BEYOND MOVIES

2007 Annual Report

CINEPLEX GALAXY INCOME FUND

OFFERING OUR GUESTS MORE THAN MOVIES

The year 2007 was focused on innovation:

1. We expanded our range of food choices to include the most popular fast food brands in Canada.
2. We launched our SCENE loyalty program, capturing more than 600,000 members.
3. We expanded alternative programming to extend our demographic reach and enhance revenues.
4. We revolutionized the entertainment landscape by bringing many amenities and services together under one roof at SilverCity Oakville.
5. Our dedicated employees continued to create an exceptional entertainment experience with their enthusiasm.

Letter to unitholders

As the leader in the Canadian industry, we remain focused on improving and expanding our entertainment offering while delivering solid financial performance to our unitholders

ELLIS JACOB
CHIEF EXECUTIVE OFFICER

2007 was the best year on record for Cineplex Entertainment. We generated record results in all of our key metrics. It was also a year of innovation in which our focus remained on creating an exceptional entertainment experience for our guests and diversifying our reach beyond movies. Our goal is to make Cineplex the entertainment destination of choice for our guests in our theatres and on our website.

During 2007, our total revenue for the year increased 8.8% to $805 million. We enjoyed box office revenue growth of 6.5% compared to Canadian industry growth of approximately 1.3%. This growth was driven by stronger overall film product; new theatres, including the acquisition of three Cinema City theatres in Western Canada; programs designed to drive incremental visits; discounted ticket pricing initiatives in select markets; and the SCENE loyalty program. Concession revenues increased 10.1% to $235 million as a result of successful product and pricing programs implemented throughout the year and increased attendance volumes. Other revenue grew 19.4% to $81 million, primarily due to the continued growth and success of Cineplex Media.

Although we focus on growth, we remain vigilant in controlling costs without compromising the guest experience. Our adjusted EBITDA margin increased to 17.0% in 2007 from 15.9% in 2006. Distributable cash per unit increased by 20.1% to $1.7217 from $1.4330 in 2006. Net income increased 237.8% to $26.5 million from $7.8 million in 2006.

BEYOND MOVIES – REACHING OUR GUESTS IN NEW WAYS

Engaging our guests – and building a sustainable platform for growth – demands more than exhibiting great movies. We have diversified the business beyond the traditional movie exhibition model by launching our SCENE loyalty program, enhancing our website and further capitalizing on Cineplex Media. Each of these initiatives is essentially a different way to reach our guests and will be a major focus in the future.

THEATRE EXHIBITION

In 2007, we continued to focus on growing our exhibition business and unveiled the next generation in theatre entertainment with the opening of our SilverCity Oakville theatre in Ontario. This entertainment destination is a prototype that brings many amenities and services together under one roof including bowling, VIP auditoriums, lounges, child minding services, billiards and game areas, party rooms and a retail store offering a selection of DVDs, CDs, books, magazines and movie collectables. This theatre has set a new standard for theatre exhibition in Canada and is revolutionizing the entertainment landscape.

SilverCity Oakville also features Canada's largest digital projection installation with nine Christie CP2000 series DLP Cinema digital projectors delivering visually stunning, razor-sharp images. This theatre is on the cusp of both an industry-wide and corporate rollout aimed at replacing 35 mm projectors with digital across North America. This technology will expand Cineplex's exhibition opportunities to anything digital, including 3D movies and live or recorded events or programs.

Cineplex has been exhibiting alternative programming for many years. By 2007, alternative programming had expanded to include National Hockey League games, The Metropolitan Opera, The National Ballet of Canada's *Nutcracker* and several concerts.

Most of this programming is premium-priced and attracts a wider spectrum of people to our theatres expanding our demographic reach and enhancing our revenues. Tapping into Canada's multicultural dynamic, we are also expanding the exhibition of Bollywood movies and films from around the world. The evolving breadth and strength of this business will continue to provide our guests with choices and reduce our exposure to the fluctuating quality of Hollywood film product.

We continually strive to find new ways to drive attendance and this year, in addition to the launch of our SCENE loyalty program, we implemented the Big Ticket Tuesday program. In select markets, we offered guests a value package that included theatre admission, popcorn and a fountain drink for one low price. This has proven to be very successful. As a result, Cineplex is one of the few top tier circuits in North America to achieve an increase in attendance in 2007.

In addition to building SilverCity Oakville this past year, we opened a seven-screen Galaxy Cinema in Collingwood, Ontario, and acquired three Cinema City branded discount theatres – two in Winnipeg and one in Edmonton. This brought our circuit to 1,327 screens in 131 theatres by the end of 2007. In March, we plan to open a new Galaxy Cinema in Red Deer, Alberta. In the spring, construction will begin on four theatres in Ontario – in Toronto at Fairview Mall, Brantford, Hamilton and London. Each of these theatres is scheduled to open this fall.

CINEPLEX ENTERTAINMENT LP

FINANCIAL HIGHLIGHTS

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

Our merchandising business, which comprises Cineplex's food services and gaming businesses, represents approximately 30% of our total revenue. Offering our guests a range of food choices enhances their theatre experience and generates strong profit margins. We're proud to feature some of the most popular fast food brands in Canada including Burger King®, New York Fries®, Pizza Pizza®, Taco Bell®, KFC®, Yogen Fruz® and Tim Hortons®.

In 2008, we will focus on growing the merchandising business further by refining and expanding the food and beverages offered in our theatres, creating promotions that drive traffic to our concessions and improving our overall operating efficiencies.

MAKING A SCENE

In 2006, a partnership was established with Scotiabank to create the SCENE loyalty program. SCENE was launched nationally in May 2007. By the end of the year, we had engaged just over 618,000 members, significantly exceeding our targets.

Our objective in creating SCENE was to gain a more thorough understanding of our guests, drive frequency, increase revenue per visit and establish the ability to communicate directly and regularly with our guests. To date, we are achieving all of these objectives and the program has been well received.

SCENE is in its infancy. As membership grows, we believe its value will increase exponentially and the program will become very attractive to potential partners. With 60% of our membership under 30 years old, we believe there are a range of partners who would appreciate the value of this creative marketing opportunity and its ability to reach this much coveted demographic. By expanding both the opportunity to collect and redeem points, the program's value is enhanced by enabling members to get more life from life – and Cineplex benefits by drawing more people into our theatres more often.

The program also includes SCENE-branded VISA® and debit cards launched by Scotiabank. The SCENE debit card was the first debit card in Canada that offered cardholders the ability to earn rewards.

In December, Cineplex unwrapped the next generation in theatre entertainment in Oakville, Ontario. This SilverCity entertainment destination has many amenities and services under one roof

CINEPLEX INTERACTIVE

During 2007 we made significant progress building a clicks-and-mortar business upon the foundation of our traditional bricks-and-mortar business. We substantially expanded our cineplex.com website adding many new features designed to make it the premier Canadian entertainment destination on the Internet. The website now offers streaming video, increased search capabilities, more movie and entertainment news, user ratings and box office reports as well as new advertising opportunities. These features and others are a platform for building an online community where we can engage and interact with our guests and our guests can interact with each other.

We have also begun to attract top tier advertisers to our site and, as our traffic continues to build to a critical mass, cineplex.com will become a premier advertising channel delivering meaningful results for our media business.

In 2007, we also implemented mobile ticketing technology that allows our guests to use their cell phones to purchase tickets and download the bar code. This bar code replaces the traditional paper ticket.

Currently, we are building the e-commerce infrastructure on our website to sell DVDs and movie downloads among other products. This initiative is planned to launch in late 2008. We know there are numerous ways for people to access movies today, but Cineplex reaches the customer first with the film's initial release in our theatres. That's just the beginning. Now, through our SCENE loyalty and cineplex.com website databases we have the ability to communicate directly to our guests before or after they visit a theatre. This gives us a compelling competitive advantage over DVD retailers and other distributors of movies in the post-exhibition chain.

We firmly believe that passionately delivering an exceptional entertainment experience will, in turn, deliver sustainable growth in returns to our unitholders

CINEPLEX MEDIA

Cineplex Media now offers coast-to-coast coverage and a breadth of media that includes full motion, digital pre-show, magazines, online, sampling and in-lobby advertising. Through our recently signed agreement with Empire Theatres Limited in Atlantic Canada along with other circuits, Cineplex Media offers advertisers access to 90% of the Canadian movie going audience from Newfoundland to British Columbia making us the only national coast-to-coast cinema sales representation that can offer advertisers fully integrated in-theatre media campaigns. As of last spring, our *Famous* magazine is now available in all Cineplex Entertainment theatres.

POSITIONED WELL FOR FUTURE OPPORTUNITIES

Financially, we believe we are in a solid position to capture a broader spectrum of opportunities without compromising the sustainability of distributions to our unitholders. We have improved our balance sheet by reducing our leverage through a combination of operating performance improvements and debt reduction. In July 2007, we amended our credit facility to provide increased commitment amounts, financial covenant improvements, additional flexibility and a term extension to 2012. Furthermore, we have significant capital asset pools that can be used to shelter future taxable income.

EXCEEDING EXPECTATIONS

In 2008 we expect to reap the benefits of our 2007 innovations. We will also continue to leverage our 61 million annual theatre guests with our other strategic initiatives – Cineplex Interactive, Cineplex Media and our SCENE loyalty program.

We will focus on building a community on our website that keeps visitors online longer and returning more frequently. We will launch e-commerce and continue to increase online advertising and group sales. We expect membership in SCENE to continue growing as we attract new partners and expand the opportunities to earn rewards. Cineplex Media, with its national presence and 90% market share of in-theatre advertising, is well positioned for continued growth and our digital pre-show will be enhanced to become the must-see entertainment program before the movies begin.

We firmly believe that passionately delivering an exceptional entertainment experience will, in turn, deliver sustainable growth in returns to our unitholders.

I want to thank our employees for their dedication and hard work during an exciting and demanding time. I would also like to thank our Board of Trustees and Directors, who have provided support and advice during the past year. Finally, I want to thank the more than 61 million guests who "enjoy the show" in our state-of-the-art theatres located across the country.

(Signed:)

Ellis Jacob
Chief Executive Officer

Financial review

As of December 31, 2007, Cineplex Galaxy Income Fund indirectly owned an approximate 75.7% interest in Cineplex Entertainment Limited Partnership. As discussed in the Overview below, effective April 2, 2007, Cineplex Galaxy Income Fund began to consolidate the results and operations of 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 consolidated financial statements and related notes of Cineplex Galaxy Income Fund. These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

This management's discussion and analysis (MD&A) contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our Annual Information Form and in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry such as poor film product and unauthorized copying; the risks associated with national and world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions and infectious diseases, changes in income tax legislation; and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex Galaxy Income Fund or Cineplex Entertainment Limited Partnership, their financial or operating results or their securities. Additional information, including Cineplex Galaxy Income Fund's Annual Information Form (AIF) can be found on SEDAR at www.sedar.com.

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OVERVIEW

Cineplex Entertainment Limited Partnership (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"), COC (indirectly through CELP 2007 Limited Partnership ("CELP 2007 LP")), Cineplex Odeon (Quebec) Inc. and certain former investors in GEI. The Trust is wholly owned by Cineplex Galaxy Income Fund (the "Fund"). On July 22, 2005 the Partnership completed the acquisition of the Famous Players Limited Partnership ("Famous Players") movie exhibition business from Viacom Inc. and Viacom Canada Inc., becoming Canada's largest film exhibition operator with theatres in six provinces. The Partnership's theatre circuit is concentrated in major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. As of December 31, 2007, the Partnership owned, leased or had a joint-venture interest in 1,327 screens in 131 theatres. This total includes 37 screens in four theatres held in joint ventures.

On April 2, 2007, under provisions of an exchange agreement entered into at the time of the Fund's initial public offering (as amended or restated from time to time, the "Exchange Agreement") designed to facilitate the exchange of units of the Partnership ("LP Units") into units of the Fund ("Fund Units"), certain minority investing partners of Onex Corporation ("Onex") exchanged 9,122,751 Class B, Series 1 and Series 2-C LP Units for 9,122,751 Fund Units. The Fund recorded the LP Units it acquired at the fair market value of the Fund Units on the date of the transaction, being $143.1 million. As a result of the exchange, Onex's direct and indirect interest in the Partnership was reduced to approximately 23.7% on a fully diluted basis (assuming the exchange of all outstanding exchangeable LP Units and the conversion of all outstanding convertible extendible unsecured subordinated debentures of the Fund ("Convertible Debentures")).

Prior to the April 2, 2007 exchange, the Fund accounted for the Partnership under the equity method. As a result of the exchange, the Fund indirectly acquired an additional 16.0% interest in the Partnership, increasing its ownership to 75.7% (excluding the Class C Limited Partnership units ("Class C LP Units")). The acquisition of the additional interest in the Partnership has been accounted for as a step acquisition as at April 2, 2007 (see note 2 of the Fund's consolidated financial statements for the year ended December 31, 2007). As a result of this transaction, the Fund acquired control of the Partnership and has consolidated the Partnership since April 2, 2007. Accordingly, the results of operations of the business acquired will be included in the consolidated financial statements effective with the acquisition of control.

The Fund's only source of income arises from its investment in the Partnership. Prior to the second quarter of 2007, the Fund accounted for its investment in the Partnership under the equity method of accounting. As a result of the April 2, 2007 exchange, the Fund commenced consolidating the results of the Partnership during the second quarter of 2007 and, as such, the Fund's financial statements do not contain historic comparative results for the Partnership on a line-by-line basis. In order to provide meaningful commentary on the results of operations, the following discussion focuses on the financial statements of the Partnership which include line-by-line comparative information.

On July 13, 2007, the Partnership acquired Cinema City branded theatres located in Winnipeg, Manitoba and Edmonton, Alberta. The Partnership paid consideration in the amount of $6.2 million before transaction costs. The acquisition has been accounted for using the purchase method; accordingly, results of operations of the business acquired have been included in the Partnership's and the Fund's consolidated financial statements since the acquisition date, and the purchase price was allocated to the assets and liabilities acquired, based on their fair values. The final allocation of the purchase price has been allocated to the assets as follows (expressed in thousands of Canadian dollars):

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

On December 31, 2007, the Partnership acquired the other venturer's interest in a joint venture, representing a 50% interest in three theatres with 21 screens located in Quebec. Upon closing, the Partnership owns 100% of the former joint venture. The Partnership paid consideration in the amount of $1.4 million, net of cash acquired. The acquisition has been accounted for using the purchase method; accordingly, results of operations of the business acquired will be included in the Partnership's and the Fund's consolidated financial statements from the acquisition date, and the purchase price is allocated to the assets and liabilities acquired, based on their estimated fair values. Based on management's best estimate, the purchase price has been allocated as follows (expressed in thousands of Canadian dollars):

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

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

During the second quarter of 2006, the Fund issued 2,000,000 Fund Units for gross proceeds of $31.8 million. The Fund used the proceeds to indirectly purchase 2,000,000 Class A Limited Partnership Units ("Class A LP Units") for an additional 1.7% interest in the Partnership. The Partnership and the Fund entered into a reimbursement agreement under which the fees associated with the issuance of the Fund Units in the amount of approximately $2.0 million were reimbursed by the Partnership. The proceeds received by the Partnership on the issuance of the Class A LP Units to the Fund were used to indirectly repay indebtedness under the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities") and to pay certain expenses of the Fund.

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 box office revenue per patron and average concession revenue per patron. The commercial appeal of the films released during the period and the success of marketing as well as promotion for those films by film studios and distributors, drives attendance. Average box office revenue per patron is affected by the mix of film genres that 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 through its Cineplex Media business, 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 operating expenses consist of fixed and variable expenses, including marketing and advertising, media, loyalty, web initiatives, salaries and wages, utilities and maintenance. Certain operating costs, such as theatre staff 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 management maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for joint ventures

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

DISCLOSURE CONTROLS AND PROCEDURES

Management of the Fund is responsible for establishing and maintaining disclosure controls and procedures for the Fund as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries, is made known to the Chief Executive Officer and the Chief Financial Officer by others within those entities, particularly during the period in which the annual filings are being prepared.

Management of the Fund has evaluated the effectiveness of its disclosure controls and procedures as of December 31, 2007, and has concluded that the design and effectiveness of these controls and procedures provides reasonable assurance that material information relating to the Fund, including its consolidated subsidiaries will be made known to management on a timely basis to ensure adequate disclosure.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of the Fund is responsible for designing internal controls over financial reporting for the Fund as defined under Multilateral Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such internal controls over financial reporting, or caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with GAAP.

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

CONSOLIDATED FINANCIAL STATEMENTS OF THE PARTNERSHIP

The following Consolidated Balance Sheets for the Partnership as at December 31, 2007 and 2006, Consolidated Statements of Operations, Consolidated Statements of Partners' Equity and Comprehensive Income and Consolidated Statements of Cash Flows for the Partnership for the years ended December 31, 2007 and 2006 are presented to provide comparable results to prior periods.

