Redefining entertainment

First Quarter 2006

CINEPLEX GALAXY INCOME FUND

Cineplex Entertainment LP owns, operates or has an interest in 129 theatres with 1,271 screens The company operates theatres with the following six top-tier brands: Cineplex Odeon, Coliseum, Colossus, Famous Players, Galaxy and SilverCity.

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Letter to Unitholders:

I am pleased to present to you our results for the first quarter of 2006. Canadian box office revenues were up 2% this quarter versus last year and Cineplex same store box office revenues were up 2.3% versus last year. This is a good start to the year and we anticipate this positive film trend to continue into the summer.

Our focus this quarter has been to continue our integration efforts. On March 31, 2006 we announced the sale of the Quebec divestiture theatres. Seven theatres with 78 screens in the province of Quebec were sold to Fortune Cinema Inc., pursuant to the Consent Agreement with Canada's Commissioner of Competition. Cineplex Media will act as Fortune Cinema Inc.'s sales agent for in-theatre and on-screen advertising as we are for the other 27 divestiture theatres that we sold to Empire theatres Ltd last year.

Our annual recurring synergies have now been increased an additional $5 million to a total of $30 million annually to be achieved on a run-rate basis beginning the third quarter of this year. We are also on track to complete installation of the balance of the digital advertising cinema network by the end of the second quarter this year. This brings our total number of digitally equipped screens to 816 across the country. We will also complete the balance of the Vista P-O-S installations by the same time thus creating a single P-O-S platform enabling us to progress with our planned loyalty marketing program. Our plans are to begin testing the new loyalty program in Q4 this year and begin rolling it out to the theatres in early 2007.

Cineplex Entertainment's Box Office results for this quarter increased to $103.0 million from $45.8 million for the prior year and $101.4 million on a pro forma basis for the prior year. *Total Revenue* for the three months ended March 31, 2006 was $162.7 million as compared to $70.0 million for the three months ended March 31, 2005 and $157.6 million on a pro forma basis for the prior year.

Our combined average *concession revenue per patron* amount of $3.72 consisted of a new Q1 record of $3.52 for the retained Cineplex Galaxy locations and $3.91 for Famous Players locations. *Other Income* was $10.6 million compared to $4.9 million reported and $12.2 million on a pro forma basis for the prior year. Other Income for the quarter was adversely impacted versus the pro forma as a result of the standardization and net extension of expiry dates on the Partnership's gift certificates and discount ticket programs and modifications to the structuring of our game supplier relationships.

We previously announced six new theatre projects would open this year and these are currently under construction. In June, two new theatres will open -- a new eight-screen Galaxy Cinema in Milton, Ontario and a 16-screen Cineplex Odeon Cinema in Brossard, Quebec on the south shore of Montreal. In the third quarter, two new Galaxy Cinemas will open -- a six-screen cinema in Brockville, Ontario and a 12-screen cinema in Saskatoon, Saskatchewan. Later in the year, our plans include a new seven-screen Galaxy Cinema in Collingwood, Ontario and a 10-screen Cineplex Odeon Cinema in North Oshawa, Ontario.

For the first quarter of 2006 *Distributable Cash Flow* per unit was up 6.7% to $0.1823 as compared to $0.1709 and the *Declared Distribution* per unit for this period was $0.2874.

We look forward to a strong second quarter and good year in 2006.

On behalf of the Board of Directors,

Ellis Jacob
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As of March 31, 2006, Cineplex Galaxy Income Fund indirectly owns an approximate 50.6% interest in Cineplex Entertainment Limited Partnership. Cineplex Galaxy Income Fund does not consolidate the results and operations of Cineplex Entertainment Limited Partnership. For this reason we present unaudited interim financial statements with accompanying notes therein for both Cineplex Galaxy Income Fund and Cineplex Entertainment Limited Partnership. The following management's discussion and analysis of the Cineplex Entertainment Limited Partnership financial condition and results of operations should be read together with the financial statements and related notes. This management's discussion and analysis (MD&A) contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning synergies and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our annual information form and in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry; the risks associated with world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions and infectious diseases; and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex Galaxy Income Fund or Cineplex Entertainment Limited Partnership, its financial or operating results or its securities. Additional information, including Cineplex Galaxy Income Fund's Annual Information Form (AIF) can be found on SEDAR at www.sedar.com.

OVERVIEW

On July 22, 2005 Cineplex Entertainment Limited Partnership (the "Partnership") completed the acquisition (the "Acquisition") of the Famous Players Limited Partnership ("Famous Players") movie exhibition business from Viacom Inc. ("Viacom") and Viacom Canada Inc. ("Viacom Canada"), becoming Canada's largest film exhibition operator with theatres in six provinces. The Partnership's theatre circuit is concentrated in major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. As of March 31, 2006, the Partnership owned, leased or had a joint-venture interest in 1,269 screens in 129 theatres. This total includes 71 screens in 10 theatres held in joint ventures.

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

Under the provisions of an Exchange Agreement designed to facilitate the exchange of units of the Partnership ("LP Units") into units of the Fund ("Fund Units"), the Fund issued 85,240 Fund Units during the quarter ended March 31, 2006 in exchange for notes and units from the Trust and, as a result, indirectly increased its ownership in the Partnership. As a result of the transactions surrounding the Acquisition of

Famous Players, discussed below, and the issuance of Fund Units by the Fund during 2004, 2005 and 2006, in a one-for-one exchange of Fund Units for LP Units, as at March 31, 2006 the Fund indirectly owned approximately 50.6% of the Partnership (excluding the Class C Limited Partnership Units ("Class C LP Units")).

THE ACQUISITION AND RELATED TRANSACTIONS

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

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

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

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

The Fund financed the acquisition of the Class A LP Units and Class C LP Units through the issuance of 6,835,000 Fund Units at $16.10 per Fund Unit to raise gross proceeds of approximately $110 million and the issuance of $105 million convertible extendible unsecured subordinated debentures (the "Convertible Debentures"), bearing interest at a rate of 6% per annum, payable semi-annually and convertible, at the option of the holder into Fund Units at a conversion price of $18.75 per Fund Unit. Upon conversion of the Convertible Debentures to Fund Units, distributions on Class C LP Units will automatically adjust such that the holder of Class C LP Units will receive distributions in the same manner as distributions are made on the corresponding number of Class A LP Units. On redemption or at the December 31, 2012 maturity date, the Fund may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the Convertible Debentures by issuing and delivering Fund Units. The Partnership and the Fund have entered into a reimbursement agreement under which fees associated with the issuance of the Fund Units and Convertible Debentures in the amounts of $5.5 million and $4.2 million were reimbursed by the

Partnership. The Partnership recorded the fees in partners' equity and deferred charges, respectively, and will amortize the deferred charges over 3.5 years. As a result of the Fund's investment in Class A LP Units, the Fund's investment in the Partnership increased by 6.4% from 43.8% as at June 30, 2005 to 50.2% as at July 22, 2005. The Fund will continue to account for the Partnership under the equity method as Onex Corporation ("Onex") continues to hold both a substantial equity interest in the Partnership and indirectly the majority controlling interest in the General Partner that controls the Partnership.

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

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

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

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

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

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

The above allocation was revised from the December 31, 2005 preliminary allocations and finalized on March 31, 2006 based on the estimated fair value of the assets acquired and liabilities assumed at the effective date of the Acquisition. Increases (decreases) to the December 31, 2005 allocation of the purchase price are as follows (expressed in millions of dollars):

Property, plant and equipment	($2.2)
Goodwill	5.2
Net working capital deficiency	(1.2)
Other liabilities	(1.7)
Capital leases	(0.2)
Transaction costs associated with the Acquisition	0.1

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

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

During the year ended December 31, 2005 the Partnership completed the divestiture of 27 of the specified theatres as required under the Consent Agreement for gross proceeds of $83 million which, net of costs, was used to repay a portion of the secured non-revolving term credit facility. In addition, the Partnership and its joint venture partner completed the sale of two of the Alliance Atlantis branded theatres. The Partnership's share of the proceeds was $3.0 million. During the three months ended March 31, 2006 the Partnership completed the divestiture of seven of the specified theatres as required under the Consent Agreement, and, as discussed below, entered into a screen advertising agreement for gross proceeds of $1.9 million, however, as less than 15% of the proceeds were received by March 31, 2006, under EIC-79, "Gain Recognition in Arm's-Length and Related Party Transactions when the Consideration Received Includes a Claim on the Assets Sold", the sale has not been recognized as at March 31, 2006. As per EIC-142 "Revenue Arrangements with Multiple Deliverables", $1.0 million of the proceeds has been allocated to the screen advertising contract with the remaining $0.9 million allocated to the sale of the seven theatres. The latter amount will, under the terms of the agreement, be paid within six months of the closing of the agreement.

