquisition Inc. and GEI, the Galaxy Notes are now an obligation of GEI. The Galaxy Notes are subordinated to the Credit Facilities. In connection with the entering into of the Galaxy Notes, the Trust entered into an agreement with Cineplex Entertainment LP that is designed to ensure that the holders of Class B LP Units and Class D LP Units receive distributions equal to distributions per Unit made to the Trust in respect of the Galaxy Notes. Pursuant to such agreement the Trust agreed to contribute funds to Cineplex Entertainment LP if Cineplex Entertainment LP is otherwise unable to pay the "catch-up payment" per Class B LP Unit and Class D LP Unit out of the assets of Cineplex Entertainment LP. The "catch-up payment" is generally equal to a "specified portion" of any principal or interest repayments on the Galaxy Notes received by the Trust. The "specified portion" is equal to the number of Class B LP Units and Class D LP Units outstanding divided by the aggregate number of Units outstanding.

Allocation of Net Income and Losses

The Class B LP Units and Class D LP Units will receive an allocation of income equal to the aggregate of all catch-up payments in any fiscal year, and the balance of the income or loss for tax purposes of Cineplex Entertainment LP for a particular fiscal year will be allocated to each partner in an amount calculated by multiplying the total income or loss for tax purposes to be allocated to the partners by a fraction, the numerator of which is the sum of the cash distributions received by that partner with respect to that fiscal year and the denominator of which is the total amount of the cash distributions made by Cineplex Entertainment LP to all partners with respect to that fiscal year (in each case excluding the amount of the catch-up payment). The amount of income allocated to a partner may exceed or be less than the amount of cash distributed by Cineplex Entertainment LP to that partner.

Income and loss of Cineplex Entertainment LP for accounting purposes is allocated to each partner in the same proportion as income or loss is allocated for tax purposes.

The fiscal year end of Cineplex Entertainment LP is December 31.

Exchange Agreement

On the IPO Closing, the Fund, the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP and the Investors entered into the Exchange Agreement. The Exchange Agreement grants each of the Investors, or any entity controlled by them, the right to effectively exchange, through a series of steps to be

described in the Exchange Agreement, all or any portion of their Class B LP Units for Units (the “exchange rights”). In certain circumstances, the exchange rights permit a holder of shares of COC to transfer such shares to the Trust in exchange for Units provided that, immediately prior to such transfer, any remaining assets of COC, other than the retained interest to be exchanged, any debt of Cineplex Odeon (Quebec) Inc. and other immaterial assets relating to the theatre business which remained in COC, will be transferred by COC to another entity. The exchange rights may be exercised by the Investors at any time at their discretion so long as all of the following conditions have been met: (a) the exchange would not cause the Fund to breach the restrictions respecting non-resident ownership contained in the Fund Declaration of Trust as described in “Description of the Fund — Limitation on Non-Resident Ownership”; (b) the Fund is legally entitled to issue the Units in connection with the exercise of the exchange rights; and (c) the person receiving the Units upon the exercise of the exchange rights complies with all applicable securities laws. Rights under the Exchange Agreement may be assigned by the Investors in whole or in part in connection with a transfer of their direct or indirect ownership interests in Cineplex Entertainment LP. The Exchange Agreement provides that, to the extent Class B LP Units are exchanged for Units and such Units are subsequently transferred to a person who is not a member of the LCE Group, the Trust will be entitled to acquire a corresponding number of shares of Cineplex Entertainment GP from the applicable Investors.

The Exchange Agreement also provides that so long as any member of the LCE Group owns LP Units (or Units of the Fund for which such LP Units have been exchanged), the Fund and the Trust will not take any of the following actions without prior written approval of Cineplex Entertainment GP: (a) make any investment in any entity other than Cineplex Entertainment GP or Cineplex Entertainment LP (or any subsidiary of Cineplex Entertainment LP), (b) issue any units or other securities or repurchase outstanding units or other securities (other than as contemplated by the Exchange Agreement), or (c) guarantee the indebtedness of any third party.

Pursuant to the Exchange Agreement, certain of the Investors agreed with the Fund not to transfer outside the LCE Group that number of LP Units (or Units of the Fund issued on the exchange of such LP Units) received on the sale of the assets of COC and Cineplex Odeon (Quebec) Inc. for a period of three years following the IPO Closing. Those Investors will be released from these restrictions (i) with the prior consent of the Unitholders who are not members of the LCE Group by a majority of the votes cast in respect of a resolution thereon; (ii) to participate in any take over bid for Units made to all Unitholders by a party unrelated to the LCE Group, if such take over bid would result in the bidder acquiring direct or indirect control of Cineplex Entertainment LP and the board of directors of Cineplex Entertainment GP; or (iii) in the event a party unrelated to the LCE Group (but not only the Fund or the Trust) acquires direct or indirect control of Cineplex Entertainment LP and the board of directors of Cineplex Entertainment GP.

The Investors were also granted “piggy-back” registration rights and certain of the Investors granted demand registration rights by the Fund, subject to certain restrictions, which enable the Investors to require the Fund to file a prospectus and otherwise assist with a public offering of Units, pursuant to the terms and conditions contained in the Exchange Agreement. In the event of a “piggy-back” offering, the Fund’s financing requirements would take priority.

Limited Liability

Cineplex Entertainment LP operates in a manner as to ensure to the greatest extent possible the limited liability of the Trust. The Trust may lose its limited liability in certain circumstances. If limited liability is lost by reason of the negligence of Cineplex Entertainment GP in performing its duties and obligations under the Cineplex Entertainment LP Partnership Agreement, Cineplex Entertainment GP has agreed to indemnify the Trust against all claims arising from assertions that its liability is not limited as intended by the Cineplex Entertainment LP Partnership Agreement. However, since Cineplex Entertainment GP has no significant assets or financial resources, this indemnity may have nominal value.

Transfer of LP Units

The LP Units are transferable subject to compliance with applicable securities restrictions and compliance with the Securityholders Agreement, provided that non-residents of Canada (and partnerships that are not Canadian partnerships within the meaning of the Tax Act) may not acquire or hold an LP Unit. However, an LP Unit is not transferable in part, and no transfer of an LP Unit will be accepted by Cineplex Entertainment GP, unless a transfer form, duly completed and signed by the registered holder of the LP Unit and the transferee, has been remitted to the registrar and transfer agent of Cineplex Entertainment LP. Notwithstanding the foregoing, members of the LCE Group may only transfer or exchange their Class B LP Units with the prior consent of the LCE Shareholders. A transferee of an LP Unit will become a partner and will be subject to the obligations and entitled to the rights of a partner under the Cineplex Entertainment LP Partnership Agreement on the date on which the transfer is recorded.

Amendment

The Cineplex Entertainment LP Partnership Agreement may be amended with approval by special resolution of the holders of LP Units, except for certain amendments, which require unanimous approval of holders of LP Units, including: (i) altering the ability of the limited partners to remove Cineplex Entertainment GP involuntarily; (ii) changing the liability of any limited partner; (iii) changing the right of a limited partner to vote at any meeting; or (iv) changing Cineplex Entertainment LP from a limited partnership to a general partnership.

Notwithstanding the foregoing:

- no amendment which would adversely affect the rights and obligations of Cineplex Entertainment GP, as general partner, may be made without its consent; and
- Cineplex Entertainment GP may make amendments to the Cineplex Entertainment LP Partnership Agreement to reflect: (i) a change in the name of Cineplex Entertainment LP or the location of the principal place of business of Cineplex Entertainment LP or the registered office of Cineplex Entertainment LP; (ii) a change in the governing law of the partnership to any other province of Canada; (iii) admission, substitution, withdrawal or removal of limited partners in accordance with the Cineplex Entertainment LP Partnership Agreement; (iv) a change that, as determined by Cineplex Entertainment GP, is reasonable and necessary or appropriate to qualify or continue the qualification of Cineplex Entertainment LP as a limited partnership in which the limited partners have limited liability under applicable laws; (v) a change that, as determined by Cineplex Entertainment GP, is reasonable and necessary or appropriate to enable Cineplex Entertainment LP to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; or (vi) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Cineplex Entertainment LP Partnership Agreement which may be defective or inconsistent with any other provision contained in the Cineplex Entertainment LP Partnership Agreement or which should be made to make the Cineplex Entertainment LP Partnership Agreement consistent with the disclosure set out in the IPO prospectus.

Meetings

Cineplex Entertainment GP may call meetings of partners and is required to convene a meeting on receipt of a request in writing of the holder(s) of not less than 10% of the outstanding LP Units. Each partner is entitled to one vote for each LP Unit held. A quorum at a meeting of partners consists of two or more partners present in person or by proxy.

Tag-Along Rights

The Investors are entitled to participate, on a pro rata basis, in any sale by the Fund of its direct or indirect interest in Cineplex Entertainment LP.

DESCRIPTION OF CINEPLEX ENTERTAINMENT GP

Functions and Powers of Cineplex Entertainment GP

Cineplex Entertainment GP has exclusive authority to manage the business and affairs of Cineplex Entertainment LP, to make all decisions regarding the business of Cineplex Entertainment LP and to bind Cineplex Entertainment LP. Cineplex Entertainment GP is to exercise its powers and discharge its duties honestly, in good faith and in the best interests of Cineplex Entertainment LP and to exercise the care, diligence and skill of a reasonably prudent person in comparable circumstances. The authority and power vested in Cineplex Entertainment GP to manage the business and affairs of Cineplex Entertainment LP includes all authority necessary or incidental to carry out the objects, purposes and business of Cineplex Entertainment LP, including without limitation, the ability to engage agents to assist Cineplex Entertainment GP to carry out its management obligations or substantially administrative functions. Cineplex Entertainment GP cannot dissolve Cineplex Entertainment LP or wind up Cineplex Entertainment LP's affairs except in accordance with the provisions of the Cineplex Entertainment LP Partnership Agreement.

Securityholders Agreement

On the IPO Closing, the Fund, the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP and certain of the Investors entered into the Securityholders Agreement governing their securityholdings in, and the business and affairs of, Cineplex Entertainment LP and Cineplex Entertainment GP.

The following is a summary of certain provisions of the Securityholders Agreement, which summary is not intended to be complete. Reference is made to the Securityholders Agreement for a complete description and the full text of its provisions.

Directors

The Securityholders Agreement provides that the board of directors of Cineplex Entertainment GP (the "Board") is comprised of seven directors. For so long as members of the LCE Group hold, directly or indirectly, not less than 30% of the Units (on a fully diluted basis), LCE Shareholders will have the right to appoint four directors to the Board. If the LCE Group's ownership interest in Cineplex Entertainment LP falls below 30%, LCE Shareholders will be entitled to appoint directors to the Board as follows:

- (a) less than 30% and not less than 20% — three directors;
- (b) less than 20% and not less than 15% — two directors; and
- (c) less than 15% and not less than 5% — one director.

If members of the LCE Group own, directly or indirectly, less than 5% of the Units (on a fully diluted basis), LCE Shareholders will cease to have the right to appoint any directors of Cineplex Entertainment GP. The Fund is entitled to appoint three directors to the Board, who are currently the three independent Trustees (as described below). The balance, if any, of the Board must be independent of the LCE Group. These board representation rights are not transferable and if the LCE Group sells its interests, or a portion thereof, in Cineplex Entertainment LP, its board representation rights, or a corresponding portion thereof, will terminate, except that members of the LCE Group, directly or indirectly, may transfer such securities to another member of the LCE Group and retain such board representation rights.