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

Consolidated balance sheets[(i)]

AS AT DECEMBER 31, 2007 AND 2006
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 42,906	$ 56,383
Accounts receivable	45,322	35,500
Inventories	3,026	3,193
Prepaid expenses and other current assets	4,584	4,297
Income taxes receivable	–	34
Due from related parties	6	11
	95,844	99,418
Property, equipment and leaseholds	420,884	447,932
Fair value of interest rate swap agreements	1,523	–
Future income taxes	5,825	6,156
Deferred charges	1,085	7,329
Intangible assets	52,815	57,946
Goodwill	200,037	200,910
	$ 778,013	$ 819,691
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 80,779	$ 90,596
Distributions payable	4,548	4,308
Due to related parties	–	3,143
Income taxes payable	65	–
Deferred revenue	64,610	50,184
Capital lease obligations – current portion	1,581	1,470
	151,583	149,701
Long-term debt	232,265	248,000
Capital lease obligations – long term portion	34,831	36,426
Due to Cineplex Galaxy Trust	100,000	100,000
Accrued pension benefit liability	1,109	3,840
Other liabilities	150,162	146,791
Class C Limited Partnership Units – liability component	102,231	100,037
	772,181	784,795
Non-controlling interest	–	561
Partners' Equity	5,832	34,335
	$ 778,013	$ 819,691

(i) Certain line items presented in the Fund's consolidated financial statements differ from those presented for the Partnership. These differences are the result of the Fund's acquisition of control of the Partnership on April 2, 2007 and the accounting for the acquisition using the purchase method in the Fund's consolidated financial statements. This has resulted in a valuation basis for certain financial statement items in the Fund's consolidated financial statements (including the related amortizations) which are different than the historic costs contained in the Partnership financial statements. See note 2 of the Fund's consolidated financial statements for the year ended December 31, 2007 and the table on page 13.

Consolidated statements of operations(i)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)

	2007	2006
REVENUE		
Box office	$ 488,871	$ 458,842
Concessions	235,102	213,542
Other	81,046	67,860
	805,019	740,244
EXPENSES		
Film cost	253,864	236,469
Cost of concessions	48,599	43,527
Occupancy	151,843	144,991
Other operating expenses	177,822	164,518
General and administrative	35,729	33,117
	667,857	622,622
Income before undernoted	137,162	117,622
Amortization	67,211	64,493
Loss on disposal of theatre assets	3,539	148
Interest on long-term debt and capital lease obligations	27,129	31,354
Interest on loan from Cineplex Galaxy Trust(ii)	14,000	14,000
Interest income	(969)	(745)
INCOME BEFORE INCOME TAXES, NON-CONTROLLING INTEREST AND DISCONTINUED OPERATIONS	26,252	8,372
PROVISION FOR (RECOVERY OF) INCOME TAXES		
Current	11	(647)
Future	331	(617)
	342	(1,264)
INCOME BEFORE NON-CONTROLLING INTEREST AND DISCONTINUED OPERATIONS	25,910	9,636
Non-controlling interest	(561)	(273)
INCOME FROM CONTINUING OPERATIONS	26,471	9,909
Loss from discontinued operations	–	(2,073)
NET INCOME	$ 26,471	$ 7,836

(i) Certain line items presented in the Fund's consolidated financial statements differ from those presented for the Partnership. These differences are the result of the Fund's acquisition of control of the Partnership on April 2, 2007 and the accounting for the acquisition using the purchase method in the Fund's consolidated financial statements. This has resulted in a valuation basis for certain financial statement items in the Fund's consolidated financial statements (including the related amortizations) which are different than the historic costs contained in the Partnership financial statements. See note 2 of the Fund's consolidated financial statements for the year ended December 31, 2007 and the table on page 13.

(ii) The loan from Cineplex Galaxy Trust ($100.0 million) and the resulting interest expense thereon ($10.5 million for the year ended December 31, 2007) eliminate as at April 2, 2007 upon consolidation of the financial statements of the Partnership. See the table on page 13.

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP

Consolidated statements of partners' equity and comprehensive income

FOR THE YEAR ENDED DECEMBER 31, 2007 (i)

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	ACCUMULATED INCOME	ACCUMULATED DISTRIBUTIONS	ACCUMULATED DISTRIBUTIONS IN EXCESS OF ACCUMULATED INCOME	ACCUMULATED OTHER COMPRE-HENSIVE INCOME	PARTNERS' CAPITAL	FORMATION OF PARTNERSHIP DEFICIT	TOTAL PARTNERS' EQUITY	COMPRE-HENSIVE INCOME
BALANCE – DECEMBER 31, 2006	$ 59,761	$ (140,405)	$ (80,644)	$ –	$ 262,774	$ (147,795)	$ 34,335	$ –
Adoption of new accounting standards	(1,894)	–	(1,894)	2,427	–	–	533	–
BALANCE – JANUARY 1, 2007	57,867	(140,405)	(82,538)	2,427	262,774	(147,795)	34,868	–
Distributions declared	–	(53,621)	(53,621)	–	–	–	(53,621)	–
Investment in Cineplex Galaxy Income Fund units	–	–	–	–	(1,677)	–	(1,677)	–
Conversion of Class C LP Units	–	–	–	–	5	–	5	–
LTIP compensation obligation	–	–	–	–	1,239	–	1,239	–
Net income	26,471	–	26,471	–	–	–	26,471	26,471
Other comprehensive income – interest rate swap agreements	–	–	–	(1,453)	–	–	(1,453)	(1,453)
COMPREHENSIVE INCOME								$ 25,018
BALANCE – DECEMBER 31, 2007	$ 84,338	$ (194,026)	$ (109,688)	$ 974	$ 262,341	$ (147,795)	$ 5,832	

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

FOR THE YEAR ENDED DECEMBER 31, 2006 (i)

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	ACCUMULATED INCOME	ACCUMULATED DISTRIBUTIONS	ACCUMULATED DISTRIBUTIONS IN EXCESS OF ACCUMULATED INCOME	PARTNERS' CAPITAL	FORMATION OF PARTNERSHIP DEFICIT	TOTAL PARTNERS' EQUITY
BALANCE – JANUARY 1, 2006	$ 51,925	$ (89,664)	$ (37,739)	$ 232,975	$ (147,795)	$ 47,441
Distributions declared	–	(50,741)	(50,741)	–	–	(50,741)
Issuance of Partnership units	–	–	–	30,210	–	30,210
Other issuance costs	–	–	–	(466)	–	(466)
Vesting of Fund units	–	–	–	142	–	142
LTIP compensation obligation	–	–	–	(87)	–	(87)
Net income	7,836	–	7,836	–	–	7,836
BALANCE – DECEMBER 31, 2006	$ 59,761	$ (140,405)	$ (80,644)	$ 262,774	$ (147,795)	$ 34,335

(i) Certain line items presented in the Fund's consolidated financial statements differ from those presented for the Partnership. These differences are the result of the Fund's acquisition of control of the Partnership on April 2, 2007 and the accounting for the acquisition using the purchase method in the Fund's consolidated financial statements. This has resulted in a valuation basis for certain financial statement items in the Fund's consolidated financial statements (including the related amortizations) which are different than the historic costs contained in the Partnership financial statements. See note 2 of the Fund's consolidated financial statements for the year ended December 31, 2007 and the table on page 13.

Consolidated statements of cash flows(i)

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	2007	2006
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	$ 26,471	$ 7,836
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	67,211	64,493
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(2,307)	(1,130)
Amortization of debt issuance costs	749	2,637
Future income taxes	331	(617)
Cash flow hedges – non-cash interest	(977)	–
Loss on disposal of theatre assets	3,539	1,761
Non-controlling interest	(561)	(273)
Tenant inducements	5,904	21,314
Changes in operating assets and liabilities	(2,922)	5,023
	97,438	101,044
INVESTING ACTIVITIES		
Proceeds from sale of theatre assets	2,510	572
Proceeds from sale of discontinued operations	–	350
Purchases of property, equipment and leaseholds	(27,592)	(71,290)
Theatre shutdown payment	(2,195)	(1,400)
Lease guarantee payment and acquisition of theatre assets	(4,500)	–
Acquisition of Famous branded magazines	(406)	(1,100)
Acquisition of businesses	(7,602)	–
	(39,785)	(72,868)
FINANCING ACTIVITIES		
Distributions paid	(53,381)	(50,550)
Dividends paid to non-controlling interest	–	(196)
Borrowings under credit facility	72,000	95,000
Repayment of credit facility	(85,000)	(90,535)
Payments under capital leases	(1,469)	(1,358)
Deferred financing fees	(578)	(115)
Issuance of Partnership units – net of issuance costs	–	30,166
Investment in Cineplex Galaxy Income Fund units	(2,702)	–
	(71,130)	(17,588)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	(13,477)	10,588
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	56,383	45,795
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 42,906	$ 56,383
SUPPLEMENTAL INFORMATION		
Cash paid for interest	$ 31,875	$ 34,998
Class C LP distributions paid and classified as interest	$ 6,321	$ 6,321
Cash paid for income taxes – net	$ 11	$ 68

(i) Certain line items presented in the Fund's consolidated financial statements differ from those presented for the Partnership. These differences are the result of the Fund's acquisition of control of the Partnership on April 2, 2007 and the accounting for the acquisition using the purchase method in the Fund's consolidated financial statements. This has resulted in a valuation basis for certain financial statement items in the Fund's consolidated financial statements (including the related amortizations) which are different than the historic costs contained in the Partnership financial statements. See note 2 of the Fund's consolidated financial statements for the year ended December 31, 2007 and the table on page 13.

The following table illustrates the consolidation adjustments that result in the differences between the statement of operations of the Partnership compared to the statement of operations for the Fund for the year ended December 31, 2007:

	PARTNERSHIP YEAR ENDED DECEMBER 31, 2007	LESS: PARTNERSHIP THREE MONTHS ENDED MARCH 31, 2007	FUND THREE MONTHS ENDED MARCH 31, 2007	CONSOLIDATION ADJUSTMENTS	FUND YEAR ENDED DECEMBER 31, 2007
REVENUE					
Box office	$ 488,871	$ (112,887)	$ –	$ –	$ 375,984
Concessions	235,102	(52,324)	–	–	182,778
Other	81,046	(13,385)	–	–	67,661
	805,019	(178,596)	–	–	626,423
EXPENSES					
Film cost	253,864	(56,877)	–	–	196,987
Cost of concessions	48,599	(10,423)	–	–	38,176
Occupancy	151,843	(36,632)	–	5,205 (i)	120,416
Other operating expenses	177,822	(41,654)	–	–	136,168
General and administrative	35,729	(8,355)	–	450 (i)	27,824
	667,857	(153,941)	–	5,655	519,571
INCOME BEFORE UNDERNOTED	137,162	(24,655)	–	(5,655)	106,852
AMORTIZATION	67,211	(16,274)	–	12,674 (i)	63,611
LOSS ON DISPOSAL OF THEATRE ASSETS	3,539	(1,867)	–	(788) (i)	884
SHARE OF LOSS OF THE PARTNERSHIP	–	–	4,241	–	4,241
INTEREST ON LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	27,129	(7,506)	1,798	(1,173) (ii)	20,248
INTEREST ON LOAN FROM CINEPLEX GALAXY TRUST	14,000	(3,500)	–	(10,500) (ii)	–
INTEREST INCOME	(969)	252	(5,087)	(40) (ii)	(5,844)
INCOME BEFORE INCOME TAXES, NON-CONTROLLING INTEREST AND DISCONTINUED OPERATIONS	26,252	4,240	(952)	(5,828)	23,712
PROVISION FOR (RECOVERY OF) INCOME TAXES					
Current	11	(6)	–	–	5
Future	331	471	–	(14,083) (ii)	(13,281)
	342	465	–	(14,083)	(13,276)
INCOME (LOSS) BEFORE NON-CONTROLLING INTEREST AND DISCONTINUED OPERATIONS	25,910	3,775	(952)	8,255	36,988
Non-controlling interest	(561)	–	–	6,324 (iii)	5,763
Net income	$ 26,471	$ 3,775	$ (952)	$ 1,931	$ 31,225

(i) Amounts relate to step acquisition valuation differences.
(ii) Consolidation adjustments to eliminate transactions between the Fund and the Partnership, and to recognize activity at the Fund level for the April 2, 2007 to December 31, 2007 period.
(iii) Represents the 24.3% non-controlling interest of the Fund arising from the consolidation of the Fund and the Partnership.

SELECTED FINANCIAL DATA

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

	2007	2006	2005
Total revenue	$ 805,019	$ 740,244	$ 490,299
Cost of operations	667,857	622,622	421,529
Income from operations	137,162	117,622	68,770
Amortization	67,211	64,493	42,948
Loss on disposal of theatre assets	3,539	148	122
Loss on extinguishment of debt	–	–	4,156
Loss on impairment of assets	–	–	4,296
Interest on long-term debt	27,129	31,354	18,401
Interest on loan from the Trust	14,000	14,000	14,000
Interest income	(969)	(745)	(378)
Income tax expense (recovery)	342	(1,264)	(1,463)
Income (loss) from discontinued operations	–	(2,073)	28,116
Non-controlling interest	(561)	(273)	1,828
Net income	$ 26,471	$ 7,836	$ 12,976
Net income per LP Unit(i)	$ 0.46318	$ 0.13938	$ 0.25466
Total assets	$ 778,013	$ 819,691	$ 798,751
Total long term financial liabilities(ii)	$ 335,000	$ 348,000	$ 343,500
Cash distributions declared per LP Unit	$ 1.1832	$ 1.1496	$ 1.1496
Distributable cash per LP Unit	$ 1.7217	$ 1.4330	$ 1.0273
Box office revenue per patron	$ 7.99	$ 7.99	$ 7.73
Concession revenue per patron	$ 3.84	$ 3.72	$ 3.44
Film cost as a percentage of box office revenue	51.9%	51.5%	51.7%
Attendance (in thousands of patrons)	61,148	57,425	39,945

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

(ii) Excludes the Class C LP Units – liability component, capital lease obligations, accrued pension liability, other liabilities, liabilities related to property held for sale, and deferred financing fees net against long-term debt.

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

	2007	2006	2005
Net income	$ 31,225	$ 10,101	$ 11,675
Basic net income per Fund Unit	$ 0.76	$ 0.32	$ 0.49
Diluted net income per Fund Unit(i)	$ 0.62	$ 0.23	$ 0.44
Total assets	$ 1,304,066	$ 484,295	$ 414,474
Total long term financial liabilities(ii)	$ 333,748	$ 98,112	$ 96,964
Fund units outstanding at December 31	43,239,715	34,116,698	27,838,992
Cash distributions declared per Fund Unit	$ 1.1832	$ 1.1496	$ 1.1496

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

(ii) Excludes capital lease obligations, accrued pension liability, other liabilities, and deferred financing fees net against long-term debt.

DISTRIBUTABLE CASH

Management presents standardized distributable cash and distributable cash per unit because they are key measures used by investors to value and assess the Fund and the Partnership. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts and other flow-through entities as an indicator of financial performance, and it should not be viewed as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Standardized distributable cash is a non-GAAP measure recommended by the Canadian Institute of Chartered Accountants ("CICA") in its July 2007 interpretive release, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities*, and is designed to enhance comparability.

Standardized distributable cash is defined by the CICA as cash from operating activities as reported in the GAAP financial statements, less total capital expenditures and any restrictions on distributions arising from compliance with financial covenants and limitations arising from the existence of a minority interest of a subsidiary. Management defines distributable cash as standardized distributable cash adjusted for certain items, and considers distributable cash the amount available for distribution to unitholders. Standardized distributable cash and distributable cash are not recognized measures under GAAP, and therefore have no standardized meaning prescribed by GAAP and may not be comparable to similar terms and measures presented by similar issuers.

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

YEAR ENDED DECEMBER 31,	2007	2006	2005
Cash provided by operating activities	$ 97,438	$ 101,044	$ 62,612
Less: Total capital expenditures	(27,592)	(71,290)	(27,823)
Standardized distributable cash	69,846	29,754	34,789
Less:			
Changes in operating assets and liabilities[(i)]	2,922	(5,023)	(11,210)
Tenant inducements[(ii)]	(5,904)	(21,314)	(7,662)
Principal component of capital lease obligations	(1,469)	(1,358)	(532)
Dividends paid by subsidiary to non-controlling interest	–	(196)	(1,862)
Add:			
New build capital expenditures and other[(iii)]	17,207	63,440	23,817
Interest on loan from Cineplex Galaxy Trust[(iv)]	14,000	14,000	14,000
Non cash components in operating assets and liabilities[(v)]	1,747	1,285	602
Expenses funded through integration and restructuring reserve[(vi)]	47	123	849
Distributable cash	$ 98,396	$ 80,711	$ 52,791
Number of LP Units outstanding[(vii)]	57,150,465	56,323,024	51,389,862
Distributable cash per LP Unit	$ 1.7217	$ 1.4330	$ 1.0273

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

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

(iii) New build capital expenditures and other represent expenditures on Board approved projects, and excludes maintenance capital expenditures. The Partnership's Revolving Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities") is available for use to fund Board approved projects. Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005 (see discussion under "Liquidity and Capital Resources – Future Obligations").

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

(v) Certain non cash components of other assets and liabilities are indirectly excluded from distributable cash to the extent they reflect permanent, not timing differences. Such items include the accretion of the liability component of the Class C LP Units and amortization of deferred gains on sale-leaseback transactions (2006 and 2005 – amortization of swap agreement on extinguishment of debt).

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

(vii) Excluding unconverted Class C LP Units. LP Units outstanding reflect the issuance on July 22, 2005 of 6,835,000 Class A LP Units and 748,447 Class D LP Units to fund the acquisition of Famous Players and the June 20, 2006 issuance of 2,000,000 Class A LP Units.