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

REVENUE AND EXPENSES

Revenues

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

Expenses

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

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

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

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

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

Accounting for joint ventures

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

RESULTS OF OPERATIONS

The following table presents summarized financial data for the Partnership for the three months ended March 31, 2006 and March 31, 2005 (expressed in thousands of dollars except per LP Unit and per patron data).

	For the three months ended March 31,	
	2006	**2005**
Total Revenue	$162,662	$70,037
Cost of Operations	144,380	59,223
Income from Operations	18,282	10,814
Amortization	15,238	6,213
Loss (Gain) on disposal of theatre assets	184	-
Interest on long-term debt	7,414	2,206
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(104)	(118)
Income taxes	55	55
(Loss) Income from discontinued operations	(958)	843
Non-controlling interest	(37)	-
Net loss	($8,926)	($199)
Net loss per LP Unit (ii)	($0.162)	($0.004)
Total assets	775,777	298,663
Total long term financial liabilities (i)	351,100	226,500
Cash distributions declared per LP Unit	0.2874	0.2874
Box office revenue per patron	7.81	7.34
Concession revenue per patron	3.72	3.11
Film cost as a percentage of box office Revenue	49.8%	50.4%
Attendance	13,195	6,239

(i) Excludes the Class C LP Units – liability component, capital lease obligations, accrued pension liability, other liabilities, and liabilities related to property held for sale.
(ii) Computed using weighted average number of LP Units outstanding for the period.

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

	For the three months ended March 31, 2006	2005
Cash used in operating activities (i)	$(24,119)	$(1,566)
Less: Changes in operating assets and liabilities (ii)	32,458	8,116
Tenant inducements (iii)	(974)	(1,291)
Capital lease payments	(327)	-
Maintenance Capital expenditures(iv)	(849)	(630)
Add: interest on loan from Cineplex Galaxy Trust (v)	3,500	3,500
Non cash components in operating assets and liabilities (vi)	320	-
Expenses funded through integration and restructuring reserve (vii)	44	-
Distributable cash	$10,053	$8,129
Number of LP Units outstanding	55,150,421	47,566,974
Distributable cash per LP Unit	$0.1823	$0.1709

(i) Comparative amounts for tenant inducements have been reclassified from a financing activity to an operating activity in the consolidated statements of cash flows to conform to the current year's financial statement presentation.
(ii) Changes in operating assets and liabilities are not considered a source or use of distributable cash.
(iii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of distributable cash flow.
(iv) Maintenance capital expenditures are funded out of distributable income. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005. (see discussion under "Future Obligations")
(v) Subject to "Catch-up Payment" provision and is considered part of distributable cash.
(vi) Reflects non-cash expenses including accretion on Class C LP Units, amortization of deferred gain on RioCan Real Estate Investment Trust ("RioCan") sale-leaseback transaction and amortization of swap on extinguished debt (see discussion under "The Acquisition and Related Transactions").
(vii) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash flow. See discussion under "Future Obligations" below.

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

	For the three months ended March 31, 2006	2005
Income before undernoted	$18,282	$10,814
Adjust for:		
Interest on long-term debt	(7,414)	(2,206)
Interest income	104	118
Income taxes - current portion	(55)	(55)
Maintenance capital expenditures (i)	(849)	(630)
Distributions on non-controlling interests	-	-
Principal component of capital lease obligations	(327)	-
Expenses funded through integration and restructuring reserve (iii)	44	-
Income before undernoted from discontinued operations	(620)	1,154
Non-cash items:		
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(84)	(1,301)
Amortization of debt issuance costs	652	235
Issuance of Class D LP Units included in general and administrative expenses	-	-
Other non-cash items (ii)	320	-
Distributable Income	$10,053	$8,129

(i) Maintenance capital expenditures are funded out of distributable income. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005. (see discussion under "Future Obligations").

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

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

Three months ended March 31, 2006 Compared to the Three months ended March 31, 2005 for the Partnership

Total revenues. Total revenues for the three months ended March 31, 2006 increased $92.6 million to $162.7 million. Of this increase, $87.2 million related to the Acquisition and an increase of $5.4 million related to the Cineplex Odeon and Galaxy Entertainment brand theatres (the "Cineplex Galaxy circuit"). A discussion of the factors affecting the changes in box office, concession and other revenues for this period in comparison to the same period in 2005 is provided below.

Box office revenues. Box office revenues for the three months ended March 31, 2006 increased $57.3 million to $103.0 million. Of this increase, $55.3 million related to the Acquisition and an increase of $2.0 million, or 4.3%, to the Cineplex Galaxy circuit. Canadian industry box office increased approximately 2.0% for 2006 due to stronger film product during the period as compared to the same period in the prior year. The Cineplex Galaxy increase in box office revenues was due to increased same store attendance levels ($0.9 million), an increase in average box office revenues per patron ($0.2 million) and an increase due to new theatres ($1.1 million) offset by the impact of disposed theatres ($0.2 million). The average box office revenue per patron of the Partnership increased from $7.34 to $7.81. The average box office revenue per patron of Famous Players was $8.22 and for Cineplex Galaxy was $7.38. For the Cineplex Galaxy circuit, the average box office revenue per patron increased $0.04 or 0.5% from $7.34 for the three months ended March 31, 2005 to $7.38 for the three months ended March 31, 2006. The increase in average box office revenue per patron was a result of film product from the fourth quarter of 2005 continuing to perform strongly in the first quarter of 2006 and extension of the 2005 holiday season into the first week of 2006. In November 2005, the Partnership implemented a number of admission price changes reflecting a theatre-based pricing strategy based, to a large extent, on local demographics.

Concession revenues. Concession revenues for the three months ended March 31, 2006 increased $29.6 million to $49.0 million. Of this increase, $26.2 million related to the Acquisition and $3.4 million, or 17.4%, to the Cineplex Galaxy circuit. The Cineplex Galaxy increase in concession revenues was due to additional revenues from operation of new theatres ($0.5 million), increased same store attendance ($0.4 million) and an improvement in average concession revenues per patron ($2.5 million). The average concession revenue per patron of the Partnership increased from $3.11 to $3.72. The average concession revenue per patron of Famous Players was $3.91 and for Cineplex Galaxy was $3.52. The Cineplex Galaxy average concession revenue per patron increased $0.41 or 13.2% from $3.11 for the three months ended March 31, 2005 to $3.52 for the three months ended March 31, 2006. In November 2005, the Partnership implemented a number of pricing and size changes for its core concession products.

Other revenues. As a result of the Acquisition, other revenues for the three months ended March 31, 2006 increased $5.7 million to $10.6 million. On November 1, 2005, the Partnership announced the formation of the Cineplex Media division, which was formed through the combination of Cineplex Entertainment's CineMarketing Sales division and Famous Players Media Inc. Coincident with this formation, the Partnership acquired 100% of the media business for the combined circuit and added the Famous Players branded magazine assets. The Partnership had launched its digital advertising network in its 21 Toronto extended market area theatres on April 1, 2005. By the end of 2005 the digital network had been expanded to 32 locations, 359 screens in the extended Toronto market area and by March 31, 2006 to 71 theatres, 816 screens completing the coverage in Ontario and expanding the network to Montreal, Calgary and Vancouver. At the Acquisition date, the Partnership had established an integration reserve, which was to be used in part, to fund the integration from a distributed DVD system to a networked pre-show system (see "Future Obligations")

Film cost. Film cost for the three months ended March 31, 2006 increased $28.2 million to $51.3 million. Of this increase $27.7 million related to the Acquisition and $0.5 million related to the Cineplex

Galaxy circuit. As a percentage of box office revenue, film cost decreased to 49.8% for the three months ended March 31, 2006 from 50.4% for the three months ended March 31, 2005.