Nomination of Trustees

The board of the Fund is currently comprised of four Trustees. One of the Trustees shall be a nominee of the LCE Shareholders for so long as members of the LCE Group owns at least 30% of the Units (on a fully diluted basis) and the three remaining Trustees must be independent of the members of the LCE Group. The nominees for election of the three independent Trustees in the proxy related materials sent to Unitholders are determined by the Compensation, Nominating and Corporate Governance Committee of Cineplex Entertainment GP, which is comprised of three members, two of whom, while members of the LCE Group hold at least 30% of the outstanding Units of the Fund (on a fully diluted basis), are directors appointed by LCE Shareholders and one of whom is an independent director appointed by the Fund. If the LCE Group owns 5% or more but less than 30% of the outstanding Units (on a fully diluted basis), one member of such committee will be a director of Cineplex Entertainment GP appointed by LCE Shareholders and the other two members will be independent directors appointed by the Fund. While such committee is entitled to propose the three nominees for election as independent Trustees, there is no requirement that the Unitholders vote in favour of the proposed nominees.

Transfers

The Securityholders Agreement provides that members of the LCE Group may only transfer their interests in Cineplex Entertainment GP (together with all rights under the Securityholders Agreement) to other members of the LCE Group, and provided that the transferee agrees to be bound by the provisions of the Securityholders Agreement.

Share Issuances and Pre-Emptive Rights

The Securityholders Agreement also provides each of the Investors and LCE Shareholders with pre-emptive rights to purchase interests in Cineplex Entertainment LP to maintain its pro rata ownership interest in the event that Cineplex Entertainment LP decides to issue equity securities to third parties or issues equity or debt to any existing partner (including the Trust). If Cineplex Entertainment LP, or any of its subsidiaries, issues equity securities or indebtedness (other than the Galaxy Notes), the Investors and LCE Shareholders are entitled to participate pro rata on the same basis. Upon exercise of this right, the Investors and LCE Shareholders will be entitled to participate in the issue of securities of Cineplex Entertainment LP at the most favourable price and on the most favourable terms as such securities are offered to any party. Cineplex Entertainment GP will not be entitled to issue securities without the prior approval of all of the shareholders of Cineplex Entertainment GP.

Securityholder Approval for Certain Matters

The Securityholders Agreement provides that Cineplex Entertainment LP or Cineplex Entertainment GP and, in the case of (ii), the Fund and the Trust, may not take the following actions without the prior approval of the LCE Shareholders so long as the LCE Group, directly or indirectly, collectively holds not less than 20% of the Units (on a fully diluted basis): (i) enter into any merger, consolidation, business combination or other corporate transaction, including acquisitions; (ii) sell, assign, convey or otherwise dispose of all or a material portion of the assets of the Fund or the Partnership or any of the Fund's direct or indirect interests in Cineplex Entertainment LP or Cineplex Entertainment GP; (iii) adopt any plan or proposal to liquidate, dissolve or reorganize or seek relief under bankruptcy or insolvency laws; (iv) change the size of the board of the Fund, the Trust or Cineplex Entertainment GP or their respective subsidiaries; (v) change the Chief Executive Officer of Cineplex Entertainment GP or Cineplex Entertainment LP; (vi) take any action that would hinder the business of Cineplex Entertainment LP from being carried on in the ordinary course; (vii) take any action in contravention of a material agreement or obligation; or (viii) agree to do any of the foregoing. These consent rights are not transferable and if the LCE Group directly or indirectly sells its interests, or a portion thereof, in Cineplex Entertainment LP or the Fund, such that it owns less than 20% of the Units (on a fully-diluted basis), its approval rights will

terminate, except that any member of the LCE Group may transfer their securities to another member of the LCE Group, together with such approval rights.

Amendments

The Securityholders Agreement provides that certain material agreements, including the Securityholders Agreement, the Cineplex Entertainment LP Partnership Agreement, the Services Agreement and the Fund Declaration of Trust, may only be amended with the approval of all of the shareholders of Cineplex Entertainment GP.

Withdrawal or Removal of Cineplex Entertainment GP

Cineplex Entertainment GP may resign on not less than 180 days' written notice to the limited partners of Cineplex Entertainment LP, provided that Cineplex Entertainment GP will not resign if the effect would be to dissolve Cineplex Entertainment LP.

Cineplex Entertainment GP may not be removed as general partner of Cineplex Entertainment LP unless: (i) Cineplex Entertainment GP has committed a material breach of the Cineplex Entertainment LP Partnership Agreement, which breach has continued for 30 days after notice, and that removal is also approved by special resolution of the limited partners of Cineplex Entertainment LP; or (ii) the shareholders or directors of Cineplex Entertainment GP pass a resolution in connection with the bankruptcy, dissolution, liquidation or winding-up of Cineplex Entertainment GP, or Cineplex Entertainment GP commits certain other acts of bankruptcy or ceases to be a subsisting corporation, provided that certain other conditions are satisfied, including a requirement that a successor general partner with the same ownership and governance structure at the relevant time agrees to act as general partner under the Cineplex Entertainment LP Partnership Agreement.

Transfer

Members of the LCE Group may transfer their shares of Cineplex Entertainment GP (together with all rights under the Securityholders' Agreement), in whole or in part, only to any other member of the LCE Group. If any of the LP Units are exchanged for Units of the Fund and such Units are subsequently transferred to a person who is not a member of the LCE Group or are otherwise transferred to any person who is not a member of the LCE Group, a corresponding number of shares of Cineplex Entertainment GP shall be transferred to the Trust for nominal consideration.

ADMINISTRATION AGREEMENT

The Fund, the Trust and Cineplex Entertainment LP have entered into the Administration Agreement. Under the terms of the Administration Agreement, Cineplex Entertainment LP agreed to provide (for no consideration) all administrative and support services required by the Fund and the Trust, including (without limitation) those necessary to: (i) ensure compliance by the Fund with continuous disclosure obligations under applicable securities legislation; (ii) provide investor relations services; (iii) provide or cause to be provided to Unitholders all information with respect to income taxes; (iv) call and hold meetings of Unitholders and distribute required materials, including notices of meetings and information circulars, in respect of all such meetings; (v) provide for the calculation of distributions to Unitholders; (vi) attend to all administrative and other matters arising in connection with any redemption of Units; (vii) ensure compliance with the Fund's limitations on non-resident ownership; and (viii) assist the Fund's Trustees in making all determinations necessary for the discharge of their obligations under the Fund's Declaration of Trust. The Administration Agreement also provides that Cineplex Entertainment LP shall assume and pay for any expenses incurred by the Fund or the Trust.

The Administration Agreement has a term of 25 years, although the Fund and the Trust may jointly extend the term of the agreement for two additional ten-year periods by providing Cineplex Entertainment

LP with 30 days' written notice of such extension. The Administration Agreement may be terminated by any of the parties in the event of the insolvency or receivership of another party, or in the case of default by one of the other parties in the performance of a material obligation of the Administration Agreement (other than as a result of the occurrence of a force majeure event) which is not remedied within 30 days after written notice thereof has been delivered.

TRUSTEES, DIRECTORS AND OFFICERS

The following table sets out, for each of the trustees of the Fund and directors and senior officers of Cineplex Entertainment GP, the person's name, municipality of residence, positions with the Fund (i.e., trusteeship) and Cineplex Entertainment GP (i.e. directorship and/or office) and principal occupation. The senior officers of Cineplex Entertainment GP hold the same offices in Cineplex Entertainment LP. The term of office for each of the trustees of the Fund (other than the trustee elected by the LCE Shareholders) expires at the time of the next annual meeting of Unitholders. The term of office for each of the directors expires at the time of the next annual meeting of securityholders of Cineplex Entertainment GP.

As of March 22, 2006, the trustees of the Fund, the directors and senior officers of Cineplex Entertainment GP Fund and the senior officers of Cineplex Entertainment LP collectively beneficially own, directly or indirectly, or exercise control and direction over 822,909 Units, representing, in the aggregate 1% of the issued and outstanding Units, calculated on a fully diluted basis.¹

Name and Residence	Position	Principal Occupation	Trustee/Director Since
Howard Beck ⁽²⁾⁽⁴⁾ Ontario, Canada	Trustee/Director	Corporate Director	October 2003 / October 2003
Bruce Birmingham Ontario, Canada ⁽²⁾	Trustee/Director	Corporate Director	October 2003 / October 2003
Robert Steacy Ontario, Canada ⁽¹⁾⁽²⁾⁽⁴⁾	Trustee/Director	Corporate Director	May 2005 / May 2005
John Bailey Ontario, Canada	Trustee/Director	Corporate Director	August 2004 / August 2004
Anthony Munk New York, USA ⁽³⁾⁽⁴⁾	Chairman of Cineplex Entertainment GP, Director	Managing Director, Onex Investment Corp. (a subsidiary of Onex Corporation, a Toronto- based diversified company)	- / October 2003
Timothy Duncanson Ontario, Canada	Director	Managing Director, Onex Corporation (a Toronto- based diversified company)	- / October 2003
Ellis Jacob Ontario, Canada	Director	President and Chief Executive Officer, Cineplex Entertainment LP	- /October 2003
Gord Nelson Ontario, Canada	-	Chief Financial Officer, Cineplex Entertainment LP	- / -

¹ Calculation of the aggregate 1% ownership includes 8,124 Units that have been allocated to, but have not vested in, senior officers of Cineplex Entertainment LP pursuant to the Long Term Incentive Plan.

Name and Residence	Position	Principal Occupation	Trustee/Director Since
Dan McGrath Ontario, Canada	-	Executive Vice President, Cineplex Entertainment LP	- / -
Michael Kennedy, Ontario, Canada	-	Executive Vice President, Film and Marketing, Cineplex Entertainment LP	- / -
Jeff Kent Ontario, Canada	-	Chief Technology Officer, Cineplex Entertainment LP	- / -
Anne Fitzgerald Ontario, Canada	-	Senior Vice President, General Counsel and Corporate Secretary, Cineplex Entertainment LP	- / -
Heather Briant Ontario, Canada	-	Senior Vice President, Human Resources, Cineplex Entertainment LP	- / -

- (1) Chairman of the Audit Committee of each of the Fund and Cineplex Entertainment GP
- (2) Member of the Audit Committee of each of the Fund and Cineplex Entertainment GP
- (3) Chairman of the Compensation, Nominating and Corporate Governance Committee
- (4) Member of the Compensation, Nomination and Corporate Governance Committee

Under the terms of the Securityholders Agreement, the LCE Shareholders have the right to appoint a prescribed number of nominees to the board of directors of Cineplex Entertainment GP so long as the members of LCE Group own at least 5% of the Units (on a fully diluted basis). The current LCE Shareholder nominees to the board of directors are John Bailey, Tim Duncanson and Anthony Munk. See “Cineplex Entertainment GP — Securityholders Agreement”.

Biographies

As of March 22, 2006, the following are brief profiles of the trustees of the Fund and the directors and officers of Cineplex Entertainment GP.

Howard L. Beck, Trustee of the Fund, Director. Mr. Beck is currently a director of, and advisor to, a number of public and private companies, including Barrick Gold Corporation, Citibank Canada and Trizec Canada Inc. Mr. Beck was a founding partner of the law firm Davies, Ward & Beck (currently, Davies Ward Phillips & Vineberg).

Bruce Birmingham, Trustee of the Fund, Director. Mr. Birmingham served as Past President of the Bank of Nova Scotia from March 2002 to March 2003 and as President of the Bank of Nova Scotia from 1995 to 2002. Mr. Birmingham has served on a number of boards of directors, including the Bank of Nova Scotia from 1992 to 2003, Luscar Coal Income Fund from 1996 to 2001 and Indigo Books & Music Inc through 2004.

Robert Steacy, Trustee of the Fund, Director. Mr. Steacy retired as Executive Vice President and Chief Financial Officer of Torstar Corporation in 2005, where he served as the senior financial officer for 16 years. Mr. Steacy is a Chartered Accountant (Ontario Institute of Chartered Accountancy) and currently sits the boards of Alliance Atlantis Communications Inc., University of Toronto Press, Domtar Inc. and Somerset Entertainment Income Fund. He sits on the Audit Committee of all four organizations and serves as Chairman of the Audit Committee for Somerset Entertainment Income Fund. Mr. Steacy became a Chartered Accountant in 1976.