For the year ended December 31, 2007, standardized distributable cash was $69.8 million, compared to $29.8 million for 2006. The increase reflects higher cash flow from operations as discussed in the "Liquidity and Capital Resources" section, as well as lower total capital expenditures in 2007 as compared to 2006. Total capital expenditures decreased $43.7 million from 2006, reflecting the lower investment in new build theatres of $46.2 million, offset by higher maintenance capital expenditures of $2.5 million. During 2006, subsequent to the Acquisition, the Partnership evaluated the ongoing maintenance capital expenditures of the entire circuit of theatres. As a result, maintenance capital expenditures in 2006 were not reflective of the expected ongoing expenditures.

Distributable cash increased $17.7 million to $98.4 million in 2007, from $80.7 million in 2006. Cash provided by operating activities decreased $3.6 million in 2007 from 2006, however the 2006 amount included $15.4 million more tenant inducement receipts than 2007, which are not considered a source of distributable cash. Overall, distributable cash increased mainly due to higher income before undernoted in 2007 compared to 2006 ($19.5 million), offset by increased maintenance capital expenditures ($2.5 million).

Alternatively, the calculation of distributable cash using the income statement as a reference point would be as follows (expressed in thousands of Canadian dollars):

YEAR ENDED DECEMBER 31,	2007	2006	2005
Income before undernoted	$ 137,162	$ 117,622	$ 68,770
Adjust for:			
Interest on long-term debt	(27,129)	(31,354)	(18,401)
Interest income	969	745	378
Income taxes – current portion	(11)	647	(2,461)
Maintenance capital expenditures	(10,385)	(7,850)	(4,006)
Dividends paid by subsidiary to non-controlling interest	–	(196)	(1,862)
Principal component of capital lease obligations	(1,469)	(1,358)	(532)
Expenses funded through integration and restructuring reserve	47	123	849
Income before undernoted from discontinued operations	–	(460)	3,019
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(2,307)	(1,130)	(3,201)
Amortization of debt issuance costs	749	2,637	1,586
Issuance of Class D LP Units included in general and administrative expenses	–	–	8,050
Other non-cash items(i)	770	1,285	602
DISTRIBUTABLE CASH	$ 98,396	$ 80,711	$ 52,791

(i) Includes accretion on Class C LP Units, amortization of deferred gains on RioCan sale-leaseback transactions and non-cash movement in the fair value of the interest rate swap agreements (2006 and 2005 – includes amortization of swap agreements on extinguished debt).

Year ended December 31, 2007 compared to the year ended December 31, 2006 for the Partnership

TOTAL REVENUES. Total revenues for the year ended December 31, 2007 increased $64.8 million to $805.0 million. A discussion of the factors affecting the changes in box office, concession and other revenues for the year compared to 2006 is provided below.

BOX OFFICE REVENUES. Box office revenues for the year ended December 31, 2007 increased $30.0 million, or 6.5%, to $488.9. Canadian industry box office was up approximately 1.3% (source: Motion Picture Theatre Associations of Canada) for 2007 due to stronger overall film product during the first three quarters of 2007 versus 2006, partially offset by weaker film product in the fourth quarter of 2007 compared to the same period in 2006. Box office revenues are primarily dependent on paid attendance to the Partnership's theatres, which was 61.1 million patrons in 2007, an increase of 6.5% over 2006. The average box office revenue per patron of the Partnership was $7.99 for both 2007 and 2006.

The acquisition of the three Cinema City branded locations, which employ a discounted ticket price strategy, reduced the Partnership's average box office revenue per patron for 2007. Excluding the three Cinema City locations, the average box office per patron of the Partnership was $8.06. The increase in box office revenues was due to increased same store attendance levels ($15.1 million), an increase due to new and acquired theatres ($15.8 million) and higher average ticket prices at same-store locations ($3.8 million), partially offset by the impact of disposed theatres ($4.7 million). Further impacting the box office per patron was the introduction of the "Big Ticket Tuesday" program in the second quarter of 2007, the Partnership's discounted admission and concession offering available in certain markets, as well as the offering of reward admissions under the SCENE loyalty program.

CONCESSION REVENUES. Concession revenues for the year ended December 31, 2007 increased $21.6 million, or 10.1%, to $235.1 million. The increase was due to increased same store attendance levels ($7.0 million), additional revenues from the operation of new and acquired theatres ($9.5 million) and increased average concession revenues per patron ($7.2 million), partially offset by the impact of disposed theatres ($2.1 million). The average concession revenue per patron of the Partnership increased from $3.72 in 2006 to $3.84 in 2007. Excluding the three Cinema City locations, the average concession revenue per patron was $3.86. Concession revenue per patron has been impacted by the introduction of the "Big Ticket Tuesday" program in the second quarter of 2007, the Partnership's discounted admission and concession offering available in certain markets, as well as the 10% discount offered to members of the SCENE loyalty program that has reduced the concession revenue per patron by $0.02 for the year. Management believes concession revenue has increased due to the higher attendance associated with the introduction of the "Big Ticket Tuesday" program as well as the 10% discount offered to members of the SCENE loyalty program.

OTHER REVENUES. Other revenues for the year ended December 31, 2007 increased $13.1 million over 2006, or 19.4%, to $81.0 million. Media revenue includes in-theatre advertising, print magazines, website advertising, and theatre naming rights. Games revenue arises from games available at theatre locations. Other revenue includes theatre rental income, management fee income, and breakage on unredeemed gift certificates and corporate coupons as well as other miscellaneous revenues. The components of other revenue are as follows (expressed in millions of Canadian dollars):

YEAR ENDED DECEMBER 31,	2007	2006	% CHANGE
Media	$ 56.2	$ 47.1	19%
Games	5.6	5.1	10%
Other	19.2	15.7	22%
	$ 81.0	$ 67.9	19%

Media revenue increased 19% in 2007 over the prior year primarily as a result of the incremental contribution of the digital pre-show program which was implemented throughout 2006 and revenue enhancement initiatives, including the sale of theatre naming rights for five flagship theatres across Canada, and the sale of advertising on the cineplex.com website. Games revenues increased 10% primarily due to increased attendance. Other revenue increased principally due to higher breakage revenue in 2007.

The SCENE loyalty program was created during 2007 to drive incremental attendance and concession purchase incidence. Benefits of the program are reflected in 2007 box office and concession revenue respectively. Membership in the SCENE loyalty program as at December 31, 2007 was approximately 618,000 people.

FILM COST. Film cost for the year ended December 31, 2007 increased $17.4 million to $253.9 million. Film cost varies primarily with box office revenue. As a percentage of box office revenue, film cost increased slightly to 51.9% for the year ended December 31, 2007 from 51.5% for 2006.

COST OF CONCESSIONS. Cost of concessions for the year ended December 31, 2007 increased $5.1 million to $48.6 million. Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The increase in cost of concessions was due to increased same-store concession sales ($1.4 million), additional costs from the operation of new and acquired theatres ($2.1 million) and increased same-store purchase incidence ($1.9 million) offset by the impact of disposed theatres ($0.3 million). As a percentage of concession revenues, cost of concessions increased slightly from 20.4% for the year ended December 31, 2006, to 20.7% in 2007. The higher cost of concessions in 2007 was mainly due to expanded product offerings.

OCCUPANCY EXPENSE. Occupancy expense for the year ended December 31, 2007 increased $6.9 million to $151.8 million. The increase was primarily due to incremental costs associated with new and acquired theatres ($4.5 million), a one-time theatre shutdown expense for a theatre closed on September 30, 2007 ($2.8 million) and higher rent, realty taxes and common-area maintenance expenses ($1.0 million), partially offset by the impact of disposed theatres ($1.4 million).

OTHER OPERATING EXPENSES. Other operating expenses for the year ended December 31, 2007 increased $13.3 million to $177.8 million. The overall increase in other operating expenses was due to the incremental impact of costs associated with new and acquired theatres ($5.5 million) and increased operating costs ($9.2 million) due to variable costs and inflationary increases, increased business volumes, launch and operating costs associated with the SCENE loyalty program and development costs of the Partnership's interactive business, partially offset by the impact of disposed theatres ($1.4 million).

GENERAL AND ADMINISTRATIVE COSTS. General and administrative costs increased $2.6 million to $35.7 million for the year ended December 31, 2007, primarily as a result of increased costs under the Partnership's Long Term Incentive Plan ("LTIP") ($3.4 million), offset by decreased direct costs ($0.8 million).

INCOME BEFORE UNDERNOTED. The Partnership reported income before undernoted for the year ended December 31, 2007 of $137.2 million as compared to income before undernoted of $117.6 million for the year ended December 31, 2006. This change was due to the aggregate effect of the factors described above.

AMORTIZATION. For the year ended December 31, 2007 amortization costs increased $2.7 million to $67.2 million, primarily due to the effect of new and acquired theatres, net of the impact of disposed 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 year ended December 31, 2007, the Partnership recorded a loss of $3.5 million as compared to a loss of $0.1 million for the year ended December 31, 2006. The loss primarily relates to lease termination payments of $2.7 million relating to two theatres with negative cash flow that were closed during the year. The balance relates to the disposition of theatre equipment.

INTEREST ON LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS. Interest on long-term debt for the year ended December 31, 2007 decreased to $27.1 million from $31.4 million for 2006. The decrease primarily reflects lower deferred financing fee amortization and recognition of the non-cash portion of the interest rate swap agreements due to the adoption of CICA Handbook sections 3855 and 3865 in 2007. The decrease also reflects the effect of lower debt levels and lower negotiated rates, net of slightly higher prime bank rates in 2007. Interest expense is comprised of the following (expressed in millions of Canadian dollars):

YEAR ENDED DECEMBER 31,	2007	2006
INTEREST EXPENSE		
Long term debt interest expense	$ 15.8	$ 17.2
Class C LP Units interest expense	6.3	6.3
Class C LP Units accretion expense	2.5	2.5
Capital lease interest expense	2.7	2.8
Deferred financing fee amortization	0.8	2.6
Interest rate swap agreements – non-cash interest component	(1.0)	–
	$ 27.1	$ 31.4

INTEREST ON LOAN FROM CINEPLEX GALAXY TRUST. Interest on the loan from the Trust represents interest at a rate of 14% on the $100.0 million loan from the Trust that was drawn on November 26, 2003.

INTEREST INCOME. Interest income was $1.0 million for the year ended December 31, 2007, compared to $0.7 million for 2006, primarily reflecting higher cash balances during 2007.

INCOME TAXES. For the year ended December 31, 2007, the Partnership recognized current tax expense of $11 thousand for activities of its joint ventures as compared to a current income tax recovery of $0.7 million in 2006 which was recorded by subsidiaries of the Partnership. A subsidiary of the Partnership recorded a future income tax expense of $0.3 million in 2007, while subsidiaries of the Partnership recorded a recovery of $0.6 million in 2006.

LOSS FROM DISCONTINUED OPERATIONS. The Partnership had no discontinued operations in 2007. Loss from discontinued operations for the year ended December 31, 2006 amounted to $2.1 million, of which $1.6 million related to a loss associated with the disposal of theatre properties and a loss of $0.5 million arising from the operations of the Alliance Atlantis branded theatres sold during the third quarter of 2006, and seven Quebec theatres sold at the end of the first quarter of 2006.

NON-CONTROLLING INTERESTS. Non-controlling interests for the year ended December 31, 2007 of $0.6 million arises from the wind-up activities being undertaken at Famous Players Media Inc., ("FP Media") which has ceased operations.

NET INCOME. Net income for the year ended December 31, 2007 increased to $26.5 million, from $7.8 million for 2006, due to the net effect of all the other factors described above.

EBITDA

Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. Adjusted EBITDA excludes from EBITDA the non-controlling interest, loss (income) from discontinued operations, and the loss 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 recognized measures under GAAP, therefore have no standardized meaning prescribed by GAAP.

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

YEAR ENDED DECEMBER 31,	2007	2006	2005
NET INCOME	$ 26,471	$ 7,836	$ 12,976
Amortization	67,211	64,493	42,948
Interest on long-term debt and capital lease obligations	27,129	31,354	18,401
Interest on loan from Cineplex Galaxy Trust	14,000	14,000	14,000
Interest income	(969)	(745)	(378)
Income tax expense (recovery)	342	(1,264)	(1,463)
EBITDA	$ 134,184	$ 115,674	$ 86,484
Non-controlling interest	(561)	(273)	1,828
Loss on extinguishment of debt	–	–	4,156
Loss on impairment on assets	–	–	4,296
Loss (income) from discontinued operations	–	2,073	(28,116)
Loss on disposal of theatre assets	3,539	148	122
ADJUSTED EBITDA	$ 137,162	$ 117,622	$ 68,770

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 the Revolving Facility (see "Liquidity and Capital Resources – Credit Facilities" discussed below). As of December 31, 2007, there were no amounts drawn on the Revolving Facility.

Summary of Quarterly Results (expressed in thousands of Canadian dollars except per unit, per patron and attendance data)

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Total revenue	$ 182,626	$ 243,856	$ 199,941	$ 178,596	$ 194,964	$ 198,976	$ 183,642	$ 162,662
Cost of operations	156,796	192,223	164,897	153,941	158,539	163,273	156,430	144,380
Income from operations	25,830	51,633	35,044	24,655	36,425	35,703	27,212	18,282
Amortization	18,061	16,398	16,478	16,274	17,081	16,340	15,834	15,238
Loss (gain) on disposal of theatre assets	521	149	1,002	1,867	3,623	344	(4,003)	184
Interest on long-term debt and capital lease obligations	6,371	6,648	6,604	7,506	7,912	8,002	8,026	7,414
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	(131)	(363)	(223)	(252)	(248)	(237)	(156)	(104)
Income taxes	281	546	(20)	(465)	(112)	(1,450)	243	55
Income (loss) from discontinued operations	–	–	–	–	–	108	(1,223)	(958)
Non-controlling interest	–	–	(561)	–	106	10	(352)	(37)
Net income (loss)	$ (2,773)	$ 24,755	$ 8,264	$ (3,775)	$ 4,563	$ 9,302	$ 2,897	$ (8,926)
Net income (loss) per LP Unit(i)	$ (0.049)	$ 0.433	$ 0.145	$ (0.066)	$ 0.080	$ 0.163	$ 0.052	$ (0.162)
Cash provided by (used in) operating activities	51,879	48,111	11,539	(14,091)	79,639	30,415	15,109	(24,119)
Cash used in investing activities	(9,817)	(11,686)	(9,478)	(8,804)	(13,771)	(21,757)	(21,706)	(15,634)
Cash provided by (used in) financing activities	(14,022)	(42,595)	(8,529)	(5,984)	(33,182)	(6,778)	7,458	14,914
Net change in cash	$ 28,040	$ (6,170)	$ (6,468)	$ (28,879)	$ 32,686	$ 1,880	$ 861	$ (24,839)
Box office revenue per patron	$ 8.07	$ 7.86	$ 7.98	$ 8.13	$ 8.17	$ 8.09	$ 7.87	$ 7.81
Concession revenue per patron	$ 3.87	$ 3.79	$ 3.97	$ 3.77	$ 3.67	$ 3.77	$ 3.72	$ 3.72
Attendance (in thousands of patrons)	13,076	19,129	15,050	13,893	14,369	15,380	14,481	13,195

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

Distributable Cash

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

	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cash provided by (used in) operating activities	$ 51,879	$ 48,111	$ 11,539	$ (14,091)	$ 79,639	$ 30,415	$ 15,109	$ (24,119)
Less: Total capital expenditures	(7,660)	(5,524)	(9,480)	(4,928)	(13,971)	(21,257)	(20,956)	(15,106)
Standardized distributable cash	44,219	42,587	2,059	(19,019)	65,668	9,158	(5,847)	(39,225)
Less:								
Changes in operating assets and liabilities	(34,779)	(6,085)	15,195	28,591	(46,995)	5,027	4,487	32,458
Tenant inducements	(1,820)	(932)	(2,535)	(617)	(6,829)	(10,604)	(2,907)	(974)
Principal component of capital lease obligations	(377)	(371)	(364)	(357)	(347)	(345)	(339)	(327)
Dividends paid by subsidiary to non-controlling interest	–	–	–	–	–	–	(196)	–
Add:								
New build capital expenditures and other	3,637	3,631	6,506	3,433	9,932	19,352	19,899	14,257
Interest on loan from Cineplex Galaxy Trust	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Non cash components in operating assets and liabilities	457	464	405	421	320	333	312	320
Expenses funded through integration and restructuring reserve	5	5	21	16	20	27	32	44
Distributable cash	$ 14,842	$ 42,799	$ 24,787	$ 15,968	$ 25,269	$ 26,448	$ 18,941	$ 10,053
Number of LP units outstanding	57,150,594	57,150,421	57,150,421	57,150,421	57,150,421	57,150,421	55,809,762	55,150,421
Distributable cash per LP Unit	$ 0.2597	$ 0.7489	$ 0.4337	$ 0.2794	$ 0.4421	$ 0.4628	$ 0.3394	$ 0.1823

Operating results of the Partnership for the fourth quarter

TOTAL REVENUES. Total revenues for the three months ended December 31, 2007 decreased $12.3 million to $182.6 million compared to the same period in 2006. A discussion of the factors affecting the changes in box office, concession and other revenues for this period as compared to the same period in 2006 is provided below.