Cost of concessions. Cost of concessions for the three months ended March 31, 2006 increased $5.7 million to $9.7 million. Of this increase, $5.1 million related to the Acquisition and a $0.6 million increase related to the Cineplex Galaxy circuit. The Cineplex Galaxy increase in cost of concessions was due to the costs associated with new theatres that were opened ($0.1 million) and increased purchase incidence ($0.5 million). As a percentage of concession revenues, cost of concessions decreased from 20.7% for the three months ended March 31, 2005, to 19.8% for the three months ended March 31, 2006. In April 2006 the Partnership announced the selection of Coca-Cola as the exclusive beverage partner for all of its theatres for the next five years.

Occupancy expense. Occupancy expense for the three months ended March 31, 2006 increased $25.0 million to $37.0 million. This increase is due to the Acquisition as there was no change in occupancy costs arising in the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the incremental costs associated with new theatres that were opened ($0.4 million) was offset by a decrease in volume related occupancy costs ($0.3 million) and the impact of disposed theatres ($0.1 million).

Other theatre operating expenses. Other theatre operating expenses for the three months ended March 31, 2006 increased $23.3 million to $38.3 million. Of this increase, $20.5 million related to the Acquisition and $2.8 million related to the Cineplex Galaxy circuit. For the Cineplex Galaxy circuit, the overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($0.4 million) and the impact of additional business activities and inflationary increases ($2.4 million).

General and administrative costs. General and administrative costs for the three months ended March 31, 2006 increased $3.2 million to $8.1 million. General and administrative costs for 2006 have increased as a result of increased headcount and business activities arising from the Acquisition. Included in the increase is an increase in salaries and related costs for additional staff in head office ($2.3 million) and increased legal and audit fees ($0.4 million). General and administrative costs for the first quarter of 2005 included $0.8 million in professional fees related to the Acquisition, $0.2 million in recruitment and resource costs related to the establishment of an information technology department in the Canadian head office that allowed the Partnership to terminate the services agreement for management information systems support and eliminate the Loews Cineplex Theatres Inc. ("LCT") management fee and a charge of $0.3 million under the Partnership's Long Term Incentive Plan.

Management fee. Effective November 26, 2003, the Partnership entered into a services agreement with Cineplex Odeon Corporation ("COC") (subsequently assumed by LCT) under which management information systems (MIS support) support was provided to the Partnership at a cost of US$0.5 million per annum. The Partnership terminated the services agreement during the second quarter of 2005. The Partnership had recruited additional staff and acquired additional hardware and software licenses to repatriate this MIS function. Included in the first six months of 2005 are both the cost of these additional resources and the management fee paid up to the date of the contract termination.

Income before undernoted. The Partnership reported income before undernoted for the three months ended March 31, 2006 of $18.3 million as compared to income before undernoted of $10.8 million for the three months ended March 31, 2005. This change was due to the aggregate effect of the factors described above.

Amortization. For the three months ended March 31, 2006 amortization costs increased $9.0 million to $15.2 million. Of this increase, $8.6 million related to the Acquisition and $0.5 million related to the

Cineplex Galaxy circuit. The increase in the Cineplex Galaxy circuit was due primarily to the incremental impact of new theatres.

Loss on disposal of theatre assets. The loss on disposal of theatre assets represents the loss on theatre assets that were sold or otherwise disposed of. For the three months ended March 31, 2006 the Partnership recorded a loss of $0.2 million as compared to a gain of nil for the three months ended March 31, 2005.

Interest on long-term debt and capital lease obligations. Interest on long-term debt for the three months ended March 31, 2006 increased to $7.4 million from $2.2 million for the three months ended March 31, 2005 primarily as a result of the additional borrowings in 2005 to finance the Acquisition. Interest expense is comprised of the amortization of $0.6 million of deferred financing fees, interest on capital leases of $0.7 million, interest of $1.6 million and accretion expense of $0.6 million on the Class C LP Units and $3.9 million of interest on long-term debt. For the three months ended March 31, 2005 interest expense includes $0.2 million for the amortization of deferred financing fees and $2.0 million of interest on long-term debt.

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

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

Income tax expense. Income tax expense of $55 thousand for the three months ended March 31, 2006 and 2005 represents current income taxes for the Partnership's wholly owned subsidiary GEI.

Income from discontinued operations. Income from discontinued operations for the three months ended March 31, 2006 amounted to a loss of $1.0 million, of which $0.3 million related to the costs associated with the disposal of theatre properties and a loss of $0.7 million arising from the operations of the Alliance Atlantis branded theatres that are still held, in part, by the Partnership and the seven Quebec theatres sold at the end of the first quarter of 2006. This compares to income from discontinued operations for the three months ended March 31, 2005 of $0.8 million which relates solely to income from operations from the Cineplex Galaxy theatres to be divested under the Consent Agreement.

Non-controlling interests. Non-controlling interests for the three months ended March 31, 2006 of $37 thousand (2005 – nil) represents the minority interest of the costs associated with the winding up of the activities of FP Media Inc. held by the non-controlling partner.

Net income. Net loss for the three months ended March 31, 2006 decreased to $8.9 million from $0.2 million for the three months ended March 31, 2005, primarily due to the net effect of all of the other factors described above.

EBITDA

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

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

	Three months ended March 31	
	2006	2005
Net loss	($8,926)	($199)
Amortization	15,238	6,213
Interest on long-term debt	7,414	2,206
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(104)	(118)
Income tax expense	55	55
EBITDA	$17,177	$11,657
Non-controlling interest	(37)	0
Loss/(income) from discontinued operations	958	(843)
Loss on disposal of theatre assets	184	0
Adjusted EBITDA	$18,282	$10,814

SEASONALITY AND QUARTERLY RESULTS

Historically, the Partnership's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures are generally released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. In order to stabilize working capital requirements during the slower quarters, the Partnership has available for its use a $50.0 million Working Capital Facility (see "Credit Facilities" discussed below), of which $20.0 million was drawn at March 31, 2006.

Summary of Quarterly Results (expressed in thousands of dollars except per unit data)

	2006	2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	$162,662	$193,186	$151,879	$75,197	$70,037	$76,846	$85,060	$83,436
Cost of Operations	144,380	157,735	140,883	63,688	59,223	60,693	65,458	65,724
Income from Operations	18,282	35,451	10,996	11,509	10,814	16,153	19,602	17,712
Amortization	15,238	16,235	14,136	6,364	6,213	6,227	5,858	5,310
Loss (Gain) on disposal of theatre assets	184	(54)	195	(19)	-	3	(72)	(36)
Loss on extinguishment of debt		-	4,156	-	-	-	-	-
Loss on impairment of assets		-	4,296	-	-	-	-	-
Interest on long-term debt	7,414	7,691	6,160	2,344	2,206	2,307	2,068	1,904
Interest on loan from Cineplex Galaxy Trust	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Interest income	(104)	(91)	(109)	(60)	(118)	(118)	(200)	(61)
Income taxes	55	(925)	(712)	119	55	(1,320)	74	61
Income from discontinued operations	(958)	(620)	26,912	981	843	1,274	2,068	1,743
Non-controlling interest	(37)	1,214	614	0	-	-	-	-
Net income/(loss)	($8,926)	$7,261	$5,672	$242	($199)	$6,828	$10,442	$8,777
Net income/(loss) per LP Unit (ii)	($0.162)	$0.132	$0.106	$0.005	($0.004)	$0.144	$0.220	$0.185
Cash flows from operations (i)	(24,119)	57,141	327	6,710	(1,566)	26,387	11,939	9,289
Cash flows from investing activities	(15,634)	(10,083)	(286,671)	(23,622)	4,258	(9,957)	(9,698)	(4,985
Cash flows used in financing activities (i)	14,914	(26,697)	302,255	2,292	(17,212)	(3,607)	(2,729)	(6,759)
Net change in cash	($24,839)	$20,361	$15,911	($14,620)	($14,520)	$12,823	($488)	($2,455)
Box office revenue per patron	$7.81	$7.97	$7.76	$7.50	$7.34	$7.40	$7.43	$7.43
Concession revenue per patron	$3.72	$3.68	$3.40	$3.26	$3.11	$3.10	$2.99	$3.09
Attendance	13,195	14,815	12,471	6,420	6,239	6,729	7,609	7,440

(i) Comparative amounts for tenant inducements have been reclassified from a financing activity to an operating activity in the consolidated statements of cash flows to conform to the current year's financial statement presentation.
(ii) Computed using weighted average number of LP Units outstanding for the year.