Mr. Steacy was a director of ITI Education Corporation (“ITI”) (as a result of Torstar Corporation’s partial ownership of ITI) when it voluntarily agreed to the appointment of a receiver in August 2001. Mr. Steacy resigned as a director of ITI on August 16, 2001. In October 2001, a cease trading order was issued against ITI by the Ontario Securities Commission, which prohibited the trading of securities of ITI until filing of an Order of Revocation by the Ontario Securities Commission. This cease trading order was imposed as a result of ITI’s failure to file its interim financial statements in accordance with Ontario securities law.

John Bailey, Trustee of the Fund, Director. Mr. Bailey was Chairman and CEO of Famous Players from 2000 to 2003 after serving as President from 1997. Prior to that, he was COO and EVP. Before joining Famous Players, Mr. Bailey was SVP, Financial Planning for Paramount Pictures Corporation and Senior Vice President of the Gulf and Western Entertainment Group. Mr. Bailey is also a trustee of the Movie Distribution Income Fund, a director of Motion Picture Distribution Inc. and a member of the board of Downsview Park. Mr. Bailey has been a Trustee and Director since August 2004.

Anthony Munk, Chairman of the Board of Directors of Cineplex Entertainment GP. Mr. Munk is currently a Managing Director of Onex Investment Corp., a subsidiary of Onex Corporation which is a Toronto based diversified company. Prior to joining Onex in 1988, Mr. Munk was a vice-president with First Boston Corporation in London, England. Mr. Munk serves on the boards of Cineplex Odeon Corporation, and Barrick Gold Corporation.

Timothy Duncanson, Director. Mr. Duncanson is currently a Managing Director of Onex Corporation. Prior to joining Onex in 1999, Mr. Duncanson was an associate in the mergers and acquisitions department of Lazard Freres & Co., LLC and was also an investment analyst with Mutual Asset Management Ltd. Mr. Duncanson holds the Chartered Financial Analyst designation. He currently serves on the board of Cineplex Odeon Corporation.

Ellis Jacob, Director and Chief Executive Officer. Mr. Jacob has been working in the motion picture exhibition industry since 1987. Prior to assuming his current position as Chief Executive Officer, Mr. Jacob was Chief Executive Officer and co-founder of Galaxy Entertainment Inc. Prior to 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 as Vice President, Finance, Chief Financial Officer, Executive Vice President and, ultimately, Chief Operating Officer.

Mr. Jacob is a member of the board of directors and chair of the audit committee of Alliance Atlantis Communications Inc., an integrated Canadian entertainment company. He is also a director and chair of the audit committee of the Toronto International Film Festival Group. He is a director of the Motion Picture Theatre Association of Canada and sits on other charitable boards and committees.

Dan McGrath, Executive Vice President. Mr. McGrath joined Galaxy Entertainment Inc. in June 2000 as Executive Vice-President, responsible for the areas of operations, merchandising and marketing. From 1987 until 1994, Mr. McGrath held various financial roles within Cineplex Odeon Corporation. From 1994, Mr. McGrath held the position of Vice President, Operations for Canada and the United States. In 1998, Mr. McGrath was promoted to Senior Vice President, Operations. Mr. McGrath is a director and Treasurer for both the Motion Picture Theatre Association of Canada and the Motion Picture Theatre Association of Ontario.

Gord Nelson, Chief Financial Officer. Mr. Nelson joined Cineplex Odeon Corporation in December 1988 and has held various financial roles. From August 2004 to present he has held the role of Chief Financial Officer. From November 23, 2003 to August 2004 he held the position of Senior Vice-President, Finance and Management Information Systems. From March 2003 to November 2003 he held the position of Senior Vice President and Chief Financial Officer of Cineplex Odeon Corporation. From

May 2000 to March 2003 Mr. Nelson held the position of Senior Vice President, Finance and from May 1998 to May 2000 he held the position of Vice President and Controller of Cineplex Odeon Corporation. While Mr. Nelson was an officer of Cineplex Odeon Corporation, it instituted proceedings under the CCAA.

Michael Kennedy, Executive Vice President, Film and Marketing. Mr. Kennedy joined Cineplex as Executive Vice President in July 2005 to oversee all aspects of marketing and film programming for the Partnership. Prior to joining Cineplex, Mr. Kennedy held senior management roles at Famous Players, Cineplex Odeon and Norstar Releasing. Mr. Kennedy is an industry veteran and his career has included roles in operations, film programming as well as film and video distribution. Mr. Kennedy is a member of the management committee of Alliance Atlantis Cinemas partnership. He also sits on the Boards of Directors of the Motion Picture Pioneers Association of Canada and the Hot Docs Film Festival and sits on the Documentary Advisory Panel as well as the Canada Feature Film Fund National Steering Committee of Telefilm Canada.

Jeff Kent, Chief Technology Officer. Mr. Kent is an Information Technology (IT) professional with many years experience in the entertainment industry. Mr. Kent oversees all technology relating to the Fund and its subsidiaries. Prior to joining the company, Mr. Kent spent the previous six years as Senior Vice President, IT for Alliance Atlantis Communications Inc. Prior to joining Alliance Atlantis, Mr. Kent worked 12 years for Cineplex Odeon Corporation holding senior positions within the Finance and IT departments.

Anne Fitzgerald, Senior Vice President, General Counsel and Corporate Secretary. Ms. Fitzgerald is licensed to practice law in Ontario as well as in Illinois and North Carolina. As in-house counsel, she oversees all legal matters relating to the Fund and its subsidiaries. Immediately prior to joining the company, Ms. Fitzgerald practiced corporate law in the entertainment industry in both Toronto and the United States. She practiced law for nine years as a litigator and for the three years prior as a corporate associate with Smith, Anderson, Blount, Dorsett, Mitchell and Jernigan in North Carolina. Ms. Fitzgerald sits as a director on the board of the Motion Picture Theatre Association of Canada.

Heather Briant, Senior Vice President, Human Resources. Ms. Briant joined Cineplex Entertainment on March 20, 2006. Immediately prior to joining the Partnership, Mrs. Briant was employed as Vice President, Human Resources at Canadian Tire Corporation, Limited, having held several positions in Human Resources with Canadian Tire since 1997. Prior to that, she was the Chief Administrative Officer with the law firm of Davies, Ward & Beck in Toronto (currently, Davies Ward Phillips & Vineberg). She presently sits on the Board of the Jean Tweed Centre.

Committees of the Board of Trustees of the Fund Board of Directors of Cineplex Entertainment GP

The board of directors of Cineplex Entertainment GP has an Audit Committee and a Compensation, Nominating and Corporate Governance Committee. The board of Trustees of the Fund has an Audit Committee.

Audit Committees

Terms of Reference of the Audit Committees of the Fund and Cineplex Entertainment GP

The Terms of Reference of the Audit Committees of the board of Trustees of the Fund and the board of directors of Cineplex Entertainment GP, as each was approved on March 22, 2006 are set out in Schedules A and B, to this Annual Information Form, respectively.

Composition of the Audit Committees of the Fund and Cineplex Entertainment GP

The Audit Committee of each of the Fund and Cineplex Entertainment GP is composed of three Trustees/directors, namely Robert Steacy (Chairman), Howard Beck and Bruce Birmingham. Each member of the Audit Committee is independent and financially literate within the meaning of applicable securities laws.

Relevant Education and Experience of Audit Committee Members

In addition to each member’s general business experience, the education and experience of each member of the Audit Committee that is relevant to the performance of his responsibilities as a member of the Audit Committee are set forth below:

- **Robert Steacy** – Prior to his retirement in 2005, Robert Steacy was the Executive Vice President and Chief Financial Officer of Torstar Corporation and had been its senior financial officer for 16 years. In that capacity, he was responsible for overseeing all financial functions of that corporation (including all financial reporting, budgeting, treasury functions and internal audit). Mr. Steacy is a Chartered Accountant (Ontario Institute of Chartered Accountancy) and currently sits the boards of Alliance Atlantis Communications Inc., University of Toronto Press, Domtar Inc. and Somerset Entertainment Income Fund (including the Audit Committee of all four organizations). Mr. Steacy also serves as the Chairman of the Audit Committee of Somerset Entertainment Income Fund.
- **Howard Beck** – Mr. Beck is currently a director of, and advisor to, a number of public and private companies, including Barrick Gold Corporation, Citibank Canada, and Trizec Canada Inc. He currently sits as Chairman of the Audit Committees for Barrick Gold Corporation and Trizec Canada Inc. He is a member of the Audit Committees for Citibank Canada and Masonite International Corporation. He is an author of numerous books or articles on Canadian tax issues. Mr. Beck was a founding partner of the law firm Davies, Ward & Beck (currently, Davies Ward Phillips & Vineberg). He earned his LLB from Columbia University and was called to the bar in British Columbia in 1957. He was appointed Queen’s Counsel in 1971.
- **Bruce Birmingham** - Mr. Birmingham worked over thirty years with the Bank of Nova Scotia in a number of capacities, including as President from 1995 to 2002, Past President from 2002 to 2003, and, at various times, as director of Retail and Commercial Banking, Corporate Banking and International Banking. Mr. Birmingham has served on a number of boards of directors, including the Bank of Nova Scotia from 1992 to 2003, Luscar Coal Income Fund from 1996 to 2001 and Indigo Books & Music Inc., where he was also a member of the Audit Committee through December, 2004. He obtained his Masters in Business Administration in 1971 from the University of British Columbia.

Audit Fees

The aggregate amounts paid or accrued by the Fund or Cineplex Entertainment LP with respect to fees, excluding expenses, payable to PricewaterhouseCoopers LLP, the auditors of the Fund and Cineplex Entertainment LP, for audit, audit-related, tax and other services in the fiscal years ended December 31, 2005 and December 31, 2004 were as follows:

Type of Service	Year Ended December 31, 2005	Year Ended December 31, 2004
AUDIT.....	\$970,000	\$570,000
AUDIT-RELATED	\$667,451	\$49,500
TAX.....	\$281,000	\$94,000
ALL OTHER FEES.....	\$15,000	Nil

The nature of each category of fees is described below.

Audit-related Fees. Audit related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual financial statements and are not reported under the audit fees item above. In 2005, these services consisted primarily of audit and related work in connection with a Prospectus filed in July 2005 and the related Business Acquisition Report. In 2004, these services consisted primarily of a special audit in connection with certain support arrangements and the audit of the Pension Plan.

Tax. Tax fees were paid for tax compliance services and tax consulting and planning. In 2005, approximately \$120,000 in tax fees related to the FP Acquisition.

Pre-Approval Policies and Procedures

The Audit Committees have adopted a policy regarding the engagement of the external auditor for non-audit and non-compliance tax services. PricewaterhouseCoopers LLP provide audit services to the Fund and Cineplex Entertainment LP and are also authorized to provide specific audit-related services as well as prescribed tax services. PricewaterhouseCoopers LLP may also provide other services provided that its engagement for such services is pre-approved by the Audit Committee.

RISK FACTORS

Risks Related to the Partnership and the Film Exhibition Industry

Alternative Film Delivery Methods and Other Forms of Entertainment

The Partnership competes with other film delivery vehicles, including cable and satellite television, DVDs and video cassettes, as well as pay-per-view services and downloads via the Internet. The release date of a film in other channels of distribution (such as pay television or DVD) is at the discretion of each distributor and earlier release windows for such alternative channels could have a negative impact on the Partnership's business and results of operations. The Partnership also competes for the public's leisure time and disposable income with other forms of entertainment, including sporting events, live music concerts, live theatre and restaurants. These alternative film delivery methods and other forms of entertainment could reduce attendance at the Partnership's theatres, limit the prices that the Partnership can charge for admission and materially adversely affect the Partnership's business and results of operations.