BOX OFFICE REVENUES. Box office revenues for the three months ended December 31, 2007 decreased $11.9 million, or 10.1%, to $105.5 million compared to the same period in 2006. Canadian industry box office was down approximately 15.7% for the fourth quarter of 2007 due to weaker overall film product in the fourth quarter of 2007 versus the same quarter in 2006 (source: Motion Picture Theatre Associations of Canada). Box office revenues are primarily dependent on paid attendance to the Partnership's theatres, which was 13.1 million patrons in the fourth quarter of 2007, a decrease of 9.0% from the fourth quarter of 2006. The average box office revenue per patron of the Partnership decreased from $8.17 to $8.07 due to the acquisition of the three Cinema City branded locations which employ a discounted ticket price strategy. Excluding the three Cinema City locations, the average box office per patron of the Partnership was $8.19. The decrease in box office revenues was due to an 11.5% decrease in same store attendance levels ($13.0 million) and the impact of disposed theatres ($0.9 million), offset by an increase due to new and acquired theatres ($2.0 million). Box office revenues were impacted due to the regional differences in the performance of certain films.

CONCESSION REVENUES. Concession revenues for the three months ended December 31, 2007 decreased $2.1 million to $50.6 million compared to the same period in 2006. The decrease was due to decreased same store attendance levels ($5.8 million) and the impact of disposed theatres ($0.4 million), partially offset by increased average concession revenues per patron ($2.5 million) and additional revenues from operation of new and acquired theatres ($1.6 million). The average concession revenue per patron of the Partnership increased from $3.67 to $3.87. Excluding the three Cinema City locations, the average concession revenue per patron was $3.88.

OTHER REVENUES. Other revenues for the three months ended December 31, 2007 increased $1.7 million, or 6.7% to $26.5 million. The components of other revenue are as follows (expressed in millions of Canadian dollars):

THREE MONTHS ENDED DECEMBER 31,	2007	2006	% CHANGE
Media	$ 20.2	$ 18.3	10%
Games	1.2	1.2	0%
Other	5.1	5.3	–3%
	$ 26.5	$ 24.8	7%

Media revenue increased 10% versus the same period in 2006 primarily as a result of revenue enhancement initiatives, including the sale of theatre naming rights for five flagship theatres across Canada, as well as the sale of advertising on the cineplex.com website. Games revenues were flat against the prior period primarily due to decreased attendance, offset by an increase in game machine utilization. Other revenue decreased marginally due to decreased miscellaneous revenue as a result of non-recurring items recognized in 2006.

FILM COST. Film cost for the three months ended December 31, 2007 decreased $6.6 million from the fourth quarter of 2006, to $53.5 million. As a percentage of box office revenue, film cost decreased to 50.7% for the three months ended December 31, 2007 from 51.2% for the three months ended December 31, 2006 due to fewer blockbuster movies in the fourth quarter of 2007 as compared to the fourth quarter of 2006.

COST OF CONCESSIONS. Cost of concessions for the three months ended December 31, 2007 decreased $0.4 million to $10.4 million. The decrease in cost of concessions was due to decreased same-store attendance ($1.2 million) and the impact of disposed theatres ($0.1 million), partially offset by additional costs from the operation of new and acquired theatres ($0.3 million) and increased purchase incidence ($0.6 million). As a percentage of concession revenues, cost of concessions increased from 20.4% for the three months ended December 31, 2006, to 20.5% for the three months ended December 31, 2007. The 10% discount available to members of the SCENE loyalty program on all concession purchases resulted in a 0.2% increase in concession costs in the fourth quarter of 2007 of 2006.

OCCUPANCY EXPENSE. Occupancy expense for the three months ended December 31, 2007 increased $1.3 million to $37.0 million. The increase was primarily due to the incremental costs associated with new and acquired theatres ($0.8 million), lower benefits related to the settlement of lease-related amounts during the period ($0.7 million) and higher rent, realty taxes and common-area maintenance expenses ($0.5 million), partially offset by the impact of disposed theatres ($0.7 million).

OTHER OPERATING EXPENSES. Other operating expenses for the three months ended December 31, 2007 increased $3.2 million to $46.9 million. The overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres ($1.2 million) and increased operating costs due to variable costs and inflationary increases including expenditures relating to the SCENE loyalty program ($2.5 million), partially offset by the impact of disposed theatres ($0.4 million).

GENERAL AND ADMINISTRATIVE COSTS. General and administrative costs increased from $8.3 million for the three months ended December 31, 2006 to $9.0 million for the three months ended December 31, 2007 as a result of increased costs under the Partnership's LTIP ($0.2 million) and increased direct costs ($0.5 million).

INCOME BEFORE UNDERNOTED. The Partnership reported income before undernoted for the three months ended December 31, 2007 of $25.8 million as compared to income before undernoted of $36.4 million for the three months ended December 31, 2006. This change was due to the aggregate effect of the factors described above.

AMORTIZATION. For the three months ended December 31, 2007 amortization costs increased $1.0 million to $16.8 million.

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. For the three months ended December 31, 2007 the Partnership recorded a loss of $0.5 million as compared to a loss of $0.8 million for the three months ended December 31, 2006. The loss in 2007 relates to a lease termination payment of $0.8 million for a theatre with negative cash flow that was closed during the period, partially offset by gains on disposal of theatre assets related to the closure. The loss in 2006 primarily relates to disposals of assets.

INTEREST ON LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS. Interest on long-term debt for the three months ended December 31, 2007 decreased to $6.4 million from $7.9 million for the three months ended December 31, 2006. Interest expense is comprised of the following (expressed in millions of Canadian dollars):

THREE MONTHS ENDED DECEMBER 31,	2007	2006
INTEREST EXPENSE		
Long term debt interest expense	$ 3.5	$ 4.4
Class C LP Units interest expense	1.5	1.5
Class C LP Units accretion expense	0.7	0.6
Capital lease interest expense	0.7	0.7
Deferred financing fee amortization	0.2	0.7
Interest rate swap agreements – non cash interest component	(0.2)	–
	$ 6.4	$ 7.9

The decrease primarily reflects lower deferred financing fee amortization and recognition of the non-cash portion of the interest rate swap agreements due to the adoption of CICA Handbook sections 3855 and 3865 in 2007. The decrease also reflects the effect of lower debt levels and lower negotiated rates, net of slightly higher prime bank rates in 2007.

INTEREST ON LOAN FROM CINEPLEX GALAXY TRUST. Interest on the loan from the Trust represents interest at a rate of 14% on the $100.0 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 December 31, 2007 and $0.2 million for the three months ended December 31, 2006. The decrease reflects the effect of lower cash balances in the fourth quarter of 2007 as compared to the same period in 2006.

INCOME TAXES. For the three months ended December 31, 2007, a subsidiary of the Partnership recorded a future income tax expense of $0.3 million. For the three months ended December 31, 2006, a subsidiary of the Partnership recorded a current income tax recovery of $0.4 million, partially offset by a future income tax expense of $0.3 million.

LOSS FROM DISCONTINUED OPERATIONS. The Partnership had no discontinued operations in the fourth quarter of 2007. Loss from discontinued operations for the three months ended December 31, 2006 represents the reversal of a gain recorded in the second quarter of 2006 relating to the discontinued operations of one theatre whose lease payments were guaranteed by the Partnership.

NON-CONTROLLING INTERESTS. Non-controlling interests for the three months ended December 31, 2006 of $0.1 million represents the minority share of the results of FP Media Inc., which has ceased operations.

NET (LOSS) INCOME. Net loss for the three months ended December 31, 2007 decreased from net income of $4.6 million for the three months ended December 31, 2006 to a net loss of $2.8 million, primarily due to the net effect of all the other factors described above.

BALANCE SHEET

Assets

Total assets decreased $41.7 million from the end of 2006 to $778.0 million at December 31, 2007 due mainly to decreases in property, equipment and leaseholds of $27.0 million, cash of $13.5 million, deferred charges of $6.2 million and other intangibles of $5.1 million; offset by an increase in accounts receivable of $9.8 million.

PROPERTY, EQUIPMENT AND LEASEHOLDS. The decrease in fixed assets from $447.9 million at December 31, 2006 to $420.9 million at December 31, 2007 is due to amortization expenses ($60.3 million) and asset dispositions ($1.0 million) offset by new build capital expenditures ($20.7 million), maintenance capital expenditures ($10.4 million), and the acquisition of the Cinema City and the joint venture theatre assets ($3.2 million).

ACCOUNTS RECEIVABLE. Accounts receivable increased $9.8 million to $45.3 million at December 31, 2007 from $35.5 million as at December 31, 2006. This increase was due mainly to increased sales of gift cards and coupons, which were offered through third-party vendors for the first time in 2007.

DEFERRED CHARGES. Deferred charges decreased $6.2 million to $1.1 million at December 31, 2007 from $7.3 million at December 31, 2006. Of this decrease, $6.1 million related to the adoption of CICA Handbook section 3855, Financial Instruments – Recognition and Measurement. The remaining difference is due to amortization.

OTHER INTANGIBLES. Other intangible assets decreased by $5.1 million from $57.9 million at December 31, 2006 to $52.8 million at December 31, 2007. This decrease is due mainly to amortization of $5.5 million, offset by the Cinema City trade name acquired during the year ($0.4 million).

Liabilities

Total liabilities decreased $12.6 million from $784.8 million at December 31, 2006 to $772.2 million as at December 31, 2007 primarily due to a decrease in long-term debt, net of transitional adjustments upon the adoption of CICA Handbook section 3855, of $15.7 million, accounts payable and accrued expenses of $9.8 million and accrued pension liability of $2.7 million; offset by an increase in deferred revenue of $14.4 million.

ACCOUNTS PAYABLE AND ACCRUED EXPENSES. Accounts payable and accrued expenses decreased from $90.6 million at December 31, 2006 to $80.8 million at December 31, 2007. The decrease is due to lower box office in the fourth quarter of 2007 as compared to 2006, resulting in lower film cost payable.

DEFERRED REVENUE. Deferred revenue increased by $14.4 million to $64.6 million as at December 31, 2007 from $50.2 million as at December 31, 2006. This is due primarily to the introduction of sales of Cineplex gift cards and coupons through third parties in 2007 resulting in a higher volume of sales.

ACCRUED PENSION LIABILITY. Accrued pension liability decreased by $2.7 million to $1.1 million as at December 31, 2007 from $3.8 million as at December 31, 2006. This reflects the full effect of settling the Partnership's defined benefit obligations, and the settlement of the Famous Players plans (see note 13 of the Fund's financial statements).

LONG-TERM DEBT. Long term debt decreased from $248.0 million at December 31, 2006 to $232.3 million at December 31, 2007 mainly as a result of net debt repayments ($13.0 million). Upon the adoption of CICA Handbook section 3855, a $2.9 million transitional adjustment was recognized against long-term debt on January 1, 2007. During the year, deferred financing fees of $0.5 million were recognized against long-term debt and amortization of $0.7 million was recorded in the period as an increase to long-term debt.

Outstanding fund units

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

	2007		2006	
	NUMBER OF FUND UNITS	AMOUNT	NUMBER OF FUND UNITS	AMOUNT
Fund Units – beginning of year	34,116,698	$ 419,819	27,838,992	$ 325,741
Issuance of Fund Units	–	–	2,000,000	31,800
Issuance of Fund Units under Exchange Agreement	9,122,751	143,136	4,277,706	62,278
Issuance of Fund Units upon conversion of Convertible Debentures	266	5	–	–
Units – End of year	43,239,715	562,960	34,116,698	419,819
Convertible Debentures – equity component	–	8,546	–	8,546
	43,239,715	571,506	34,116,698	428,365
LTIP compensation obligation	–	1,024	–	–
Treasury stock – LTIP units	(117,491)	(1,802)	–	–
Total Unitholders' equity	43,122,224	$ 570,728	34,116,698	$ 428,365

The Fund treats its $1.8 million investment in Fund Units relating to the LTIP as treasury stock and nets this investment against unitholders' capital. The LTIP compensation obligation is recorded as a liability until the corresponding LTIP pool of funds is utilized to acquire Fund Units, at which point, it is reclassified against the Fund's unitholders' 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.

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

During the fourth quarter of 2007, Convertible Debentures with a principal amount of $5 thousand were converted for 266 Fund Units. The Convertible Debentures bear interest at a rate of 6% per annum, payable semi-annually and are convertible at the option of the holder into Fund Units at $18.75 per unit.

Class B and Class D LP Units of the Partnership and CELP 2007 LP Units may be exchanged for Fund Units on a one-for-one basis. The following Class B and Class D LP Units and CELP 2007 LP Units had not been exchanged for Fund Units at December 31, 2007 and 2006:

NUMBER OF EXCHANGEABLE UNITS	2007	2006
Class B Series 1 LP units	626,589	19,038,502
Class B Series 2-C LP units	–	2,086,957
Class B Series 2-G LP units	1,779,264	1,779,264
Class D LP units	129,000	129,000
CELP 2007 LP Units	11,376,119	–
	13,910,972	23,033,723

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

Cash provided by operating activities was $97.4 million for the year ended December 31, 2007 compared to $101.0 million for 2006. The primary reason for the change was a decrease in tenant inducement receipts as a result of fewer construction activities ($15.4 million) and the changes in operating assets and liabilities versus the same period one year earlier ($7.9 million), offset by increased net income for the year ($18.6 million).

Investing activities

Cash used in investing activities for the year ended December 31, 2007 of $39.8 million related to capital expenditures ($27.6 million), cash paid on the acquisition of theatre assets ($7.6 million), a lease guarantee payment (see "Future Obligations" below) ($4.5 million), theatre shutdown payments ($2.2 million) and a payment relating to the acquisition of the Famous magazines ($0.4 million), partially offset by proceeds from the sale of theatre assets ($2.5 million). Cash used in investing activities for the year ended December 31, 2006 of $72.9 million primarily related to capital expenditures of $71.3 million.

The Partnership funds maintenance capital expenditures through internally generated cash flow and cash on hand. The Partnership's revolving facility (discussed below under "Liquidity and Capital Resources – Credit Facilities") is available to fund new theatre capital expenditures. In addition, when Famous Players was acquired in July 2005, the Partnership identified certain capital expenditures required for the integration of the two businesses (principally point-of-sale systems and the standardization of the digital pre-show network) which were pre-funded from the proceeds of the financing transactions on the acquisition. These expenditures were completed in the first quarter of 2007.

Financing activities

Cash used in financing activities for the year ended December 31, 2007 of $71.1 million was due primarily to distribution payments ($53.4 million) and credit facility net repayments ($13.0 million). Cash used in financing activities for the year ended December 31, 2006 of $17.6 million was due primarily to distribution payments ($50.5 million), partially offset by the issuance of Partnership units ($30.2 million) and credit facility net borrowings ($4.5 million).

The Partnership believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under the Second Amended Credit Facilities as defined below.

Distributions

Partnership distributions are made on a monthly basis to unitholders of record of Class A LP Units, Class B LP Units, converted Class C LP Units and Class D LP Units on the last business day of each month. For the year ended December 31, 2007, the Partnership's distributable cash per LP Unit was $1.7217 compared to $1.4330 for 2006. The declared distribution per LP Unit and interest on the Galaxy Note (see "Credit Facilities" below) per LP Unit for the year ended December 31, 2007 totaled $1.1832, and for the year ended December 31, 2006 totaled $1.1496. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts, as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

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

The Partnership made distributions on the unconverted Class C LP Units during each year ended December 31, 2007 and 2006 of $6.3 million. Distributions on the unconverted Class C LP Units are made twice a year, on the business day before June 30 and December 31. Distributions on the unconverted Class C LP Units are deducted by the Partnership in computing its net income and distributable cash.

For the years ended December 31, 2007 and 2006, the Fund declared distributions totaling $1.1832 and $1.1496 per Fund Unit, respectively. Effective for the May 2007 distribution, the Fund increased its monthly distribution from $0.0958 to $0.1000 per Fund Unit, or $1.20 per Fund Unit on an annualized basis. 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. The tax composition of distributions for the year ended December 31, 2007 is not yet available. The composition of distributions for tax purposes for each of the following years ending December 31 were as follows (in dollars per unit):

		TAXABLE INCOME		CAPITAL GAIN		RETURN OF CAPITAL	
	DISTRIBUTIONS DECLARED	AMOUNT	PERCENT OF DISTRIBUTION	AMOUNT	PERCENT OF DISTRIBUTION	AMOUNT	PERCENT OF DISTRIBUTION
2006	$ 1.14960	$ 1.07256	93.3%	$ –	–	$ 0.07704	6.7%
2005	$ 1.14960	$ 0.77332	67.3%	$ 0.19097	16.6%	$ 0.18531	16.1%
2004	$ 1.14960	$ 0.89852	78.2%	$ –	–	$ 0.25108	21.8%

At December 31, 2007, based on the tax returns filed to that date, the Partnership has tax pools of $624.9 million available to offset future taxable income. Use of these tax pools is restricted to a percentage claim based on the nature of the original expenditure.

On October 31, 2006 the Department of Finance (Canada) introduced modifications to the income tax rules that will result in the taxation of distributions made by the Fund beginning in the year 2011. On June 12, 2007, the legislation enacting the Minister of Finance's October 31, 2006 proposals was substantively enacted.

Credit facilities

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

(i) a five-year $130 million senior secured revolving credit facility ("Revolving Facility"); and

(ii) a five-year $235 million senior secured non-revolving term credit facility ("Term Facility").

The Second Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or banker's acceptances rates plus, in each case, an applicable margin to those rates, and amended and restated the Partnership's former amended credit facilities ("Former Amended Credit Facilities") under which $257 million was outstanding as at July 25, 2007.