Distributable Cash

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

	2006	2005				2004		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash used in operating activities (i)	($24,119)	$57,141	$327	$6,710	($1,566)	$26,387	$11,939	$9,289
Less: Changes in operating assets and liabilities (ii)	32,458	(27,864)	8,922	(384)	8,116	(13,024)	3,863	4,234
Tenant inducements (iii)	(974)	(5,497)	(269)	(605)	(1,291)	(2,730)	(428)	(250)
Capital lease payments	(327)	(322)	(210)	-	-	-	-	-
Income net of dividends paid to minority interest shareholder	0	(490)	(1,372)	-	-	-	-	-
Maintenance capital expenditures (iv)	(849)	(1,482)	(590)	(1,304)	(630)	(1,347)	(632)	(1,160)
Add: interest on loan from Cineplex Galaxy Trust (v)	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Non cash components in operating assets and liabilities (vi)	320	319	283	-	-	-	-	-
Expenses funded through integration and restructuring reserve (vii)	44	65	784	-	-	-	-	-
Distributable cash	$10,053	$25,370	$11,375	$7,917	$8,129	$12,786	$18,242	$15,613
Number of LP Units outstanding (viii)	55,150,421	55,150,421	55,150,421	47,566,974	47,566,974	47,566,974	47,566,974	47,566,974
Distributable cash per LP Unit	$0.1823	$0.4600	$0.2063	$0.1664	$0.1709	$0.2688	$0.3835	$0.3282

(i) Comparative amounts for tenant inducements have been reclassified from a financing activity to an operating activity in the consolidated statements of cash flows to conform to the current year's financial statement presentation.
(ii) Changes in operating assets and liabilities are not considered a source or use of distributable cash.
(iii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of distributable cash flow.
(iv) Maintenance capital expenditures are funded out of distributable income. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit

Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005 (see discussion under "Future Obligations" below).

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

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

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

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

Balance Sheet

Assets

Assets decreased $23.0 million to $775.8 million as at March 31, 2006 due mainly to a decrease in cash of $25.1 million.

Accounts receivable. Accounts receivable increased $1.1 million to $22.9 million as at March 31, 2006 from $21.8 million as at December 31, 2005. This increase was due to increased business volumes.

Prepaid expenses and other current assets: Prepaid expenses and other current assets increased $4.0 million to $7.8 million at March 31, 2006 from $3.8 million at December 31, 2005. This increase is due mainly to the prepayment of certain annual occupancy charges.

Fixed assets. The increase in fixed assets from $435.0 million at December 31, 2005 to $440.0 million at March 31, 2006 is due capital expenditures primarily on new theatre builds and the digital pre-show network ($15.2 million) and to valuation adjustments ($2.3 million) offset by amortization expenses. Fixed assets related to the remaining seven theatres to be divested have been reclassified to assets held for sale – long term ($2.4 million).

Goodwill. The decrease in goodwill by $5.2 million from $206.2 million at December 31, 2005 to $201.0 million at March 31, 2006 is due to final adjustments arising on the valuation of the Acquisition.

Liabilities

Liabilities decreased $1.6 million from $750.3 million as at December 31, 2005 to $748.7 million as at March 31, 2006 primarily due in increase in borrowings of $27.6 million offset by a decrease in accounts payable and accrued expenses ($22.8 million) and deferred revenue ($8.4 million).

Accounts payable and accrued expense. Accounts payable and accrued expenses decreased from $88.2 million as at December 31, 2005 to $65.4 million as at March 31, 2006. The decrease is due to the settlement of year end liabilities that were high due to increased business volumes during the fourth quarter of 2005.

Deferred revenue. Deferred revenues decreased by $8.4 million to $32.6 million as at March 31, 2006 from $41.0 million as at December 31, 2005. This was due primarily to the redemption of gift certificates that were sold during the holiday season in December 2005 and a traditional slow period in new gift certificate sales in the first quarter of 2006.

Current and long-term debt: Current debt increased $20.0 million at March 31, 2006. The Partnership borrowed $20.0 million on the Working Capital Facility to fund general corporate requirements during a historically slower period of the year. Long term debt increased from $243.5 million at December 31, 2005 to $251.1 million at March 31, 2006 as a result of incremental borrowings to finance new theatre construction (see discussion under "Credit Facilities" below).

Outstanding Fund Units

The Fund had the following Fund Units issued for the three months ended March 31 (expressed in thousands of dollars, except for Fund Unit amounts):

	2006		2005	
	Number of Fund Units	Amount	Number of Fund Units	Amount
Fund Units beginning of period	27,838,992	$334,287	20,023,689	$201,477
Issuance of Fund Units under Exchange Agreement	85,240	1,189	154,656	2,355
	27,924,232	$335,476	20,178,345	$203,832

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

	Number of Class B LP Units	
	2006	**2005**
Class B Series 1	20,297,954	20,321,237
Class B Series 2-C	2,086,957	2,086,957
Class B Series 2-G	4,092,831	4,980,435
	26,477,742	27,388,629

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

Cash used by operating activities was $24.1 million for the three months ended March 31, 2006 as compared to a use of $1.6 million for the three months ended March 31, 2005. The primary reason for the difference was due to changes in operating assets and liabilities, which was a use of $32.5 million in 2006 versus a use of $8.1 million in 2005. This difference arose primarily due to a reduction of accounts payable and accrued liabilities of $21.9 million in the first quarter of 2006 versus a reduction of $4.9 million in the same period in 2005. In addition, during the three months ended March 31, 2006 deferred revenue decreased by $8.4 million as compared to a decrease of $4.9 million during the three months ended March 31, 2005.

Investing Activities

Cash used by investing activities for the three months ended March 31, 2006 of $15.6 million primarily related to capital expenditures ($15.1 million).

Cash provided by investing activities for the three months ended March 31, 2005 was primarily related to the removal of the restrictions on distributions on the Support Theatre Units (discussed in "Liquidity and Capital Resources -Distributions" below), offset by capital expenditures on new theatre builds ($3.4 million).

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

Financing Activities

Cash provided by financing activities for the three months ended March 31, 2006 of $14.9 million was due primarily to net borrowings under the Amended Credit Facilities ($27.6 million) offset by distribution payments of $12.4 million. For the three months ended March 31, 2005 cash used by financing activities ($17.2 million) was due primarily to distribution payments of $17.8 million offset by borrowings under Former Credit Facilities of $1.0 million. Distribution payments included payment of distributions of $8.3 million on the Support Units (discussed in "Liquidity and Capital Resources -Distributions" below).

The Partnership believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under existing credit facilities.

Distributions

Partnership distributions are made on a monthly basis to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. For the three months ended March 31, 2006, the Partnership's distributable cash flow per LP Unit was $0.1823 and $0.1709 for the three months ended March 31, 2005. The declared distribution per LP Unit and interest on the GEI note per LP Unit for each of these periods totaled $0.2874. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts, as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities. While the Partnership's year to date payout ratio is greater than 100%, a number of factors that are either one time events or that management does not expect to continue have contributed to this result. From inception of the Fund to March 31, 2006, distributions represent 102% of distributable income.