Unauthorized Copying of Films

Technological advances and the conversion of films into digital formats have made it easier to create, transmit and "share" high quality unauthorized copies of films in theatrical release. As a result, users may be able to download and distribute unauthorized or "pirated" copies of films over the Internet. In addition, there could be increased proliferation of devices capable of making unauthorized copies of films. As long as pirated content is available to download digitally, some consumers may choose to digitally download pirated films rather than attending a theatre. Management believes that this may be particularly true for guests who would otherwise go to a first-run film more than once in the theatre. These technological advances and illegal distribution of films pose a threat to the film exhibition business and may have an adverse effect on the Partnership's business.

Reliance on Film Production and Performance

The Partnership's ability to operate successfully depends upon the availability, diversity and appeal of films, the ability of the Partnership to license films and the performance of these films in the Partnership's markets. The Partnership licenses first-run films, the success of which is dependent upon their quality, as

well as on the marketing efforts of film studios and distributors. Poor performance of these films, or any disruption in the production or release of films, including by reason of a strike or threat of a strike, or a reduction in the marketing efforts of film studios and distributors, would have a negative effect on film attendance and adversely affect the Partnership's business and results of operations. The Partnership's reliance each year on a small number of very successful films is a risk which all film exhibitors face. From 2000 to 2004, revenues (assuming completion of the FP Acquisition and divestitures under the Consent Agreement at the commencement of the relevant period) from six films in each year accounted for between 17.9% and 22.9% of the Partnership's box office *pro forma* revenues in each such year. In 2005, approximately 17.4% of the Partnership's box office *pro forma* revenues (assuming completion of the FP Acquisition and divestitures under the Consent Agreement at the commencement of the relevant period) were from six films.

A significant portion of the film rental fees of the Partnership are based on a percentage of box office receipts with the percentage declining over the length of the film run. As films play out faster, with a higher proportion of the box office generated during the early weeks of release, this may adversely affect the Partnership's results of operations.

Increased Capital Expenses Resulting from the Development of Digital Technologies for Film Exhibition

The film exhibition industry is in the early stages of conversion from a physical film-based medium to an electronic medium of film exhibition. There are likely to be significant capital costs associated with the adoption of this technology by film exhibitors. There are a variety of constituencies whose responses to this anticipated change, individually or collectively, may significantly impact film exhibitors, including content providers, distributors, equipment providers and exhibitors. It is not possible to predict accurately how the roles and allocation of costs among various industry participants may change as the industry changes from a film-based medium to an electronic medium. If the conversion process rapidly accelerates, the Partnership may have to raise additional capital to finance the associated conversion costs. The additional capital necessary may not be available to the Partnership on attractive terms or at all.

Reliance on Key Personnel

The success of the Partnership depends upon the retention of senior management, including Ellis Jacob. There can be no assurance that the Partnership would be able to find qualified replacements for the individuals who make up its senior management team if their services were no longer available. The loss of services of one or more members of the senior management team could adversely affect the Partnership's business, results of operations and the Partnership's ability to effectively pursue its business strategy. The Partnership does not maintain key-man life insurance for any of its employees.

The Acquisition and Development of New Theatre Sites

The acquisition and development of new theatre sites to be operated by the Partnership is dependent on the ability of the Partnership to identify, acquire and develop suitable sites for potential theatre locations in both new and existing markets. The cost to develop a new theatre is substantial, but its success is not assured. While the Partnership is careful in selecting sites for new theatres, the significant time lag from identifying a new site to theatre opening can result in a change in local market circumstances and could negatively impact the theatre's chance of success.

In addition, the Consent Agreement provides that Cineplex Entertainment LP shall, for a period of five years from May 27, 2005, provide the Commissioner with prior written notice of any acquisition by it of any non-Cineplex theatre or assumption of a lease in respect of an operating non-Cineplex theatre where the remaining term of the lease exceeds two years. Cineplex Entertainment LP also may not, during this time, re-acquire any of the divested theatres without the prior approval of the Commissioner.

Impact of New Theatres

The opening of modern multiplex theatres by the Partnership and certain of its competitors has tended to, and is expected by management to continue to, draw audiences away from less appealing older theatres, including some owned or operated by the Partnership. The building of new theatres or the addition of screens to existing theatres by competitors in areas in which the Partnership operates theatres may result in reduced attendance levels at the Partnership's theatres. Reductions in cash flow at the individual theatre level could, in the aggregate, have a material adverse effect on the Partnership's business and distributable cash.

Rising Insurance and Labour Costs

The terrorist attacks on the United States in 2001 resulted in significant increases in the cost of property and liability insurance. Some insurance coverage is available only on unfavourable terms or not at all and there have been significant increases in the deductible amounts for liability insurance. Future increases in insurance costs, coupled with the increase in deductibles, will result in higher theatre operating costs and increased risk.

Approximately 90.8% of the employees of the Partnership are hourly workers whose compensation is based on the prevailing provincial minimum wages; the compensation for 44.5% of the employees of the Partnership is at minimum wage. Any increase in these minimum wages will increase employee related costs.

Occupancy Costs

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

Ability to Generate Additional Ancillary Revenue

Management intends to continue to pursue ancillary revenue opportunities such as advertising, games, promotions and alternative uses of its theatres during non-peak hours. The Partnership's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams.

Competitive Environment

The Partnership competes in each of its local markets with other national and regional circuits and independent film exhibitors, particularly with respect to film licensing, attracting guests and acquiring and developing new theatre sites and acquiring existing theatres. The major competitors of the Partnership for first run movie exhibition are Empire, AMC Entertainment and Landmark theatres.

Movie goers are generally not brand conscious and usually choose a theatre based on its location, the films showing, show times available and the theatre's amenities. As a result, the development of theatres by the Partnership's competitors in areas in which the Partnership operates may lead to reduced attendance at the Partnership's theatres. In addition, a change in consumer preferences or technology may cause increased competition or require the Partnership to make significant capital expenditures in order to compete effectively.

The Partnership's failure to compete effectively with its current or any future competitors could result in, among other things, reduced levels of attendance at the Partnership's theatres as well as reduced box

office, concession and ancillary revenues and could have a material adverse effect on the Partnership's financial condition and results of operation.

Relationships with Major Film Distributors

In 2005, eight major film distributors accounted for approximately 84.8% of the Partnership's pro forma EDI box office revenues (assuming completion of the FP Acquisition and the divestitures required under the Consent Agreement at the commencement of such period), which is consistent with industry standards. The Partnership depends on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all. A deterioration in the Partnership's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films, which could adversely affect the Partnership's business and results of operations.

Relationships with Primary Concession Suppliers

Substantially all of the Partnership's beverage concessions are products of two major beverage companies. If these relationships were disrupted, the Partnership may be forced to negotiate a substitute arrangement that could be less favourable to the Partnership than the current arrangements. Any such disruptions could therefore increase the cost of concessions and harm the Partnership's operating margins, which would adversely affect its business and results of operations. In addition, the Partnership intends to assess whether purchasing beverages from a single beverage supplier may be more advantageous. If the Partnership determines to source beverages from a single supplier, any disruption of that supplier could adversely affect the Partnership's financial condition and results of operations.

The Partnership relies on a single company for the distribution of a substantial portion of its concession supplies. If this distribution relationship were disrupted, the Partnership could be forced to negotiate a number of substitute arrangements with alternative distributors that could, in the aggregate, be less favourable to the Partnership than the current arrangement.

Landlord Lease Termination Rights

The leases for several of the Cineplex Odeon theatres which were renegotiated during COC's restructuring provide both the tenant and the landlord the right to terminate the lease by providing notice, in some cases only upon the occurrence of certain events beyond the Partnership's control. A decision by the landlords at some or all of these theatres to terminate these leases could, in the aggregate, have a material adverse effect on the Partnership's Distributable Cash.

The Partnership may also continue to be liable for obligations under theatre leases in respect of divested theatres. If the transferee of such theatres fails to satisfy the obligations under such leases, the Partnership may be adversely affected.

Reliance on Consumer Spending

The Partnership is dependent on consumers to spend discretionary funds on leisure activities. Movie theatre attendance may be affected by prolonged, negative trends in the general economy that adversely affect consumer spending. Any reduction in consumer confidence or disposable income in general may affect theatre attendance or severely impact the motion picture production industry, which, in turn, could adversely affect the Partnership's business and results of operations. In addition, if the Partnership is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and concession revenues.

Risks Related to the Structure of the Fund

Dependence on the Trust and the Partnership

The Fund is an unincorporated open-ended, limited purpose trust which is entirely dependent on the operations and assets of the Partnership through the Trust's ownership of 50.5% of the LP Units (excluding the Class C LP Units). Cash distributions to Unitholders are dependent on, among other things, the ability of the Trust to pay interest on the Trust Notes and to make cash distributions in respect of the Trust Units, which, in turn, is dependent on the Partnership making cash distributions and the ability of GEI to pay interest on the Galaxy Notes. The ability of the Partnership, GEI or the Trust to make cash distributions or other payments or advances is subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Cash Distributions Are Not Guaranteed and Will Fluctuate with the Business Performance

Although the Fund intends to distribute the interest received in respect of the Trust Notes and the cash distributions received in respect of the Trust Units, less expenses (including interest expense on the Debentures) and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Partnership's business or ultimately distributed to the Fund. The ability of the Fund to make cash distributions, and the actual amount distributed, is entirely dependent on the operations and assets of the Partnership, and is subject to various factors including the Partnership's financial performance, its obligations under applicable credit facilities, fluctuations in its working capital, the sustainability of its margins and its capital expenditure requirements. The market value of the Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Nature of Units

Securities like the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the business of the Partnership and should not be viewed by investors as direct securities of Cineplex Entertainment LP or its subsidiaries. As holders of Units, Unitholders do not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions or rights of dissent. The Units represent a fractional interest in the Fund. The Fund's primary assets are the Trust Units and Trust Notes. The price per Unit is a function of anticipated distributable income.

The Units are not "deposits" within the meaning of the *Canada Deposit Insurance Corporations Act* (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Distribution of Securities on Redemption or Termination of the Fund

Upon termination of the Fund, the Trustees may distribute the Trust Notes and Trust Units directly to the Unitholders, subject to obtaining all required regulatory approvals. Upon redemption of Units, the Trustees may distribute the Trust Notes directly to Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Trust Notes and the Trust Units. In addition, Trust Notes and the Trust Units are not freely tradable or listed on any stock exchange. See "Description of the Fund — Term of the Fund" and "Description of the Fund — Redemption at the Option of Unitholders". Securities so distributed may not be qualified investments for trusts governed by Plans, depending on the circumstances at the time.

Unitholder Liability

The Fund Declaration of Trust provides that no Unitholder is subject to any liability whatsoever to any person in connection with a holding of Units. However, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a Unitholder could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. The affairs of the Fund are conducted to minimize such risk wherever possible.

In December, 2004, a new statute, *The Trust Beneficiaries' Liability Act* (Ontario), was enacted to create a statutory limitation on the liability of Unitholders of Ontario income trusts such as the Fund. The legislation provides that a Unitholder will not, as beneficiary, be liable for any act, default, obligation or liability of the trust or any of its trustees after the legislation comes into force. However, this legislation does not address potential liabilities arising before the date the legislation came into force. In addition, this legislation has not been judicially considered and it is possible that reliance on the legislation by a Unitholder could be successfully challenged on jurisdictional or other grounds.

Dilution of Existing Unitholders and Limited Partnership Unit Holders

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders do not have pre-emptive rights in connection with such further issues. Additional Units will be issued by the Fund in connection with the indirect exchange of the Class B LP Units. In addition, Cineplex Entertainment LP is permitted to issue additional LP Units for any consideration and on any terms and conditions.

Price Fluctuation

Units of publicly traded income funds do not necessarily trade at values determined solely by reference to the underlying value of its assets. One of the factors that may influence the market price of the Units is the annual yield of the Units. An increase in market interest rates may lead purchasers of Units to demand a higher annual yield and thus could adversely affect the market price of the Units. In addition, the market price of the Units may be affected by changes in general market conditions, fluctuations in the market for equity or debt securities and numerous other factors outside the Fund's control.