The Revolving Facility is the continuation of the previous revolving credit facility in an increased amount and is available for general corporate purposes and to fund approved projects or investments. There are provisions to increase the Revolving Facility commitment amount by an additional $100 million with the consent of the lenders.

The Term Facility has a term of five years and is payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

During the year ended December 31, 2007, the Partnership borrowed $72.0 million and repaid $85.0 million under the Second and Former Amended Credit Facilities. During the year ended December 31, 2006, the Partnership borrowed $95.0 million and repaid $90.5 million under the Former Amended Credit Facilities. At December 31, 2007 the Partnership had no amount outstanding under the Revolving Facility and $235.0 million outstanding under the Term Facility.

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

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

The Partnership believes that its Second Amended 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.

INTEREST RATE SWAP AGREEMENTS. 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 agreement on the Former Credit Facilities. The swap agreements have a term of four years in the aggregate notional principal amount outstanding of $200 million and mature in July 2009. The purpose of the interest rate swap agreements is to act as a cash flow hedge to manage the floating rate payable under the Term Facility. Under the provisions of CICA Handbook Section 3865, *Hedges*, the interest rate swap agreements are recorded on the balance sheet at its fair market value effective January 1, 2007, with subsequent changes in fair value recorded in either net income or other comprehensive income. At December 31, 2007, the change in the fair market value of the swap agreements resulted in an unrealized gain of $1.5 million ($2.0 million at December 31, 2006).

DUE TO CINEPLEX GALAXY TRUST. On November 26, 2003, the Trust entered into an agreement with GEI, a wholly-owned subsidiary of the Partnership, whereby it loaned $100.0 million to GEI (the "Galaxy Note"). The Galaxy Note bears interest at a rate of 14% per annum, payable monthly with the principal due on November 26, 2028. The Galaxy Note is unsecured and subordinated to the Second Amended Credit Facilities discussed above.

Future obligations

As of December 31, 2007, the Partnership had the following contractual commitments (expressed in thousands of dollars):

		PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	WITHIN 1 YEAR	2–3 YEARS	4–5 YEARS	AFTER 5 YEARS
Long term debt	$ 235,000	$ –	$ –	$ 235,000	$ –
New theatre construction	23,427	17,616	5,811	–	–
Digital preshow	279	279	–	–	–
Theatre rebranding	286	286	–	–	–
Capital leases	56,337	4,187	8,544	8,880	34,726
Operating leases	1,348,252	102,782	199,311	193,838	852,321
Total contractual obligations	$ 1,663,581	$ 125,150	$ 213,666	$ 437,718	$ 887,047

At December 31, 2007, 2007 the Partnership had outstanding letters of credit totaling $0.5 million (2006 – $0.3 million).

The Fund has $105.0 million principal amount of value Convertible Debentures that have a final maturity date of December 31, 2012. As at December 31, 2007, the liability component of the Convertible Debentures are recorded on the Fund's balance sheet at $98.7 million (2006 – $98.1 million).

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

During 2005, the Partnership and Famous Players sold 29 theatres to third parties, of which 24 were leased properties. The Partnership is guarantor under the 24 leases for the remainder of the lease term in the event that the purchaser of each theatre does not fulfill its obligations under the respective lease. As at December 31, 2007, two of the disposed leased theatres have since closed, extinguishing the Partnership's obligations for these properties.

During the first quarter of 2006, the Partnership entered into an agreement with a third party to divest seven theatres, six of which were leased properties. The Partnership is a guarantor under the six leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. During 2007, the Partnership was notified that the guarantee provided to a landlord of one of the theatre properties disposed of had been triggered; this was settled for $4.5 million during the first quarter of 2007. A provision for this guarantee, net of the estimated value of the assets acquired from the former theatre as a result of the transaction, was previously recorded in the December 31, 2006 consolidated financial statements of the Partnership.

During 2006, the Partnership entered into an agreement with a related party to divest its 49% share in the three remaining Alliance Atlantis branded theatres (discussed below under "Related Party Transactions"). The Partnership is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Partnership's share in the theatres does not fulfill its obligations under the respective lease. As at December 31, 2007, one of the disposed theatres has since closed, extinguishing the Partnership's obligations for that property.

The Partnership has guaranteed certain advertising revenues based on attendance levels for all of the theatres disposed to third parties.

No amounts have been provided in the consolidated financial statements for guarantees for which the Partnership has not been notified of triggering events as at December 31, 2007 in accordance with the transitional provisions for CICA Section 3855, *Financial Instruments – Recognition and Measurement*, the Partnership assessed the fair value of these guarantees to be a nominal amount. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Partnership could face a substantial financial burden.

RELATED PARTY TRANSACTIONS

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

COC charged the Partnership $0.5 million for each of the years ended December 31, 2007 and 2006 for rent for the Partnership's head office. The Partnership charged COC $31 thousand for certain theatre management services during the year ended December 31, 2007 (2006 – $35 thousand).

For the period from January 1, 2007 to August 15, 2007 and for the year ended December 31, 2006, the Partnership incurred expenses for film rental totaling $15.7 million and $29.2 million, respectively, to Motion Picture Distribution LP ("Motion Picture"), a subsidiary of Alliance Atlantis Communications Inc. ("Alliance"). Ellis Jacob, Chief Executive Officer of the Partnership, was a member of the Board of Directors and Audit Committee of Alliance until August 15, 2007.

During the year ended December 31, 2006, the Partnership disposed of its 49% share in the three remaining Alliance Atlantis branded theatres to Motion Picture for a nominal amount.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the year ended December 31, 2007, the Partnership earned revenue in the amount of $0.8 million with respect to these services (2006 – $0.8 million).

Distributions paid by the Partnership to related parties during the years ended December 31, 2007 and 2006 were as follows (in thousands of dollars):

	2007	2006
Fund	$ 33,483	$ 21,506
Onex and its subsidiaries	19,424	27,887
Other related parties	299	577

Distributions payable by the Partnership to related parties at year-end were as follows (in thousands of dollars):

DECEMBER 31,	2007	2006
Fund	$ 3,157	$ 2,102
Onex and its subsidiaries	1,351	2,168
Other related parties	25	24

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

During the year ended December 31, 2006 under the provisions of the Exchange Agreement, Ellis Jacob, Chief Executive Officer of the Partnership, exchanged 250,000 Class B and D LP Units for 250,000 Fund Units, certain other executives of the Partnership exchanged 246,000 Class D LP Units for 246,000 Fund Units and Onex exchanged 3,250,000 Class B and Class D LP Units for 3,250,000 Fund Units. The above exchanges have been recorded at fair market value as required by EIC-151, *Exchangeable Securities Issued by Subsidiaries of Income Trusts*.

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.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made by management in the preparation of the financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Fund's consolidation of the Partnership and the Partnership's acquisition of other businesses, the assessment of theatre cash flows to identify potential asset impairments, the value of unredeemed loyalty points and of gift certificates that remain unutilized and in circulation for revenue recognition purposes, the film cost payable accrual, and the determination of asset retirement obligations.

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

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

Estimates of the value of gift certificates outstanding including those expected not to be redeemed (breakage) affect the amount of revenue recognized in a period. If management overstates estimated breakage in a period, revenues will be overstated in that period and understated in future periods. Management estimates breakage based on prior experience. There has been no significant change in estimated breakage percentages in the past two years. As the SCENE loyalty program commenced in 2007, the Partnership does not have an established redemption history and therefore no amounts have been recognized by the Partnership for the estimated non-redemption of SCENE loyalty points.

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

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

ACCOUNTING POLICIES

Initial adoption of accounting policies

In April 2005, the CICA issued new Handbook Sections: Section 1530, *Comprehensive Income*; Section 3251, *Equity*; and Section 3855, *Financial Instruments – Recognition and Measurement*. Section 1530 establishes standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other primary financial statements. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period in addition to the requirements of Section 1530. Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished.

Sections 1530, 3251 and 3855 all apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Fund adopted these standards on January 1, 2007. Details of the impact of the application of these standards are discussed in Note 2 to the Fund's consolidated financial statements.

In March 2007, the CICA issued EIC-164, *Convertible and Other Debt Instruments with Embedded Derivatives*. EIC-164 provides guidance on determining if a convertible debt instrument contains a liability and equity component, measurement of embedded derivatives, income tax and earnings per share impacts. EIC-164 has had no impact on the consolidated financial statements of the Fund.

In October 2007, the CICA issued EIC-167, *Future Income Tax Liabilities – Income Trusts and Other Specified Investment Flow-Throughs* and modified EIC-107, *Application of Section 3465 to Mutual Fund Trusts, Real Estate Investment Trusts, Royalty Trusts and Income Trusts*. EIC-167 addresses when future income tax assets or liabilities should be recognized as a result of changes to the Income Tax Act, whether the recognition of a future income tax asset or liability is a charge to income or a charge to equity, how to measure the future income tax asset or liability, and which disclosures should be made in the financial statements relating to the future income tax asset or liability. EIC-107 was amended as a consequence of changes in the Income Tax Act that affect income trusts and specified income flow-throughs and the issuance of EIC-167. The Fund adopted EIC-167 and the modification to EIC-107 during the third quarter of 2007, with no material effect on the financial statements, as future income taxes were accounted for beginning with the second quarter of 2007.

Future changes in accounting policies

Management of the Fund reviews all changes to the CICA Handbook when issued. The following is a discussion of relevant items that were released, revised or will become effective after December 31, 2007:

In December 2006, the CICA issued new Handbook sections: Section 1535, *Capital Disclosures*; Section 3862, *Financial Instruments – Disclosures*; and Section 3863, *Financial Instruments – Presentation*, for annual and interim periods beginning on or after October 1, 2007. Section 1530 establishes disclosure requirements about capital. Sections 3862 and 3863 replace CICA 3861, revising and enhancing its disclosure requirements and carrying forward its presentation requirements. Management does not expect a significant change to the financial statements of the Fund when the new standards are adopted January 1, 2008.

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

In June 2007, the CICA issued new Handbook section 3031, *Inventories*, which replaces CICA 3030, *Inventories*. The new standard provides more guidance on the determination of cost, including the allocation of overhead, narrows the permitted cost formulas, requires impairment testing, and expands disclosures. Management does not expect a significant change to the financial statements of the Fund when the new standard is adopted on January 1, 2008.

RISKS AND UNCERTAINTIES

An 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 including the risk of strikes impacting film production; (ii) alternative film delivery methods and other forms of entertainment; (iii) increased capital expenditures resulting from the development of digital technologies for film exhibition; (iv) reliance on key personnel; (v) the acquisition and development of new theatre sites; (vi) impact of new theatres; (vii) unauthorized copying of films; (viii) rising insurance and labour costs; (ix) financial liability arising from lawsuits; (x) the shrinking DVD window; and (xi) the ability to generate additional ancillary revenue. See "Risk Factors" in the Fund's Annual Information Form dated March 27, 2007 for a more detailed description of risks facing the Partnership.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These proposals will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006. On June 12, 2007, the legislation enacting the Minister of Finance's October 31, 2006 "Tax Fairness Plan" was substantively enacted.

As at December 31, 2007, COC, Cineplex Odeon (Quebec) Inc. ("COQ"), and former investors in GEI (collectively the "Investors") directly and indirectly controlled in aggregate approximately 24.3% of the outstanding LP Units of the Partnership (excluding the unconverted Class C LP Units) which, pursuant to the Exchange Agreement, could be exchanged for Fund Units at any time, subject to certain conditions. Restrictions on the ability of COC and COQ to exchange certain of their exchangeable securities expired 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 may occur could also produce such effect.

The Partnership is a guarantor under the leases disposed of during 2005 and 2006 until such time as these leases are terminated. There is a risk that the Partnership could have a substantial financial burden should the purchasers of the theatres fail to fulfill their lease commitment obligations (see "Future Obligations").

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 on $200 million of outstanding indebtedness. The fair market value of the swap agreements results in an unrealized gain of $1.5 million (gain of $2.0 million as at December 31, 2006). As required by CICA Handbook section 3865, this balance is recorded on the balance sheet in 2007. Fair value changes in the swap agreements are recorded in net income and other comprehensive income as appropriate.

Interest rate risk

As of December 31, 2007, the Partnership had long-term debt and amounts due to the Trust of $335.0 million, excluding deferred financing fees. Approximately $235.0 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 agreements referred to above.

Foreign exchange risk

The recent strengthening of the Canadian dollar in relation to the US dollar had no significant impact on the Partnership as the majority of its transactions are denominated in Canadian dollars.

Other

The Partnership and its subsidiaries are parties to various disputes arising in the ordinary course of business. From time to time, the Partnership is involved in disputes or litigation with landlords, contractors, suppliers, 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 existing disputes, 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 pandemic and could be impacted by any future changes to existing income trust income tax regulations.

OUTLOOK

Management believes there are opportunities to grow revenue and distributable cash per unit. For example, cinema advertising continues to represent a growth opportunity for the Partnership. Management believes that its cinema advertising network, which includes affiliate members, and which reaches an audience of up to 87.5 million guests annually on a national basis, will continue to receive enhanced demand from advertisers. In addition, the Partnership continues to realize and seek out other revenue growth opportunities which include such opportunities as sponsorship opportunities, extracting the benefits of the SCENE loyalty program, new theatre development, alternative programming and entertainment opportunities and web-based initiatives.

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

February 6, 2008

Management's report to unitholders

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

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

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

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

(Signed:)

Ellis Jacob
Chief Executive Officer

(Signed:)

Gord Nelson
Chief Financial Officer

Toronto, Ontario
February 6, 2008

Auditors' report

February 6, 2008

To the Unitholders of Cineplex Galaxy Income Fund

We have audited the consolidated balance sheets of Cineplex Galaxy Income Fund (the "Fund") as at December 31, 2007 and 2006 and the consolidated statements of operations, unitholders' equity and comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(Signed:)

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

Consolidated balance sheets

AS AT DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 44,254	$ 1,270
Distributions receivable from Cineplex Entertainment Limited Partnership	–	2,102
Accounts receivable	45,322	–
Inventories	3,026	–
Prepaid expenses and other current assets	4,584	–
	97,186	3,372
Property, equipment and leaseholds (NOTE 5)	461,506	–
Fair value of interest rate swap agreements	1,523	–
Future income taxes (NOTE 6)	10,188	–
Deferred charges	1,085	–
Due from Galaxy Entertainment Inc. (NOTE 11)	–	100,000
Investment in Cineplex Entertainment Limited Partnership (NOTES 1 AND 2)	–	275,921
Investment in Cineplex Entertainment Limited Partnership Class C LP Units (NOTE 11)	–	105,000
Investment in Cineplex Entertainment Corporation (NOTES 1 AND 2)	–	2
Intangible assets (NOTE 7)	131,603	–
Goodwill	600,975	–
	$ 1,304,066	$ 484,295
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses (NOTE 8)	$ 81,309	$ –
Distributions payable (NOTE 9)	5,715	3,268
Income taxes payable	65	–
Due to Cineplex Entertainment Limited Partnership	–	4
Deferred revenue	64,610	–
Capital lease obligations – current portion (NOTE 10)	1,581	–
	153,280	3,272
LONG-TERM DEBT (NOTE 12)	232,265	–
CAPITAL LEASE OBLIGATIONS – long-term portion (NOTE 10)	34,831	–
ACCRUED PENSION BENEFIT LIABILITY (NOTE 13)	672	–
OTHER LIABILITIES (NOTE 14)	102,015	–
CONVERTIBLE DEBENTURES – liability component (NOTE 15)	98,748	98,112
	621,811	101,384
NON-CONTROLLING INTERESTS (NOTE 2(iii))	174,787	–
UNITHOLDERS' EQUITY	507,468	382,911
	$ 1,304,066	$ 484,295

BUSINESS ACQUISITIONS (NOTE 2)
COMMITMENTS, GUARANTEES AND CONTINGENCIES (NOTE 23)

Approved by the Board of Trustees

(Signed:)
Trustee
Howard Beck

(Signed:)
Trustee
Robert Steacy

These financial statements consolidate the results of the Partnership from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (NOTE 2(iii)).

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

Consolidated statements of operations

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER UNIT AMOUNTS)	2007	2006
REVENUES		
Box office	$ 375,984	$ –
Concessions	182,778	–
Other	67,661	–
	626,423	–
EXPENSES		
Film cost	196,987	–
Cost of concessions	38,176	–
Occupancy	120,416	–
Other operating	136,168	–
General and administrative	27,824	–
	519,571	–
Income before undernoted	106,852	–
Amortization	63,611	–
Loss on disposal of theatre assets	884	–
Share of loss of Cineplex Entertainment Limited Partnership (NOTE 17)	4,241	2,812
Interest and accretion expense on convertible debentures	7,290	7,447
Interest on long-term debt and capital lease obligations	12,958	–
Interest income	(5,844)	(20,360)
Income before income taxes and non-controlling interests	23,712	10,101
Provision for (recovery of) income taxes		
Current	5	–
Future	(13,281)	–
	(13,276)	–
Income before non-controlling interests	36,988	10,101
Non-controlling interests	5,763	–
Net income	$ 31,225	$ 10,101
Basic net income per Fund unit	$ 0.76	$ 0.32
Weighted average number of units outstanding used in computing basic net income per Fund unit	40,876,533	31,109,204
Diluted net income per Fund unit (NOTE 18)	$ 0.62	$ 0.23
Weighted average number of units outstanding used in computing diluted net income per Fund unit (NOTE 18)	57,061,944	55,952,363

These financial statements consolidate the results of the Partnership from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (NOTE 2(iii)).