As distributions on the Class C LP Units are made twice a year, on the business day before June 30 and December 31, the Partnership made no distributions on the Class C LP Units during the three months ended March 31, 2006. Distributions on Class C LP Units are deducted by the Partnership in computing its net income and distributable income.

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

For the three months ended March 31, 2006 and March 31, 2005, the Fund declared distributions totaling $0.2874 per Fund Unit. The Fund is entirely dependent on distributions from the Partnership and interest payments from GEI to make its own distributions.

The after-tax return to unitholders of the Fund subject to Canadian federal income tax from an investment in Fund Units will depend, in part, on the composition for tax purposes of the distributions paid by the Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital, which are not included in a unitholder's income but which reduce the adjusted cost base of the Fund Units to the unitholder. The composition for tax purposes of these distributions may change over time, thus affecting the after-tax return to such unitholders. For the year ended December 31, 2005, 67.3% of the Fund's distributions ($0.77332 per Fund Unit) represented taxable income, 16.6% of the Fund's distributions ($0.19097 per Fund Unit) represented a capital gain with the balance, 16.1% ($0.18531 per Fund Unit) representing a return of capital to the unitholder. For the year ended December 31, 2004, 21.8% of the Fund's distributions ($0.25108 per Fund Unit) represented a nontaxable return of capital with the balance representing taxable income to the unitholder.

Credit Facilities

In connection with the Acquisition, the Partnership entered into, the Amended Credit Facilities (in thousands of dollars):

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

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

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

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

During the three months ended March 31, 2006 the Partnership borrowed $30.6 million under the Amended Credit Facilities and repaid $3.0 million. As at March 31, 2006 the Partnership had $20.0 million outstanding under the Working Capital Facility, $235.0 million outstanding under the Term Facility and $16.1 million outstanding under the Development Facility both of which are included in long-term debt.

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

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

Interest rate swap. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects the mark-to-market buyout of the previous interest rate swap on the Former Credit Facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200 million. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the four-year senior secured non-revolving term credit facility. The estimated fair market value of the swap is an unrealized gain of $3.3 million (loss of $1.8 million as at March 31, 2005) that is not recognized on the balance sheet or statement of income in accordance with GAAP as it is considered an effective hedge.

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

Future Obligations

As of March 31, 2006, the Partnership has aggregate capital commitments of $20.0 million related to the completion of construction of seven theatre properties to comprise 71 screens. The Partnership expects to complete construction and to open these theatres throughout 2006 and 2007.

A portion of the proceeds arising from the issuance of Fund Units, the net borrowings under the Amended Credit Facility and the proceeds of the RioCan sale-leaseback transaction are available for general corporate purposes, including a $25.0 million reserve for integration and restructuring costs associated with the Acquisition. Of this reserve, severance charges in the amount of $1.2 million were paid during the three months ended March 31, 2006 ($6.2 million from the inception of the reserve in July 2005).

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

With the expansion outside the Toronto extended market area and the inclusion of the Famous Players theatres, the total additional cost of the digital network is in the range of $7.0 million to $8.0 million to be spent by the end of 2007. Of this amount, $7.0 million is included in the $25.0 million reserve that was established for integration and restructuring costs associated with the Acquisition. As of March 31, 2006, costs of $6.7 million with respect to this reserve had been incurred.

Included in the $25 million reserve is $4.0 million for the upgrade of the Famous Player's point-of-sale system. As of March 31, 2006, $3.3 million had been committed to this project. Costs of $1.9 million with respect to this reserve have been incurred as of March 31, 2006.

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

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

RELATED PARTY TRANSACTIONS

The Fund has entered into transactions with parties to which it is related. During the three months ended March 31, 2006 and 2005, distributions in the amount of $4.5 million and $2.3 million respectively were received from the Partnership. The Fund had distributions receivable from the Partnership at March 31, 2006 and 2005 in the amount of $1.5 million and $0.8 million, respectively.

The Fund recorded interest income from the Partnership with respect to the Class C LP Units during the three months ended March 31, 2006 in the amount of $1.6 million (2005 – nil) all of which remains unpaid at March 31, 2006.

The Fund received interest income in the amount of $3.5 million for both the three months ended March 31, 2006 and 2005 with respect to the Galaxy Note.

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

COC charged the Partnership $130 thousand for the three months ended March 31, 2006 for rent for the Partnership's head office (2005 - $130 thousand).

For the three months ended March 31, 2006 and 2005 the Partnership incurred expenses for film rental totaling $8.5 million and $3.2 million, respectively, to Alliance Atlantis Communications Inc. ("Alliance") and its subsidiary Motion Picture Distribution LP ("Motion Picture"). Alliance is a former shareholder of GEI and Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the year ended March 31, 2006, the Partnership earned revenue in the amount of $153 thousand with respect to these services (2005 - $115 thousand).

A member of the Trustees of the Fund and a Director of Cineplex Entertainment Corporation received fees for consulting services in the amount of $63 thousand for the three months ended March 31, 2006 (2005 - $69 thousand).

A former trustee of the Fund is the President and Chief Executive Officer of RioCan. The trustee resigned from the Board of the Fund effective August 1, 2005. For the three months ended March 31, 2005, the Partnership incurred rental costs for theatres under lease commitments with Riocan in the amount of $2.8 million.

Distributions paid by the Partnership to related parties consist of (expressed in thousands of dollars):

	Three months ended March 31, 2006	2005
Fund	$4,517	$2,270
Onex and its subsidiaries	7,439	13,033
Alliance	0	911
Other related parties	216	531

Distributions payable by the Partnership to related parties consist of (expressed in thousands of dollars):

	As at March 31 2006	2005
Fund	$1,509	$766
Onex and its subsidiaries	2,480	2,456
Alliance	0	65
Other related parties	72	38

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

ACCOUNTING POLICIES AND RECENT DEVELOPMENTS

Critical Accounting Policies

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

Revenues

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

Film Rental Costs

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

Leases

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

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

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

Goodwill

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

Intangible Assets

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

Income Taxes

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

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

Disposal of long-term assets and discontinued operations

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

Long-Lived Assets

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

Use of Estimates

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

Recent Accounting Developments

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

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

COC, Cineplex Odeon (Quebec) Inc. ("COQ"), and former investors in GEI (collectively 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 Fund Units. Restrictions on the ability of COC and COQ to exchange certain of their LP Units expire on November 26, 2006. If COC and COQ sell substantial amounts of Fund Units in the public market, the market price of the Fund Units could fall. The perception among the public that these sales will occur could also produce such effect.

Market Risk

The Partnership is exposed to financial market risks, including changes in interest rates and other relevant market prices. As discussed in "Liquidity and Capital Resources – Credit Facilities" the Partnership has entered into various interest rate swaps agreements. The estimated fair market value of the swap is an unrealized gain of $3.3 million (loss of $1.8 million as at March 31, 2005) that is not recognized on the balance sheet or statement of income in accordance with GAAP.

Interest Rate Risk

As of March 31, 2006, the Partnership had long-term debt and amounts due to the Trust (including current maturities) of $371.1 million. Approximately $271.1 million of this debt is variable rate debt. An increase or decrease in interest rates would affect interest costs relating to this debt. For comparative purposes, for every change of 0.125% in interest rates, the Partnership's interest costs would change by approximately $0.3 million per year. Offsetting this risk is the impact of the interest rate swap referred to above.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership, Alliance Atlantis Cinemas Partnership and Famous Players Limited Partnership (the "Respondents") alleging discrimination against hearing-impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against other exhibitors and certain Canadian film distributors. All complaints have been referred to the Human Rights Tribunal and have been joined together for hearing. The Partnership anticipates that the matter will be heard by the Tribunal during both 2006 and 2007. If the Human Rights Tribunal rules against the Respondents and forces the maximum provision of technology, the Partnership could face a substantial capital expenditure burden. The Partnership has been and will continue to research changing technologies to determine how it can best accommodate the hearing impaired and other disabled communities. 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.