Control of the Partnership

Pursuant to the Securityholders Agreement, the LCE Shareholders is entitled to appoint four of the seven directors on the Board of Cineplex Entertainment GP for so long as the LCE Group owns, directly or indirectly, not less than 30% of the Units (on a fully diluted basis). See "Material Agreements — Securityholders Agreement" for a description of the LCE Group's board representation rights. These board representation rights are not transferable outside of the LCE Group. As a result of their board representation rights, the LCE Shareholders, for so long as the LCE Group owns not less than 30% of the Units (on a fully diluted basis), control the board of Cineplex Entertainment GP, which allows them to exercise significant control over certain corporate transactions submitted to the Board of Cineplex Entertainment GP for approval.

For so long as the LCE Group owns, directly or indirectly, not less than 20% of the Units (on a fully diluted basis), the LCE Shareholders have certain limited veto rights with respect to certain matters relating to Cineplex Entertainment LP and certain of its related entities, which allows the LCE Shareholders to exercise significant control over certain corporate transactions. These veto rights are not transferable outside the LCE Group. In addition, the LCE Shareholders have consent rights respecting amendment to certain material agreements entered into by Cineplex Entertainment LP and certain of its

affiliates. See “Material Agreements — Securityholders Agreement”. The interests of the LCE Shareholders may conflict with those of other Unitholders.

Leverage and Restrictive Covenants

The ability of the Fund and the Partnership to make distributions, pay dividends or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Partnership’s credit facilities and the Indenture). The degree to which each of the Partnership and the Fund is leveraged could have important consequences to the Unitholders including: the Partnership’s and the Fund’s ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; a significant portion of the Partnership’s or the Fund’s cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; certain of the Partnership’s borrowings are at variable rates of interests, which exposes the Partnership to the risk of increased interest rates; and the Partnership may be more vulnerable to economic downturns and be limited in its ability to withstand competitor pressures. These factors may increase the sensitivity of distributable cash to interest rate variations.

The Partnership’s current credit facilities contain numerous restrictive covenants that limit the discretion of the Partnership’s management with respect to certain business matters. These covenants place significant restrictions on, among other things, the ability of the Partnership to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, such credit facilities contain a number of financial covenants that require the Partnership to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the Partnership’s credit facilities could result in a default which, if not cured or waived, could result in a termination of distributions by the Partnership and permit acceleration of the relevant indebtedness. If the indebtedness under the Partnership’s current credit facilities were to be accelerated, there can be no assurance that the assets of the Partnership would be sufficient to repay in full that indebtedness. In addition, the Partnership’s current credit facilities mature no later than the third anniversary thereof. There can be no assurance that future borrowings or equity financing will be available to the Fund or the Partnership, or available on acceptable terms, in an amount sufficient to fund the Fund’s or the Partnership’s needs.

Future Sales of Units by the Investors

The Investors hold in aggregate approximately 49.4% of the outstanding LP Units of Cineplex Entertainment LP (excluding the Class C LP Units) which, pursuant to the Exchange Agreement, can be exchanged at any time, subject to certain conditions, thereby causing the issuance of additional Units. The Investors have also been granted certain registration rights by the Fund. See “Cineplex Entertainment LP — Exchange Agreement”. If COC sells substantial amounts of Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

Income Tax Matters

There can be no assurance that Canadian federal income tax laws and administrative policies respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Units.

Interest on the Trust Notes accrues at the Fund level for Canadian federal income tax purposes, whether or not actually paid. The Fund Declaration of Trust provides that a sufficient amount of the Fund’s net income and net realized capital gains will be distributed each year to Unitholders in order to eliminate the Fund’s liability for tax under Part 1 of the Tax Act. Where such amount of net income (including interest

on the Trust Notes) and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their taxable income, in circumstances when they do not directly receive a cash distribution.

Restrictions on Potential Growth

The payout by the Partnership of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of the Partnership and its cash flow.

Restrictions on Certain Unitholders and Liquidity of Units

The Fund Declaration of Trust imposes various restrictions on Unitholders. Non-resident Unitholders are prohibited from beneficially owning more than 49.9% of Units (on a non-diluted and a fully-diluted basis). The Indenture also contains restrictions on beneficial ownership of Debentures and Units issuable pursuant to the Debentures by non-resident holders. These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders and Debentures, including non-residents of Canada and U.S. persons, to acquire Units and Debentures, to exercise their rights as Unitholders and Debentures and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for Units from certain Unitholders and holders of Debentures and thereby adversely affect the liquidity and market value of the Units and Debentures held by the public.

Market for Debentures

The market price of the Debentures could be subject to significant fluctuations in response to changes in market rates of interest, changes in general market conditions, variations in quarterly operating results and other factors. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the Debentures.

Prior Ranking Indebtedness

The Debentures are subordinate to all Senior Indebtedness. The Debentures are also effectively subordinate to claims of the Fund creditors of the direct or indirect subsidiaries of the Fund except to the extent the Fund is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. See “Description of the Fund — Description of Debentures — Rank”.

Absence of Covenant Protection

The Indenture does not restrict the Fund or any of its subsidiaries from incurring additional indebtedness or from mortgaging, pledging or charging its assets to secure any indebtedness. The Indenture does not contain any provisions specifically intended to protect holders of the Debentures in the event of a future leveraged transaction involving the Fund or any of its subsidiaries.

Redemption Prior to Maturity

The Debentures may be redeemed, at the option of the Fund, on and after December 31, 2008 and prior to the Maturity Date at any time and from time to time, at the redemption prices set forth in this short form prospectus, together with any accrued and unpaid interest. Holders of Debentures should assume that this redemption option will be exercised if the Fund is able to refinance at a lower interest rate or it is otherwise in the interest of the Fund to redeem the Debentures.

Inability of Fund to Purchase Debentures

The Fund will be required to offer to purchase all outstanding Debentures upon the occurrence of a Change of Control. However, it is possible that following a Change of Control, the Fund will not have sufficient funds at that time to make the required purchase of outstanding Debentures or that restrictions contained in other indebtedness (including the New Credit Facility) will restrict those purchases. See “Description of the Fund — Description of Debentures — Change of Control”.

Dilutive Effects on Holders of Units

The Fund may issue Units on the conversion, redemption or repayment of the Debentures. Accordingly, holders of Units may suffer dilution.

Conversion Right Following Certain Transactions

In the event of certain transactions, pursuant to the terms of the Indenture, each Debenture will become exchangeable for securities, cash or property receivable by a holder of Units in the kind and amount of securities, cash or property into which the Debenture was exchangeable immediately prior to the transaction. This change could substantially lessen or eliminate the value of the conversion privilege associated with the Debentures in the future.

DISTRIBUTIONS

The following table sets for the date of payment per Unit and the total amount of the distributions paid by the Fund on the Units during 2005:

<u>Period</u>	<u>Payment Date</u>	<u>Per Unit Amount</u>	<u>Total ⁽¹⁾</u>
January 2005	February 28, 2005	\$0.0958	\$4,557,000
February 2005	March 30, 2005	\$0.0958	\$4,557,000
March 2005	April 30, 2005	\$0.0958	\$4,557,000
April 2005	May 30, 2005	\$0.0958	\$4,557,000
May 2005	June 30, 2005	\$0.0958	\$4,557,000
June 2005	July 29, 2005	\$0.0958	\$4,557,000
July 2005	August 30, 2005	\$0.0958	\$5,283,000
August 2005	September 30, 2005	\$0.0958	\$5,283,000
September 2005	October 31, 2005	\$0.0958	\$5,283,000
October 2005	November 30, 2005	\$0.0958	\$5,283,000
November 2005	December 30, 2005	\$0.0958	\$5,283,000
December 2005	January 30, 2006	\$0.0958	\$5,283,000

Note:

(1) Holders of Class B LP Units and Class D LP Units also received distributions equal to those paid to Unitholders in respect of the periods set out above.

MARKET FOR SECURITIES

The outstanding Units of the Fund are listed for trading on the Toronto Stock Exchange under the symbol CGX.UN. The Debentures are also listed for trading on the Toronto Stock Exchange under the symbol CGX.DB.

TRADING PRICE AND VOLUME

The following tables show the monthly range of high and low prices per Unit and per Debenture and total monthly volumes traded on the TSX during the year ended December 31, 2005.

Units

<u>Month</u>	<u>Price per Unit (\$) Monthly High</u>	<u>Price per Unit (\$) Monthly Low</u>	<u>Units Total Monthly Volume</u>
January 2005	\$15.80	\$14.15	1,827,263
February 2005	\$15.45	\$14.85	1,264,983
March 2005	\$16.00	\$14.20	814,100
April 2005	\$15.06	\$13.81	535,244
May 2005	\$14.66	\$13.50	983,943
June 2005	\$16.25	\$13.90	1,631,571
July 2005	\$16.45	\$15.25	2,725,738
August 2005	\$16.35	\$14.76	3,180,411
September 2005	\$16.05	\$15.20	2,327,401
October 2005	\$15.42	\$12.00	1,898,693
November 2005	\$16.00	\$11.80	1,566,410
December 2005	\$15.50	\$14.00	1,871,227

Debentures

<u>Month</u>	<u>Price per Debenture (\$) Monthly High</u>	<u>Price per Debenture (\$) Monthly Low</u>	<u>Debentures Total Monthly Volume</u>
July 2005	\$100.99	\$99.20	169,735
August 2005	\$101.00	\$99.25	105,910
September 2005	\$102.50	\$99.95	312,930
October 2005	\$101.65	\$96.00	37,480
November 2005	\$100.00	\$98.51	39,110
December 2005	\$100.32	\$99.06	46,430

Note: The Debentures began trading on the TSX on July 22, 2005.

PROMOTERS

COC was considered to be a promoter of the Fund in respect of its IPO by reason of its initiative in organizing the business and affairs of the Fund. COC owns, directly or indirectly, 21,108,569 Class B LP Units representing approximately 38.7% of Cineplex Entertainment LP (excluding the Class C LP Units), which are exchangeable for Units of the Fund.

On November 26, 2003 COC and subsidiaries transferred substantially all of its theatre business assets to Cineplex Entertainment LP in exchange for non-interest bearing promissory notes in the amount of \$202.2 million, over-allotment notes in the amount of \$23.6 million and Class B LP Units. The non-interest bearing promissory note was repaid in full from the proceeds of the IPO and the over-allotment

note was partially repaid with proceeds received on the exercise of the over-allotment option. The remaining balance on the over-allotment note was satisfied by the issuance of additional Class B LP Units. After the transactions described above COC and subsidiaries owned 21,108,569 Class B LP Units.

Under the terms of a Services Agreement entered into between COC and Cineplex Entertainment LP dated November 26, 2003, COC provided management information systems support to Cineplex Entertainment LP through its former parent, LCT. For the period that LCT was the parent of COC, Cineplex Entertainment LP was charged \$452,000 by COC for these services.

COC charged Cineplex Entertainment LP \$521,000 in rent for its head office during the year ended December 31, 2005, \$521,000 for the year ended December 31, 2004 and \$51,000 for the period November 26, 2003 to December 31, 2003.

In April 2004, Cineplex Entertainment LP acquired from COC two theatres for nominal consideration. The carrying amount of these two theatres as recorded by COC prior to this transaction was \$24,000.

LEGAL PROCEEDINGS

Except as set forth under “Business of the Partnership – Regulatory Environment – Human Rights”, none of the Fund, the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP or GEI is involved in any legal proceeding which would have a material effect on Cineplex Entertainment LP or the Fund on a consolidated basis.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No trustee, director, executive officer or principal shareholder of the Fund, the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP or GEI or associate or affiliate of any of the foregoing, has any other material interest, direct or indirect, in any transaction which has materially affected Cineplex Entertainment LP since its establishment (or in any transactions or proposed transaction which may materially affect Cineplex Entertainment LP in the future), except as may be related to exchanges pursuant to the Exchange Agreement (as described under “Description of Cineplex Entertainment LP – Exchange Agreement”) which permits Investors to indirectly exchange LP Units in consideration for Units of the Fund.