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

Consolidated statements of unitholders' equity and comprehensive income

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	ACCUMULATED INCOME	ACCUMULATED DISTRIBUTIONS	ACCUMULATED DISTRIBUTIONS IN EXCESS OF ACCUMULATED INCOME	ACCUMULATED OTHER COMPREHENSIVE INCOME	UNITHOLDERS' CAPITAL (NOTE 16)	TOTAL UNITHOLDERS' EQUITY	COMPREHENSIVE INCOME
BALANCE – DECEMBER 31, 2006	$ 43,089	$ (88,543)	$ (45,454)	$ –	$ 428,365	$ 382,911	$ –
Adoption of new accounting standards (NOTE 3)	(782)	–	(782)	1,449	–	667	–
BALANCE – JANUARY 1, 2007	42,307	(88,543)	(46,236)	1,449	428,365	383,578	–
Issuance of units under Exchange Agreement (NOTE 2(iii))	–	–	–	–	143,136	143,136	–
Issuance of units on conversion of debentures	–	–	–	–	5	5	–
LTIP compensation obligation (NOTE 19)	–	–	–	–	1,024	1,024	–
Treasury stock – LTIP units	–	–	–	–	(1,802)	(1,802)	–
Distributions declared (NOTE 9)	–	(48,539)	(48,539)	–	–	(48,539)	–
Net income	31,225	–	31,225	–	–	31,225	31,225
Other comprehensive income interest rate swap agreements	–	–	–	(1,159)	–	(1,159)	(1,159)
COMPREHENSIVE INCOME FOR THE YEAR							$ 30,066
BALANCE – DECEMBER 31, 2007	$ 73,532	$ (137,082)	$ (63,550)	$ 290	$ 570,728	$ 507,468	

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

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	ACCUMULATED INCOME	ACCUMULATED DISTRIBUTIONS	ACCUMULATED DISTRIBUTIONS IN EXCESS OF ACCUMULATED INCOME	UNITHOLDERS' CAPITAL (NOTE 16)	TOTAL UNITHOLDERS' EQUITY
BALANCE – JANUARY 1, 2006	$ 32,988	$ (52,436)	$ (19,448)	$ 334,287	$ 314,839
Issuance of units (NOTE 2)	–	–	–	31,800	31,800
Issuance of units under Exchange Agreement (NOTE 16)	–	–	–	62,278	62,278
Distributions declared (NOTE 9)	–	(36,107)	(36,107)	–	(36,107)
Net income	10,101	–	10,101	–	10,101
BALANCE – DECEMBER 31, 2006	$ 43,089	$ (88,543)	$ (45,454)	$ 428,365	$ 382,911

These financial statements consolidate the results of the Partnership from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (NOTE 2(iii)).

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

Consolidated statements of cash flows

FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS)	2007	2006
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Net income	$ 31,225	$ 10,101
Adjustments to reconcile net income to net cash used in operating activities		
Share of loss from equity investee (NOTE 17)	4,241	2,812
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	63,611	–
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	3,347	–
Amortization of debt issuance costs	563	–
Loss on disposal of theatre assets	884	–
Future income taxes	(13,281)	–
Cash flow hedges – non-cash interest	(1,226)	–
Non-controlling interests	5,763	–
Accretion of convertible debentures	990	1,148
Distributions received from Cineplex Entertainment Limited Partnership (NOTE 11)	6,306	21,506
Tenant inducements	5,287	–
Changes in operating assets and liabilities (NOTE 22)	24,201	–
	131,911	35,567
INVESTING ACTIVITIES		
Investment in Cineplex Entertainment Limited Partnership (NOTE 2(iv))	–	(31,800)
Proceeds from sale of theatre assets	35	–
Purchases of property, equipment and leaseholds	(22,664)	–
Theatre shutdown payment	(750)	–
Cash acquired on the acquisition of Cineplex Entertainment Limited Partnership (NOTE 2(iii))	27,504	–
Acquisition of businesses (NOTES 2(i) and (ii))	(7,602)	–
	(3,477)	(31,800)
FINANCING ACTIVITIES		
Distributions paid	(47,483)	(35,506)
Distributions paid by the Partnership to non-controlling interests	(13,277)	–
Borrowings under credit facility	51,000	–
Repayment of credit facility	(74,000)	–
Payments under capital leases	(1,112)	–
Deferred financing fees	(578)	–
Issuance of units (NOTE 2)	–	31,800
	(85,450)	(3,706)
INCREASE IN CASH AND CASH EQUIVALENTS DURING THE YEAR	42,984	61
CASH AND CASH EQUIVALENTS – BEGINNING OF YEAR	1,270	1,209
CASH AND CASH EQUIVALENTS – END OF YEAR	$ 44,254	$ 1,270
SUPPLEMENTAL INFORMATION		
Cash received for interest	$ 4,268	$ 14,040
Cash paid for interest	$ 19,299	$ 6,300
Cash paid for income taxes – net	$ 5	$ –

Certain non-cash transactions occurred relating to exchanges of Class B LP Units and Class D LP Units for Fund units (NOTES 2(iii) and 16).

These financial statements consolidate the results of the Partnership from April 2, 2007. Prior to that date, the results of the Partnership were accounted for by the equity method (NOTE 2(iii)).

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

Notes to consolidated financial statements

DECEMBER 31, 2007 AND 2006

(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER UNIT AMOUNTS)

1 DESCRIPTION OF THE FUND

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

On July 22, 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. The Partnership is currently Canada's largest film exhibition organization with theatres in six provinces. Minority interest investors of the Partnership include COC, Cineplex Odeon (Quebec) Inc., Onex Corporation ("Onex") and other former investors in GEI.

On June 20, 2006, the Fund issued 2,000,000 Fund units for proceeds of $31,800. The Partnership and the Fund entered into a reimbursement agreement under which the fees associated with the issuance of the Fund units in the amount of $1,984 were reimbursed by the Partnership.

On April 2, 2007, under the provisions of the Exchange Agreement, COC exchanged 9,122,751 Class B Limited Partnership Units ("Class B LP Units") for 9,122,751 Fund units (note 2).

2 BUSINESS ACQUISITIONS

i) Former joint venture

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

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

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

ii) Cinema City

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

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

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

iii) Acquisition of control and consolidation of Cineplex Entertainment Limited Partnership

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

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

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

As a result of all of the Fund's step acquisitions in the Partnership (collectively, the "Step Acquisitions"), the Fund acquired control of the Partnership and applied consolidation accounting effective April 2, 2007. The Step Acquisitions have been accounted for by the purchase method, with the non-controlling interests accounted for in accordance with The Canadian Institute of Chartered Accountants' (the "CICA") recommendations in Emerging Issues Committee-151, *Exchangeable Securities Issued by Subsidiaries of Income Trusts* ("EIC-151"); accordingly, the results of operations of the Partnership have been included in these consolidated financial statements, effective with the change in control on April 2, 2007. Based on management's best estimates, the cumulative purchase price has been allocated to the assets and liabilities of the Partnership as follows:

ASSETS AND LIABILITIES ACQUIRED	
Property, equipment and leaseholds	$ 485,450
Advertising contracts – amortized over three to five years	54,967
Trademarks and trade names – indefinite useful lives	76,385
Goodwill	597,849
Fair value of interest rate swap agreements	2,121
Fair value of leases – assets	10,216
Future income taxes	(3,094)
Other assets	1,185
Net working capital deficiency (including cash of $27,504)	(39,576)
Bank indebtedness	(5,000)
Long-term debt	(250,280)
Net pension liability	(2,513)
Other liabilities	(91,071)
Capital leases	(37,539)
Non-controlling interests	(181,172)
NET ASSETS	$ 617,928
CONSIDERATION GIVEN	
Initial investments in Partnership, net of Fund's share of accumulated Partnership income and distributions	$ 265,914
Investment in Partnership on April 2, 2007	143,136
Due from Galaxy Entertainment Inc.	100,000
Investment in Class C Partnership units	105,000
Distributions and interest receivable from the Partnership	3,678
	617,728
Transaction costs associated with the acquisition	200
	$ 617,928

In the fourth quarter of 2007, the above purchase price allocation was revised from the April 2, 2007 preliminary estimates, based on the revised estimated fair value of the assets acquired and liabilities assumed. Increases (decreases) to the April 2, 2007 allocation of the purchase price, which were accounted for retroactively, are as follows:

Property, equipment and leaseholds	$ 3,536
Advertising contracts	2,273
Trademarks and trade names	5,774
Goodwill	2,101
Fair value of leases – assets	(12,186)
Future income taxes	(9,721)
Other liabilities	7,924
Capital leases	299

The purchase price allocation has not been finalized, as the valuation of certain assets and liabilities is not complete. Final adjustments may be material.

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

The Partnership is currently not subject to income or capital taxes, as income, if any, is taxed in the hands of the individual partners. As at the date of the step acquisition, the amount of goodwill that is deductible by the Fund for income tax purposes was estimated to be $209,000.

NON-CONTROLLING INTERESTS – EXCHANGEABLE UNITS

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

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

iv) 2006 step acquisition

On June 20, 2006, the Fund issued 2,000,000 Fund units for gross proceeds of $31,800. The Fund used the proceeds to indirectly purchase 2,000,000 Class A LP Units for an additional 1.7% interest in the Partnership. In addition, on June 20, 2006, certain investors exchanged 3,250,000 Class B LP Units and Class D LP Units for an equivalent number of units in the Fund. These Step Acquisitions have been accounted for as part of the purchase price allocation in the Fund's April 2, 2007 acquisition of control and consolidation of the Partnership.

As a result of the June 20, 2006 additional investment in the Partnership, the Fund's 7.4% increased share of the net book value of the underlying identifiable net liabilities, excluding goodwill, of the Partnership was $11,434 at that date. The cost of the Fund's investment of $78,925 in the Partnership exceeded the underlying carrying value of the net liabilities of the Partnership in the amount of $90,359. This excess was allocated to: property, equipment and leaseholds in the amount of $5,403; advertising contracts in the amount of $1,063; fair value of leases in the amount of $305; and trademarks in the amount of $2,513. The remaining $81,075 represents equity method goodwill. Amounts allocated to property, equipment and leaseholds are amortized over a period of approximately 8.0 years, amounts allocated to advertising contracts are amortized over approximately 3.9 years and amounts allocated to the fair value of leases are amortized over 2 to 21 years. As the useful lives of trademarks and goodwill are indefinite, no amortization is recorded on these assets.

Equity method goodwill as at December 31, 2006 was 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
Equity method goodwill as per June 20, 2006 investment in the Partnership	81,075
	$ 323,505

Prior to acquisition of control, the Fund's share of the Partnership's net loss was adjusted to reflect the Fund's proportionate share of the amortization of the excess purchase price over net assets acquired. As at December 31, 2006, the Fund's investment in the Partnership consisted of the following:

EQUITY INVESTMENT	
28,235,000 Class A LP Units	$ 235,842
5,262,251 Class B LP Units	74,740
619,447 Class D LP Units	9,235
Accumulated share of Partnership income	1,266
Accumulated distributions received or receivable	(45,162)
	275,921
5,600,000 Class C LP Units	105,000
	$ 380,921

v) Famous Players Magazines

During 2005, the Partnership entered into a Media Sales Governing Agreement, which allowed for the termination and wind up of Famous Players Media Inc. ("FP Media") and the acquisition of three Famous Players branded entertainment magazines. The initial consideration for the acquisition was $1,300 with $1,100 paid in January 2006 and $100 payable on each of January 15, 2007 and January 15, 2008. The agreement also has a purchase price adjustment based on the net income for a component of the business for three years effective from January 1, 2006. During 2006, the Partnership incurred an additional $306 of consideration costs under the terms of the purchase price adjustment clause, resulting in a $306 addition to goodwill. During 2007, prior to April 2, the Partnership paid the additional 2006 consideration and the scheduled initial acquisition payment. During 2007, the Fund incurred additional consideration of $287, resulting in a $287 addition to goodwill. The remaining purchase price adjustment has not been finalized and no further adjustments have been recognized as the purchase price adjustment and outcome cannot be reasonably estimated at this time.

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

ASSETS ACQUIRED		
Equipment	$	113
Goodwill		1,780
NET ASSETS	$	1,893
CONSIDERATION		
Amounts paid	$	1,506
Amounts payable		387
	$	1,893

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The Fund prepares its financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

Prior to April 2, 2007, the Fund accounted for its investment in the Partnership by the equity method. Therefore, due to the limited amount of information that these financial statements provide on the underlying operations of the Partnership prior to April 2, 2007, these financial statements should be read in conjunction with the consolidated financial statements of the Partnership for the year ended December 31, 2006.

Certain accounting policies were adopted by the Fund as a result of the Fund's acquiring control and consolidating the Partnership effective April 2, 2007.

Accounting changes

In July 2006, the Accounting Standards Board issued a replacement of The Canadian Institute of Chartered Accountants Handbook ("CICA Handbook") Section 1506, *Accounting Changes*. The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively, unless doing so is impracticable, requires prior periods' errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Fund's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 has had no impact on these consolidated financial statements.

Financial instruments

As required by the CICA, on January 1, 2007, the Fund adopted CICA Handbook Section 1530, *Comprehensive Income*; Section 3855, *Financial Instruments – Recognition and Measurement*; Section 3861, *Financial Instruments – Disclosure and Presentation*; and Section 3865, *Hedges*. The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and in the recognition of certain transition adjustments that have been recorded in opening accumulated income or opening accumulated other comprehensive income ("AOCI"), as described below. As required by the implementation of these new standards, the prior period's consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

A) SECTION 1530, COMPREHENSIVE INCOME

Section 1530 requires a statement of comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI is a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes the Fund's unrealized gains and losses, such as the effective portion of gains and losses and derivatives designated as cash flow hedges. Comprehensive income and its components are presented in the consolidated statements of unitholders' equity and comprehensive income.

B) SECTION 3855, FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT SECTION 3861, FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

Financial assets and financial liabilities

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

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

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

Held-for-trading

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

Loans and receivables

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

Other liabilities

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

Derivatives

Derivatives, including embedded derivatives that meet separate recognition criteria, are carried at fair value and are reported as assets when they have a positive fair value and as liabilities when they have a negative fair value, unless the derivative is designated and qualifies for hedge accounting. Changes in fair value during the period are recorded in the consolidated statements of operations. As at December 31, 2007, the only derivatives outstanding are the Fund's interest rate swap agreements, which are accounted for as cash flow hedges.

Transaction costs

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

Determination of fair value

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

C) SECTION 3865, HEDGES

Section 3865 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of hedge accounting and hedge effectiveness testing requirements.

Effective July 22, 2005, prior to consolidation by the Fund, the Partnership entered into three interest rate swap agreements. In accordance with the interest rate swap agreements, the Fund pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The interest rate swap agreements have a term of four years in the aggregate notional principal amount outstanding of $200,000, maturing on July 22, 2009. The purpose of the interest rate swap agreements is to act as a cash flow hedge to manage the floating rate payable for a portion of the Term Facility (note 12). The Fund considered the hedging relationships and determined the interest rate swap agreements on the Term Facility qualified for hedge accounting.

Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swap agreements. The interest rate swap agreements are recognized in the consolidated balance sheets at their estimated fair value. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI until the hedged interest payment is recorded, while the ineffective portion is recognized in the consolidated statements of operations as interest expense when incurred. During the year ended December 31, 2007, the Fund recorded a net reduction to interest expense of $1,226 relating to the cash flow hedge. The Fund expects to reclassify the remainder of the balance of AOCI to income in 2008.

Transitional adjustments

On January 1, 2007, the Fund made certain transitional adjustments to its consolidated balance sheets to adopt the new requirements. As required by the standards, prior periods have not been restated. The following transitional adjustments to the consolidated balance sheet were made to adopt the new requirements:

	DECEMBER 31 2006	TRANSITIONAL ADJUSTMENTS	JANUARY 1 2007
ASSETS			
Investment in Cineplex Entertainment Limited Partnership[(i)]	$ 275,921	$ 318	$ 276,239
All other assets	208,374	–	208,374
	$ 484,295	$ 318	$ 484,613
LIABILITIES			
Convertible debentures – liability component[(ii)]	$ 98,112	$ (349)	$ 97,763
All other liabilities	3,272	–	3,272
	101,384	(349)	101,035
UNITHOLDERS' EQUITY			
Accumulated distributions in excess of accumulated income[(i)(ii)]	(45,454)	(782)	(46,236)
AOCI[(i)]	–	1,449	1,449
Unitholders' capital	428,365	–	428,365
TOTAL UNITHOLDERS' EQUITY	382,911	667	383,578
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	$ 484,295	$ 318	$ 484,613

(i) Investment in Cineplex Entertainment Limited Partnership

Transitional provisions for Sections 1530, 3855, and 3865 resulted in the Partnership's making various transitional adjustments to its consolidated balance sheet on January 1, 2007. For these transitional adjustments that impact accumulated income and AOCI, the Fund accounts for its share of these adjustments under the equity method. As the Fund held a 59.7% interest in the Partnership as at January 1, 2007, the Fund's investment in the Partnership was increased by $318, its accumulated income was decreased by $1,131, and its AOCI was increased by $1,449 to reflect the Fund's share of the Partnership's adjustments.