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

Partnership, which may arise as a result of these matters, will not have a material adverse effect on the Partnership's operating results, financial position or cash flows.

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

OUTLOOK

Management believes that the Partnership will continue to benefit from the realization of cost-saving opportunities and other synergies through the ongoing integration of the operations of the Partnership and Famous Players. Specifically, management expects continued realization of cost savings through a reduction in consolidated general and administrative expenses, improved supply chain cost management and operational efficiency. Management has increased its synergy estimates believing that these synergies will result in annual savings of approximately $30 million once the operations of Famous Players and those of the Partnership have been fully integrated. Management believes that these synergies will be fully achieved on a run-rate basis at the end of the second quarter of 2006.

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

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

May 2, 2006

Cineplex Galaxy Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 1,218	$ 1,209
Interest receivable from Cineplex Entertainment Limited Partnership	1,576	-
Distributions receivable from Cineplex Entertainment Limited Partnership	1,509	1,500
	4,303	2,709
Due from Galaxy Entertainment Inc.	100,000	100,000
Investment in Cineplex Entertainment Limited Partnership (notes 1 and 2)	196,818	206,763
Investment in Cineplex Entertainment Limited Partnership Class C Units (note 2)	105,000	105,000
Investment in Cineplex Entertainment Corporation	2	2
	$ 406,123	$ 414,474
Liabilities		
Current liabilities		
Distributions payable (note 5)	$ 2,675	$ 2,667
Interest payable on Convertible Debentures	1,571	-
Due to Cineplex Entertainment Limited Partnership	4	4
	4,250	2,671
Convertible Debentures - liability portion	97,250	96,964
	101,500	99,635
Unitholders' Equity	304,623	314,839
	$ 406,123	$ 414,474

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

Approved by the Board of Trustees

"Howard Beck"
Trustee

"Robert Steacy"
Trustee

Cineplex Galaxy Income Fund

Consolidated Statements of (Loss) Earnings
(Unaudited)

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

	Three months ended March 31, 2006	Three months ended March 31, 2005
Share of loss of Cineplex Entertainment Limited Partnership (note 4)	$ (6,607)	$ (2,354)
Interest income	5,084	3,504
Interest and accretion expense on Convertible Debentures	(1,857)	-
Net (loss) earnings for the period	$ (3,380)	$ 1,150
Basic (loss) earnings per unit	$ (0.12)	$ 0.06
Weighted average number of units outstanding used in computing basic (loss) earnings per unit	27,909,078	20,085,282
Diluted (loss) earnings per unit	$ (0.13)	$ 0.06
Weighted average number of units outstanding used in computing diluted (loss) earnings per unit (note 7)	54,401,974	47,566,974

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

Cineplex Galaxy Income Fund

Consolidated Statements of Unitholders' Equity
(Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2006

	Unitholders' capital (note 6)	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2006	$ 334,287	$ 32,988	$ (52,436)	$ 314,839
Issuance of units under Exchange Agreement (note 6)	1,189	-	-	1,189
Distributions declared (note 5)	-	-	(8,025)	(8,025)
Net loss for the period	-	(3,380)	-	(3,380)
Balance - March 31, 2006	$ 335,476	$ 29,608	$ (60,461)	$ 304,623

For the three months ended March 31, 2005

	Unitholders' capital (note 6)	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2005	$ 201,477	$ 21,313	$ (24,733)	$ 198,057
Issuance of units under Exchange Agreement (note 6)	2,355	-	-	2,355
Distributions declared (note 5)	-	-	(5,785)	(5,785)
Net earnings for the period	-	1,150	-	1,150
Balance - March 31, 2005	$ 203,832	$ 22,463	$ (30,518)	$ 195,777

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

Cineplex Galaxy Income Fund

Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash provided by (used in)		
Operating activities		
Net (loss) earnings for the period	$ (3,380)	$ 1,150
Items not affecting cash and cash equivalents		
Share of loss from equity investee (note 4)	6,607	2,354
Accretion of Convertible Debentures	286	-
Distributions received from Cineplex Entertainment Limited Partnership	4,518	2,270
Changes in operating assets and liabilities	(5)	-
	8,026	5,774
Financing activities		
Distributions paid	(8,017)	(5,770)
Increase in cash and cash equivalents during the period	9	4
Cash and cash equivalents - Beginning of period	1,209	1,179
Cash and cash equivalents - End of period	$ 1,218	$ 1,183
Supplemental information		
Cash received for interest	$ 3,508	$ 3,504

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

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

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

1 Description of the Fund

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

On July 22, 2005, the Partnership acquired 100% of Famous Players Limited Partnership (“Famous Players”) and its general partner, Famous Players Co. (the “Acquisition”). On closing of the transaction, total consideration incurred by the Partnership to acquire the net assets noted above amounted to $468,806 in cash, plus transaction costs. The purchase agreement provided that the net cash flow of the Famous Players business from and including April 29, 2005 to closing of the Acquisition was to be for the account of the Partnership in the form of a purchase price adjustment. During the first quarter of 2006, it was determined that a purchase price adjustment was not required.

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

2 Business acquisition

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

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

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

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

Equity method goodwill as per November 26, 2003 investment in the Partnership	$	131,247
Equity method goodwill as per July 22, 2005 investment in the Partnership		111,183
	$	242,430

The Fund's share of the Partnership's net income has been adjusted to reflect the Fund's proportionate share of the amortization of the excess purchase price over net assets acquired (note 4). As at March 31, 2006, the Fund's investment in the Partnership consists of the following:

Equity investment		
26,235,000 Class A LP Units	$	204,042
1,689,232 Class B LP Units (note 6)		22,886
Accumulated share of Partnership income		(2,529)
Less: Accumulated distributions received or receivable		(27,581)
		196,818
5,600,000 Class C LP Units		105,000
Total investment	$	301,818

3 Summary of significant accounting policies

Basis of presentation

The Fund prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005.

Due to the limited amount of information that these unaudited interim consolidated financial statements provide on the underlying operations of the Partnership, these unaudited interim consolidated financial statements should be read in conjunction with the unaudited interim consolidated financial statements of the Partnership for the three months ended March 31, 2006.

Results for the three months ended March 31, 2006 are not necessarily indicative of results expected for the full fiscal year or any other future period due to the business seasonality of the Partnership. As the Fund has significant influence over the Partnership, its investment is accounted for using the equity method.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2005.

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

4 Share of Partnership loss

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

		Three months ended March 31, 2006		**Three months ended March 31, 2005**
Consolidated Partnership net loss for the period from January 1 to March 31	$	(8,926)	$	(199)
Adjustment for Catch-up Payment from Partnership to Class B LP and Class D LP unitholders		(3,417)		(4,791)
Remaining loss to be distributed pro rata to Class A LP, Class B LP and Class D LP unitholders	$	(12,343)	$	(4,990)
Fund's proportionate % share (a)	$	(6,250)	$	(2,107)
Adjustments for excess of purchase price over net assets acquired		(357)		(247)
Share of Partnership's loss	$	(6,607)	$	(2,354)

a) During the period, the Fund's indirect ownership of the Partnership, held through the Trust, increased from approximately 50.5% as at December 31, 2005 to approximately 50.6% (note 6) as at March 31, 2006. The Fund's proportionate share of the loss available to be distributed to the Class A LP, Class B LP and Class D LP unitholders has been adjusted to reflect its increased ownership.

The Fund's share of the Partnership's (loss) income from discontinued operations is $(482) (2005 - $357).

5 Distributions payable

The Fund has declared the following distributions during the three-month periods ended March 31, 2006 and 2005:

		2006				**2005**		
Record date		**Amount**		**Amount per unit**		**Amount**		**Amount per unit**
January 2006	$	2,675.1	$	0.0958	$	1,918.7	$	0.0958
February 2006		2,675.1		0.0958		1,933.1		0.0958
March 2006		2,675.1		0.0958		1,933.1		0.0958

The distributions will be paid within 30 days following the end of each month.