TRANSFER AGENT AND REGISTRAR

CIBC Mellon Trust Company acts as transfer agent and registrar of the Fund. The register of transfers of the securities of the Fund is located at CIBC Mellon Trust Company’s principal transfer office in Toronto.

MATERIAL CONTRACTS

Except for those contracts entered into in the ordinary course of business of the Partnership and the Fund, the Partnership and/or the Fund have entered into the following material contracts:

- the Fund Declaration of Trust (see “Description of the Fund”);
- the Trust Declaration of Trust (see “Description of the Trust”);
- the Cineplex Entertainment LP Partnership Agreement (see “Description of Cineplex Entertainment LP”);
- the credit agreement entered into in connection with the New Credit Facility (see “Business of the Partnership – New Credit Facility”);

- the Securityholders Agreement (see “Description of Cineplex Entertainment GP – Securityholders Agreement”);
- the Administration Agreement (see “Administration Agreement”);
- the Trust Note Indenture (see “Description of the Trust – Trust Notes”);
- the Galaxy Notes (see “Business of the Partnership – Credit Facilities”);
- the Indenture (see “Description of the Fund – Description of the Debentures”); and
- the Exchange Agreement (see “Description of Cineplex Entertainment LP – Exchange Agreement”).

INTERESTS OF EXPERTS

PricewaterhouseCoopers LLP, the Fund’s auditor, has been named as having provided an opinion on the financial statements for the years ended December 31, 2005 and 2004 contained in filings pursuant to National Instrument 51-102 during the year ended December 31, 2005. To the knowledge of the Fund, the direct and indirect interests of PricewaterhouseCoopers LLP and its partners do not exceed one percent in any securities of the Fund.

ADDITIONAL INFORMATION

Additional information relating to the Fund may be found on the System for Electronic Document Analysis and Retrieval at www.sedar.com.

Additional information, including trustees’, directors’ and officers’ remuneration and indebtedness and principal holders of the Fund’s securities is contained in the Fund’s information circular for its most recent annual meeting of Unitholders of the Fund. Additional financial information is provided in the Fund’s and Cineplex Entertainment LP’s financial statements and management’s discussion and analysis for the year ended December 31, 2005.

For additional copies of this Annual Information Form and the materials listed in the preceding paragraph, please contact:

Cineplex Entertainment Limited Partnership
1303 Yonge Street, Suite 300
Toronto, Ontario M4T 2Y9

Attention: Investor Relations
Telephone: (416) 323-6600
Fax: (416) 323-6633

GLOSSARY OF TERMS

“**Adjusted EBITDA**” means EBITDA adjusted to exclude income from discontinued operations, for an exchange gain (loss), the effects of non-controlling interests, gain (loss) on disposed of theatre assets, lease shutdown, costs and stock-based compensation;

“**Board**” means the board of directors of Cineplex Entertainment GP;

“**CCAA**” means the *Companies’ Creditors Arrangement Act*;

“**CDS**” means the Canadian Depository for Securities Limited;

“**CDS Participant**” means a participant in the CDS depository service;

“**Cineplex Entertainment GP**” means Cineplex Entertainment Corporation;

“**Cineplex Entertainment LP**” means Cineplex Entertainment Limited Partnership, formerly named Cineplex Galaxy Limited Partnership;

“**Cineplex Entertainment LP Partnership Agreement**” means the Cineplex Entertainment LP limited partnership agreement, as it may be amended, supplemented or restated from time to time;

“**Class A LP Units**” means the Class A limited partnership units of Cineplex Entertainment LP;

“**Class B LP Units**” means the Class B limited partnership units of Cineplex Entertainment LP;

“**Class C LP Units**” means the Class C limited partnership units of Cineplex Entertainment LP;

“**Class D LP Units**” means the Class D limited partnership units of Cineplex Entertainment LP;

“**COC**” means Cineplex Odeon Corporation;

“**Conversion Price**” means the price at which holders of Debentures may, at the holder’s option, convert the Debentures into fully-paid Units prior to the close of business on the Final Maturity Date or, if called for redemption, on the business day immediately preceding the date specified by the Fund for redemption of Debentures, being a price of \$18.75 per Unit, subject to adjustment or the occurrence of certain events;

“**Debentures**” means the 6.0% convertible extendible unsecured subordinated debentures of the Fund issued pursuant to the Indenture as of the date of closing of the Offering, and “**Debenture**” means one of them;

“**Debentureholders**” means the holders of Debentures, and “**Debentureholder**” means any one of them;

“**Debenture Trustee**” means CIBC Mellon Trust Company of Canada as trustee, or its successor as trustee, under the Indenture;

“**Distributable Cash**” means the estimated cash available for distribution;

“**EBITDA**” means earnings before interest, income taxes and amortization;

“**Famous Players LP**” means Famous Players Limited Partnership;

“**Final Maturity Date**” means December 31, 2012, the maturity date of the Debentures;

“**FP Acquisition**” means the indirect acquisition by the Fund of the FP Partnership pursuant to the Purchase Agreement;

“**Fund**” means Cineplex Galaxy Income Fund;

“**Fund Declaration of Trust**” means the declaration of trust dated October 2, 2003, pursuant to which the Fund is established, as it may be amended, supplemented or restated from time to time;

“**Galaxy Investors**” means the persons who were, immediately prior to the IPO Closing, shareholders of GEI;

“**Galaxy Notes**” means the indebtedness of GEI to the Trust;

“**GEI**” prior to the IPO Closing, means Galaxy Entertainment Inc. and, subsequent to the IPO Closing, means Galaxy Entertainment Inc., the corporation resulting from the amalgamation of Galaxy Entertainment Inc. and Cineplex Galaxy Acquisition Inc.;

“**IPO**” means the initial public offering of Units by the Fund;

“**IPO Closing**” means the closing of the IPO;

“**Indenture**” means the trust indenture dated July 22, 2005 between the Fund, and the Debenture Trustee, governing the terms of the Debentures;

“**Investors**” means COC, Cineplex Odeon (Quebec) Inc. and the Galaxy Investors;

“**LCE Group**” means Loews Cineplex and (i) any person or entity who, on the IPO Closing, controlled or was controlled by Loews Cineplex, directly or indirectly, and (ii) any successor by merger, amalgamation, combination or otherwise of any of the foregoing, and (iii) any person or entity controlled by any of the foregoing; and notwithstanding any sale, transfer or change of control of Loews Cineplex or LCT following the IPO Closing;

“**LCE Shareholders**” means the members of the LCE Group that own shares of Cineplex Entertainment GP from time to time;

“**LCT**” means Loews Cineplex Theatres, Inc., a wholly-owned subsidiary of Loews Cineplex at the IPO Closing;

“**LP Units**” means the limited partnership units of Cineplex Entertainment LP, including the Class A LP Units, the Class B LP Units, the Class C LP Units and the Class D LP Units;

“**modern multiplex theatre**” means a theatre built or refurbished in the last seven years which features at least six screens per theatre, stadium seating, digital sound and enhanced concessions;

“**Ordinary Resolution**” means a resolution passed by a majority of the votes cast at a meeting of the Unitholders;

“**Partnership**” means Cineplex Entertainment LP, together with its general partner and subsidiaries, and includes, for the periods prior to the IPO Closing, the businesses of COC, Cineplex Odeon (Quebec) Inc. and GEI acquired by Cineplex Entertainment LP in connection with the IPO, together with their respective subsidiaries and their respective predecessors;

“**Purchase Agreement**” means the purchase agreement made as of June 10, 2005 between Cineplex Entertainment LP, Viacom Inc. and Viacom Canada Inc. pursuant to which Cineplex Entertainment LP

agreed to purchase the FP Partnership and its general partner, Famous Players Co., as the same may be amended, supplemented or restated from time to time;

“**Redemption Date**” shall have the meaning ascribed thereto under “Description of the Fund – Redemption at the Option of Unitholders”;

“**Securityholders Agreement**” means the unanimous shareholders agreement dated November 26, 2003 between the Fund, the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP and certain of the Investors, as the same may be amended, supplemented or restated from time to time;

“**Senior Indebtedness**” includes the principal and premium, if any, and interest on and other amounts in respect of all indebtedness, liabilities and obligations of the Fund (whether outstanding as at the date of the Indenture or thereafter created, incurred, assumed or guaranteed), and including, for greater certainty, claims of trade and other creditors, other than indebtedness evidenced by the Debentures and all other existing and future debentures or other instruments of the Fund which, by the terms of the instrument creating or evidencing the indebtedness, is expressed to be *pari passu* with, or subordinated in any right of payment to, the Debentures;

“**Series 1 Trust Notes**” means the series 1 notes of the Trust issued under the Trust Note Indenture;

“**Series 2 Trust Notes**” means the series 2 notes of the Trust issued under the Trust Note Indenture;

“**Series 3 Trust Notes**” means the series 3 notes of the Trust issued under the Trust Note Indenture;

“**Services Agreement**” means the services agreement dated November 26, 2003 between COC, the Trust, Cineplex Entertainment LP, Cineplex Entertainment GP and GEI, as the same may be amended, supplemented or restated from time to time;

“**Special Resolution**” means a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Units who voted in respect of that resolution at a meeting at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the Units entitled to vote on such resolution;

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder;

“**Trust**” means Cineplex Galaxy Trust;

“**Trust Declaration of Trust**” means the declaration of trust dated November 12, 2003 pursuant to which the Trust was established, as the same may be amended, supplemented or restated from time to time;

“**Trustee**” or “**Trustees**” means the trustees of the Fund or any one of them;

“**Trust Note Indenture**” means the note indenture dated November 26, 2003 between the Trust and CIBC Mellon Trust Company governing the Trust Notes;

“**Trust Notes**” means, collectively, the Series 1 Trust Notes, Series 2 Trust Notes and Series 3 Trust Notes of the Trust;

“**Trust Units**” means units of the Trust;

“**Unitholders**” means the holders of Units; and

“**Units**” means units of the Fund.

SCHEDULE A

CINEPLEX GALAXY INCOME FUND

AUDIT COMMITTEE

TERMS OF REFERENCE

- The Audit Committee (the “Committee”) of Cineplex Galaxy Income Fund (the “Fund”) is a committee of the board of trustees to assist the board in its oversight activities.
- The purpose of the Committee is to assist the board in fulfilling its responsibilities of oversight and supervision of:
 - the integrity of the Fund’s accounting and financial reporting practices and procedures;
 - the adequacy of the Fund’s internal accounting controls and procedures;
 - the quality and integrity of the Fund’s financial statements; and
 - the independence and performance of the Fund’s external auditor.

Composition:

- The board of trustees shall elect annually from among its members a committee to be known as the Audit Committee to be composed of at least three trustees, all of whom are independent trustees and each of whom is financially literate (or will become so within a reasonable period of time following his or her appointment).
- A member of the Committee who sits on the board or directors/trustees of an affiliated entity is exempt from the requirement that he or she be independent if that member, except for being a director/trustee (or member of the audit committee or any other board committee) of the Fund and the affiliated entity, is otherwise independent of the Fund and the affiliated entity, provided that the board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.
- If a member of the Committee ceases to be independent for reasons outside that member’s reasonable control, that member is exempt from the requirement to be independent for a period ending on the later of:
 - (a) the next annual meeting of the Fund; and
 - (b) the date that is six months from the occurrence of the event which caused the member to not be independent,provided that the board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.
- Where the death, disability or resignation of a member of the Committee has resulted in a vacancy on the Committee that the board is required to fill, a member appointed to fill such vacancy is exempt from the requirements to be independent and financially literate for a period ending the later of:

- (a) the next annual meeting of the Fund; and
- (b) the date that is six months from the day the vacancy was created,

provided that the Board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.

Reports:

- The Audit Committee shall report to the board of trustees on a regular basis and, in any event, before the public disclosure by the Fund of its quarterly and annual financial results. The reports of the Audit Committee shall include any issues of which the Committee is aware with respect to the quality or integrity of the Fund's financial statements, its compliance with legal or regulatory requirements, and the performance and independence of the Fund's independent auditor.

Responsibilities:

Subject to the powers and duties of the board, the board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the board:

A. Financial Statements and Other Financial Information

The Committee shall:

- (i) review the Fund's annual audited financial statements and related documents prior to any public disclosure of such information;
- (ii) review the Fund's interim unaudited financial results and related documents prior to any public disclosure;
- (iii) following a review with management of Cineplex Entertainment Corporation ("GenPar") and the external auditors of the annual and interim financial statements and related documents, recommend to the board the approval of such financial statements and related documents;
- (iv) review with management of GenPar and/or the external auditors all critical policies and practices used as well as significant management estimates and judgments and any changes in accounting policies or financial reporting requirements that may affect the Fund's financial statements;
- (v) review with management of GenPar and/or the external auditors the treatment in the financial statements of any significant transactions, and other potentially difficult matters;
- (vi) review a summary provided by the Fund's legal counsel of the status of any material pending or threatened litigation, claims and assessments;
- (vii) discuss the annual financial statements and the auditors' report thereon with officers of GenPar and the auditors; and
- (viii) review the other annual financial reporting documents as well as management's discussion and analysis and earnings press releases of the Fund prior to any disclosure to the public.

B. Financial Reporting Control Systems

The Committee shall:

- (i) require management of GenPar to implement and maintain appropriate internal controls, and use reasonable efforts to satisfy itself as to the adequacy of the Fund's policies for the management of risk and the preservation of assets and the fulfillment of legislative and regulatory requirements;
- (ii) annually, in consultation with management, the external auditors and if applicable the officer or employee responsible for the internal audit function, review, evaluate and assess the adequacy and integrity of the Fund's financial reporting processes and internal controls; discuss significant financial risk, exposures and the steps management of GenPar has taken to monitor, control and report such exposures;
- (iii) if applicable, meet separately with the officer or employee of GenPar responsible for the internal audit function to discuss any matters that the Committee or auditors believe should be discussed in private;
- (iv) submit to the board any recommendations the Committee may have from time to time with respect to financial reporting, accounting procedures and policies and internal controls;
- (v) review reports from senior officers of GenPar outlining any significant changes in financial risks facing the Fund;
- (vi) review the management letter of the external auditors and the responses to suggestions made;
- (vii) review any new appointments to senior positions of GenPar with financial reporting responsibilities;
- (viii) satisfy itself that adequate procedures are in place for the review of the Fund's disclosure of the Fund's financial information extracted or derived from the Fund's financial statements (other than the financial statements, management's discussion and analysis and earnings press releases) and periodically assess the adequacy of those procedures;
- (ix) establish procedures for:
 - (A) the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters; and
 - (B) the confidential, anonymous submission by employees of GenPar of concerns regarding questionable accounting or auditing matters.
- (x) review and approve GenPar's and Cineplex Entertainment Limited Partnership's (the "LP") (and their respective subsidiaries') hiring policies regarding employees and former employees of the present and former external auditors of the issuer; and

- (xi) obtain assurance from external auditors regarding the overall control environment and the adequacy of accounting system controls.

C. External Auditor

The Committee shall:

- (i) review the audit plan with the external auditors;
- (ii) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;
- (iii) review the performance and the remuneration of the Fund's auditors;
- (iv) recommend to the board each year the retention or replacement of the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund;
- (v) if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition;
- (vi) annually review and recommend for approval to the board the terms of engagement and the remuneration of the external auditor;
- (vii) oversee the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Fund, including the resolution of disagreements between management and the external auditors regarding financial reporting;
- (viii) discuss with the Fund's auditors the quality and not just the acceptability of the Fund's accounting principles;
- (ix) meet with the Fund's auditors on a regular basis in the absence of management;
- (x) relay its expectations to the Fund's auditors from time to time including its expectation that (i) any disagreements of a material nature with management be brought to the attention of the Committee, (ii) that the auditors are accountable to the Committee and the board, each as representatives of the unitholders and must report directly to the Committee, (iii) any irregularities in the financial information be reported to the Committee, (iv) the auditors explain the process undertaken by them in auditing or reviewing the Fund's financial disclosure, (v) the auditors disclose to the Committee any significant changes to accounting policies or treatment of the Fund, (vi) the auditors disclose to the Committee any reservations they may have about the financial statements or their access to materials and/or persons in reviewing or auditing such statements, and (vii) the auditors disclose any conflict of interest that may arise in their engagement;
- (xi) review at least annually the non-audit services provided by the Fund's auditors for the purposes of getting assurance that the performance of such services will not compromise the independence of the external auditors; and

- (xii) pre-approve all non-audit services to be provided to the Fund or its subsidiary entities by its external auditors or the external auditors of its subsidiary entities² provided that the Committee may delegate to one or more independent members the authority to pre-approve non-audit services in satisfaction of this requirement. The pre-approval of non-audit services by any member to whom authority has been delegated must be presented to the full Committee at its first scheduled meeting following such pre-approval.

Structure:

- The Committee shall appoint one of its members to act as Chairman of the Committee. The Chairman will appoint a secretary who will keep minutes of all meetings (the “**Secretary**”). The Secretary does not have to be a member of the Committee or a trustee and can be changed by simple notice from the Chairman.
- The Committee will meet as many times as is necessary to carry out its responsibilities but in no event will the Committee meet less than four times per year. Meetings will be at the call of the Chairman. Notwithstanding the foregoing, the auditors of the Fund or any member of the Committee may call a meeting of the Committee on not less than 48 hours’ notice.
- No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the Committee. A majority of the members of the Committee shall constitute a quorum provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.
- Any member of the Committee may be removed or replaced at any time by the board of trustees and shall cease to be a member of the Committee as soon as such member ceases to be a trustee. Subject to the foregoing, each member of the Committee shall hold such office until the next annual meeting of unitholders after his or her election as a member of the Committee.
- The auditors of the Fund shall be entitled to receive notice of every meeting of the Committee and, at the expense of the Fund, to attend and be heard thereat.
- The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedure in all respects of such meeting shall be determined by the Committee, unless otherwise provided for in the Declaration of Trust, or otherwise determined by resolution of the board of trustees.
- The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the board of trustees may from time to time determine.

² The Committee may satisfy the pre-approval requirement if: (a) the aggregate amount of all the non-audit services that were not pre-approved constitutes no more than five per cent of the total amount of revenues paid by the Fund to its external auditors during the fiscal year in which the services are provided; (b) the services were not recognized by the Fund at the time of the engagement to be non-audit services; and (c) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.

Independent Advice:

- In discharging its mandate the Committee shall have the authority to retain (and authorize the payment by the LP of) and receive advice from special legal, accounting or other advisors.

Annual Evaluation:

At least annually, the Committee shall, in a manner it determines to be appropriate:

- perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with its terms of reference.
- review and assess the adequacy of its terms of reference and recommend to the board of trustees any improvements to its terms of reference that the Committee determines to be appropriate.

Definitions:

“**financially literate**” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Fund’s financial statements.

“**independent director**” means a director who has no direct or indirect material relationship with the Fund or its affiliates.

“**material relationship**” means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a director’s independent judgment. Without limiting the generality of the foregoing, the following persons are considered to have a material relationship with the Fund:

- (i) a person who is, or has been within the last three years, an employee or executive officer of the Fund, or any of its subsidiary entities or affiliated entities;
- (ii) a person whose immediate family member is, or has been within the last three years, an executive officer of the Fund, or any of its subsidiary or affiliated entities;
- (iii) a person who is: (i) a partner³ of the Fund’s internal or external auditor; (ii) is employed by the firm that is the Fund’s internal or external auditor; (iii) was within the last three years a partner or employee of that firm and personally worked on the Fund’s audit within that time;
- (iv) a person whose spouse, minor child or stepchild, or child or stepchild who shares a home with the person: (i) is a partner of the firm that is the Fund’s internal or external auditor; (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or (iii) was within the last three years a partner or employee of that firm and personally worked on the Funds’ audit within that time;

³ “partner” does not include a fixed income partner whose interest in the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with an internal or external auditor if the compensation is not contingent in any way on continued services.

- (v) a person who is, or has been, or whose immediate family member is, or has been within the last three years, an executive officer of an entity if any of the Fund or its subsidiaries' current executives serve or served at that same time on the entity's compensation committee;
- (vi) a person who has a relationship with the Fund or its affiliated entities pursuant to which such person may accept, directly or indirectly⁴, any consulting, advisory or other compensatory fee from the Fund or any subsidiary entity of the Fund, other than as remuneration for acting in his or her capacity as a member of the board of directors or any other board committee, or as part-time chair or vice chair of the board or any board committee;
- (vii) a person who received, or whose immediate family member who is employed as an executive member of the Fund or any of its subsidiary entities received more than \$75,000 in direct compensation from the Fund or its subsidiary entities during any 12 month period within the last three years, other than: (i) as remuneration for acting in his or her capacity as member of the board of trustees, board of directors or any board committee; or (ii) fixed amounts of compensation under a retirement plan for prior service with the Fund or any of its subsidiary entities if the compensation is not contingent in any way on continued service; and
- (viii) a person who is an affiliated entity of the Fund or any of its subsidiary entities.

⁴ The indirect acceptance by a person of a consulting, advisory or other compensatory fee includes acceptance of a fee by:

- (a) a person's spouse, minor child or stepchild or a child or stepchild who shares the person's home; or
- (b) an entity in which such person is a partner, member, an officer such as a managing director occupying a comparable position or executive officer or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in such case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Fund or any subsidiary entity of the Fund.

SCHEDULE B

CINEPLEX ENTERTAINMENT CORPORATION

AUDIT COMMITTEE

TERMS OF REFERENCE

The Audit Committee (the “Committee”) of Cineplex Entertainment Corporation (“**GenPar**”) is a committee of the board of directors to assist the board in its oversight activities.

The purpose of the Committee is to assist the board in fulfilling its responsibilities of oversight and supervision of

- the integrity of the Cineplex Entertainment Limited Partnership’s (the “**Partnership**”) accounting and financial reporting practices and procedures,
- the adequacy of the LP’s internal accounting controls and procedures,
- the quality and integrity of the LP’s financial statements, and
- the independence and performance of the LP’s external auditor.

Composition:

- The board of directors shall elect annually from among its members a committee to be known as the Audit Committee to be composed of at least three directors, all of whom are unrelated directors and each of whom is financially literate (or will become so within a reasonable period of time following his or her appointment).
- A member of the Committee who sits on the board or directors/trustees of an affiliated entity is exempt from the requirement that he or she be independent if that member, except for being a director/trustee (or member of the audit committee or any other board committee) of GenPar and the affiliated entity, is otherwise independent of GenPar and the affiliated entity, provided that the board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.
- If a member of the Committee ceases to be independent for reasons outside that member’s reasonable control, that member is exempt from the requirement to be independent for a period ending on the later of:
 - (a) the next annual meeting of the Cineplex Galaxy Income Fund (the “**Fund**”); and
 - (b) the date that is six months from the occurrence of the event which caused the member to not be independent,

provided that the board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.

- Where the death, disability or resignation of a member of the Committee has resulted in a vacancy on the Committee that the board is required to fill, a member appointed to fill such vacancy is exempt from the requirements to be independent and financially literate for a period ending the later of:

- (a) the next annual meeting of the Fund; and
- (b) the date that is six months from the day the vacancy was created,

provided that the board has determined that appointing such member to the Committee will not materially adversely affect the ability of the Committee to act independently.

Reports:

- The Audit Committee shall report to the board of directors on a regular basis and, in any event, before the public disclosure by the LP of its quarterly and annual financial results. The reports of the Audit Committee shall include any issues of which the Committee is aware with respect to the quality or integrity of the LP's financial statements, its compliance with legal or regulatory requirements, and the performance and independence of the LP's independent auditor.

Responsibilities:

Subject to the powers and duties of the board, the board hereby delegates to the Committee the following powers and duties to be performed by the Committee on behalf of and for the board:

A. Financial Statements and Other Financial Information

The Committee shall:

- (i) review the LP's annual audited financial statements and related documents prior to any public disclosure of such information;
- (ii) review the LP's interim unaudited financial results and related documents prior to any public disclosure;
- (iii) following a review with management and the external auditors of the annual and interim financial statements and related documents, recommend to the board the approval of such financial statements and related documents;
- (iv) review with management and/or the external auditors all critical policies and practices used as well as significant management estimates and judgments and any changes in accounting policies or financial reporting requirements that may affect the LP's financial statements;
- (v) review with management and/or the external auditors the treatment in the financial statement of any significant transactions, and other potentially difficult matters;
- (vi) review a summary provided by the LP's legal counsel of the status of any material pending or threatened litigation, claims and assessments;
- (vii) discuss the annual financial statements and the auditors' report thereon with officers of GenPar and the auditors; and
- (viii) review the other annual financial reporting documents as well as management's discussion and analysis and earnings press releases of the Fund prior to any disclosure to the public.

B. Financial Reporting Control Systems

The Committee shall:

- (i) require management to implement and maintain appropriate internal controls, and use reasonable efforts to satisfy itself as to the adequacy of the LP's policies for the management of risk and the preservation of assets and the fulfillment of legislative and regulatory requirements;
- (ii) annually, in consultation with management, the external auditors and if applicable the officer or employee responsible for the internal audit function, review, evaluate and assess the adequacy and integrity of the LP's financial reporting processes and internal controls; discuss significant financial risk, exposures and the steps management has taken to monitor, control and report such exposures;
- (iii) if applicable, meet separately with the officer or employee responsible for the internal audit function to discuss any matters that the Committee or auditors believe should be discussed in private;
- (iv) submit to the board any recommendations the Committee may have from time to time with respect to financial reporting, accounting procedures and policies and internal controls;
- (v) review reports from senior officers outlining any significant changes in financial risks facing the LP;
- (vi) review the management letter of the external auditors and the responses to suggestions made;
- (vii) review any new appointments to senior positions with financial reporting responsibilities;
- (viii) satisfy itself that adequate procedures are in place for the review of the LP's disclosure of the LP's financial information extracted or derived from the LP's financial statements (other than the financial statements, management's discussion and analysis and earnings press releases) and periodically assess the adequacy of those procedures;
- (ix) establish procedures for:
 - (A) the receipt, retention and treatment of complaints received by the LP regarding accounting, internal accounting controls, or auditing matters; and
 - (B) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- (x) review and approve GenPar/and the LP's (and their respective subsidiaries') hiring policies regarding employees and former employees of the present and former external auditors of the issuer; and
- (xi) obtain assurance from external auditors regarding the overall control environment and the adequacy of accounting system controls.

C. External Auditor

The Committee shall:

- (i) review the audit plan with the external auditors;
- (ii) discuss in private with the external auditors matters affecting the conduct of their audit and other corporate matters;
- (iii) review the performance and the remuneration of the LP's auditors;
- (iv) recommend to the board each year the retention or replacement of the external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the LP;
- (v) if there is a plan to change auditors, review all issues related to the change and the steps planned for an orderly transition;
- (vi) annually review and recommend for approval to the board the terms of engagement and the remuneration of the external auditor;
- (vii) oversee the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the LP, including the resolution of disagreements between management and the external auditors regarding financial reporting;
- (viii) discuss with the LP's auditors the quality and not just the acceptability of the LP's accounting principles;
- (ix) meet with the LP's auditors on a regular basis in the absence of management;
- (x) relay its expectations to the LP's auditors from time to time including its expectation that (i) any disagreements of a material nature with management be brought to the attention of the Committee, (ii) that the auditors are accountable to the Committee and the board, each as representatives of the unitholders and must report directly to the Committee, (iii) any irregularities in the financial information be reported to the Committee, (iv) the auditors explain the process undertaken by them in auditing or reviewing the LP's financial disclosure, (v) the auditors disclose to the Committee any significant changes to accounting policies or treatment of the LP, (vi) the auditors disclose to the Committee any reservations they may have about the financial statements or their access to materials and/or persons in reviewing or auditing such statements, and (vii) the auditors disclose any conflict of interest that may arise in their engagement;
- (xi) review at least annually the non-audit services provided by the LP's auditors for the purposes of getting assurance that the performance of such services will not compromise the independence of the external auditors; and

- (xii) pre-approve all non-audit services to be provided to the LP or its subsidiary entities by its external auditors or the external auditors of its subsidiary entities⁵ provided that the Committee may delegate to one or more independent members the authority to pre-approve non-audit services in satisfaction of this requirement. The pre-approval of non-audit services by any member to whom authority has been delegated must be presented to the full Committee at its first scheduled meeting following such pre-approval.

D. Accountability

- (a) The Committee shall report to the board at its next regular meeting all such action it has taken since the previous report.
- (b) The Committee is empowered to investigate any activity of the LP and all employees of GenPar are to co-operate as requested by the Committee. The members of the Committee shall have the right for the purpose of performing their duties of inspecting all the books and records of the LP and its subsidiaries and of discussing such accounts and records and any matters relating to the financial position of the LP with the officers and auditors of GenPar and its subsidiaries and advisors and any member of the Committee may require the auditors to attend any or every meeting of the Committee. The Committee may retain persons having special expertise to assist it in fulfilling its responsibilities.
- (c) The Committee is authorized to request the presence at any meeting, but without voting rights, of a representative from the external auditors, senior management, internal audit, legal counsel or anyone else who could contribute substantively to the subject of the meeting and assist in the discussion and consideration of the business of the Committee, including directors, officers and employees of GenPar or the LP.

Structure:

- The Committee shall appoint one of its members to act as Chairman of the Committee. The Chairman will appoint a secretary who will keep minutes of all meetings (the “**Secretary**”). The Secretary does not have to be a member of the Committee or a director and can be changed by simple notice from the Chairman.
- The Committee will meet as many times as is necessary to carry out its responsibilities but in no event will the Committee meet less than four times per year. Meetings will be at the call of the Chairman. Notwithstanding the foregoing, the auditors of the LP or any member of the Committee may call a meeting of the Committee on not less than 48 hours’ notice.
- No business may be transacted by the Committee except at a meeting of its members at which a quorum of the Committee is present or by a resolution in writing signed by all the members of the

⁵ The Committee may satisfy the pre-approval requirement if: (a) the aggregate amount of all the non-audit services that were not pre-approved constitutes no more than five per cent of the total amount of revenues paid by the LP to its external auditors during the fiscal year in which the services are provided; (b) the services were not recognized by the LP at the time of the engagement to be non-audit services; and (c) the services are promptly brought to the attention of the Committee and approved, prior to the completion of the audit, by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.

Committee. A majority of the members of the Committee shall constitute a quorum provided that if the number of members of the Committee is an even number one half of the number of members plus one shall constitute a quorum.

- Any member of the Committee may be removed or replaced at any time by the board of directors and shall cease to be a member of the Committee as soon as such member ceases to be a director. Subject to the foregoing, each member of the Committee shall hold such office until the next annual meeting of unitholders after his or her election as a member of the Committee.
- The auditors of the LP shall be entitled to receive notice of every meeting of the Committee and, at the expense of the LP, to attend and be heard thereat.
- The Committee may invite such directors, officers and employees of GenPar or the LP as it may see fit from time to time to attend meetings of the Committee and assist in the discussion and consideration of the business of the Committee, but without voting rights.
- The Committee shall keep regular minutes of proceedings and shall cause them to be recorded in books kept for that purpose, and shall report the same to the board at such times as the board may, from time to time, require.
- The time at which and the place where the meetings of the Committee shall be held, the calling of meetings and the procedure in all respects of such meeting shall be determined by the Committee, unless otherwise provided for in the Declaration of Trust, or otherwise determined by resolution of the board of directors.
- The members of the Committee shall be entitled to receive such remuneration for acting as members of the Committee as the board of directors may from time to time determine.

Independent Advice:

- In discharging its mandate the Committee shall have the authority to retain (and authorize the payment by the LP of) and receive advice from special legal, accounting or other advisors.

Annual Evaluation:

At least annually, the Committee shall, in a manner it determines to be appropriate:

- perform a review and evaluation of the performance of the Committee and its members, including the compliance of the Committee with its terms of reference.
- review and assess the adequacy of its terms of reference and recommend to the board of directors any improvements to its terms of reference that the Committee determines to be appropriate.

Definitions:

“**financially literate**” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the LP’s financial statements.

“**independent director**” means a director who has no direct or indirect material relationship with GenPar or the LP or their affiliates.

“**material relationship**” means a relationship which could, in the view of the board, reasonably interfere with the exercise of a director’s independent judgment. Without limiting the generality of the foregoing, the following persons are considered to have a material relationship with GenPar or the LP:

- (a) a person who is, or has been within the last three years, an employee or executive officer of GenPar or the LP, or any of their subsidiary entities or affiliated entities;
- (b) a person whose immediate family member is, or has been within the last three years, an executive officer of GenPar or the LP or any of their subsidiary or affiliated entities;
- (c) a person who is (i) a partner⁶ of the Fund’s internal or external auditor; (ii) is employed by the firm that is the Fund’s internal or external auditor; (iii) was within the last three years a partner or employee of that firm and personally worked on the Fund’s audit within that time;
- (d) a person whose spouse, minor child or stepchild, or child or stepchild who shares a home with the person: (i) is a partner of the firm that is the Fund’s internal or external auditor; (ii) is an employee of that firm and participates in its audit, assurance or tax compliance (but not tax planning) practice, or (iii) was within the last three years a partner or employee of that firm and personally worked on the Funds’ audit within that time;
- (e) a person who is, or has been, or whose immediate family member is, or has been within the last three years, an executive officer of an entity if GenPar or the LP or their subsidiaries’ current executives serves or served at that same time on the entity’s compensation committee;
- (f) a person who has a relationship with GenPar or the LP or their affiliated entities pursuant to which such person may accept, directly or indirectly⁷, any consulting, advisory or other compensatory fee from GenPar or the LP or any subsidiary entity of GenPar or the LP, other than as remuneration for acting in his or her capacity as a member of the board of directors or any other board committee, or as part-time chair or vice chair of the board or any board committee;

⁶ “partner” does not include a fixed income partner whose interest in the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with an internal or external auditor if the compensation is not contingent in any way on continued services.

⁷ The indirect acceptance by a person of a consulting, advisory or other compensatory fee includes acceptance of a fee by:

- (a) a person’s spouse, minor child or stepchild or a child or stepchild who shares the person’s home; or
- (b) an entity in which such person is a partner, member, an officer such as a managing director occupying a comparable position or executive officer or occupies a similar position (except limited partners, non-managing members and those occupying similar positions who, in such case, have no active role in providing services to the entity) and which provides accounting, consulting, legal, investment banking or financial advisory services to the Fund or any subsidiary entity of the Fund.

- (g) a person who received, or whose immediate family member who is employed as an executive member of GenPar or the LP or any of its subsidiary entities received, more than \$75,000 in direct compensation from GenPar or the LP or its subsidiary entities during any 12 month period within the last three years, other than: (i) as remuneration for acting in his or her capacity as a member of the board of directors or any board committee; and (ii) fixed amounts of compensation under a retirement plan for prior service with GenPar or the LP or any of its subsidiary entities if the compensation is not contingent in any way on continued service; and
- (h) a person who is an affiliated entity of GenPar or the LP or any of its subsidiary entities.