(ii) Convertible debentures – liability component

Section 3855 requires the change in interest accretion from the straight-line method to the effective interest method. As at January 1, 2007, the Fund adjusted the carrying value of the liability component of the convertible debentures using the effective interest method. The impact was a decrease in the carrying value of the convertible debentures by $349 and an increase in opening accumulated income.

Consolidation of variable interest entities

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

Entities that are outside the scope of AcG 15 or that do not meet the definition of VIEs are consolidated if the Fund owns a majority of the entity's voting interests. Joint ventures outside the scope of AcG 15 are proportionately consolidated. The Fund has interests in six joint ventures, which are proportionately consolidated.

A trust administered by a third party acts as trustee for the Long-Term Incentive Plan ("LTIP"). When required under the terms of the LTIP, the Partnership funds the trust subsequent to which the trustee acquires Fund units on the open market. The unvested Fund units, recorded at their carrying value of $1,802 (2006 – $nil), are held in the trust to be distributed under the terms of the LTIP. The trust is considered a VIE, as the total investment at risk is not sufficient to permit the trust to finance its activities without additional support. The Fund holds a variable interest in the trust and has determined that it is the primary beneficiary of the trust and, therefore, has consolidated the trust. The Fund has not guaranteed the value of the units held by the trust should the market value of the Fund's units decrease from the value at which the trust acquired the units. As at December 31, 2007, consolidating the trust resulted in a $1,802 (2006 – $nil) decrease in assets and partners' capital and had no impact on the net income of the Fund.

Prior to the Fund's April 2, 2007, step acquisition of the Partnership, the Fund's indirect ownership was approximately 59.7% and the Fund accounted for the Partnership using the equity method, as the Partnership did not meet the definition of a VIE. In addition, Onex held both a substantial equity interest in the Partnership and, indirectly, the majority voting interest in the General Partner that controls the Partnership. As a result of the Fund's April 2, 2007 step acquisition of the Partnership, the Fund increased its ownership interest to 75.7%, acquired control of the Partnership and applied consolidation accounting effective that date.

Prior to consolidating the Partnership on April 2, 2007, the Fund held a significant variable interest in GEI through the $100,000 note due from GEI ("Galaxy Note"). Based on an evaluation of the risks held by the Fund through its variable interest in GEI, it was determined that the Fund was not the primary beneficiary of GEI and, therefore, the Partnership consolidated GEI. Effective April 2, 2007, the Fund consolidates the Partnership, which in turn continues to consolidate GEI.

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

Cash and cash equivalents

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

Inventories

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

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost, less accumulated amortization. Construction-in-progress is amortized from the date the asset is ready for productive use. Amortization is provided on the straight-line basis over the following useful lives:

Buildings[(a)]	30 to 40 years
Equipment	5 to 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

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

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

Capitalized interest

The Fund capitalizes interest on amounts drawn on the Revolving Facility that are used to finance the ongoing development of theatre projects. Interest is capitalized on projects under development up to the date the theatre enters productive use. During the year ended December 31, 2007, the Fund capitalized interest of $132 (2006 – $nil).

Deferred charges

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

Intangible assets and liabilities

Intangible assets represent the value of trademarks, trade names, leases and advertising contracts of the Fund. As the useful lives of the Partnership, GEI and Famous Players trademarks and trade names are indefinite, no amortization is recorded. Intangible assets with indefinite service lives, representing trademarks and trade names, are accounted for at cost and are not amortized but are tested for impairment annually or, more frequently, if events or changes in circumstances indicate that the asset might be impaired. A trademark or trade name impairment loss will be recognized in net income if the estimated fair value of the trademark or trade name is less than the carrying value. The advertising contracts have limited lives and are amortized over their useful lives, estimated to be between five to nine years. The estimated fair value of lease contract assets is recorded as an intangible asset and amortized on a straight-line basis over the remaining term of the lease into amortization expense. The fair value of lease contract liabilities is recorded as other liabilities and amortized on a straight-line basis over the remaining term of the lease against occupancy expense.

Goodwill

Goodwill represents the excess purchase price of acquired businesses over the estimated fair value of the net assets acquired. Goodwill is not amortized but is reviewed for impairment annually, or more frequently if impairment indicators arise. For the purpose of impairment testing and determining the gain (loss) on disposal of theatre assets, goodwill is allocated to individual theatres, which management has determined meet the definition of a reporting unit. A goodwill impairment loss will be recognized in net income if the estimated fair value of the goodwill of a theatre is less than the carrying amount of the goodwill of that theatre.

Leases

Leases are classified as either capital or operating. Leases that transfer substantially all of the risks and benefits of ownership to the Fund and meet the criteria for capital leases set out in CICA Handbook Section 3065, *Leases*, are accounted for as an acquisition of an asset and an assumption of an obligation at the inception of the lease, measured at the present value of minimum lease payments. Related buildings and equipment are amortized on a straight-line basis over the term of the lease but not in excess of their useful lives. All other leases are accounted for as operating leases wherein rental payments are recorded in occupancy expenses on a straight-line basis over the term of the related lease. Tenant inducements received are amortized into occupancy expenses over the term of the related lease agreement. The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities.

Asset retirement obligation

CICA Handbook Section 3110, *Asset Retirement Obligations*, addresses the recognition and measurement of legal obligations associated with the retirement of property, equipment and leaseholds when those obligations result from the acquisition, construction, development or normal operation of the asset. The standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is identified if a reasonable estimate of fair value can be made. The fair value is added to the carrying amount of the associated asset and amortized over the estimated remaining life of the asset. The asset retirement obligation accretes due to the increase in the fair value resulting from the passage of time. This accretion amount is charged to other theatre operating expense for the period.

The Fund has recognized a discounted liability associated with obligations arising from specific provisions in certain lease agreements regarding the exiting of leased properties at the end of the respective lease terms and the removal of certain property, equipment and leaseholds from the leased building. The accretion and amortization impact on income for 2007 was $10.

The total undiscounted amount of the cash flows required to settle the obligations, factoring in the effect of inflation and the dates that the leases are expected to end, which extend to December 2028, has been estimated to be $1,871. The credit-adjusted, risk-free rate at which the cash flows have been discounted is in the range of 5.44% to 6.27%.

Employee future benefits

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

A) DEFINED BENEFIT PLANS

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

B) DEFINED CONTRIBUTION PLAN

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

Revenues

Box office and concession sales are recognized, net of applicable taxes, when sales are recorded at the theatre. Other revenues include revenues from advertising, games and theatre rentals and are recognized when services are provided. Amounts collected on advance ticket sales and screen advertising agreements are deferred and recognized in the period earned or redeemed.

Gift certificates, gift cards and loyalty points

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

Multiple deliverable arrangements

The Fund enters into multiple deliverable arrangements related to certain sales of theatre assets, which may also include an advertising contract or an operational agreement. In addition, the Fund receives payment from certain vendors for advertising contracts, auditorium rentals and ticket purchases. When a sales arrangement requires the delivery of more than one service, the individual deliverables are accounted for separately, if applicable criteria are met. Specifically, the revenue is allocated to each deliverable if reliable and objective evidence of fair value for each deliverable is available. The amount allocated to each unit is then recognized when each unit or service is delivered, provided all other relevant revenue recognition criteria are met with respect to that unit. If, however, evidence of fair value is only available for undelivered elements, the revenue is allocated first to the undelivered items, with the remainder of the revenue being allocated to the delivered items, according to a calculation known as the residual method. If evidence of fair value is only available for the delivered items but not the undelivered items, the arrangement is considered a single element arrangement and revenue is recognized as the relevant recognition criteria are met.

Film rental costs

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

Consideration received from a vendor

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

Theatre shutdown and lease buyouts

Theatre lease costs and other closure expenses are recognized at the time a theatre closes. Where the theatre has ceased operations but the lease has not been terminated, costs are recorded in occupancy expenses in the consolidated statements of operations, unless the theatre's operating results are included in discontinued operations. If the costs have arisen as the result of the termination of the lease, costs are recorded in gain (loss) on disposal of theatre assets, unless the theatre's operating results are included in discontinued operations. A provision is taken based on estimated expected future payments related to the contractual and ongoing maintenance of the property, adjusted for any negotiated termination of the lease obligation and reduced by estimated sublease rentals. Provisions are classified as current or long term, based on management's intention to settle the obligation within one year.

Disposal of long-lived assets and discontinued operations

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

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

Pre-opening costs

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

Income taxes

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. Income tax liabilities relating to distributions of the Fund are taxed in the hands of the unitholders.

On October 31, 2006, the Department of Finance (Canada) announced income tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay taxes on income it distributes to its unitholders. The income tax proposals were substantively enacted into law on June 12, 2007 and will result in the Fund's income being subject to income taxes at the trust level effective January 1, 2011.

The enactment of the proposals also resulted in the Fund's accounting for future income taxes under the asset and liability method, whereby future income 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 bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets are recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not.

Foreign currency translation

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

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

Use of estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant assumptions made by management in the preparation of the consolidated financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in business combinations; the assessment of theatre cash flows to identify potential asset impairments; the assessment of the fair value of the theatres in the Partnership, GEI and Famous Players, which individually meet the definition of a reporting unit, to identify a potential goodwill impairment; estimating the fair value of the indefinite life intangible assets to identify any potential impairment; the value of gift cards that remain unutilized and in circulation for revenue recognition purposes; the estimation of film cost payable accrual; estimates of the useful lives of property, plant and leaseholds; the valuation of the fair value of the interest rate swap agreements; the assessment of the valuation of future income tax assets; the measurement and allocation of consideration for revenue arrangements with multiple deliverables; and the determination of the asset retirement obligation as certain leases may require the retirement of leaseholds, and this outcome is at the landlords' discretion at the end of the lease. Actual results could differ from those estimates.

Net income per Fund unit

Basic net income per unit is computed by dividing the net income available for unitholders by the weighted average number of units outstanding during the year. Diluted income per unit is computed using the if-converted method, which assumes conversion of the Class B LP Units, Class D LP Units and the convertible debentures into Fund units at the beginning of the reporting period or at the time of issuance, if later.

Future changes in accounting policy

CAPITAL DISCLOSURES

In December 2006, the CICA issued Handbook Section 1535, *Capital Disclosures*. This section establishes standards for disclosing information about an entity's objectives, policies and processes for managing capital. This standard is effective for interim and annual financial statements relating to fiscal years commencing on or after October 1, 2007 on a prospective basis. The Fund will adopt this new standard effective January 1, 2008, and does not expect the financial statements to be materially affected.

FINANCIAL INSTRUMENTS – DISCLOSURE AND PRESENTATION

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

FINANCIAL STATEMENT PRESENTATION

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

INVENTORIES

In June 2007, the CICA issued new Handbook Section 3031, *Inventories*, which replaces CICA 3030, *Inventories*. The new standard requires inventory to be measured at the lower of cost or net realizable value and requires any writedowns to be reversed if the value subsequently recovers, provides expanded guidance on the determination of cost, including the allocation of overhead and expands disclosures. The Fund does not expect a significant change to the financial statements when the new standard is adopted on January 1, 2008.

4 FINANCIAL INSTRUMENTS

Fair value of financial instruments

Cash and cash equivalents, due from and due to related parties, accounts receivable and payable, and distributions receivable and distributions payable are reflected in the consolidated financial statements at carrying values that approximate fair value because of the short-term maturities of these financial instruments. The long-term debt has a market value approximately equal to its face value of $235,000, due to its market rate of interest. The convertible debentures are publicly traded on the Toronto Stock Exchange, and are recorded at amortized cost. Based on the published trading prices, management estimates that the convertible debentures have a fair value of $104,995 as at December 31, 2007 (2006 – $105,525). The convertible debentures are accounted for in accordance with their substance rather than their legal form and presented in the consolidated financial statements in component parts, measured at their respective fair value at the time of issuance, with $8,546 recorded in equity and $96,454 classified as a liability accreting interest on a straight-line basis to the outstanding face value of $104,995 on December 31, 2012.

Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The Fund is exposed to interest rate risk as a result of its issuance of the convertible debenture.

Credit risk

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

5 PROPERTY, EQUIPMENT AND LEASEHOLDS

Property, equipment and leaseholds consist of:

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

Total amortization during the year ended December 31, 2007 was $66,782 (2006 – $nil). Included in this amount is amortization of property under capital lease of $4,873 (2006 – $nil).

6 INCOME TAXES

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

	2007
Future income tax assets	
Property, equipment and leaseholds and deferred tenant inducements – difference between net book value and undepreciated capital cost	$ 20,112
Accounting provisions not currently deductible	3,544
Rent averaging liabilities	7,332
Financing costs	268
Deferred revenue	144
Losses available for carry-forward	4,501
Total gross future income tax assets	35,901
Future income tax liabilities	
Intangible assets	(22,089)
Goodwill	(3,432)
Other	(192)
Total gross future income tax liabilities	(25,713)
Net future income tax asset	$ 10,188

Current income taxes arise with respect to GEI and FP Media, certain subsidiaries of the Fund, and the Fund's six joint ventures.

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

Income before income taxes, non-controlling interest and discontinued operations	$ 23,712
Combined Canadian federal and provincial income tax rates	28.00%
Income taxes payable at statutory rates	6,639
Income not taxable in the Fund	(6,997)
Change in tax rate for future income taxes	(13,281)
Permanent differences	352
Other	11
Recovery of income taxes	$ (13,276)

As at December 31, 2007, GEI has losses available for carry-forward with the following expiry dates:

2008	$ 159
2013	3,938
2014	7,598
2025	3,115
	$ 14,810

7 INTANGIBLE ASSETS

Intangible assets consist of the following:

a) Intangible assets subject to amortization

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

Amortization during the year ended December 31, 2007 was $11,664 (2006 – $nil).

b) Intangible assets not subject to amortization

	2007	2006
Trademarks and trade names	$ 76,385	$ –

8 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	2007
Accounts payable – trade	$ 6,280
Film and advertising payables	31,568
Accrued salaries and benefits	14,282
Sales tax payable	7,263
Accrued occupancy costs	4,044
Other payables and accrued expenses	17,872
	$ 81,309

9 DISTRIBUTIONS PAYABLE

The Fund has declared the following distributions during the year:

	2007		2006	
RECORD DATE	AMOUNT	AMOUNT PER UNIT	AMOUNT	AMOUNT PER UNIT
January	$ 3,268	$ 0.0958	$ 2,675	$ 0.0958
February	3,268	0.0958	2,675	0.0958
March	3,268	0.0958	2,675	0.0958
April	4,142	0.0958	2,675	0.0958
May	4,324	0.1000	2,711	0.0958
June	4,324	0.1000	3,214	0.0958
July	4,324	0.1000	3,222	0.0958
August	4,324	0.1000	3,222	0.0958
September	4,324	0.1000	3,222	0.0958
October	4,324	0.1000	3,268	0.0958
November	4,324	0.1000	3,268	0.0958
December	4,324	0.1000	3,268	0.0958

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

10 CAPITAL LEASE OBLIGATIONS

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

2008	$ 4,187
2009	4,187
2010	4,357
2011	4,440
2012	4,440
Thereafter	34,726
	56,337
Less: Amounts representing interest (average rate of 7.3%)	19,925
	36,412
Less: Current portion	1,581
	$ 34,831

Interest expense related to capital lease obligations was $1,681 (2006 – $nil).

11 RELATED PARTY TRANSACTIONS

Prior to acquisition of control and consolidation of the Partnership on April 2, 2007, the Fund recorded the distributions it received on the Class A LP Units, Class B LP Units and Class D LP Units as reductions of the Fund's investment in the Partnership. For the period in 2007 prior to April 2, 2007, the Fund received $6,306 (2006 – $21,506) of distributions from the Partnership.

Interest income earned by the Fund from the Class C LP Unit distributions was $1,580 for the period in 2007 prior to April 2, 2007 (2006 – $6,321).

COC charged the Fund $391 in rent for the head office during the year ended December 31, 2007 (2006 – $nil). This expense is included in general and administrative expenses. The Fund provides COC with certain management services for which it charged COC $32 during 2007 (2006 – $nil). This revenue is included in other revenue. All payables and receivables with COC are due on demand and are non-interest-bearing.

For the period from April 2, 2007 to August 15, 2007, the Fund incurred film rental expenses totalling $9,231 to Motion Picture Distribution LP ("Motion Picture"), a subsidiary of Alliance Atlantis Communications Inc. ("Alliance"). These expenses are included in film cost. Ellis Jacob, Chief Executive Officer of the Fund, was a member of the Board of Directors and Audit Committee of Alliance until August 15, 2007.

The Fund performs certain management and film booking services for the joint ventures in which it is a joint venturer. During the year ended December 31, 2007, the Fund earned revenue in the amount of $594 with respect to these services (2006 – $nil).

The Galaxy Note bears interest at a rate of 14% per annum payable monthly, with principal due on November 26, 2028. During the period prior to consolidation in 2007, the Fund earned $3,500 of interest from GEI (2006 – $14,000).

During the years ended December 31, 2007 and 2006, investors related to the Fund exchanged their Class B LP Units and Class D LP Units for Fund units under the provisions of the Exchange Agreement (notes 2 and 17).

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

12 LONG-TERM DEBT

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

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

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

The Second Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate or on the banker's acceptances rate plus, in each case, an applicable margin to those rates, which will vary based on certain financial ratios. The Second Amended Credit Facilities adjusted and restated the Fund's previous amended credit facilities (the "Previous Amended Credit Facilities") under which $257,000 was outstanding as at July 25, 2007. The Term Facility is a continuation of the previous non-revolving, term credit facility. The Revolving Facility is a continuation of the previous $110,000 revolving credit facility. Borrowings on the Revolving Facility and the Term Facility can be made in either Canadian or US dollars.

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

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

Long-term debt consists of:

Term Facility	$ 235,000
Deferred financing fees	(2,735)
	$ 232,265

As at December 31, 2007, the Fund was subject to a margin of 0.375% (2006 – n/a) on the prime rate and 1.375% (2006 – n/a) on the banker's acceptance rate, plus a 0.125% (2006 – n/a) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Second Amended Credit Facilities and the Previous Credit Facilities was 5.8% for the year ended December 31, 2007 (2006 – n/a). The Fund pays a commitment fee on the daily unadvanced portion of the Revolving Facility, which will vary based on certain financial ratios and was 0.35% as at December 31, 2007 (2006 – n/a). The Second Amended Credit Facilities provide for certain restrictive undertakings and covenants to be complied with by the Partnership. As at December 31, 2007, the Fund was in compliance with its debt covenants.

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

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

2008	$ –
2009	–
2010	–
2011	–
2012	235,000
	$ 235,000

13 ACCRUED PENSION BENEFIT LIABILITY

Pension and other retirement benefit plans

The Fund sponsors the Pension Plan for Employees of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment Plan") covering substantially all full-time employees. Prior to January 1, 1993, this plan was a defined benefit plan and, effective on that date, it was converted into a defined contribution plan. At the date of conversion, benefits under the defined benefit plan were frozen. Member contributions to the pension plan are not permitted. Effective December 31, 2006, members with frozen defined benefits were given the option to either convert the value of their frozen defined benefit into a defined contribution balance for deposit into their defined contribution account or have an annuity purchased on their behalf in respect of their frozen defined benefit pension. Their elections were executed in December 2007. The full effect of settling the defined benefit obligations is reflected in the 2007 pension expense and disclosure. In addition, the Fund sponsors a Supplementary Executive Retirement Plan.

The Fund also sponsors the Retirement Plan for Salaried Employees of Famous Players Limited Partnership, a defined benefit pension plan, and the Famous Players Retirement Excess Plan (collectively known as the "Famous Players Plans"). Effective October 23, 2005, the Fund elected to freeze future accrual of defined benefits under the Famous Players Plans and move continuing employees into the Cineplex Entertainment Plan for future accrual. As of December 31, 2007, no employees are accruing defined benefits under the Famous Players Plans. During 2007, annuities were purchased on behalf of all retired members in receipt of a pension from the Retirement Plan for Salaried Employees of Famous Players Limited Partnership. The purchase of these annuities constitutes a settlement and its impact is reflected in the 2007 pension expense and the December 31, 2007 disclosure amounts. Effective December 31, 2007, the Fund has declared a full wind up of the Retirement Plan for Salaried Employees of Famous Players Limited Partnership; however, it may be as late as 2009 or 2010 before final approval is granted and all remaining benefit entitlements are settled, at which time, the wind up will ultimately be recognized.

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

Defined benefit provisions

The Fund measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the defined benefits provided under the Cineplex Entertainment Plan for funding purposes was as at December 31, 2006, which reflected the conversion to defined contribution. As at December 31, 2007, all defined benefit entitlements under the plan had been converted to defined contribution or settled by annuity purchase. The most recent actuarial valuation of the Famous Players defined benefit plan for funding purposes was as at December 31, 2006, and the next required valuation will be as at December 31, 2007 to reflect the wind up position.

RECONCILIATION OF THE ACCRUED BENEFIT OBLIGATIONS

Accrued benefit obligations	
Balance – Beginning of year	$ –
Acquisitions	33,922
Current service cost – defined benefit provision	192
Interest cost	1,205
Benefits paid	(3,157)
Actuarial losses	3,118
Settlements	(19,025)
Balance – End of year	$ 16,255

The accrued benefit obligation in respect of post-retirement healthcare benefits at the end of 2007 is $496 (2006 – $nil).

The aggregate accrued benefit obligation for the individual defined benefit pension plans that have deficits is $15,759 and the fair value of plan assets is $12,655 as at December 31, 2007.

RECONCILIATION OF THE FAIR VALUE OF PLAN ASSETS

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

Plan assets consist of:

	PERCENTAGE OF DEFINED BENEFIT ASSETS
ASSET CATEGORY	
Equity securities	58.9
Debt securities	31.3
Other	9.8
	100.0

RECONCILIATION OF THE FUNDED STATUS OF THE DEFINED BENEFIT PROVISIONS	
Fair value of plan assets	$ 12,655
Accrued benefit obligations	(16,255)
Funded status of plans as at December 31	(3,600)
Unamortized net actuarial loss	2,579
Unamortized past service costs	349
Accrued pension benefit liability	$ (672)
ELEMENTS OF BENEFIT COSTS FOR DEFINED BENEFIT PROVISIONS RECOGNIZED IN THE YEAR	
Current service cost – defined benefit provisions	$ 192
Interest cost	1,205
Actual return on plan assets	(50)
Actuarial losses	3,118
Settlement loss	617
Elements of future pension costs before adjustments to recognize long-term nature	5,082
Adjustments to recognize long-term nature of future benefit costs	
Difference between expected and actual return on plan assets	(1,464)
Difference between recognized and actual actuarial gains	(3,118)
Difference between amortization of past service costs and actual plan amendments	44
Amortization of transitional obligation asset	(73)
	(4,611)
Benefit cost recognized	$ 471

The benefit cost in respect of post-retirement healthcare benefits for 2007 is $7 (2006 – $nil).

SIGNIFICANT ASSUMPTIONS

The significant assumptions used are as follows:

Accrued benefit obligations as at December 31:	
Discount rate	
Cineplex Entertainment and Famous Players REP	5.50%
Famous Players Plans – members < 55	4.75% for 10 years, 5.00% thereafter
Famous Players Plans – members > 55	4.25%
Rate of compensation increase	–
Benefit cost for year ended December 31:	
Discount rate	5.00%
Expected long-term rate of return on plan assets	6.50%
Rate of compensation increase	–
Healthcare cost trend rates as at December 31:	
Initial rate	9.00%
Ultimate rate	4.50%
Year ultimate rate reached	2014

SENSITIVITY ANALYSIS

	2007	
	BENEFIT OBLIGATION	BENEFIT EXPENSE
Impact of 1% increase in healthcare cost trend rate	$ 13	$ 1
Impact of 1% decrease in healthcare cost trend rate	$ (12)	$ (1)
DEFINED CONTRIBUTION PROVISION		
Total cost recognized for defined contribution provision	$ 598	

14 OTHER LIABILITIES

Other liabilities consist of the following:

	2007
Deferred tenant inducements	$ 42,491
Excess of straight-line amortization over lease payments	16,202
Fair value of leases – liabilities	30,013
Asset retirement obligations	466
Deferred gain on sale-leaseback transaction	8,553
Theatre shutdown and lease buyout accrual	1,374
Other	2,916
	$ 102,015

On September 30, 2007, the Fund entered into an agreement with the landlord to cease operations at one of the Fund's theatres. While operations ceased on September 30, 2007, the lease for the property was not terminated and the Fund continues to have full obligations under all terms of the lease until January 2010. As a result of the cessation of operations, the Fund has recorded a $2,800 provision with a corresponding charge to occupancy costs.

15 CONVERTIBLE DEBENTURES

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

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

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

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

16 UNITHOLDERS' CAPITAL

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

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

Units are redeemable at any time on demand by the unitholders. The redemption price per unit is equal to the lesser of 90% of the market price on the date of surrender of the unit for redemption and 100% of the closing market price on the redemption date. Subject to certain restrictions, the aggregate redemption price payable by the Fund in respect of all units surrendered for redemption during any month shall be satisfied by way of a cash payment no later than the last day of the month following the month in which the units were tendered for redemption.

The Class B LP Units and Class D LP Units are indirectly exchangeable one-for-one for Fund units in the manner set out in the Exchange Agreement. Under the terms of the Exchange Agreement, COC and the former shareholders of GEI and management may, under certain circumstances, exchange all or any portion of their Class B LP Units and Class D LP Units for Fund units. At no time may any exchange be made if there exists an uncured event of default arising on Series 1 Trust Notes issued by the Trust to the Fund.

The convertible debentures have a final maturity date of December 31, 2012, are convertible into Fund units at the option of the holder, and are redeemable by the Fund after December 31, 2008 and on or prior to December 31, 2010. During the year ended December 31, 2007, convertible debentures having a face value of $5 were converted at the option of a debentureholder, and the Fund issued 266 units.

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

During the year ended December 31, 2006, under the provisions of the Exchange Agreement, certain investors, including related parties, exchanged 4,277,706 Class B, Series 1 and 2-G LP Units and Class D LP Units for 4,277,706 Fund units. The Fund recorded the Partnership units it acquired at the fair market value of the Fund units on the date of the transactions. The differences between the fair market value and the value at which the Fund units were issued in the amount of $2,858 have been charged to unitholders' equity, resulting in a net increase in unitholders' capital of $62,278.

	2007		2006	
	NUMBER OF UNITS	AMOUNT	NUMBER OF UNITS	AMOUNT
Units – Beginning of year	34,116,698	$ 419,819	27,838,992	$ 325,741
Issuance of Fund units for cash (NOTE 2)	–	–	2,000,000	31,800
Issuance of Fund units under Exchange Agreement	9,122,751	143,136	4,277,706	62,278
Issuance of Fund units on conversion of debentures	266	5	–	–
Units – End of year	43,239,715	562,960	34,116,698	419,819
Convertible debentures equity component	–	8,546	–	8,546
	43,239,715	571,506	34,116,698	428,365
LTIP compensation obligation	–	1,024	–	–
Treasury stock – LTIP units	(117,491)	(1,802)	–	–
Total unitholders' capital	43,122,224	$ 570,728	34,116,698	$ 428,365

The Fund treats its $1,802 investment in Fund units relating to the LTIP as treasury stock and nets this investment against unitholders' capital. The LTIP compensation obligation is recorded as an accrued liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point, it is reclassified to unitholders' capital, as the Fund is obligated to deliver a fixed number of Fund units, the value of which will vary with the market value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

17 SHARE OF LOSS OF THE PARTNERSHIP

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

	2007	2006
Consolidated Partnership net (loss) income	$ (3,775)	$ 7,836
Adjustment for Catch-up Payment from Partnership to Class B LP and Class D LP unitholders	(2,364)	(11,490)
Remaining loss to be distributed pro rata to Class A LP, Class B LP and Class D LP unitholders	$ (6,139)	$ (3,654)
Fund's proportionate percentage share	$ (3,665)	$ (946)
Adjustments for excess purchase price over net assets acquired	(576)	(1,866)
Share of Partnership's loss	$ (4,241)	$ (2,812)

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

18 DILUTED NET INCOME PER FUND UNIT

The weighted average number of units outstanding used in computing the diluted net income per unit includes the dilutive effect of the full exercise of the non-controlling interest unitholders' right to exchange their partnership units for Fund units. Convertible debentures in the amount of $104,995 were excluded from the computation of diluted net income per unit, as their effect would have been antidilutive. The $104,995 convertible debentures can be converted into 5,599,734 Fund units at the option of the holders. If converted, the weighted average number of units outstanding used in computing diluted net income per unit would be 5,599,734 units higher (2006 – 5,600,000).

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

	NUMBER OF UNITS	
	2007	2006
Class B, Series 1	626,589	19,038,502
Class B, Series 2-C	–	2,086,957
Class B, Series 2-G	1,779,264	1,779,264
Class D	129,000	129,000
CELP 2007 LP Units	11,376,119	–
	13,910,972	23,033,723

19 LONG-TERM INCENTIVE PLAN

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

LTIP costs are estimated at the grant date based on expected performance results and then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are recognized as they occur as a reduction to compensation costs. For the year ended December 31, 2007, the Fund recognized $3,634 (2006 – $nil) of compensation costs under the LTIP.

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

PERCENTAGE BY WHICH FUND DISTRIBUTIONS PER UNIT EXCEED BASE DISTRIBUTION THRESHOLD	MAXIMUM PROPORTION OF EXCESS FUND DISTRIBUTIONS AVAILABLE FOR LTIP PAYMENTS
20% or less	15%
Greater than 20%	30% of any excess over 20%

20 LEASES

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

The Fund's and the Fund's proportionate share of the joint ventures' future minimum rental commitments as at December 31, 2007 under the above-mentioned operating leases are set forth as follows:

2008	$ 102,782
2009	100,381
2010	98,930
2011	97,275
2012	96,563
Thereafter	852,321
	$ 1,348,252

Minimum rent expense relating to operating leases on a straight-line basis in 2007 was $78,920 (2006 – $nil). In addition to the minimum rent expense noted above, in 2007, the Fund incurred percentage rent charges of $1,515 (2006 – $nil).

21 JOINT VENTURES

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

Assets	$ 3,355
Liabilities	4,593
Revenues	5,453
Expenses	7,460
Net loss	(2,007)

The above figures include the revenues, expenses and net income of the portion of the joint venture acquired on December 31, 2007 as described in note 2(i).

22 CONSOLIDATED STATEMENTS OF CASH FLOWS

The following summarizes the changes in operating assets and liabilities:

	2007
Accounts receivable	$ (22,986)
Inventories	(176)
Prepaid expenses and other current assets	2,932
Due from related parties	6
Accounts payable and accrued expenses	23,056
Income taxes payable	80
Due to related parties	(2,972)
Deferred revenue	26,285
Accrued pension benefit liability	(1,843)
Other liabilities	(181)
	$ 24,201
Non-cash investing activities	
Property, equipment and leasehold purchases financed through accrued liabilities	$ 3,290

23 COMMITMENTS, GUARANTEES AND CONTINGENCIES

Commitments

As of December 31, 2007, the Fund has aggregate capital commitments as follows:

Capital commitments for six theatres to be completed during 2008–2009	$ 23,992
Letters of credit	515

See note 20 for theatre lease commitments.

Guarantees

During 2005 and 2006, the Partnership entered into agreements with third parties to divest a total of 36 theatres, 30 of which were leased properties, as required by the Commissioner of Competition, and to provide advertising services until December 31, 2012. The Fund is guarantor under the leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. The Fund has also guaranteed certain advertising revenues based on attendance levels. Also during 2006, the Partnership entered into an agreement with a related party to divest its 49% share in its three remaining Alliance branded theatres. The Fund is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Fund's share in the theatres does not fulfill its obligations under the respective lease. No amounts have been provided in the consolidated financial statements for these unexercised guarantees, as the occurrence of the guarantees being exercised is not determinable and the total required future minimum payments guaranteed by the Fund cannot be estimated. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Fund could face a material financial burden.

Other

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

24 SEGMENT INFORMATION

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

Investor information

TRUSTEES AND DIRECTORS

Joan Dea
Executive Vice President and
Head of Strategic Management
and Corporate Marketing
BMO Financial Group

Mr. Howard Beck (1)(3)(5)(6)
Corporate Director
Toronto, ON

Krystyna Hoeg (5)
Corporate Director
Toronto, ON

Mr. Robert Steacy (4)(5)(6)
Corporate Director
Toronto, ON

DIRECTORS

Mr. Timothy Duncanson
Managing Director
Onex Corporation
Toronto, ON

Mr. Ellis Jacob
President & Chief Executive Officer
Cineplex Entertainment
Toronto, ON

Mr. Anthony Munk (2)(6)
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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
CGX.UN

AUDITORS

PricewaterhouseCoopers LLP
Toronto, ON

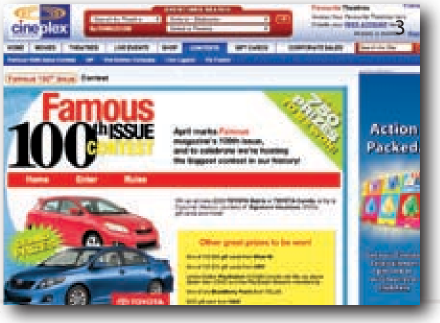
TRANSFER AGENT

CIBC Mellon Trust Company
Toronto, ON

ANNUAL MEETING

Wednesday, May 14, 2008
11:00 A.M. Eastern Standard Time
Scotiabank Theatre Toronto
259 Richmond Street West
Toronto, ON

(1) *Chairman of the Board of Trustees of Cineplex Galaxy Income Fund*
(2) *Chairman of the Board of Directors of Cineplex Entertainment Corporation*
(3) *Chairman of the Compensation, Nominating and Corporate Governance Committee*
(4) *Chairman of the Audit Committee*
(5) *Member of the Audit Committee*
(6) *Member of the Compensation, Nominating and Corporate Governance Committee*



MAKING CINEPLEX THE ENTERTAINMENT DESTINATION OF CHOICE

1. We have created integrated marketing campaigns to draw guests into our theatres.
2. We launched a corporate-wide digital rollout with the installation of Canada's largest digital installation with nine Christie CP2000 series DLP Cinema digital projectors at SilverCity Oakville.
3. We've attracted top tier advertisers to our website. As traffic reaches critical mass, cineplex.com will become a premier advertising channel.
4. The introduction of mobile ticketing technology will replace paper tickets with barcodes downloaded to cell phones.
5. More than 61 million guests "enjoy the show" every year in our state-of-the-art theatres located across the country.

www.cineplex.com

PASSIONATELY DELIVERING AN EXCEPTIONAL ENTERTAINMENT EXPERIENCE