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

6 Unitholders' capital

During the three months ended March 31, 2006, under the provisions of the Exchange Agreement, investors in the Partnership exchanged 85,240 Class B, Series 1 Partnership units for 85,240 Fund units. The Fund recorded the Partnership units it acquired at the fair market value of the Fund units on the date of the transaction. The difference between the fair market value and the value at which the Fund units were issued in the amount of $50 has been credited to unitholders' equity, resulting in a net increase in unitholders' capital of $1,189.

During the three months ended March 31, 2005, under the provisions of the Exchange Agreement, investors in the Partnership exchanged 154,656 Class B, Series 1 Partnership units for 154,656 Fund units. The Fund recorded the Partnership units it acquired at the fair market value of the Fund units on the date of the transaction. The difference between the fair market value and the value at which the Fund units were issued in the amount of $48 has been credited to unitholders' equity, resulting in a net increase in unitholders' capital of $2,355.

There are 27,924,232 Fund units issued as at March 31, 2006 (March 31, 2005 - 20,178,345) for $335,476 (March 31, 2005 - $203,832).

	2006		2005	
	Number of Fund units	**Amount**	**Number of Fund units**	**Amount**
Units - Beginning of period	27,838,992	$ 334,287	20,023,689	$ 201,477
Issuance of units under Exchange Agreement	85,240	1,189	154,656	2,355
Units - End of period	27,924,232	$ 335,476	20,178,345	$ 203,832

7 Diluted (loss) earnings per unit

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

Cineplex Entertainment Limited Partnership

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2006 (Unaudited)	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	$ 20,135	$ 45,190
Accounts receivable	22,913	21,752
Inventories	3,945	4,162
Prepaid expenses and other current assets	7,768	3,803
Due from related parties	32	32
Assets held for sale - current (note 6)	1,012	789
	55,805	75,728
Property, equipment and leaseholds	440,028	435,002
Goodwill (note 2)	201,009	206,218
Intangible assets	62,085	63,464
Future income taxes	5,539	5,539
Deferred charges	8,954	9,319
Assets held for sale - long-term (note 6)	2,357	3,481
	$ 775,777	$ 798,751

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

Approved by the Board of Directors

"*Ellis Jacob*"
Director

"*Anthony Munk*"
Director

Cineplex Entertainment Limited Partnership

Consolidated Balance Sheets …*continued*

(expressed in thousands of Canadian dollars)

	March 31, 2006 (Unaudited)	December 31, 2005
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 65,407	$ 88,243
Distributions payable	4,117	4,117
Due to related parties	3,714	2,442
Income taxes payable	1,362	667
Deferred revenue	32,571	41,003
Current portion of capital lease obligations	1,393	1,383
Current portion of long-term debt (note 4)	20,026	35
Liabilities related to property held for sale - current (note 6)	468	843
	129,058	138,733
Capital lease obligations - long-term	37,508	38,078
Long-term debt (note 4)	251,100	243,500
Due to Cineplex Galaxy Trust	100,000	100,000
Accrued pension liability	4,834	5,229
Other liabilities	124,703	123,950
Class C Limited Partnership Units - liability component	98,174	97,555
Liabilities related to property held for sale - long-term (note 6)	3,288	3,235
	748,665	750,280
Non-controlling interest	993	1,030
Partners' Equity		
Partners' equity	26,119	47,441
	$ 775,777	$ 798,751

Commitments and contingencies (note 7)

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

Cineplex Entertainment Limited Partnership

Consolidated Statements of Operations
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2006	Three months ended March 31, 2005 (note 6)
Revenue		
Box office	$ 103,014	$ 45,767
Concessions	49,032	19,396
Other	10,616	4,874
	162,662	70,037
Expenses		
Film cost	51,307	23,086
Cost of concessions	9,696	4,024
Occupancy	37,025	12,063
Other theatre operating expenses	38,269	15,004
General and administrative	8,083	4,893
Management fee	-	153
	144,380	59,223
Income before undernoted	18,282	10,814
Amortization	15,238	6,213
Loss on disposal of theatre assets	184	-
Interest on long-term debt and capital lease obligations	7,414	2,206
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(104)	(118)
Loss before income taxes, non-controlling interest and discontinued operations	(7,950)	(987)
Provision for current income taxes	55	55
Loss before non-controlling interest and discontinued operations	(8,005)	(1,042)
Non-controlling interest	(37)	-
Loss from continuing operations	(7,968)	(1,042)
(Loss) income from discontinued operations	(958)	843
Net loss for the period	$ (8,926)	$ (199)

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

Cineplex Entertainment Limited Partnership

Consolidated Statements of Partners' Equity (Deficiency)
(Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2006

	Partners' capital (note 8)	Deficit	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2006	$ 232,975	$ (147,795)	$ 51,925	$ (89,664)	$ 47,441
Distributions declared	-	-	-	(12,350)	(12,350)
Issuance of Partnership Units - costs	(72)	-	-	-	(72)
Investment in Cineplex Galaxy Income Fund units (note 8)	142	-	-	-	142
LTIP compensation obligation (note 8)	(116)	-	-	-	(116)
Net loss for the period	-	-	(8,926)	-	(8,926)
Balance - March 31, 2006	$ 232,929	$ (147,795)	$ 42,999	$ (102,014)	$ 26,119

For the three months ended March 31, 2005

	Partners' capital (note 8)	Deficit	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2005	$ 110,203	$ (147,795)	$ 38,949	$ (44,620)	$ (43,263)
Distributions declared	-	-	-	(10,170)	(10,170)
Investment in Cineplex Galaxy Income Fund units (note 8)	(282)	-	-	-	(282)
LTIP compensation obligation (note 8)	133	-	-	-	133
Net loss for the period	-	-	(199)	-	(199)
Balance - March 31, 2005	$ 110,054	$ (147,795)	$ 38,750	$ (54,790)	$ (53,781)

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

Cineplex Entertainment Limited Partnership
Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2006	Three months ended March 31, 2005
Cash provided by (used in)		
Operating activities		
Net loss for the period	$ (8,926)	$ (199)
Adjustments to reconcile net income to net cash used in operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	15,238	6,524
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(84)	(1,301)
Amortization of debt issuance costs	652	235
Loss on disposal of theatre assets	522	-
Non-controlling interest	(37)	-
Tenant inducements	974	1,291
Changes in operating assets and liabilities (note 5)	(32,458)	(8,116)
	(24,119)	(1,566)
Investing activities		
Proceeds from sale of theatre assets	70	6
Proceeds from sale of discontinued operations	502	-
Capital expenditures	(15,106)	(3,354)
Acquisition of Famous Players-branded magazines	(1,100)	-
Cash transferred to segregated account for future distributions	-	(691)
Cash received from segregated account for distribution	-	8,297
	(15,634)	4,258
Financing activities		
Borrowings under credit facility	30,600	1,000
Repayment of credit facility	(3,009)	(13)
Payments under capital leases	(327)	-
Distributions paid	(12,350)	(17,776)
Investment in Cineplex Galaxy Income Fund units	-	(423)
	14,914	(17,212)
Decrease in cash and cash equivalents during the period	(24,839)	(14,520)
Cash and cash equivalents - Beginning of period (note 6)	45,795	38,663
Cash and cash equivalents - End of period (note 6)	$ 20,956	$ 24,143
Supplemental information		
Cash paid for interest	$ 8,676	$ 5,394
Cash paid for income taxes - net	$ 52	$ 64

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

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

1 Description of business

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

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

2 Business acquisitions

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

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

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

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

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

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

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

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

As a result of the Acquisition, the Partnership has identified areas where a duplication of functions existed and has undertaken a restructuring of the workforce in both the Partnership and in Famous Players. Involuntary termination benefits were communicated to the corresponding employees and the anticipated date of completion of services to be provided by the terminated employees is October 2006. In accordance with The Canadian Institute of Chartered Accountants' ("CICA") Emerging Issues Committee ("EIC") Abstract 114, "Liability Recognition for Costs Incurred on Business Combinations," included in the purchase price allocation is a liability for involuntary termination benefits for employees of Famous Players in the amount of $8,948. During the three months ended March 31, 2006, $1,169 was paid to certain terminated employees and accretion expense of $44 was charged to the consolidated statement of operations. During the year ended December 31, 2005, the Partnership has accrued involuntary termination charges for Cineplex Entertainment Limited Partnership employees of $740 in general and administrative expenses in accordance with EIC-134, "Accounting for Severance and Termination Benefits." Termination payments of $126 have been paid during the three months ended March 31, 2006.

3 Summary of significant accounting policies

Basis of presentation

The Partnership prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2005.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2005.

4 Long-term debt

During the three months ended March 31, 2006, the Partnership borrowed $23,000 (2005 - $nil) and repaid $3,009 (2005 - $nil) under its $50,000 Working Capital Facility and borrowed $7,600 (2005 - $1,000) under its $60,000 Development Facility. These funds are being used to finance the ongoing development of theatre projects (note 7).

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

5 Cash flow statement

The following summarizes the changes in operating assets and liabilities:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Accounts receivable	$ 402	$ 2,484
Inventories	222	253
Prepaid expenses and other current assets	(3,969)	(757)
Due from related parties	-	(6)
Deferred charges	(350)	-
Accounts payable and accrued expenses	(21,850)	(4,887)
Due to related parties	1,272	(373)
Income taxes payable	695	(34)
Deferred revenue	(8,449)	(4,859)
Accrued pension liability	(396)	(30)
Other liabilities	(35)	62
Restricted cash	-	31
	$ (32,458)	$ (8,116)
Non-cash investing activities		
Capital asset purchases financed through accrued liabilities	$ 6,033	$ 4,119

Comparative amounts for capital asset purchases financed through accrued liabilities were previously recorded as capital expenditures in the consolidated statements of cash flows. As these are non-cash transactions, the comparative figures have been amended by reducing capital expenditures and increasing the movement in accounts payable and accrued liabilities, resulting in a $1,787 decrease in cash flows from operating activities and a $1,787 increase in cash flows from investing activities for the three months ended March 31, 2005.

6 Discontinued operations

The Partnership entered into a consent agreement (the “Consent Agreement”) with the Commissioner of Competition (the “Commissioner”) in respect of its acquisition of Famous Players on July 22, 2005. Under the terms of the Consent Agreement, the Partnership agreed to divest a total of 34 specified theatres, held by both the Partnership and Famous Players, within a specified period of time on the terms and conditions set out in the Consent Agreement. These conditions were met during the first quarter of 2006. Until May 27, 2010, the Partnership must provide the Commissioner with prior written notice of any acquisition by it of any non-Partnership theatre or assumption of lease where the remaining term exceeds two years. The Partnership also may not, during this time, reacquire any of the divested theatres without prior approval of the Commissioner. In addition, the Partnership and its joint venture partner intend to sell the remaining three Alliance Atlantis brand theatres.

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

As at December 31, 2005, the Partnership had disposed of 27 of the theatres, as required under the Consent Agreement, and two of the Alliance Atlantis brand theatres. During the three months ended March 31, 2006, the Partnership disposed of the remaining seven theatres, which were in Quebec ("Quebec Theatres"), as required under the Consent Agreement; however, as less than 15% of the purchase price was received by March 31, 2006, under EIC-79, "Gain Recognition in Arm's-Length and Related Party Transactions when the Consideration Received Includes a Claim on the Assets Sold," the sale of the Quebec Theatres has not been recorded in these consolidated financial statements as at March 31, 2006. The total proceeds for the Quebec Theatres and a related screen advertising contract was $1,850. As per EIC-142, "Revenue Arrangements with Multiple Deliverables," $1,000 of the proceeds has been allocated to a screen advertising contract with the remaining $850 allocated to the Quebec Theatres of which the latter amount will, under the terms of the agreement, be paid within six months of the closing of the agreement.

The carrying amounts of the major classes of assets held for sale and liabilities related to property held for sale as at March 31, 2006 and December 31, 2005 are as follows:

	March 31, 2006	December 31, 2005
Cash	$ 821	$ 605
Property, equipment and leaseholds	2,357	3,481
Other	191	184
	$ 3,369	$ 4,270
Accounts payable	$ 328	$ 685
Deferred revenue	140	158
Other	3,288	3,235
	$ 3,756	$ 4,078

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

7 Commitments and contingencies

Commitments

As at March 31, 2006, the Partnership has aggregate capital commitments as follows:

Capital commitments for seven theatres to be completed during 2006 and 2007	$ 19,975
Point-of-sale equipment	$ 1,400
Digital pre-show equipment	$ 248
Letters of credit	$ 1,271

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

Guarantees

During the three months ended March 31, 2006, the Partnership entered into an agreement with a third party to divest seven theatres, six of which were leased properties, as required by the Commissioner of Competition (note 6), and to provide advertising services until December 31, 2012. A sale of the seven theatres was not recorded in these consolidated financial statements for accounting purposes (note 6). The Partnership is guarantor under the leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. The Partnership has also guaranteed certain advertising revenues based on attendance levels. No amounts have been provided in the consolidated financial statements for these guarantees as the occurrence of the guarantees being exercised is not determinable and the total future minimum payments guaranteed by the Partnership cannot be estimated. Should the purchaser of the theatres fail to fulfill its lease commitment obligations, the Partnership could face a substantial financial burden.

Other

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

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

8 Partners' capital

Partnership units outstanding as at March 31 are as follows:

	Three months ended March 31, 2006			Three months ended March 31, 2005		
	Number of units		Amount	Number of units		Amount
Opening balance						
Class A Partnership units	26,235,000	$	181,720	19,400,000	$	79,480
Class B, Series 1 LP units	20,949,582		16,860	20,949,582		16,860
Class B, Series 2-C LP units	2,086,957		-	2,086,957		-
Class B, Series 2-G LP units	5,130,435		14,085	5,130,435		14,085
Class C LP units	5,600,000		8,546	-		-
Class D LP units	748,447		12,050	-		-
Partnership issuance costs	-		(222)	-		(222)
Investment in Fund units	-		(267)	-		-
LTIP compensation obligation	-		203	-		-
	60,750,421		232,975	47,566,974		110,203
Transactions during the period						
Class A LP units	-		-	-		-
Class C LP units	-		-	-		-
Class D LP units	-		-	-		-
Partnership issuance costs	-		(72)	-		-
Investment in Fund units	-		142	-		(282)
LTIP compensation obligation	-		(116)	-		133
Outstanding at March 31						
Class A LP units	26,235,000		181,720	19,400,000		79,480
Class B, Series 1 LP units	20,949,582		16,860	20,949,582		16,860
Class B, Series 2-C LP units	2,086,957		-	2,086,957		-
Class B, Series 2-G LP units	5,130,435		14,085	5,130,435		14,085
Class C LP units	5,600,000		8,546	-		-
Class D LP units	748,447		12,050	-		-
Partnership issuance costs	-		(294)	-		(222)
Investment in Fund units	-		(125)	-		(282)
LTIP compensation obligation	-		87	-		133
Outstanding - End of period	60,750,421	$	232,929	47,566,974	$	110,054

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

As the Fund's only investment is in the Partnership, the Partnership treats its $125 (December 31, 2005 - $282) investment in Fund units relating to the LTIP plan as treasury stock and nets this investment against partners' capital. The LTIP compensation obligation is recorded as a liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point in time it is reclassified as partners' capital as the Partnership is now obligated to deliver a fixed number of Fund units, the value of which will vary with the market value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

9 Segment information

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

10 Seasonal fluctuations

The Partnership's business is seasonal. Consequently, the results of operations and cash flows for the three-month periods ended March 31, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year, although film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods.