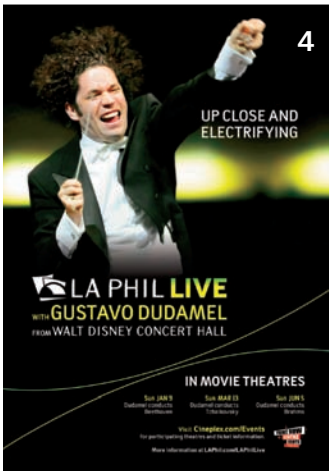
2010 ANNUAL REPORT

DESTINATION CINEPLEX

CINEPLEX®
ENTERTAINMENT



1. XSCAPE Entertainment Centres offer fun for everyone **2.** Cineplex Digital Media's Theatre Lobby Network at the Cineplex Odeon Queensway Cinemas in Toronto **3.** The new Galaxy Cinemas Chilliwack **4.** Alternative Programming like *LA Phil Live* continues to delight and delivers new audiences **5.** The SCENE entertainment rewards program features more than 2.7 million members **6.** Cineplex Magazine – Canada's best read and most popular entertainment magazine

Back Cover: The VIP Cinemas at Cineplex Odeon Westmount Cinemas

2010 was the best year on record for Cineplex. For the first time in our history, we surpassed $1 billion in annual revenues.

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On January 1, 2011, Cineplex Galaxy Income Fund ("the Fund") completed a plan of arrangement which allowed for the conversion of the Fund from an income trust to a corporation. The Fund now operates as Cineplex Inc., ("Cineplex"). Further details on the conversion are included in the management's discussion and analysis ("MD&A") section of this report and on the investor relations pages of our website at cineplex.com.

Letter to Unitholders

Our mission statement is to "Passionately Deliver an Exceptional Entertainment Experience." Each and every one of our approximately 10,000 employees located across the country is committed to delivering on this mission.

2010 was the best year on record for Cineplex Entertainment. I am very pleased to report that we exceeded $1 billion in total revenues for the first time in our history! This represents a 4.8% increase from 2009, with record revenues generated in all three areas of our business: box office up 3.4%; concessions up 2.7%; and other revenues up 19.7%. We also continued to generate record results in several key performance metrics: adjusted EBITDA up 5.8%; net income up 17.8%; and distributable cash per unit up 3.5% for the year.

Box office revenues of $601.1 million exceeded 2009 by $20.0 million largely due to the tremendous performance of *Avatar* in the first quarter of the year and the overall success of many 3D films presented during 2010. While attendance declined marginally to 69.4 million from 70.0 million in 2009, the premiums charged for 3D films offset the attendance decline.

Concession revenues grew 2.7% to $296.0 million in 2010. This was due primarily to increased concession per patron ("CPP") of $4.27 for the year, up from $4.12 in 2009.

Other revenues increased 19.7% to $113.7 million in 2010, the first time that other revenues exceeded $100 million annually. This increase is attributed to increased advertiser spending in our Cineplex Media group in addition to the revenues generated by our acquisition of Digital Display and Communications Inc. ("DDC") during the year.

Adjusted EBITDA increased $9.4 million or 5.8% to $169.3 million. Distributable cash per unit increased 3.5% to $2.22 from $2.14 in the prior year. Net Income increased 17.8% to $63.0 million from $53.4 million and our payout ratio ended the year at 57%. Our company is well positioned with a strong balance sheet giving us the flexibility to capitalize on strategic opportunities to continue growing and expanding.

Our success in 2010 can be attributed to focusing on growth in our core Exhibition business along with diversification and growth in our other core businesses: Merchandising, Loyalty, Media, Alternative Programming, and Interactive.

Expanding and diversifying our business beyond Exhibition also offers us the opportunity to "touch" the customer on many levels beyond the theatre experience. When Canadians think of movies, we want them to think of Cineplex!

EXHIBITION:
THE ENGINE THAT DRIVES THE TRAIN

Exhibition represents approximately 60% of our total annual revenues. Our goal is to increase attendance through new theatre development, expanded offerings, compelling value, innovative marketing and exceptional service. We believe that keeping ticket prices affordable encourages repeat visits, which contributes to the other core businesses. At the same time, we are expanding the entertainment experience for our guests by introducing premium offerings that drive increased revenues per patron.

In 2010 we achieved two new exhibition records – box office revenue ($601.1 million) and box office per patron ("BPP"). Our BPP for 2010 was $8.67, up $0.37 per person (4.5%) versus 2009. This was predominantly a result of the success of premium-priced 3D movies.

During the year we opened two new theatres. *SilverCity CrossIron Mills and XSCAPE Entertainment Centre* located north of Calgary, Alberta has seven screens and a 15,000 square foot interactive gaming area. *Galaxy Cinemas Chilliwack* is an eight-screen theatre located in Chilliwack, British Columbia.

ELLIS JACOB PRESIDENT AND CHIEF EXECUTIVE OFFICER

In Vernon, British Columbia, we completely renovated and retrofitted our existing seven-screen theatre by converting all auditoriums to stadium seating and adding digital projectors and RealD® 3D technology. This created a first class entertainment complex for our guests.

We also acquired four theatres. Two are located in Quebec: the eight-screen *Cineplex Odeon Cavendish Mall Cinemas* in Montreal and *StarCite Gatineau Cinemas*, a 16-screen complex in Gatineau. Mid-year we acquired a six-screen theatre in Chatham, Ontario. In late November, we acquired a 12-screen theatre in downtown Vancouver, British Columbia renaming it *Cineplex Odeon International Village Cinemas*.

At December 31, 2010, we owned and operated 131 theatres with 1,362 screens from British Columbia to Quebec. Today, we have one of the most modern circuits in the Industry with 84% of our screens featuring stadium seating.

In 2010, we premiered UltraAVX™, our new enhanced audio visual entertainment experience. UltraAVX features screens that extend wall to wall and are significantly larger on average than our traditional screens, superb digital surround sound featuring the latest in Dolby digital sound technology, and reserved seating featuring extra-wide, high-back rocker seats. We installed 11 UltraAVX™ auditoriums in 2010 and plan to install several more in 2011. Guests have embraced this new entertainment experience generating higher seat utilization at a premium price.

During 2010, Cineplex continued to replace 35mm film projectors with digital projectors and added RealD 3D projection systems. We added 225 digital projectors and 217 RealD 3D systems bringing our total to 415 digital and 366 RealD 3D systems located in 118 theatres. At December 31, 2010 more than 30% of our screens were digital and 27% were 3D capable. This enabled us to capitalize on the many 3D movies that were released last year. The 2010 schedule featured 25 3D movies, up from 12 in 2009, including the most successful movie of all time – *Avatar*, which grossed approximately $750 million in North American box office revenue.

Revenue from 3D and IMAX® presentations more than doubled in 2010 to represent 28.3% of total box office revenues compared to 14.4% in 2009. 3D is one of our premium-priced entertainment options commanding a $3.00 price premium over a traditional movie ticket. Seven of the top 10 grossing movies in 2010 were presented in 3D including *Avatar*, *Toy Story 3*, *Alice in Wonderland*, *Despicable Me*, *Shrek Forever After*, *How to Train Your Dragon* and *Tangled*. In 2011, more than 30 3D movies are currently scheduled to be released. Our focus on adding multiple 3D screens to our theatres resulted in Cineplex delivering better than average 3D box office versus other circuits. In addition to these 3D titles, traditional movies that led the release schedule included *Inception*, *Iron Man 2*, *The Twilight Saga*: *Eclipse* and *Harry Potter and the Deathly Hallows Part 1*.

During 2010 we signed an agreement with D-Box Technologies Inc. to install up to 250 motion simulator seats in 10 theatre locations across Canada. D-Box is another premium-priced entertainment offering for our guests. Two D-Box installations were added to our theatres in Quebec bringing our total installations to three. Eight additional installations are scheduled to occur in 2011.

In last year's annual report we announced the opening of our third VIP Cinemas. All these have been outstanding performers. Given the success of these VIP Cinemas and

Cineplex Entertainment FINANCIAL HIGHLIGHTS

(expressed in thousands of Canadian dollars except per unit, per patron and attendance data)	Fund			Partnership				
	2010	2009	2008	2010	2009	2008	2007	2006
Revenue	**$1,010,782**	$ 964,348	$ 849,689	$1,010,782	$ 964,348	$ 849,689	$ 805,019	$ 740,244
Adjusted EBITDA	**169,277**	159,927	140,541	173,374	164,243	144,949	137,162	117,622
Net income	**62,956**	53,446	29,003	70,645	60,614	34,570	26,471	7,836
Total assets	**1,291,668**	1,312,785	1,285,816	809,296	813,673	775,054	778,013	819,691
Distributable cash per unit	**2.22**	2.14	1.86	2.22	2.14	1.85	1.72	1.43
Cash distributions declared per unit	**1.26**	1.26	1.24	1.26	1.26	1.24	1.18	1.15
Box office revenue per patron	**8.67**	8.30	8.05	8.67	8.30	8.05	7.99	7.99
Concession revenue per patron	**4.27**	4.12	3.96	4.27	4.12	3.96	3.84	3.72
Other revenue per patron	**1.64**	1.36	1.37	1.64	1.36	1.37	1.33	1.18
Attendance	**69,361**	69,997	63,491	69,361	69,997	63,491	61,148	57,425

The Fund commenced consolidating the Partnership during the second quarter of 2007. This has resulted in a valuation basis for certain financial statement items in the Fund's financial statements which are different than the historic costs contained in the Partnership's financial statements.

our UltraAVX locations, we plan to strategically expand these premium entertainment experiences.

In early 2011, we announced plans to build three new theatres; two will feature VIP Cinemas and all will feature UltraAVX. These are *Cineplex Odeon Abbotsford and VIP Cinemas* (11 screens – three VIP), *Cineplex Odeon Windermere and VIP Cinemas* (11 screens – three VIP), and *Galaxy Cinemas Chatham* (seven screens). Announced early in 2010 is our *Cineplex Odeon Westshore Cinemas* (seven screens), which is scheduled to open in spring 2011 in Langford (Victoria), British Columbia.

MERCHANDISING: HIGH MARGIN GROWTH

Merchandising is Cineplex's second largest revenue source and one of our highest margin businesses representing approximately 29% of total annual revenues. In 2010, merchandising generated revenues of $296.0 million, an increase of $7.7 million or 2.7%. CPP grew 3.6% to a record high of $4.27 during the year, the highest CPP of any major circuit in North America. We believe our continued focus on process improvements to increase speed of service in our concession areas and ongoing rationalization of our retail branded outlets (RBOs) are the major factors behind this success.

In addition to the must-have traditional movie-fare of popcorn and soft drinks, many Canadians may be surprised to learn that Cineplex is one of Canada's top 25 food service companies. We feature some of the most popular RBOs available including Burger King®, Tim Hortons®, Pizza Pizza® and Yogen Fruz® among others. While we have rationalized our third-party RBOs to improve efficiency, we have also expanded Outtakes, our own proprietary RBO featuring a wide range of appetizing hot foods.

In last year's annual report, our 2010 goals included continued CPP growth, increased operating efficiencies gained through speed of service initiatives, and further rationalization of our RBOs. We achieved each of these goals and more.

Cineplex continues to extend the entertainment experience with XSCAPE Entertainment Centres. There are currently three locations with plans to add others strategically in the future.

LOYALTY: A MAJOR CATALYST FOR GROWTH

Our entertainment rewards program SCENE™ continues to exceed our growth expectations. Launched in 2007, the program added more than 600,000 new members during 2010 bringing total membership at December 31, 2010 to more than 2.7 million. Membership continues to grow by approximately 10,000 new members per week.

We created SCENE to drive incremental attendance, gain a more thorough knowledge of our guests, and communicate directly and regularly to them with relevant offers. The value of the database grows richer every day as we now have more than three years of guest history and behaviour.

The program is free to join and provides members with an immediate 10% discount on concession purchases and the opportunity to earn and redeem SCENE points for a host of rewards including movies, concessions, music, DVDs/Blu-rays, digital movie downloads and more. We believe the SCENE program increases attendance and is a major catalyst behind Cineplex outperforming our peers in both Canada and the US.

We believe we are creating one of the most powerful online entertainment experiences available to Canadians.

SCENE members are highly engaged and active. Hollywood studios and Canadian movie distributors now regularly pay to use SCENE to market their movies, recognizing its value and unique ability to segment and target movie-goers and ultimately drive box office performance.

During 2010, Milestones Grill and Bar® restaurants in Ontario became our new promotional partner with a pilot program to earn and redeem SCENE points. Given the program's success, we recently announced that it has been extended for a full year and expanded outside Ontario to include all Milestones restaurants in British Columbia and Alberta.

CINEPLEX MEDIA: CONTINUED GROWTH AND EXPANSION

Other revenues, which is the third of three revenue sources for Cineplex, increased $18.7 million to $113.7 million in 2010. This is the first time other revenues have exceeded $100 million annually. Cineplex Media represents approximately 72% of this revenue category and is the primary reason for this achievement. Cineplex Media continued its growth trend in 2010, with revenue increasing 23.2% to $82.3 million.

Capturing 93% of the Canadian cinema advertising market, Cineplex Media offers a wide range of highly targeted advertising vehicles to reach the much sought after movie-going demographic. Cineplex Media offers advertisers tremendous opportunities for a fully integrated campaign using our wide range of media assets: on-screen with full motion and digital pre-show spots; two magazines, *Cineplex Magazine* and *Le magazine Cineplex*; our website cineplex.com; in lobby with our new digital lobby network, banners and backlit posters; specialty media such as in-theatre sampling, and other lobby domination programs, in addition to naming rights and sponsorship opportunities. During 2010 we renamed our two magazines *Famous* and *Famous Quebec* to *Cineplex Magazine* and *Le magazine Cineplex* in order to leverage the tremendous brand equity we have built in the Cineplex brand. In 2010 we began distributing the magazines in *The Globe and Mail* and *Le Journal de Montreal*. This increased monthly circulation to approximately 700,000 copies for *Cineplex Magazine* and 200,000 copies for *Le magazine Cineplex*.

To extend the Cineplex brand outside our theatres, we acquired DDC, which is a leading provider of service-based digital signage networks. Renamed Cineplex Digital Solutions ("CDS"), it designs, installs, maintains and operates digital signage networks using various software platforms in the retail, financial, hospitality and entertainment markets across North America. Clients include Labatt, Rogers Communications, The Bank of Nova Scotia, CIBC, Sun Trust Bank and Holt Renfrew, among others.

Front Row Centre Events bring world class entertainment to your local Cineplex Entertainment theatre.

This acquisition provides great synergy to our 2009 acquisition of Onsite Media, renamed Cineplex Digital Media ("CDM"), which operates advertising based digital signage networks in four NHL stadiums (Vancouver, Calgary, Edmonton and Ottawa) and office networks located in Brookfield properties in Toronto and other Canadian cities in addition to RioCan's Yonge Eglinton Centre.

The CDS service model networks, combined with CDM's advertising model networks, continues to grow and provide significant opportunities for the future.

ALTERNATIVE PROGRAMMING: BEYOND MOVIES

Front Row Centre (FRC) is the brand name created to represent this ever-growing and diverse entertainment portion of our business. Programs include *The Met Live in HD* from New York City, now in its fifth and most popular season to date. Also due to the great success of its inaugural season last year, we added a second season of NT Live, National Theatre productions from various stages in the UK. New in 2010 was a four-part series from Moscow's Bolshoi Ballet that began with the Christmas favourite *The Nutcracker*. Canada's own Christopher Plummer returned to the Stratford Shakespeare Festival starring in *The Tempest*, which was the second Festival production shown on our big screens.

We were honoured to present all 17 days of the 2010 Winter Olympic Games, broadcast live in select theatres across Canada, as part of the

CTV Olympic Broadcast Media Consortium. It was an historic event for us that garnered tremendous press attention and guest support.

Ethnic movies continue to perform very well in a number of key locations across Canada. Bollywood movies from South Asia expand our breadth of entertainment and potential audience by offering products in Hindi, Punjabi and Tamil. We have also had recent success with Chinese movies and will continue to test other regional films that reflect Canada's great ethnic diversity.

FRC continues to evolve and new entertainment concepts are tested regularly. The balance of FRC events includes concerts, digital film festivals, sporting events, documentaries and World Wrestling Entertainment. We envision a future where 3D sports such as the NFL, NHL and NBA games will be regularly presented in our theatres in addition to other cultural and entertainment events.

INTERACTIVE: BEYOND THE THEATRE

The number one choice for Canadian movie-goers remains cineplex.com. During 2010 more Canadians visited our website than ever before. All three primary measurement tools – unique visits, total visits and page views – showed strong growth over 2009. Online ticketing also yielded tremendous growth, increasing 82% versus 2009. These numbers will continue to grow in 2011 with the recent launch of mobile ticketing and the increasing number of PRINT SKIP SCAN capable theatres, which allows guests to print tickets at home and skip the box office line.

The Cineplex Mobile App is your one-stop destination for movie and entertainment information in Canada.

In November, we were very pleased to launch Cineplex Mobile Apps for iPad, iPhone and iPod Touch, Blackberry and select Android devices. This free download is your one-stop destination for movie and entertainment information in Canada. Guests can buy tickets, catch up on the latest movie news, view trailers and receive information on Cineplex promotions. You can also view information for all theatres across Canada, including maps, showtimes, now playing and coming soon movies.

Also in November we integrated a Download to Own (DTO) and Video on Demand (VoD) capability within the Cineplex Store to provide our guests with maximum flexibility and choice when enjoying a movie. New releases are available the same day they are released on DVD and Blu-ray which complements the store's hard goods DVD and Blu-ray products already available. Now in addition to more than 50,000 DVD and Blu-ray titles available, the download service features thousands of titles from major motion picture studios such as Twentieth Century Fox, Sony Pictures Home Entertainment, Universal Pictures and Warner Bros. More titles will be added as we continue to populate our digital library. This launch is the first of a multi-phased rollout, with several new enhancements scheduled for 2011. The plan is to stream high definition content for DTO and VoD titles and once available, offer the ability to store content in a cloud-based UltraViolet™ account. UltraViolet is a digital rights locker and account management system that will allow consumers to watch their digital entertainment across multiple platforms, such as TVs, PCs, game consoles, smartphones and tablet PCs. Our goal is to ensure that cineplex.com offers the most complete online movie experience possible for Canadians who want the best entertainment choices.

With the website's continued expansion, we think that all roads lead to cineplex.com. If you want to obtain show times or movie information, get the latest entertainment news, buy tickets to attend a movie or FRC event in one of our theatres, print your ticket at home using PRINT SKIP SCAN, download a movie for rental (VoD) or purchase (DTO), or purchase a movie in traditional DVD or Blu-ray formats, all of these options and more are available at cineplex.com. Our website has evolved in 2010 and there is still much more to come!

A SOLID YEAR OF OPERATING PERFORMANCE

2010 was another year of solid operating performance. We continued to focus on delivering sustainable cash flows, a strong balance sheet and ample liquidity. Our payout ratio declined to 57% in 2010 and our leverage ratio declined to 1.58x versus our covenant ratio of 3.0x. This positions us well for 2011 and to capture the opportunities that lie ahead.

On January 1, 2011 we converted to a corporation as planned, following the requisite regulatory approvals and third-party consents required to complete the reorganization of the Fund from an income trust structure to a public corporation. The nature of our business has not changed as a result of the conversion. We were also very pleased to maintain the same dividend amount of $1.26 per annum post conversion. As in the past, the board of directors will regularly review our dividend policy.

COMMUNITY SUPPORT AND SUSTAINABILITY

At Cineplex, we take great pride in supporting the communities in which we operate and do so through a variety of channels. Corporate support helps industry partners such as the Canadian Film Centre, the Toronto International Film Festival, the Film Circuit, various regional film festivals, and Canada's Walk of Fame among others. Community support has helped a variety of charitable organizations including The United Way, Sick Kids Hospital Foundation and numerous others.

For the past three years, we have focused our efforts primarily in support of one organization where we could make a meaningful difference both in terms of financial assistance and increased awareness for their great work. This charity is The Starlight Children's Foundation ("Starlight").

During 2010, Cineplex employees and theatre guests raised $520,000 through a variety of programs including the sale of specially-created Starlight pins, special concession offerings, community day fundraisers and much more. In three years

Starlight helps seriously ill children and their families cope with their pain, fear and isolation through entertainment, education and family activities.

we have raised more than $1.5 million for Starlight. Employees across the country have embraced Starlight and the great work they do. Our partnership has enriched their lives. We are so pleased to be able to help these much deserving, seriously ill children and their families enjoy some fun and escapism.

In terms of sustainability, we are committed to sustainable growth and good stewardship in the communities where we serve. Cineplex is committed to being an environmental steward on behalf of our guests, employees and investors. Our programs are centred in three core areas – waste management, energy conservation and reducing our carbon footprint. Today we have recycling programs in place to deal with most glass, cans, paper, cardboard and plastic. Incandescent lighting is or has been converted to energy-efficient lighting in the majority of our theatres and offices across the country. Our printed materials use FSC approved paper wherever possible including the production of this annual report. Some of these programs are new and others have been in place for some time.

CONCLUSION

The past four consecutive years we have delivered record results. Our six core business areas – Exhibition, Merchandising, Loyalty, Media, Alternative Programming and Interactive – are all stronger today than ever before. We continue to grow each of these businesses by leveraging our core customers and attracting new customers. Our goal is to drive incremental attendance so that other areas of the business will benefit. Our online Cineplex Store featuring digital downloads, and our SCENE loyalty program, are both one of a kind among North American exhibitors and are well positioned for future growth. We are very proud of the leadership role Cineplex has in Canada and throughout North America.

As we enter 2011, our key strategic areas of focus include the following:

- Continue to enhance and expand our existing exhibition infrastructure and service offerings to attract new customers, increase the frequency of existing customers and maximize our revenue per patron. Examples of initiatives in this area include new build theatres and retrofits, digital projection and 3D, the introduction of UltraAVX and XSCAPE, our VIP strategy and the SCENE program amongst many others.
- Capitalize on our core media strengths and infrastructure to provide continued growth of our media business both inside and outside our theatres. Examples of initiatives in this area include the introduction of our digital lobby network and the two acquisitions which led to the creation of CDM and CDS, our advertising and service based digital signage businesses.
- Continue to expand our brand presence as an entertainment destination for Canadians, providing both in-home and out-of-home experiences. Examples in this area include our interactive initiatives including our website, mobile initiatives and e-commerce including digital download offerings.
- Pursue selective acquisitions that are strategic, accretive and capitalize on our core strengths. Examples of initiatives in this area include our acquisitions of select theatres and digital signage companies.

Thank you to the approximately 10,000 employees who run our theatres and work behind the scenes to "*passionately deliver an exceptional entertainment experience*" every day. To our board of directors, thank you for your continued support, guidance and good governance. To the approximately 70 million guests who came through our doors last year, we extend special thanks and appreciation for your business. Most especially, we want to thank our investors who have been with us along the way. Cineplex Galaxy Income Fund went public in November 2003. During the period from November 2003 to December 2010, we have provided unitholders who made an initial $10.00 investment with capital appreciation of $12.41 on their units and $8.50 in distributions. We remain committed to continuing to deliver shareholder value.

On behalf of all of my colleagues, we encourage you to visit our theatres – often – and experience some great entertainment. Everyone needs some escapism.

Enjoy the show!

(Signed:)

Ellis Jacob

President and CEO

Financial review

Management's discussion and analysis

FEBRUARY 9, 2011

As of December 31, 2010, the Fund indirectly owned approximately 99.7% of Cineplex Entertainment Limited Partnership (the "Partnership"). The following MD&A of the Fund's financial condition and results of operations should be read together with the consolidated financial statements and related notes of the Fund (see Section 1, Overview of the Fund). These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

On January 1, 2011, the Fund completed a plan of arrangement which allowed for the conversion of the Fund from an income trust to a corporation. Subsequent to the conversion, the Fund will operate as Cineplex.

Unless otherwise specified, all information in this MD&A is as of December 31, 2010.

NON-GAAP MEASURES

The Fund reports on certain non–GAAP measures that are used by management to evaluate performance of the Partnership and the Fund. In addition, non-GAAP measures are used in measuring compliance with debt covenants and are used to manage the Fund's capital structure. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled to their nearest GAAP measure. The definition, calculation and reconciliation of non-GAAP measures are provided in Section 18, Non-GAAP measures.

FORWARD-LOOKING STATEMENTS

This 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 ("AIF") 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, 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 Inc., Cineplex Galaxy Income Fund or Cineplex Entertainment Limited Partnership, their financial or operating results or their securities. Additional information, including the Fund's AIF, can be found on SEDAR at www.sedar.com.

1 OVERVIEW OF THE FUND

The Fund and the Partnership were 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 (directly and indirectly through CELP 2007 Limited Partnership ("CELP 2007 LP")) and certain former investors in GEI. The Trust was wholly owned by the Fund and in turn COC and CELP 2007 LP are wholly owned, directly and indirectly, by the Trust. On July 22, 2005 the Partnership acquired the movie exhibition business of Famous Players Limited Partnership ("Famous Players"), becoming Canada's largest film exhibition operator with theatres in six provinces.

On October 31, 2006, the Canadian government announced a new entity-level tax on distributions of certain income from, among other entities, certain publicly traded income trusts at a rate of tax comparable to the combined federal and provincial corporate tax rate and to treat such distributions as dividends to unitholders. The Minister of Finance announced that existing trusts would have a four-year transition period and generally would not be subject to the new rules until 2011, provided such trusts experienced only "normal growth" and no "undue expansion" before then. The announcement had an immediate impact on the Canadian capital markets and, generally, resulted in a significant decline in trading prices for publicly traded income trusts.

Following the October 31, 2006 announcement, management of the Fund considered the potential impact and significance of the proposed tax changes to the Fund, and conducted an analysis concerning the strategic direction of the Fund. The Board of Trustees of the Fund formally discussed a potential conversion of the Fund from an income trust structure to a corporate structure during many of its board meetings held in 2009 and 2010, during which management reviewed with the Board of Trustees the proposed conversion.

On November 1, 2010, the Fund filed a management information circular outlining its proposal to convert from an income fund structure to a corporate structure pursuant to a plan of arrangement (the "Arrangement") under the provisions of the Business Corporations Act (Ontario) involving the Fund and Cineplex, amongst others. Complete details of the terms of the Plan of Arrangement are set out in the management information circular dated November 1, 2010 that was filed by the Fund on SEDAR (www.sedar.com).

On December 2, 2010, a special meeting of unitholders was held, at which time unitholders approved the Arrangement. On December 8, 2010, the Arrangement was approved by the Ontario Superior Court of Justice allowing for the conversion of the income trust to a corporation effective January 1, 2011. On January 1, 2011, the Fund's unitholders received one common share of Cineplex for each Fund Unit held on the effective date. Upon completion of the Arrangement, the Fund and Trust were dissolved. Cineplex now directly and indirectly owns and operates the businesses that were previously owned and operated by the Fund and its subsidiaries. The management and trustees of the Fund are now the management and directors of Cineplex.

Cineplex will account for the conversion as continuity of interests of the Fund. As such, Cineplex will file audited consolidated financial statements of the Fund for the years ended December 31, 2010 and December 31, 2009 pursuant to section 4.1 of National Instrument 51-102. For more information please see Section 16, Subsequent Events.

Cineplex'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. The business of Cineplex is carried on through the Partnership and its subsidiaries. As of December 31, 2010, the Fund owned, leased or had a joint-venture interest in 1,362 screens in 131 theatres.

CINEPLEX ENTERTAINMENT
Locations and Screens as at December 31, 2010

Province	Locations	Screens	Digital Screens	Digtal 3D Screens	UltraAVX	IMAX Screens
Ontario	61	635	211	179	6	4
Quebec	23	251	68	59	1	1
British Columbia	21	204	63	59	1	2
Alberta	15	171	54	50	3	2
Saskatchewan	6	51	12	12	–	–
Manitoba	5	50	7	7	–	–
Totals	131	1,362	415	366	11	9
% of screens			30%	27%	1%	1%

CINEPLEX ENTERTAINMENT
Locations and Screens last eight quarters

Province	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Theatres	**131**	**129**	**131**	**130**	129	129	129	130
Screens	**1,362**	**1,342**	**1,353**	**1,347**	1,329	1,328	1,328	1,328
Digital Screens	**415**	**342**	**280**	**238**	190	169	164	122
Digital 3D Screens	**366**	**300**	**236**	**199**	149	129	124	88
UltraAVX Screens	**11**	**2**	**2**	**–**	–	–	–	–
IMAX Screens	**9**	**9**	**9**	**9**	9	9	9	9
% of 3D Screens	**27%**	**22%**	**17%**	**15%**	11%	10%	9%	7%

1.1 2010 FINANCIAL OVERVIEW

Financial Highlights	Fourth Quarter			Full Year		
(expressed in thousands of Canadian dollars, except per unit)	**2010**	2009	Change	**2010**	2009	Change
Total revenues	**$ 240,794**	$ 247,170	–2.6%	**$ 1,010,782**	$ 964,348	4.8%
Attendance	**15,743**	17,096	–7.9%	**69,361**	69,997	–0.9%
Other revenue	**34,061**	30,691	11.0%	**113,724**	94,979	19.7%
Net income	**10,852**	9,450	14.8%	**62,956**	53,446	17.8%
Adjusted EBITDA	**37,131**	38,101	–2.5%	**169,277**	159,927	5.8%
Adjusted EBITDA margin	**15.4%**	15.4%	0.0%	**16.7%**	16.6%	0.1%
Distributable cash per Fund Unit	**$ 0.458**	$ 0.462	–0.9%	**$ 2.217**	$ 2.141	3.5%

Total revenues for 2010 were up 4.8% compared to the prior year due to exhibition and concession revenues which, despite a decrease in attendance, were higher than 2009. A 19.7% increase in other revenue, due primarily to a 23.2% increase in media revenue, also contributed to the total revenue increase. Box office revenues increased due to a 4.5% increase in box office revenue per patron ("BPP"), from $8.30 in 2009 to $8.67 in 2010. Concession revenues increased due to a 3.6% increase in concession revenue per patron ("CPP"), from $4.12 in 2009 to $4.27 in 2010. The 2010 BPP and CPP amounts both represent annual records for the Fund. The media revenue increase was primarily due to increased full-motion and digital pre-show advertising, as well as the contribution from the Fund's Cineplex Digital Media ("CDM") business, which includes the former Digital Display and Communications Inc. ("DDC") acquired on July 2, 2010. Adjusted EBITDA increased 5.8%, from $159.9 million to $169.3 million and distributable cash increased 3.5%, from $2.141 to $2.217, both annual records for the Fund.

Total revenues for the fourth quarter of 2010 were down 2.6% compared to the same period in 2009, primarily due to the 7.9% decrease in theatre attendance resulting in lower box office and concession revenues. Despite the overall box office and concession revenue decreases, the Fund is reporting record fourth-quarter BPP and CPP amounts, of $8.79 and $4.34, respectively, compared to the previous records achieved in 2009 of $8.40 and $4.26. The decreases in box office and concession revenue were partially offset by an 11.0% increase in other revenue, primarily due to a 9.0% increase in media revenues. Adjusted EBITDA decreased 2.5%, from $38.1 million to $37.1 million, however the Fund is reporting an Adjusted EBITDA margin of 15.4%, which is equal to the prior year period.

1.2 KEY DEVELOPMENTS IN 2010

The following describes certain key business initiatives undertaken during 2010 in each of the Fund's core business areas:

Theatre Exhibition

- Box office revenues of $601.1 million and BPP of $8.67 represent annual records for the Fund.
- Launched UltraAVX, the next evolution of the audio visual entertainment experience in Canada. UltraAVX features screens that are significantly larger on average than traditional screens and a superb digital surround sound system utilizing the latest in Dolby digital sound technology in addition to reserved seating in extra-wide high-back rocker seats. At December 31, 2010, the Fund's circuit totals 11 UltraAVX screens in 11 theatres.

- Opened two new theatres: SilverCity CrossIron Mills Cinemas and XSCAPE Entertainment Centre in Calgary, Alberta, featuring seven screens; and Galaxy Cinemas Chilliwack in Chilliwack, British Columbia, featuring eight screens.
- Acquired four theatres: Star Cite Hull in Hull, Quebec, Cineplex Odeon Cavendish Mall in Montreal, Quebec, Famous Players Chatham Cinemas 6 in Chatham, Ontario and Cineplex Odeon International Village Cinemas in Vancouver, British Columbia.
- Installed 225 digital projectors and 217 RealD 3D systems during 2010, bringing the circuit totals to 415 digital projectors and 366 RealD 3D systems in 118 theatres.
- Announced an agreement with D-BOX Technologies Inc. to add approximately 250 D-BOX MFX Seats in 10 theatres across Canada. Upon completion of the installations, 11 of Cineplex's theatres will offer D-BOX seating. At December 31, 2010, three of Cineplex's theatres offer D-BOX seating.

Merchandising

- Concession revenues of $296.0 million and CPP of $4.27 during 2010 represent the highest annual amounts in the history of the Fund.
- Launched the Fund's second XSCAPE entertainment centre at the new SilverCity CrossIron Mills Cinemas in Calgary, Alberta.
- Continued the implementation of process improvements designed to increase the speed of service at the concession counter in addition to ongoing optimization of retail branded outlets available at the Fund's theatres.

Media

- Media revenues during 2010 were a record annual total for the Fund, increasing 23.2% compared to the prior year, primarily due to increased full-motion cinema advertising led by higher spending in the automotive and telecommunications industries. CDM contributed 28.7% of the total media increase.
- Completed the acquisition of DDC, a leading implementer of digital signage networks and associated products and services. Based in Waterloo, Ontario, DDC designs, installs, maintains and operates digital signage networks on numerous software platforms in retail, financial, hospitality and entertainment markets across North America.
- Rebranded the Fund's entertainment magazines as '*Cineplex Magazine*' in English and '*Le magazine Cineplex*' in French. The magazines are available in all of Cineplex's theatres and are distributed via *The Globe and Mail* and *Le Journal de Montreal* respectively, which has increased monthly circulation to 700,000 copies for *Cineplex Magazine* and 200,000 copies for *Le magazine Cineplex*.
- Continued the roll-out of the Fund's digital lobby network ("DLN"), installing digital displays featuring content and advertising in theatre entrances, lobbies and concession areas.

Alternative Programming

- The highly successful Metropolitan Opera series continued its strong performance at the Fund's theatres, through live showings in the first and fourth quarters as well as encore presentations in the second and third quarters.
- The Fund screened the 2010 Winter Olympic Games live from Vancouver-Whistler during the first quarter of 2010.
- During 2010, the Fund launched its 'Classic Film Series', which is scheduled to feature twelve classic films and runs through August, 2011.
- Other alternative programming during 2010 included concerts and live sporting events such as World Wrestling Entertainment ("WWE") and Ultimate Fighting Championship ("UFC").

Interactive Media

- Continued the evolution of the www.cineplex.com website to enhance and simplify the Cineplex interactive experience and drive incremental traffic.
- Partnerships formed with key data suppliers and social networking technologies to provide the necessary foundation required to drive quantum improvements in search engine optimization, and ultimately site traffic at www.cineplex.com.
- The Fund launched Download to Own ("DTO") and Video on Demand ("VoD") services through the Cineplex Store at www.cineplex.com, which complements the DVD and Blu-ray products already available for purchase at the Cineplex Store. New releases are available for digital download on the same day they are released on DVD and Blu-ray.
- Launched the Cineplex mobile app, available as a free download for a wide variety of smartphones and select devices, giving guests access to movie showtimes and the ability to purchase tickets using their mobile devices.

Loyalty

- Increased membership in the SCENE loyalty program to approximately 2.7 million members, an increase of approximately 606,000 members during 2010.
- Continued a pilot project with Milestones Grill & Bar locations in Ontario, where SCENE members can earn and redeem SCENE points.
- Participated in joint promotions with numerous partners during the year.

1.3 BUSINESS ACQUISITIONS AND DISPOSITIONS

Theatre Acquisition

On November 26, 2010, the Fund acquired a theatre in Vancouver, British Columbia. Based on management's best estimates, the purchase price of $6.4 million, including transaction costs of $15 thousand, net of cash acquired, has been allocated to the assets and liabilities as follows (expressed in thousands of Canadian dollars):

Assets acquired		
Net working capital	$	40
Property, equipment and leaseholds		790
Goodwill		5,625
Net assets		6,455
Less: Cash from the acquisition		28
	$	6,427
Consideration given		
Cash paid for the acquisition	$	6,440
Transaction costs		15
Less: Cash from the acquisition		28
	$	6,427

Digital Display and Communications, Inc.

On July 2, 2010, the Fund acquired 100% of the issued and outstanding shares of DDC for approximately $3.4 million, net of cash acquired, including transaction costs of $0.1 million. Based on management's best estimates, the purchase price has been allocated to the assets of DDC as follows (expressed in thousands of Canadian dollars):

Assets acquired		
Net working capital	$	1,191
Property, equipment and leaseholds		151
Goodwill		2,213
Net assets		3,555
Less: Cash from the acquisition		116
	$	3,439
Consideration given		
Cash paid for the acquisition	$	3,500
Transaction costs		55
Less: Cash from the acquisition		116
	$	3,439

The allocation of the purchase price was finalized during the fourth quarter of 2010, resulting in small adjustments to net working capital, property, equipment and leaseholds, and goodwill.

Former Joint Ventures

During the second and third quarters of 2010, the Fund acquired the other venturers' interests in two joint ventures, representing a 66.7% and 53.7% interest, respectively, in two theatres in Quebec. On closing, the Fund controlled 100% of both of these former joint ventures. The Fund paid consideration in the amount of $1.5 million, including transaction costs of $7 thousand and amounts payable to vendors, net of cash acquired. Based on management's best estimates, the allocation of the purchase prices have been allocated as follows (expressed in thousands of Canadian dollars):

Assets and liabilities acquired		
Net working capital	$	77
Future income taxes		(148)
Property, equipment and leaseholds		1,063
Goodwill		633
Net assets		1,625
Less: Cash from the acquisitions		133
	$	1,492
Consideration given		
Cash paid for the acquisitions	$	1,514
Transaction costs		7
Payable to vendors		104
Less: Cash from the acquisitions		133
	$	1,492

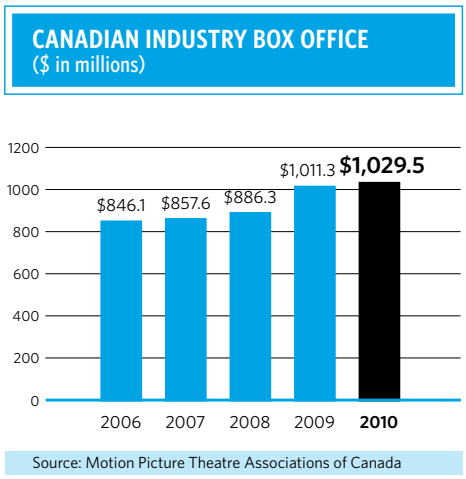
The allocations of the purchase prices were finalized in the fourth quarter of 2010, with small adjustments to assets and goodwill.

Disposition of Former Joint Venture

During the year, the Fund disposed of its interest in a joint venture, representing a 50% interest in a theatre in Quebec, for proceeds of $0.9 million net of transaction costs and cash transferred to the purchaser.

2 INDUSTRY OVERVIEW

The motion picture industry consists of three principal activities: production, distribution and exhibition. Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases. Canadian industry box office has shown continued growth in the past five years, with 2010 representing a record for the Canadian box office. Management of Cineplex believes that the following market trends are important factors in the growth of the film exhibition industry in Canada:



Importance of Theatrical Success in Establishing Movie Brands and Subsequent Movies

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

Increased Supply of Successful Films

Studios are increasingly producing film franchises, such as *Harry Potter*, *Twilight*, *Toy Story* and *Shrek*. Additionally, new franchises continue to be developed, such as *Avatar* and *Iron Man*. When the first film in a franchise is successful, subsequent films in the franchise benefit from existing public awareness and anticipation. The result is that such features typically attract large audiences and generate strong box office revenues. The success of a broader range of film genres also benefits film exhibitors. The December 2009 release of *Avatar* expanded the demographic base of movie-goers by generating interest among non-core customers through the use of cutting-edge 3D technology and the interest generated by releasing one of the most expensive feature films ever made. *Avatar* became the highest grossing film of all-time during the first quarter of 2010.

Looking forward to 2011, the studios are releasing a strong slate of franchise films, such as *Pirates of the Caribbean: On Stranger Tides* (to be released in 3D), *The Hangover 2*, *X-Men: First Class*, *Cars 2* (3D), *Transformers: Dark of the Moon* (3D), *Harry Potter and the Deathly Hallows: Part 2* (3D), *The Twilight Saga: Breaking Dawn Part 1*, *Mission Impossible: Ghost Protocol* and *Sherlock Holmes 2*, as well as highly anticipated films *Thor* (3D), *Green Lantern* (3D), *The First Avenger: Captain America* (3D) and *The Girl with the Dragon Tattoo*.

Convenient and Affordable Form of Out-of-Home Entertainment

The Fund's BPP was $8.67 and $8.30 in 2010 and 2009 respectively. The movie-going experience continues to provide value and compares favourably to alternative forms of out-of-home entertainment in Canada such as professional sporting events or live theatre. The increased prevalence of 3D films has contributed to this increase in box office revenue per patron as 3D films are priced at a premium over regular ticket prices. The Fund increased its number of 3D screens from 149 at December 31, 2009 to 366 at December 31, 2010 in order to capitalize on the release of the 25 3D films screened by the Fund in 2010 and the more than 30 films scheduled for 3D release in 2011. As at December 31, 2010, the Fund's 3D and IMAX screens represented 27% of the Fund's total screens, and generated 28.3% of the Fund's box office revenue during 2010.

Reduced Seasonality of Revenues

Historically, film exhibition industry revenues have been seasonal, with the most marketable motion pictures generally being released during the summer and the late-November through December holiday season. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of films released during traditionally weaker periods.

Diversification of Revenue Streams

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

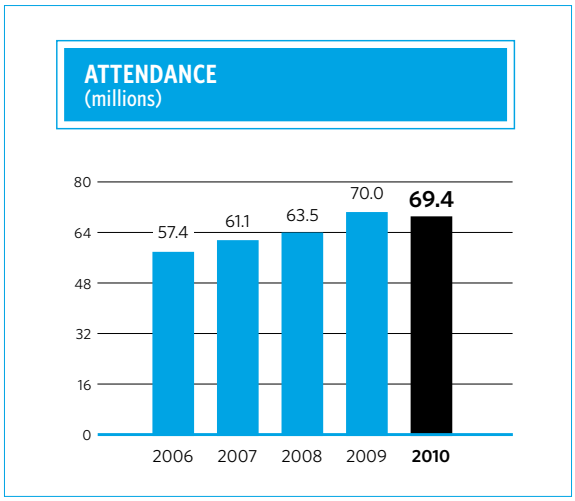
3 BUSINESS STRATEGY

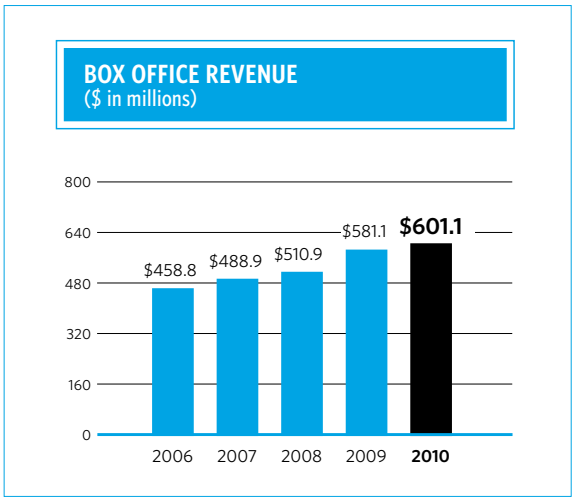
Cineplex's mission statement is "*Passionately delivering an exceptional entertainment experience*." All of its efforts are focused towards this mission and it is Cineplex's goal to consistently provide guests with an exceptional entertainment experience at a fair value. Cineplex's business strategy is to continue to enhance its position as a leading exhibitor in the Canadian market by focusing on providing customers with a premium entertainment experience in its theatres, through its media vehicles and on its website. Key elements of this strategy include going beyond movies to reach customers in new ways and maximizing revenue per patron. With this in mind, Cineplex has implemented new in-theatre initiatives to improve the overall entertainment experience, including enhanced in-theatre services, alternative pricing strategies, and the SCENE loyalty program. Merchandising comprises Cineplex's food retailing and games business, and initiatives in merchandising include optimizing its product offerings and improving service execution. The ultimate goal of these in-theatre customer service initiatives is to increase the frequency of movie-going at Cineplex's theatres. Cineplex is also committed to diversifying its revenue streams outside of the traditional theatre exhibition model with further expansion of the digital pre-show and in-theatre and digital out-of-home advertising sales through Cineplex Media, and providing in-home entertainment options through the Cineplex Store which sells DVDs, Blu-ray discs, DTO and VoD movies on line.

During 2010, the Fund acquired DDC, now operating as part of CDM, launched UltraAVX, the next evolution of the audio visual entertainment experience in Canada, opened its second XSCAPE Entertainment Centre at the new SilverCity CrossIron Mills Cinemas in Calgary, Alberta, and continued its reduced price Tuesdays program across the circuit, amongst other initiatives (see Section 1.2, Key developments in 2010). The acquisition of DDC allows Cineplex to increase its presence in the digital out-of-home advertising sector by allowing Cineplex to extend the scope of the services it provides. The digital out-of-home advertising sector is an emerging sector and is expected to grow at higher rates than traditional advertising vehicles. UltraAVX was designed to create the best and most immersive entertainment environment possible for guests, featuring screens that are significantly larger on average than Cineplex's traditional screens and a superb digital surround sound system utilizing the latest in Dolby digital sound technology, as well as reserved seating featuring extra-wide high-back rocker seats. The addition of Cineplex's second XSCAPE entertainment centre provides an enhanced out-of-home entertainment experience for guests at SilverCity CrossIron Mills. The reduced price Tuesday program offers a reduced price admission which Cineplex believes drives incremental theatre attendance and long-term profitability.

THEATRE EXHIBITION

During 2010, the Fund reported its highest box office revenue amount since its inception following continued growth in the past five years. Theatre exhibition is, and remains, the core business of Cineplex. Management understands that exhibition is the engine that drives the train and fuels all of the other core businesses. During 2010, approximately 69.4 million guests visited Fund theatres. Digital and 3D projection is an enhancement to an established business and provides an additional element for growth. The Fund continued its digital conversion in 2010 to capitalize on the continued increase in 3D programming. This technology will expand Cineplex's exhibition opportunities to anything digital, including 3D movies and live or recorded events or programs. As part of its strategy to provide state-of-the-art entertainment offerings to its customers, the Fund has been evaluating and planning a national roll-out of digital projection systems, which commenced in 2008 and continued in 2010. To date, Cineplex has 415 digital projectors in 118 theatres installed across the country, with 366 of these screens being 3D capable. In addition, Cineplex has nine IMAX auditoriums and 11 UltraAVX auditoriums which are also 3D capable. 3D film presentations are well received by audiences, add breadth to the overall film schedule and have a higher average ticket price.



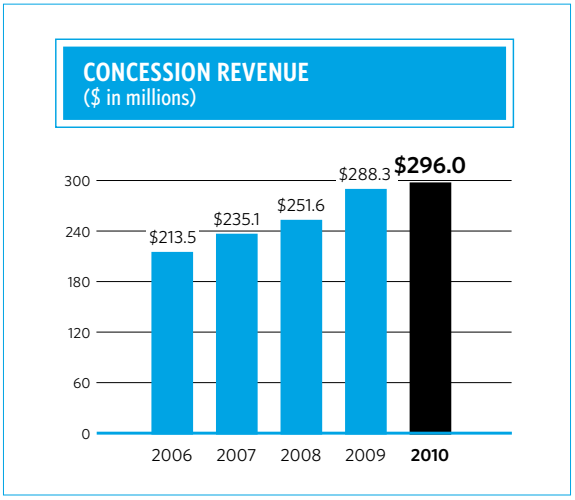


Cineplex's plan remains to open an average of two to three new theatres per year, although in certain years opportunities may arise to exceed this number. During 2010 the Fund opened the SilverCity CrossIron Mills Cinemas and XSCAPE Entertainment Centre in Calgary, Alberta, and the Galaxy Cinemas Chilliwack in Chilliwack, British Columbia. The Fund also acquired four theatres during 2010, in Hull and Montreal, Quebec, Chatham, Ontario and Vancouver, British Columbia. During 2009, the Fund opened a theatre in London, Ontario and the Fund's first XSCAPE Entertainment Centre in the SilverCity Newmarket theatre in Newmarket, Ontario, purchased a theatre in Montreal, Quebec, as well as retrofitting and rebranding four theatres (Galaxy Cinemas Belleville in Belleville, Ontario, Cineplex Odeon Westhills Cinema in Calgary, Alberta, Galaxy Cinemas Lethbridge in Lethbridge, Alberta and Galaxy Cinemas Vernon in Vernon, British Columbia).

Cineplex's prominent market position enables it to effectively manage film, concession and other theatre-level costs, thereby maximizing operating efficiencies. Cineplex seeks to continue to achieve incremental operating savings by, among other things, implementing best practices and negotiating improved supplier contracts. It will also continue to evaluate its existing theatre assets as it continually upgrades older theatres to state-of-the-art entertainment complexes.

MERCHANDISING

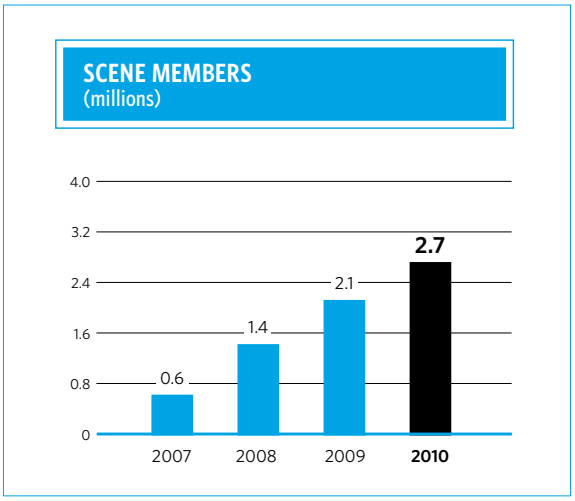
Cineplex's merchandising business offers guests a range of food choices to enhance their theatre experience while generating strong profit margins. Cineplex's theatres feature some of the most popular fast food brands in Canada including Burger King, Tim Hortons, Pizza Pizza and Yogen Fruz, among others (collectively, "Retail Branded Outlets"). In addition, Cineplex is focused on expanding its internally developed brand, "Outtakes". During 2010, the Fund continued the implementation of process improvements designed to increase the speed of service at the concession counter in addition to ongoing optimization of retail branded outlets available at the Fund's theatres. These improvements contributed to a record CPP of $4.27 in 2010, an increase of $0.15 from the previous record of $4.12 achieved in 2009, and having reported continuous growth in CPP for the past five years.



SCENE LOYALTY PROGRAM

In 2007, the Fund entered into an agreement with the Bank of Nova Scotia ("Scotiabank") to introduce the SCENE loyalty program, providing the Fund with a more comprehensive understanding of the demographics and movie going habits of its audience as well as new ways to engage its customers. SCENE is a customer loyalty program designed to offer members discounts and the opportunity to earn points that can be redeemed for rewards, including free movies. The SCENE loyalty program also allows Cineplex to extend special offers to its guests, implement tailored marketing programs and deliver targeted messages.

The Fund's objectives in creating SCENE were to gain a more thorough understanding of its customers, drive customer frequency, increase overall spending at its theatres and provide it with the ability to communicate directly and regularly with customers. To date, Cineplex is achieving all of these objectives and the program has been well received. Benefits of the program are reflected in box office and concession revenue respectively. Membership in the SCENE loyalty program at December 31, 2010 was approximately 2,717,000, an increase of approximately 606,000 during 2010. During 2009, the Cineplex Store was added as a partner to the program, allowing members to earn and redeem SCENE points while purchasing DVDs, Blu-ray discs, DTO and VoD movies, and Cineplex gift cards online. During 2010, SCENE launched a pilot project with Milestones Grill & Bar locations in Ontario, where SCENE members can earn and redeem SCENE points at these locations. SCENE also incorporated promotions and offerings with numerous partners in 2010, and continues to investigate potential reward partners to expand both the opportunity to collect and redeem SCENE points. In addition to reward partnership opportunities, Cineplex plans to use the SCENE customer database to generate additional revenue opportunities.



INTERACTIVE

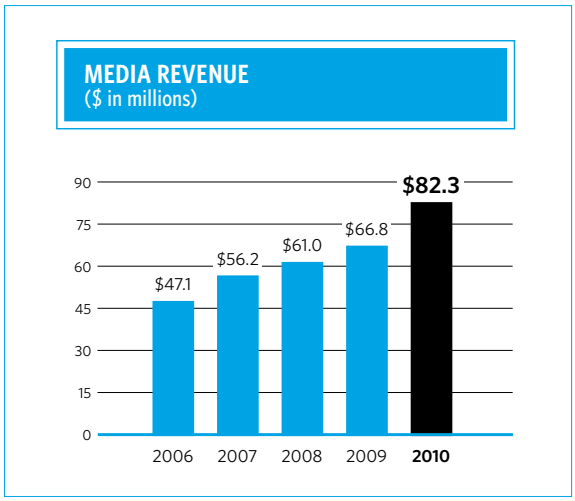
During 2007, in conjunction with the SCENE loyalty program, the Fund re-launched and substantially expanded its website, www.cineplex.com, and in 2008 launched the Cineplex Store, selling DVDs, Blu-ray discs and Cineplex gift cards. In addition to these items, during 2010 the Cineplex Store added digital download capabilities and started selling DTO and VoD movies.

Cineplex continues to develop www.cineplex.com as the destination of choice for Canadians seeking movie entertainment information on the internet. The website offers streaming video, movie information and show times, entertainment news and box office reports as well as advertising and e-commerce opportunities. These features and others enable Cineplex to engage and interact with its guests. This will also allow Cineplex to offer engaging, targeted, sponsored content to visitors and advertisers, resulting in opportunities to generate additional revenues.

During 2010, the Fund launched the Cineplex mobile app as a free download for a wide variety of smartphones and select devices. The Cineplex mobile app provides guests with information relating to the latest movie choices and showtimes, as well as the ability to buy tickets, catch up on the latest movie news, view trailers and receive information on promotions.

MEDIA

Cineplex Media, with its national presence and 93% market share of the Canadian movie going public, is well positioned for continued growth. Cineplex Media is the ideal channel for advertisers wanting to reach the highly sought-after 17- to 25-year-old Canadian market. It is the only national coast-to-coast cinema sales representation that can offer advertisers fully integrated in-theatre media campaigns that include full motion, digital pre-show, the DLN, magazines, online and specialty media. Cineplex Media also distributes Canada's leading entertainment magazine – *Cineplex Magazine*, in addition to its sister publication – *Le magazine Cineplex*, that are now available in all Cineplex Entertainment locations as well as being distributed via *The Globe and Mail* and *Le Journal de Montreal*. Combined, these magazines have a circulation of approximately 900,000 copies monthly. With continued developments in digital projection, Cineplex can offer a more technologically advanced digital advertising pre-show to provide advertisers with the ability to present a national or local advertising campaign with a richer full screen, full motion experience.



As demonstrated in the chart above, the Fund has reported continued growth by Cineplex Media during the past five years.

The acquisition of DDC, the development of CDM and the implementation of the DLN throughout Cineplex's theatres have positioned Cineplex to expand its media reach throughout its current infrastructure as well as in office towers and stadiums across the country. CDM revenue growth has increased $4.5 million in 2010, from $0.4 million in 2009 to $4.9 million in 2010.

ALTERNATIVE PROGRAMMING

The Fund has been exhibiting alternative programming for several years, including The Metropolitan Opera, ethnic film programming, WWE and UFC events, sporting events and concerts. Most of this programming is premium-priced and attracts a wider audience, expanding Cineplex's demographic reach and enhancing revenues. The success of these events has led to further expansion of offerings including the screening of the 2010 Vancouver Olympic Games live on the big screen in 64 locations during February 2010. Cineplex anticipates capitalizing on its 3D infrastructure by screening selected alternative programming events in 3D in 2011 and beyond.

CAPITALIZING ON OTHER REVENUE OPPORTUNITIES

Cineplex seeks to expand and further develop other revenue opportunities, such as promotions, games, family entertainment centres, live concerts and special events. These activities generate attractive margins and maximize the use of fixed cost infrastructure. Management believes that Cineplex's national presence allows it to develop new ancillary revenue opportunities more quickly and profitably than most of its competitors.

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

PURSUING SELECTED GROWTH AND ACQUISITION OPPORTUNITIES

Cineplex will continue to seek to enhance its competitive position by selecting complementary development opportunities, improving and refurbishing theatres and pursuing certain acquisition opportunities. Cineplex intends to only pursue expansion opportunities that meet certain strategic and financial return criteria. Cineplex's new theatre strategy focuses on locations underserved by a modern multiplex theatre in expanding urban and suburban markets as well as mid-sized communities. Management believes that Cineplex has the financial strength, experience and flexibility to pursue attractive development and acquisition opportunities that are accretive to Cineplex. Cineplex has announced the opening of four new theatres scheduled for openings in 2011 and 2012, which have aggregate capital commitments of approximately $27.8 million related to these locations. Cineplex's revolving credit facility (discussed in Section 7, Liquidity and Capital Resources) includes provisions for funding new theatre construction and acquisitions. The new theatres scheduled to be opened will be located in Victoria, British Columbia, Abbotsford, British Columbia, Edmonton, Alberta, and Chatham, Ontario.

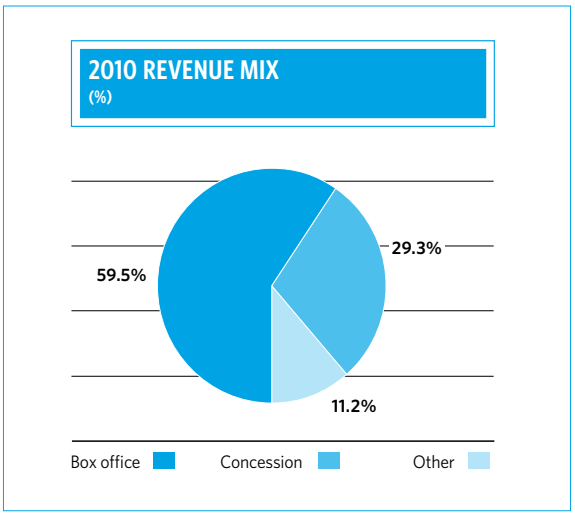
GROWING EBITDA AND EBITDA MARGINS (SEE SECTION 18, NON-GAAP MEASURES)

Although Cineplex focuses on growth initiatives, management remains vigilant in controlling costs without compromising the guest experience. Cineplex will continue to invest in new revenue generating activities, as the Fund continued to do in 2010. Over the past five years, the Fund has shown significant growth in EBITDA and in 2010 the Fund is pleased to report the Fund's highest EBITDA since its inception.

4 OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 59.5% of revenue in 2010 and continues to represent the largest component of revenue. As discussed earlier, Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with a premium entertainment experience. As a result of the Fund's focus on diversifying the business beyond the traditional movie exhibition model, over the past five years the revenue mix has shifted from box office revenue to concession and other revenue sources. These revenue sources typically provide a higher incremental contribution margin than traditional exhibition or box office revenues.

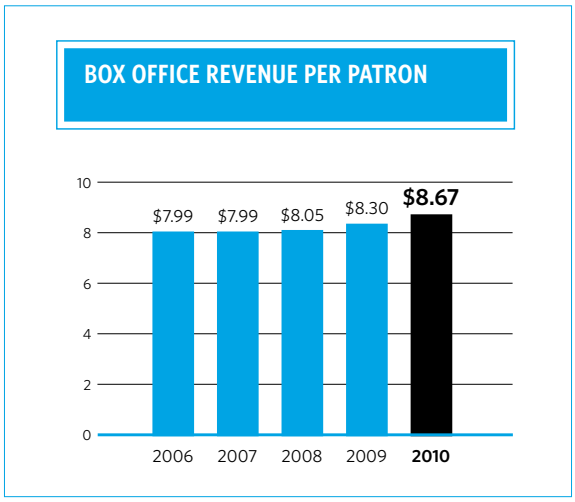


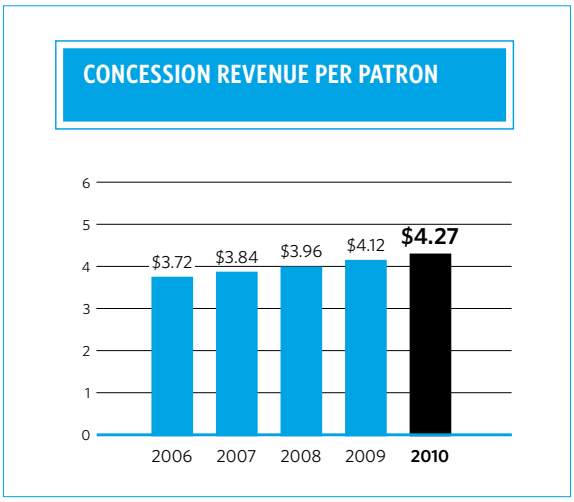
Revenue Mix % by Year

	2010	2009	2008	2007	2006
Box office	**59.5%**	60.3%	60.1%	60.7%	62.0%
Concession	**29.3%**	29.9%	29.6%	29.2%	28.8%
Other	**11.2%**	9.8%	10.3%	10.1%	9.2%
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

The commercial appeal of the films and alternative content released during a given period, and the success of marketing as well as promotion for those films by film studios, distributors and content providers, all drive attendance. BPP is affected by the mix of film and alternative content product that appeals to certain audiences (such as children or seniors who pay lower ticket prices), the surcharge related to 3D film and other enhanced product offerings, ticket prices during a given period and the appeal of premium priced product available. BPP is also impacted by the SCENE loyalty program and the reduced price Tuesday program, both of which are designed to increase attendance frequency at Cineplex's theatres. Cineplex's main focus is to drive incremental visits to theatres and to employ a ticket price strategy which takes into account the local demographics at each individual theatre.

CPP is impacted by concession product mix, concession prices, film genre, the 10% SCENE discount and the reduced price Tuesday program. Film product targeted to children tends to result in a higher CPP and more adult oriented product tends to result in a lower CPP. As a result, CPP tends to fluctuate from quarter to quarter based on the genre of film product playing. Both the 10% SCENE discount and the reduced price Tuesday program, which in select markets offers a reduced price admission ticket and concession offering, reduce concession revenue on individual purchases, however Cineplex believes these programs drive incremental attendance and purchase incidence, increasing overall revenues. Although pricing has an impact on CPP, Cineplex focuses on growing CPP by optimizing the product offerings and improving operational excellence. As demonstrated in the following charts, the Fund has continued to grow BPP and CPP over the past five years.





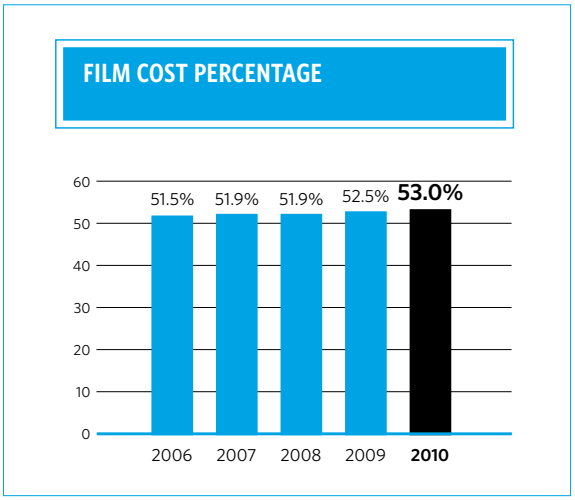
In addition, Cineplex generates other revenues from in-theatre and digital out-of-home advertising sales, promotional activities, the Cineplex Store, game rooms, screenings, private parties, corporate events, breakage on gift card sales and theatre management fees.

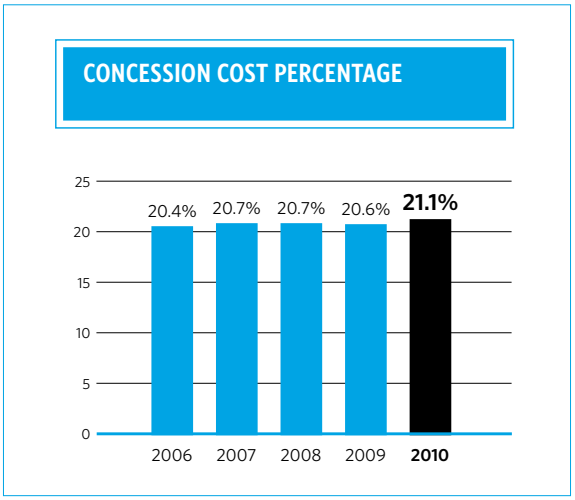
Cost of Sales and Expenses

Film cost represents the film rental fees paid on films exhibited in Cineplex's theatres. Film costs are calculated as a percentage of box office revenue and are dependent on various factors including the performance of the film. 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 estimated terms where a mutually agreed settlement is reached upon conclusion of the film's run, depending upon the film licensing arrangement. Although the film cost percentage is relatively stable when reviewed on an annual basis, there can be significant variances throughout the quarters based on the actual results versus the expected results for specific films playing during each quarter.

Concession cost represents the cost of concession items sold and varies with changes in concession revenue as well as the quantity and mix of concession offerings sold. Generally, during periods where the concession sales mix is dominated by core concession products (soft drinks, popcorn and candy), the concession cost percentage tends to be lower than during periods with higher proportional sales through Retail Branded Outlets. Film product that caters to children tends to result in a higher mix of core concession product sales. The 10% discount offered to members of the SCENE loyalty program affects the concession cost percentage, as concession revenues relating to these sales are reduced by 10% while the corresponding cost of concessions remains constant.

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 Cineplex's theatre leases generally require a fixed monthly minimum rent payment. However, a number of Cineplex's theatre leases also include a percentage rent clause whereby the landlord is paid an additional amount of rent based either in part or wholly upon box office revenues.





Other operating expenses consist of fixed and variable expenses, including marketing and advertising, media, loyalty, interactive, theatre salaries and wages, supplies and services, utilities and maintenance. 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 managing Cineplex's business, including film buying, marketing and promotions, operations and concession management, accounting and financial reporting, legal, treasury, construction and design, real estate development, information systems and administration. Included in these costs are payroll (including the Fund's Long-Term Incentive Plan ("LTIP") and unit option plan ("Option Plan") costs) and occupancy costs related to Cineplex's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. Cineplex 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 results of joint ventures in which the Fund had an interest using the proportionate consolidation method as required by GAAP.

5 RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

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 units of the Fund ("Fund Units") outstanding, per Fund Unit data and per patron data, unless otherwise noted).

(expressed in thousands of Canadian dollars)	**2010**	2009	2008
Revenues			
Box office	**$ 601,097**	$ 581,114	$ 510,934
Concessions	**295,961**	288,255	251,645
Other	**113,724**	94,979	87,110
	1,010,782	964,348	849,689
Expenses			
Film cost	**318,495**	305,095	265,210
Cost of concessions	**62,504**	59,267	52,192
Occupancy	**161,488**	158,927	154,915
Other operating	**239,938**	228,129	196,546
General and administrative	**59,080**	53,003	40,285
	841,505	804,421	709,148
Income before undernoted	**169,277**	159,927	140,541
Net income	**$ 62,956**	$ 53,446	$ 29,003
Basic net income per Fund Unit	**$ 1.11**	$ 0.96	$ 0.67
Diluted net income per Fund Unit[(i)]	**$ 1.11**	$ 0.95	$ 0.55
Total assets	**1,291,668**	1,312,785	1,285,816
Total long-term financial liabilities[(ii)]	**331,953**	335,982	334,834
Fund Units outstanding at December 31	**57,258,999**	56,901,057	43,414,217
Cash distributions declared per Fund Unit	**$ 1.260**	$ 1.260	$ 1.240
Distributable cash per Fund Unit[(iii)]	**$ 2.217**	$ 2.141	$ 1.855
Box office revenue per patron	**$ 8.67**	$ 8.30	$ 8.05
Concession revenue per patron	**$ 4.27**	$ 4.12	$ 3.96
Film cost as a percentage of box office revenue	**53.0%**	52.5%	51.9%
Attendance (in thousands of patrons)	**69,361**	69,997	63,491
Theatre locations (at period end)	**131**	129	130
Theatre screens (at period end)	**1,362**	1,329	1,331

(i) Excludes the conversion of the Fund's convertible debentures as such conversion would be anti-dilutive.
(ii) Comprised of long-term debt and the Fund's convertible debentures – liability component. Excludes fair value of interest rate swap agreements, capital lease obligations, accrued pension benefit liability, other liabilities and deferred financing fees net against long-term debt.
(iii) See Section 18, Non-GAAP Measures for the definition and calculation of distributable cash per Fund Unit.

5.2 OPERATING RESULTS FOR 2010

Total Revenues

Total revenues for the three months ended December 31, 2010 decreased $6.4 million (2.6%) to $240.8 million as compared to the prior year period. Total revenues for 2010 increased $46.4 million (4.8%) to $1.0 billion as compared to the prior year, representing the first year that the Fund's revenue has exceeded one billion dollars. A discussion of the factors affecting the changes in box office, concession and other revenues for the periods is provided on the following pages.

Box Office Revenues

The following table highlights the movement in box office revenues, attendance and BPP for the quarter and the year (expressed in thousands of Canadian dollars, except attendance reported in thousands of patrons, and per patron amounts, unless otherwise noted):

Box Office Revenues	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Box office revenues	**$ 138,351**	$ 143,570	-3.6%	**$ 601,097**	$ 581,114	3.4%
Attendance	**15,743**	17,096	-7.9%	**69,361**	69,997	-0.9%
Box office revenue per patron	**$ 8.79**	$ 8.40	4.6%	**$ 8.67**	$ 8.30	4.5%
Canadian industry revenues[i]			-6.2%			1.8%
Same store box office revenues	**$ 133,372**	$ 141,873	-6.0%	**$ 585,580**	$ 575,784	1.7%
Same store attendance	**15,202**	16,885	-10.0%	**67,610**	69,295	-2.4%
% Total box from IMAX & 3D	**28.0%**	19.8%	41.4%	**28.3%**	14.4%	96.5%

(i) The Motion Picture Theatre Associations of Canada ("MPTAC") reported that the Canadian exhibition industry reported a box office decrease of 8.0% for the period from October 1, 2010 to December 30, 2010 as compared to the period from October 2, 2009 to December 31, 2009. On a basis consistent with the Fund's calendar reporting period (October 1 to December 31), the Canadian industry box office decrease is estimated to be 6.2%. The MPTAC reported a box office increase of 1.8% for the period from January 1, 2010 to December 30, 2010 as compared to the period from January 2, 2009 to December 31, 2009. On a basis consistent with the Fund's calendar reporting period (January 1 to December 31), the Canadian industry box office increase is also estimated to be 1.8%.

Box Office Continuity	Fourth Quarter		Full Year	
(expressed in thousands of Canadian dollars)	Box Office	Attendance	Box Office	Attendance
2009 as reported	$ 143,570	17,096	$ 581,114	69,997
Same store attendance change	(14,142)	(1,683)	(14,005)	(1,685)
Impact of same store BPP change	5,642	-	23,801	-
New and acquired theatres	3,554	370	12,020	1,324
Disposed and closed theatres	(273)	(40)	(1,833)	(275)
2010 as reported	$ 138,351	15,743	$ 601,097	69,361

FOURTH QUARTER

Q4 2010 Top Cineplex Films	% Total Box	Q4 2009 Top Cineplex Films	% Total Box
1 Harry Potter and the Deathly Hallows[i]	12.1%	1 Avatar[i][ii]	11.8%
2 Tangled[ii]	5.9%	2 The Twilight Saga: New Moon	10.7%
3 Jackass 3D[ii]	5.6%	3 2012	6.7%
4 Megamind[i][ii]	5.4%	4 Disney's A Christmas Carol[i][ii]	5.6%
5 The Social Network	5.0%	5 Couples Retreat	4.4%

(i) Film screened in IMAX.
(ii) Film screened in 3D.

Box office revenues decreased $5.2 million, or 3.6%, to $138.4 million during the fourth quarter of 2010, compared to $143.6 million recorded in the same period in 2009. This decrease was due to the lower attendance, partially offset by the higher BPP period over period (7.9% decrease and 4.6% increase, respectively). The decrease in box office revenue during the fourth quarter of 2010 as compared to the prior year period was primarily due to the films released during the holiday period in 2010 being unable to match the record-breaking performance of *Avatar* from December 2009.

BPP increased $0.39, from $8.40 in the fourth quarter of 2009 to $8.79 in the same period in 2010. Three of the top five films during the quarter were screened in 3D, and two of the top five were screened in IMAX (2009 – two of the top five in IMAX and 3D). The percentage of box office revenues earned from the 3D and IMAX titles represented 28.0% of the Fund's total box office results for the quarter, up from 19.8% from the same period in the prior year. These premium priced offerings as well as select ticket price increases introduced at the end of March 2010 contributed to the increase in the BPP amount.

The Fund's continued investment in digital and 3D technology in 2010 allowed it to capitalize on the success of the 3D releases, contributing to the Fund outperforming the Canadian film exhibition industry during the fourth quarter of 2010.

FULL YEAR

2010 Top Cineplex Films	% Total Box	2009 Top Cineplex Films	% Total Box
1 Avatar[(i)(ii)]	7.0%	1 Transformers: Revenge of the Fallen[(i)]	3.7%
2 Alice in Wonderland[(i)(ii)]	3.9%	2 Harry Potter and the Half-Blood Prince[(i)]	3.2%
3 Inception[(i)]	3.6%	3 Avatar[(i)(ii)]	2.9%
4 Toy Story 3[(i)(ii)]	3.1%	4 UP[(ii)]	2.8%
5 Harry Potter and the Deathly Hallows[(i)]	2.8%	5 The Twilight Saga: New Moon	2.6%

(i) Film screened in IMAX.
(ii) Film screened in 3D.

Box office revenues for 2010 exceeded the prior year by $20.0 million, or 3.4%. The $601.1 million in total box office revenue represents an annual record for the Fund. The record-breaking performance of *Avatar* during the first quarter of the year contributed to this increase, as did the overall success of 3D product during the year. The Fund's investment in digital and 3D technology in 2009 and 2010 has allowed it to capitalize on the success of the 3D releases, contributing to the Fund outperforming the Canadian film exhibition industry during the year.

BPP for 2010 increased $0.37, or 4.5%, from $8.30 in 2009 to an annual record of $8.67 in 2010. The percentage of box office revenues earned from 3D and IMAX titles represented 28.3% of the Fund's total box office results during the period, up from 14.4% from the prior year period. These premium-priced offerings, as well as select ticket price increases introduced at the end of March 2010, contributed to the higher BPP. This increased BPP amount was partially offset by the impact of the Fund's reduced price Tuesday program, which features a reduced price movie and concession offering. The program was launched during September 2009 and is therefore not fully reflected in the prior year's comparatives. The Fund believes the program drives incremental attendance on Tuesdays.

CONCESSION REVENUES

The following table highlights the movement in concession revenues, attendance and CPP for the quarter and the year (expressed in thousands of Canadian dollars, except attendance and same store attendance reported in thousands of patrons, and per patron amounts):

Concession Revenues	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Concession revenues	**$ 68,382**	$ 72,909	-6.2%	**$ 295,961**	$ 288,255	2.7%
Attendance	**15,743**	17,096	-7.9%	**69,361**	69,997	-0.9%
Concession revenue per patron	**$ 4.34**	$ 4.26	1.9%	**$ 4.27**	$ 4.12	3.6%
Same store concession revenues	**$ 65,849**	$ 71,946	-8.5%	**$ 288,058**	$ 285,208	1.0%
Same store attendance	**15,202**	16,885	-10.0%	**67,610**	69,295	-2.4%

Concession Revenues Continuity	Fourth Quarter		Full Year	
(expressed in thousands of Canadian dollars)	Concession	Attendance	Concession	Attendance
2009 as reported	$ 72,909	17,096	$ 288,255	69,997
Same store attendance change	(7,172)	(1,683)	(6,937)	(1,685)
Impact of same store CPP change	1,075	-	9,786	-
New and acquired theatres	1,728	370	5,805	1,324
Disposed and closed theatres	(158)	(40)	(948)	(275)
2010 as reported	$ 68,382	15,743	$ 295,961	69,361

Fourth Quarter

Concession revenues decreased 6.2% as compared to the prior year quarter, due to the 7.9% decrease in attendance, partially offset by the 1.9% increase in CPP. CPP increased from $4.26 in the fourth quarter of 2009 to $4.34 in the fourth quarter of 2010.

Full Year

Concession revenues increased 2.7% as compared to the prior year period, due to the 3.6% increase in CPP, partially offset by the 0.9% decrease in attendance. CPP increased from $4.12 in 2009 to $4.27 in 2010, representing the highest annual CPP the Fund has recorded in its history.

Cineplex believes that revised concession offerings, as well as process improvements designed to increase speed of service contributed to the period-over-period CPP increases, as well as nominal concession price increases introduced in May 2010. While the 10% SCENE discount and the reduced price concession offering included in the Tuesday program introduced in September 2009 both had a negative impact on CPP, Cineplex believes that these programs drive incremental visits and concession purchases, resulting in higher overall concession revenues.

OTHER REVENUES

The following table highlights the movement in media, games and other revenues for the quarter and the year (expressed in thousands of Canadian dollars):

Other Revenues	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Media	**$ 25,159**	$ 23,081	9.0%	**$ 82,264**	$ 66,773	23.2%
Games	**1,218**	1,193	2.1%	**4,862**	4,832	0.6%
Other	**7,684**	6,417	19.7%	**26,598**	23,374	13.8%
Total	**$ 34,061**	$ 30,691	11.0%	**$ 113,724**	$ 94,979	19.7%

Fourth Quarter

Other revenues increased 11.0% from $30.7 million in the fourth quarter of 2009 to $34.1 million in the fourth quarter of 2010. Media revenues for the fourth quarter of 2010 were $25.2 million, up $2.1 million, or 9.0%, from the prior year period. The increase is primarily due to higher CDM revenue, which increased $1.9 million period over period, and increased full-motion and digital pre-show advertising sales, up $1.8 million period over period. These increases were offset by a $1.4 million decrease in non-cash barter revenue in the 2010 period compared to 2009. CDM results in the fourth quarter of 2010 includes the operations of DDC, which was acquired in July 2010 and therefore not included in the prior year comparative. The increase in Other is primarily due to higher breakage revenues associated with increased sales of gift cards and coupons. The Games revenue increase is due in part to the addition of the Fund's second XSCAPE entertainment centre at the SilverCity CrossIron Mills Cinemas in Calgary, Alberta, which opened on June 30, 2010.

Full Year

Other revenues increased 19.7% from $95.0 million in 2009 to $113.7 million in 2010. This represents the first time the Fund's annual other revenues have exceeded $100 million. Media revenues for 2010 were $82.3 million, up $15.5 million, or 23.2%, from the prior year. This increase was primarily due to increased spending by the automotive and telecommunications sectors during 2010 compared to the prior year, as advertisers returned to the screens starting in the fourth quarter of 2009 after the reduction in full motion and digital pre-show advertising during the first three quarters of 2009 due to the challenging economic environment. CDM revenues increased $4.4 million during the year, which contributed 28.7% of the media increase. The acquisition of DDC in July 2010 contributed to this increase. The increase in the other category is primarily due to higher breakage revenues associated with increased sales of gift cards and coupons.

FILM COST

The following table highlights the movement in film cost and film cost as a percentage of box office revenue ("film cost percentage") for the quarter and the year (expressed in thousands of Canadian dollars, except film cost percentage):

Film Cost	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Film cost	**$ 71,388**	$ 75,759	-5.8%	**$ 318,495**	$ 305,095	4.4%
Film cost percentage	**51.6%**	52.8%	-2.3%	**53.0%**	52.5%	1.0%

Fourth Quarter

Film cost varies primarily with box office revenue, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The decrease in 2010 compared to the prior year period was due to the decrease in attendance and the impact of the 2.3% decrease in film cost.

Full Year

The increase in film cost in 2010 compared to 2009 was due to the 3.4% increase in box office revenues and the 1.0% increase in film cost percentage during the year. The increase in film cost percentage as compared to the prior year period is primarily due to the settlement rate on certain strong performing titles during the first and second quarters of 2010 being higher than the average film settlement rate.

COST OF CONCESSIONS

The following table highlights the movement in concession cost and concession cost as a percentage of concession revenues ("concession cost percentage") for the quarter and the year (expressed in thousands of Canadian dollars, except concession cost percentage and concession margin per patron):

Cost of Concessions	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Concession cost	**$ 14,121**	$ 14,654	-3.6%	**$ 62,504**	$ 59,267	5.5%
Concession cost percentage	**20.7%**	20.1%	3.0%	**21.1%**	20.6%	2.4%
Concession margin per patron	**$ 3.45**	$ 3.41	1.2%	**$ 3.37**	$ 3.27	3.1%

Fourth Quarter

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The decrease in concession cost as compared to the prior year period was due to the 6.2% decrease in concession revenues, partially offset by the 3.0% increase in concession cost percentage. The concession margin per patron increased from $3.41 in the fourth quarter of 2009 to $3.45 in the same period in 2010, reflecting the impact of the higher CPP during the period.

Full Year

The increase in concession cost period over period was due to the 2.7% increase in concession revenues and the 2.4% increase in the concession cost percentage. Concession margin per patron increased 3.1%, from $3.27 in 2009 to $3.37 in 2010, representing an annual record for the Fund.

The increase in the concession cost percentage in each period was primarily due to the continued growth of the SCENE loyalty program and the associated 10% discount on concession products. The concession cost percentage was also negatively impacted by the reduced price Tuesday program, which is included in the 2010 results but not in the January to August 2009 results as the program was launched in September 2009.

OCCUPANCY EXPENSES

The following table highlights the movement in occupancy expenses for the quarter and the year (expressed in thousands of Canadian dollars):

Occupancy Expense	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Rent	**$ 27,350**	$ 26,465	3.3%	**$ 109,494**	$ 106,143	3.2%
Other occupancy	**12,834**	12,281	4.5%	**53,813**	52,331	2.8%
Non-recurring lease guarantee payment	**-**	1,463	NM	**-**	1,463	NM
Non-recurring legal contingency	**-**	720	NM	**-**	1,407	-100.0%
One-time items	**(482)**	(174)	177.0%	**(1,819)**	(2,417)	-24.7%
Total	**$ 39,702**	$ 40,755	-2.6%	**$ 161,488**	$ 158,927	1.6%

Occupancy Continuity	Fourth Quarter	Full Year
(expressed in thousands of Canadian dollars)	Occupancy	Occupancy
2009 as reported	$ 40,755	$ 158,927
Impact of new theatres	1,140	4,587
Impact of disposed theatres	(85)	(555)
Same store rent change	34	709
Non-recurring items	(2,491)	(2,272)
Other	349	92
2010 as reported	$ 39,702	$ 161,488

Fourth Quarter

Occupancy expense decreased $1.1 million during the fourth quarter of 2010 compared to the prior year period. During the fourth quarter of 2009, the Fund recorded a non-recurring net occupancy expense of $1.5 million relating to lease guarantees triggered by landlords for theatres sold by the Partnership in 2006 (see Section 7.5, Future Obligations). Also during the fourth quarter of 2009, the Fund increased its reserve for certain liabilities incurred by Famous Players prior to the Partnership's acquisition of Famous Players in 2005 by $0.7 million. The $1.1 million decrease from the fourth quarter of 2009 to the fourth quarter of 2010 was due to these $2.2 million non-recurring charges, partially offset by $1.1 million due to the impact of new theatres.

Full Year

Occupancy expense increased $2.6 million during 2010 compared to the prior year. The increase is primarily due to the net impact of new and disposed theatres ($4.0 million) and higher same-store rent expenses ($0.7 million), partially offset by the $2.3 million impact of non-recurring items, which include the 2009 non-recurring expenses described above ($1.5 million relating to the lease guarantees and $1.4 million relating to the pre-acquisition liabilities) net of other non-recurring lease-related amounts.

OTHER OPERATING EXPENSES

The following table highlights the movement in other operating expenses during the quarter and the year (expressed in thousands of Canadian dollars):

Other Operating Expenses	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Other operating expenses	**$ 62,555**	$ 62,812	-0.4%	**$ 239,938**	$ 228,129	5.2%

Other Operating Continuity	Fourth Quarter	Full Year
(expressed in thousands of Canadian dollars)	Other Operating	Other Operating
2009 as reported	$ 62,812	$ 228,129
Impact of new theatres	1,453	4,624
Impact of disposed theatres	(236)	(1,179)
Same store payroll change	291	2,228
Marketing change	(933)	(635)
New business initiatives	1,466	4,004
Other	(2,298)	2,767
2010 as reported	$ 62,555	$ 239,938

Fourth Quarter

Other operating expenses decreased $0.3 million during the fourth quarter of 2010 compared to the prior year period primarily as a result of lower business volumes in 2010. Total theatre payroll accounted for 43.9% of the total expenses in other operating expenses during the fourth quarter of 2010, as compared to 42.1% for the same period one year earlier. Payroll expenses were marginally higher in the fourth quarter of 2010 compared to the prior year period due to minimum wage increases.

The $2.3 million decrease in Other is primarily due to lower theatre operating costs due to the lower business volumes during the fourth quarter of 2010 compared to the prior year period.

Full Year

Other operating expenses increased $11.8 million during 2010 compared to the prior year. This increase was primarily due to higher spending on new business initiatives ($4.0 million, includes spending on CDM, the www.cineplex.com website and the Cineplex Store), the net impact of new and disposed theatres ($3.4 million) and higher same-store payroll costs ($2.2 million). Total theatre payroll accounted for 45.1% of the total expenses in other operating expenses during 2010, as compared to 45.6% for the prior year.

The $2.8 million increase in Other includes technology enhancements and expanded service offerings including the cost of online ticketing and 3D technology licensing payments ($1.4 million) and increased costs relating to the higher business volumes during the year ($1.4 million).

GENERAL AND ADMINISTRATIVE EXPENSES

The following table highlights the movement in general and administrative ("G&A") expenses during the quarter and the year, including the LTIP and Option Plan costs, and G&A net of these costs (expressed in thousands of Canadian dollars):

G&A Expenses	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
G&A excluding LTIP, Option Plan expense and pension settlement	**$ 10,457**	$ 9,816	6.5%	**$ 39,975**	$ 37,364	7.0%
LTIP	**2,161**	1,991	8.5%	**9,986**	9,059	10.2%
Option plan	**3,279**	3,282	-0.1%	**9,119**	4,220	116.1%
Pension plan settlement	**-**	-	NM	**-**	2,360	-100.0%
G&A expenses as reported	**$ 15,897**	$ 15,089	5.4%	**$ 59,080**	$ 53,003	11.5%

Fourth Quarter

General and administrative costs increased $0.8 million during the fourth quarter of 2010 compared to the same period in the prior year. This increase was primarily due to a $1.0 million increase in professional fees relating to the Fund's conversion to international financial reporting standards ("IFRS", see Section 13.1, Future Changes in Accounting Policy) and the Fund's conversion to a corporation (see Section 16, Subsequent Events), both of which were effective January 1, 2011.

Full Year

General and administrative costs increased $6.1 million primarily as a result of increased costs under the Option Plan ($4.9 million) and the Fund's LTIP program ($0.9 million). The Fund's closing unit price at December 31, 2010 was $22.41, as compared to $18.33 at December 31, 2009. The increased unit price resulted in the increased Option Plan expense during the period. Higher head office payroll costs ($1.0 million) also contributed to the increased G&A costs. These increases were offset by the one-time settlement loss of $2.4 million relating to the retirement plan for salaried employees of Famous Players that was recorded in the third quarter of 2009.

AMORTIZATION

The following table highlights the movement in amortization expenses during the quarter and the year (expressed in thousands of Canadian dollars):

Amortization Expenses	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Amortization of property, equipment and leaseholds	**$ 16,759**	$ 16,592	1.0%	**$ 70,891**	$ 66,385	6.8%
Amortization of intangible assets and other	**2,582**	3,475	-25.7%	**11,105**	14,018	-20.8%
Amortization expenses as reported	**$ 19,341**	$ 20,067	-3.6%	**$ 81,996**	$ 80,403	2.0%

Fourth Quarter

Amortization expenses decreased $0.7 million during the fourth quarter of 2010 compared to the prior year period, comprised of a $0.9 million decrease in the amortization of intangible assets and other, partially offset by a $0.2 million decrease in the amortization of property, equipment and leaseholds. Amortization of intangible assets and other decreased $0.9 million due to certain intangible assets becoming fully amortized during the second quarter of 2010.

Full Year

Amortization expenses increased $1.6 million during 2010 compared to the prior year. Amortization of property, equipment and leaseholds increased by $4.5 million. During the third quarter of 2010, the Fund assessed the recoverability of certain of its theatre assets and determined that those theatres had estimated future cash flows that are not expected to be sufficient to recover the carrying value of the theatre assets. The carrying value of the assets in those theatres was written down to the estimated fair value, as determined by a third-party valuation. The Fund recorded an impairment charge of $3.9 million in amortization of property, equipment and leaseholds in the third quarter of 2010. The remaining increase of $0.6 million relates to increased amortization relating to new theatre openings and acquisitions net of other movement. Amortization of intangible assets and other decreased $2.9 million due to certain intangible assets becoming fully amortized during the second quarter of 2010.

LOSS ON DISPOSAL OF ASSETS

The loss on disposal of assets represents the loss on assets that were sold or otherwise disposed of (expressed in thousands of Canadian dollars):

Loss on Disposal of Assets	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Loss on disposal of assets	**$ 502**	$ 2,758	-81.8%	**$ 268**	$ 2,566	-89.6%

Fourth Quarter

The $0.5 million loss on disposal of assets recorded by the Fund in the fourth quarter of 2010 relates to assets that were sold or otherwise disposed of. The $2.8 million loss recorded in the fourth quarter of 2009 primarily relates to the sale of an operating theatre property for redevelopment.

Full Year

The Fund recorded a loss on the disposal of assets of $0.3 million in 2010, relates to assets that were sold or otherwise disposed of. The Fund recorded a loss of $2.6 million for 2009 representing the losses recorded in the fourth quarter offset by gains recorded on asset disposals during the first three quarters of 2009.

INTEREST AND ACCRETION EXPENSE ON CONVERTIBLE DEBENTURES

The following table highlights the movement in interest and accretion expense on the Fund's convertible debentures for the quarter and the full year (expressed in thousands of Canadian dollars):

Interest and Accretion Expense on Convertible Debentures	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Convertible debenture interest expense	**$ 1,496**	$ 1,544	-3.1%	**$ 6,205**	$ 6,300	-1.5%
Convertible debenture accretion expense	**329**	307	7.2%	**$ 1,224**	$ 1,147	7%
Total interest and accretion expense on convertible debentures	**$ 1,825**	$ 1,851	-1.4%	**$ 7,429**	$ 7,447	-0.2%

The decrease in convertible debenture interest expense in the fourth quarter and the full year in 2010 compared to the prior year periods is due to the lower convertible debenture principal balance outstanding. At December 31, 2010, the principal balance of convertible debentures outstanding is $99.7 million (2009 – $105.0 million). See Section 9, Fund Units Outstanding, for more details on the Fund's convertible debentures.

INTEREST ON LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

The following table highlights the movement in interest on long-term debt and capital lease obligations during the quarter and the year (expressed in thousands of Canadian dollars):

Interest on Long-term Debt and Capital Lease Obligations	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Long-term debt interest expense	**$ 3,319**	$ 3,314	0.2%	**$ 13,096**	$ 12,991	0.8%
Capital lease interest expense	**575**	610	-5.7%	**2,353**	2,487	-5.4%
Sub-total – cash interest expense	**3,894**	3,924	-0.8%	**15,449**	15,478	-0.2%
Deferred financing fee amortization	**151**	151	0.0%	**598**	599	-0.2%
Interest rate swap – non-cash	**(139)**	(277)	-49.8%	**(707)**	(148)	377.7%
Sub-total – non-cash interest expense	**12**	(126)	NM	**(109)**	451	NM
Total interest expense	**$ 3,906**	$ 3,798	2.8%	**$ 15,340**	$ 15,929	-3.7%

Interest on long-term debt and capital lease obligations was $3.9 million for the fourth quarter of 2010, compared to $3.8 million for the prior year period. The increase was due to the impact of the non-cash interest expense relating to the Fund's interest rate swap agreements. For 2010, interest on long-term debt and capital lease obligations was $15.3 million, $0.6 million lower than the prior year. This decrease was due to the impact of the non-cash interest expense relating to the Fund's interest rate swap agreements.

INTEREST INCOME

The increase in interest income in the fourth quarter and the full year of 2010 as compared to the prior year periods is due primarily to a larger balance of cash and cash equivalents invested during the majority of the 2010 periods as well as higher interest rates (expressed in thousands of Canadian dollars):

Interest Income	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Interest income	**$ 195**	$ 69	182.6%	**$ 534**	$ 330	61.8%

INCOME TAXES

For the fourth quarter of 2010, the Fund recorded a current income tax expense of $27 thousand and a future income tax expense of $0.8 million (2009 – $nil and $0.2 million, respectively). For 2010, the Fund recorded current income tax expense of $32 thousand and a future income tax expense of $1.6 million (2009 – $7 thousand and $1.1 million, respectively) (expressed in thousands of Canadian dollars):

Income Taxes	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Current income tax expense (recovery)	**$ 27**	$ –	NM	**$ 32**	$ 7	357.1%
Future income tax expense	**$ 848**	$ 223	280.3%	**$ 1,611**	$ 1,098	46.7%

EXTRAORDINARY GAIN

The Fund did not recognize an extraordinary gain during 2010. The Fund recognized an extraordinary gain of $1.1 million during the year ended December 31, 2009 relating to the excess of the net assets acquired over the purchase price paid for the acquisition of Onsite Media Network Inc., which is included in CDM (expressed in thousands of Canadian dollars):

Extraordinary Gain	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Extraordinary gain	**$ -**	$ -	NM	**$ -**	$ 1,059	NM

NON-CONTROLLING INTERESTS

Non-controlling interests for the fourth quarter and the full years of 2010 and 2009 represent the share of the Partnership's operating results that were not controlled by the Fund (expressed in thousands of Canadian dollars):

Non-controlling Interests	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Non-controlling interests	**$ 25**	$ 23	8.7%	**$ 179**	$ 420	-57.4%

NET INCOME

Net income for the fourth quarter of 2010 increased from $9.5 million for the fourth quarter of 2009 to $10.9 million. For 2010, net income increased from $53.4 million for 2009 to $63.0 million. These changes were due to the net effect of all the other factors described previously (expressed in thousands of Canadian dollars):

Net Income	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Net income	**$ 10,852**	$ 9,450	14.8%	**$ 62,956**	$ 53,446	17.8%

5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (SEE SECTION 18, NON-GAAP MEASURES)

The following table represents the Fund's EBITDA and adjusted EBITDA for the fourth quarter and full year for 2010 as compared to the prior year periods (expressed in thousands of Canadian dollars, except adjusted EBITDA margin):

	Fourth Quarter			Full Year		
EBITDA	**2010**	2009	Change	**2010**	2009	Change
EBITDA	**$ 36,604**	$ 35,320	3.6%	**$ 168,830**	$ 158,000	6.9%
Adjusted EBITDA	**$ 37,131**	$ 38,101	-2.5%	**$ 169,277**	$ 159,927	5.8%
Adjusted EBITDA margin	**15.4%**	15.4%	0.0%	**16.7%**	16.6%	0.1%

Adjusted EBITDA for the fourth quarter of 2010 decreased $1.0 million, or 2.5%, as compared to the fourth quarter of 2009. The decrease is primarily due to the lower attendance during the quarter resulting in lower box office and concession revenues, partially offset by media revenue growth as a result of the improved economic climate as well as the growing contribution of CDM. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 15.4% for both periods.

Adjusted EBITDA for 2010 increased $9.4 million, or 5.8%, as compared to the prior year. Adjusted EBITDA margin was 16.7%, up from 16.6% in the prior year. The increase is primarily due to the higher revenues, specifically the higher media revenues as a result of increased advertising spending due to the improved economic climate 2010 compared to 2009.

6 BALANCE SHEETS

The following sets out significant changes to the Fund's consolidated balance sheets during the year ended December 31, 2010 (expressed in thousands of Canadian dollars):

	December 31, 2010	December 31, 2009	Change ($)	Change (%)
ASSETS				
Current Assets				
Cash and cash equivalents	**$ 87,111**	$ 95,791	$ (8,680)	-9.1%
Accounts receivable	**59,111**	54,892	4,219	7.7%
Inventories	**3,778**	4,260	(482)	-11.3%
Prepaid expenses and other current assets	**3,854**	4,310	(456)	-10.6%
	153,854	159,253	(5,399)	-3.4%
Property, equipment and leaseholds	**415,951**	428,253	(12,302)	-2.9%
Future income taxes	**19,435**	20,221	(786)	-3.9%
Deferred charges	**688**	820	(132)	-16.1%
Intangible assets	**92,705**	103,674	(10,969)	-10.6%
Goodwill	**609,035**	600,564	8,471	1.4%
	$ 1,291,668	$ 1,312,785	$ (21,117)	-1.6%
LIABILITIES				
Current Liabilities				
Accounts payable and accrued expenses	**$ 101,454**	$ 109,900	$ (8,446)	-7.7%
Distributions payable	**-**	6,001	(6,001)	-100.0%
Income taxes payable	**50**	34	16	47.1%
Deferred revenue	**95,571**	85,501	10,070	11.8%
Capital lease obligations - current portion	**2,242**	2,004	238	11.9%
Fair value of interest rate swap agreements	**5,482**	6,881	(1,399)	-20.3%
	204,799	210,321	(5,522)	-2.6%
Long-term debt	**233,875**	233,459	416	0.2%
Fair value of interest rate swap agreements	**3,298**	5,382	(2,084)	-38.7%
Capital lease obligations - long-term portion	**28,885**	31,127	(2,242)	-7.2%
Accrued pension benefit liability	**2,452**	2,012	440	21.9%
Other liabilities	**107,350**	114,941	(7,591)	-6.6%
Convertible debentures - liability component	**96,953**	100,982	(4,029)	-4.0%
	677,612	698,224	(20,612)	-3.0%
Non-controlling interests	**1,790**	2,669	(879)	-32.9%
Unitholders' equity	**612,266**	611,892	374	0.1%
	$ 1,291,668	$ 1,312,785	$ (21,117)	-1.6%

Accounts receivable. The increase in accounts receivable is primarily due to higher sales of gift cards and coupons during the 2010 holiday period compared to the prior year, as well as higher media sales during the period. December represents the highest volume month for gift card and coupon sales and is one of the highest volume months for media sales.

Property, equipment and leaseholds. The decrease in property, equipment and leaseholds is due to amortization expenses ($70.9 million) and asset dispositions ($2.7 million) offset by new build and other capital expenditures ($44.1 million), maintenance capital expenditures ($15.2 million) and assets acquired through business acquisitions ($2.0 million).

Intangible assets. The decrease in intangible assets is due to amortization.

Goodwill. The increase in goodwill relates to the Fund's acquisition of DDC and the theatres acquired during 2010. See Section 1.3, Business Acquisitions and Dispositions, for more details.

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses relates to lower business volumes in the fourth quarter of 2010 compared to the prior year period, and a change in timing of certain supplier payments in 2010 as compared to 2009.

Distributions payable. The Fund had no distribution payable at December 31, 2010 as the December distribution was paid during December prior to the conversion to a corporation and related dissolution of the Fund, resulting in thirteen distributions paid in 2010 compared to twelve in 2009.

Deferred revenue. Deferred revenue increased primarily due to increased sales of gift cards and coupons sold during the 2010 holiday season as compared to the same period in 2009.

Fair value of interest rate swap agreements. The decrease in the short-term and long-term portions of the fair value of interest rate swap agreements relates primarily to the four swap settlements during 2010. The remaining liability reflects the fair value of the future settlements. The agreements expire in July 2012.

Other liabilities. Other liabilities decreased due to the conversion of a variable rent component of a theatre lease to fixed rent terms ($8.6 million). This decrease was partially offset by increases in non-cash occupancy liabilities relating to new theatre openings.

Convertible debentures – liability component. The decrease in the liability reflects debenture conversions for Fund units during 2010 ($5.3 million), partially offset by liability accretion ($1.2 million). See Section 9, Fund Units Outstanding, for more information on the convertible debentures.

7 LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from the sale of admission tickets, concession sales and other revenues. Generally, this provides Cineplex 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. The following table highlights the movements in cash flows from operating activities for the fourth quarter and full year for both 2010 and 2009 (expressed in thousands of Canadian dollars):

Cash Flows from Operating Activities	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Net income	**$ 10,852**	$ 9,450	$ 1,402	**$ 62,956**	$ 53,446	$ 9,510
Adjustments to reconcile net income to net cash provided by operating activities:						
Non-cash amortization amounts[i]	**18,656**	19,682	(1,026)	**79,519**	79,835	(316)
Loss on disposal of assets	**502**	2,758	(2,256)	**268**	2,566	(2,298)
Future income taxes	**848**	223	625	**1,611**	1,098	513
Cash flow hedges – non-cash interest	**(139)**	(277)	138	**(707)**	(148)	(559)
Extraordinary gain	**–**	–	–	**–**	(1,059)	1,059
Non-controlling interests	**25**	23	2	**179**	420	(241)
Accretion of convertible debentures	**329**	307	22	**1,224**	1,147	77
Tenant inducements	**262**	2,938	(2,676)	**2,489**	9,990	(7,501)
Changes in operating assets and liabilities	**29,076**	53,602	(24,526)	**(236)**	31,568	(31,804)
Cash provided by operating activities	**$ 60,411**	$ 88,706	$ (28,295)	**$ 147,303**	$ 178,863	$ (31,560)

(i) Includes amortization of property, equipment and leaseholds, deferred charges and other intangibles, amortization of tenant inducements and rent averaging liabilities, and amortization of debt issuance costs.

The $28.3 and $31.6 million decreases in cash provided by operating activities in the fourth quarter and full year of 2010 compared to the prior year periods were primarily due to the decreases in changes in operating assets and liabilities. These decreases were due to balance sheet decreases in accounts payable and accrued liabilities and other liabilities during the periods. The decrease in other liabilities includes the one-time payment due to the conversion of a variable rent component of a theatre lease to fixed rent terms discussed in Section 6, Balance Sheets.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash flows used in investing activities for the fourth quarter and full year for both 2010 and 2009 (expressed in thousands of Canadian dollars):

Cash Flows Used in Investing Activities	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Proceeds from sale of assets	**$ 34**	$ 39	$ (5)	**$ 2,247**	$ 535	$ 1,712
Purchases of property, equipment and leaseholds	**(18,823)**	(10,353)	(8,470)	**(57,112)**	(44,025)	(13,087)
Cash acquired in exchanges of LP Units	**–**	–	–	**–**	639	(639)
Acquisition of businesses	**(6,494)**	–	(6,494)	**(11,358)**	(1,933)	(9,425)
Cash used in investing activities	**$ (25,283)**	$ (10,314)	$ (14,969)	**$ (66,223)**	$ (44,784)	$ (21,439)

The increase in cash used in investing activities during the fourth quarter of 2010 compared to the prior year period is due to an $8.5 million increase in capital expenditures and a $6.5 million increase in cash spent on business acquisitions. For 2010, the $21.4 million increase in cash used in investing activities was due primarily to the $13.1 million increase in capital spending and the $9.4 million increase in cash spent on business acquisitions. Capital expenditures in 2010 are higher than 2009 primarily due to two theatres opened in 2010 compared to only one in 2009, as well as higher spending on digital projector equipment. Capital expenditures during 2010 include $14.6 million relating to the purchase of digital projector equipment, compared to $8.3 million in 2009. These assets will be contributed into a third-party integrator financing structure and will be reimbursed over the period that the structure is in place. As of December 31, 2010, the Fund has spent $28.3 million on digital equipment.

Cineplex funds maintenance capital expenditures through internally generated cash flow and cash on hand. Cineplex's Revolving Facility (discussed in Section 7.4, Credit Facilities) is available to fund new theatre capital expenditures.

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash flows from operating activities for the fourth quarter and full year for both 2010 and 2009 (expressed in thousands of Canadian dollars):

Cash Flows Used in Financing Activities	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Distributions paid[i]	**$ (24,088)**	$ (18,002)	$ (6,086)	**$ (78,136)**	$ (72,010)	$ (6,126)
Borrowings under credit facility	**30,000**	5,000	25,000	**67,000**	35,000	32,000
Repayment of credit facility	**(30,000)**	(5,000)	(25,000)	**(67,000)**	(35,000)	(32,000)
Payments under capital leases	**(520)**	(437)	(83)	**(2,004)**	(1,700)	(304)
Acquisition of LTIP Fund Units	**–**	–	–	**(9,620)**	(9,163)	(467)
Cash used in financing activities	**$ (24,608)**	$ (18,439)	$ (6,169)	**$ (89,760)**	$ (82,873)	$ (6,897)

(i) Includes distributions paid to Fund unitholders and distributions paid by the Partnership to the Fund's non-controlling interests.

The $6.2 and $6.9 million increases in cash used in financing activities for the fourth quarter and full year of 2010 compared to the prior year periods was primarily due to the December 2010 distribution being paid during December prior to the dissolution of the Fund, resulting in one extra distribution payment in the fourth quarter and annual 2010 expenditures.

Cineplex 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 Third Amended Credit Facilities as described in Section 7.4, Credit Facilities.

7.4 CREDIT FACILITIES

The Fund's credit facilities were available through the Partnership's credit agreement with a syndicate of lenders (collectively, the "Second Amended Credit Facilities"). During 2010, the Fund borrowed and repaid $67.0 million under the Second Amended Credit Facilities (2009 – $35.0 million). At December 31, 2010 and 2009, the Fund had no amounts outstanding under the Revolving Facility and $235.0 million outstanding under the Term Facility.

During December 2010, Cineplex entered into an amended and restated credit agreement (the "Third Amended Credit Facilities") effective January 1, 2011, the same date as the conversion to a corporation structure, reflecting the changes in the Fund's corporate structure. The terms of the Third Amended Credit Facilities are otherwise substantially similar to those contained in the Second Amended Credit Facilities. The Third Amended Credit Facilities consist of the following facilities (expressed in millions of Canadian dollars):

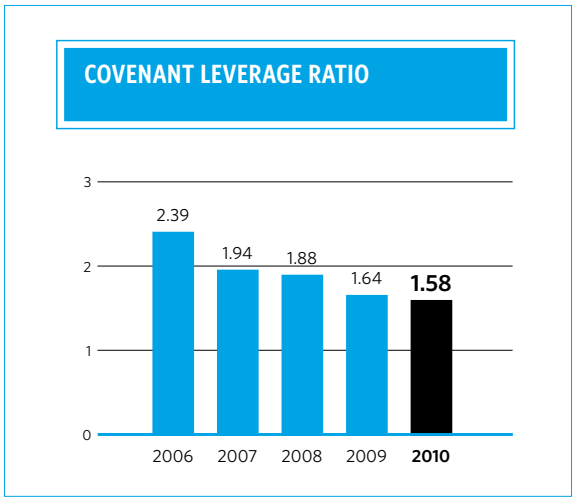
	Available	Drawn	Reserved[(i)]	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	$ 130.0	$ –	$ 1.4	$ 128.6
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	$ 235.0	$ 235.0	$ –	$ –

(i) Letters of credit outstanding at December 31, 2010 of $1.4 million reserved against the Revolving Facility.

The Third Amended Credit Facilities bear interest at a floating rate based on the Canadian dollar prime rate, or bankers' acceptances rates plus, in each case, an applicable margin to those rates. There are provisions to increase the Revolving Facility commitment amount by an additional $100.0 million with the consent of the lenders. The Term Facility matures in July 2012 and is payable in full at maturity, with no scheduled repayment of principal required prior to maturity.

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

One of the key financial covenants in the Third Amended Credit Facilities is the leverage covenant. As at December 31, 2010, the Partnership's leverage ratio as calculated in accordance with the Second Amended Credit Facility definition was 1.58x, as compared to a covenant of 3.00x. The definition of debt as per the credit facility includes long-term debt (excluding any convertible debentures), capital leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the credit facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions. See Section 19, Financial Statements of the Partnership, for the Partnership's financial statements as at December 31, 2010 and 2009.



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

Cineplex believes that the Third Amended Credit Facilities, in place until 2012, 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, Cineplex's needs may change and in such event Cineplex'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 Cineplex's control.

Interest rate swap agreements. Effective April 23, 2008, the Fund entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex pays a fixed rate of 3.97% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of three years that commenced in July 2009 and have an aggregate notional principal amount of $235.0 million. Based on the leverage ratio covenant at December 31, 2010, the Fund's effective cost of borrowing on the $235.0 million is 5.3% (2009 – 5.1%).

The purpose of the interest rate swap agreements was to act as a cash flow hedge of the floating interest rate payable under the Term Facility. The Fund considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with CICA Handbook Section 3865, *Hedges*. Under the provisions of CICA Handbook Section 3865, *Hedges*, the interest rate swap agreements are recorded on the balance sheet at their fair values, with subsequent changes in fair value recorded in either net income or other comprehensive income. The purpose of the interest rate swap agreements is the same under Cineplex's Third Amended Credit Facilities, and the agreements will continue to qualify for hedge accounting under IFRS in 2011.

7.5 FUTURE OBLIGATIONS

At December 31, 2010, the Fund had the following contractual or other commitments authorized by the Board of Directors of the General Partner of the Partnership (expressed in thousands of Canadian 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	$ –	$ –
Convertible debentures	99,742	–	99,742	–	–
Interest rate swap agreements	16,327	9,330	6,997	–	–
New theatre construction	72,038	33,590	38,448	–	–
Other theatre projects	12,653	12,653	–	–	–
Capital lease obligations	43,579	4,440	8,880	9,062	21,197
Operating lease obligations	1,218,858	112,037	220,939	210,973	674,909
Total contractual obligations	$ 1,698,197	$ 172,050	$ 610,006	$ 220,035	$ 696,106

Cineplex has aggregate gross capital commitments of $72.0 million ($56.3 million net of tenant inducements) related to the completion of construction of eight theatre properties to include an aggregate of 82 screens (including 18 VIP screens) over the next three years. In addition, Cineplex has gross commitments over the next year of $12.7 million for other theatre projects.

At December 31, 2010, the Fund had $99.7 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2012. At December 31, 2010, the liability component of the convertible debentures was recorded on the Fund's balance sheet at $97.0 million (December 31, 2009 – $101.0 million). The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. On redemption or at the December 31, 2012 maturity date, Cineplex 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 common shares of Cineplex ("Common Shares"). During the three months and full year ended December 31, 2010, debentures with a face value of $2.4 million and $5.3 million, respectively, were converted at the option of the holders for Fund Units (see Section 9, Fund Units Outstanding, for details).

Cineplex conducts a significant part of its operations in leased premises. Cineplex's leases generally provide for minimum rent and a number of the leases also include percentage rent based primarily upon sales volume. Cineplex'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 Fund and Famous Players sold 29 theatres to third parties, of which 24 were leased properties. Cineplex 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. At December 31, 2010, three of the disposed leased theatres have since closed, extinguishing Cineplex's obligations for these properties.

During the first quarter of 2006, the Fund also divested to a third party seven theatres, six of which were leased properties. The Fund was a guarantor under the six leases for the remainder of the lease term in the event that the purchaser of the theatres did not fulfill its obligations under the respective leases. During 2007, the Fund settled for $4.5 million a guarantee dispute regarding one theatre. In 2009, the Fund re purchased and assumed operations at one of the previously divested theatres, relieving the guarantee associated with that

particular theatre as of that date. During the fourth quarter of 2009, the Fund was advised by the landlords of the four remaining divested theatres of their intention to trigger the provisions of the lease guarantees. As a result, during 2009, the Fund recorded a provision for $1.8 million in occupancy expense. During 2010, the Fund reacquired the leases for two of the four theatres. A third party assumed operations of the third theatre. The fourth theatre was closed, and all outstanding obligations relating to the theatre were settled, extinguishing the Fund's future obligation for the property. During 2010, all outstanding liabilities for which the provision was recorded in 2009 were settled.

During 2006, the Fund entered into an agreement to divest its 49% share in the three remaining Alliance Atlantis branded theatres. Cineplex is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of Cineplex's share in the theatres does not fulfill its obligations under the respective lease. One of the disposed theatres closed during 2007, extinguishing the Fund's obligations for that property. The lease term for one of the theatres expired on December 31, 2010, extinguishing the Fund's guarantee for that property, leaving only one theatre for which Cineplex remains guarantor under the lease.

Cineplex guarantees certain advertising revenues based on attendance levels for a majority of the theatres disposed to third parties which are noted above.

No amounts have been provided in the consolidated financial statements for guarantees for which the Fund has not been notified of triggering events at December 31, 2010 in accordance with the transitional provisions for CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, the Fund 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, Cineplex could face a substantial financial burden.

8 DISTRIBUTABLE CASH AND DISTRIBUTIONS (SEE SECTION 18, NON-GAAP MEASURES)

8.1 DISTRIBUTABLE CASH

The Fund distributed cash to its unitholders on a monthly basis. The following table illustrates distributable cash per Fund Unit, distributions paid per Fund Unit, and the payout ratio of Fund distributions relative to distributable cash for the fourth quarter and the full year of 2010 compared to the prior year periods:

Distributable Cash	Fourth Quarter			Full Year		
	2010	2009	Change	**2010**	2009	Change
Distributable cash per Fund Unit	**$ 0.458**	$ 0.462	-0.9%	**$ 2.217**	$ 2.141	3.5%
Distributions paid per Fund Unit	**$ 0.315**	$ 0.315	0.0%	**$ 1.260**	$ 1.260	0.0%
Payout ratio	**68.8%**	68.2%	0.9%	**56.8%**	58.9%	-3.4%

Measures relevant to the discussion of distributable cash per Fund Unit are as follows (expressed in thousands of Canadian dollars except Fund Units outstanding, per unit data and payout ratios):

Distributable Cash	**Year ended December 31, 2010**	Year ended December 31, 2009	Year ended December 31, 2008
Fund cash flows from operations	**$ 147,303**	$ 178,863	$ 140,630
Fund net income	**$ 62,956**	$ 53,446	$ 29,003
Standardized distributable cash	**$ 90,191**	$ 134,838	$ 80,453
Distributable cash	**$ 126,876**	$ 122,377	$ 106,035
Distributable cash available to Fund unitholders	**$ 126,419**	$ 120,578	$ 80,494
Cash distributions declared	**$ 71,878**	$ 71,212	$ 53,799
Average number of Fund Units outstanding	**57,030,442**	56,310,507	43,384,657

(i) Distributable cash available to Fund unitholders represents distributable cash, less the share of distributable cash due to the non-controlling direct partners of the Partnership.

For 2010, standardized distributable cash decreased $44.6 million, from $134.8 million to $90.2 million. The decrease is due to the impact of the $31.6 million changes in operating assets and liabilities described in Section 7.1, Operating Activities, as well as the $13.1 million increase in capital expenditures. This increase in capital expenditures was due to $6.3 million higher spending on digital projectors, $2.7 million higher maintenance capital expenditures and $4.1 million increase in new build and other activity, primarily due to two new theatres opened in 2010 compared to one theatre opening and four refurbishments during 2009.

Distributable cash was $126.9 million for 2010 as compared to $122.4 million during the prior year. This $4.5 million increase was due to a $7.5 million decrease in tenant inducement receipts received during 2010 compared to 2009, which are included in standardized distributable cash but excluded from distributable cash, partially offset by a $2.7 million increase in maintenance capital expenditures during the year.

New build capital expenditures and other capital expenditures are financed using either cash generated from operations or the Revolving Facility. As at December 31, 2010, the Fund had spent $28.3 million ($14.6 during 2010, and $13.7 million in prior years) on digital projectors for its theatres that were not included in maintenance capital expenditures as these assets will be contributed into a third-party integrator financing structure, and will be reimbursed over the period that the structure is in place.

The Fund historically maintained a payout ratio lower than 100%, reflecting management's and the Board of Trustees' intention to provide cash returns to the Fund's unitholders while investing in future growth initiatives.

Following completion of the conversion, the Board of Directors of Cineplex adopted a monthly dividend policy of $0.105 per common share, commencing on February 28, 2011 for shareholders of record on January 31, 2011. Cineplex's dividend policy is subject to the discretion of the Board of Directors of Cineplex and may vary depending on, among other things, Cineplex's results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the Board of Directors may deem relevant. Cineplex hereby currently designates all dividends paid or deemed to be paid as "eligible dividends" for purposes of subsection 89(14) of the Income Tax Act (Canada), and similar provincial and territorial legislation, unless indicated otherwise. The Fund filed a management information circular dated November 1, 2010 that contains pro forma financial information for Cineplex. The management information circular can be found at www.sedar.com.

8.2 DISTRIBUTIONS

Fund distributions were made on a monthly basis to unitholders of record on the last business day of each month. For each of the years ended December 31, 2010 and 2009 the Fund declared distributions totalling $1.260 per Fund Unit. The Fund was entirely dependent on distributions from its subsidiaries, including 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 depended, in part, on the composition for tax purposes of the distributions paid by the Fund, portions of which may have been fully or partially taxable or may have constituted non-taxable returns of capital which were not included in a unitholder's income but which reduced the adjusted cost base of the Fund Units to the unitholder.

The composition for tax purposes of these distributions may have changed over time, thus affecting the after-tax return to such unitholders. The composition of distributions for tax purposes for each of the following years ended December 31 was as follows (expressed in thousands of Canadian dollars per Fund Unit):

		Taxable Income		Capital Gain		Return of Capital	
	Distributions Declared	Amount	Percent of Distribution	Amount	Percent of Distribution	Amount	Percent of Distribution
2009	$ 1.26000	$ 1.21248	96.2%	$ –	–	$ 0.04752	3.8%
2008	$ 1.24000	$ 1.17920	95.1%	$ –	–	$ 0.06080	4.9%
2007	$ 1.18320	$ 1.12356	95.0%	$ –	–	$ 0.05964	5.0%
2006	$ 1.14960	$ 1.07256	93.3%	$ –	–	$ 0.07704	6.7%
2005	$ 1.14960	$ 0.77328	67.3%	$ 0.19104	16.6%	$ 0.18528	16.1%
2004	$ 1.14960	$ 0.89852	78.2%	$ –	–	$ 0.25108	21.8%

At December 31, 2010, based on substantively enacted tax rates and the tax returns filed to December 2009, the Fund had tax pools of $581.3 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.

9 FUND UNITS OUTSTANDING

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):

	2010		2009	
	Number of Fund Units	**Amount**	Number of Fund Units	Amount
Opening balance – Beginning of year				
Fund Units	**56,901,057**	**$ 716,034**	43,414,217	$ 565,099
Convertible debentures – equity component	**–**	**8,546**	–	8,546
LTIP compensation obligation	**–**	**6,682**	–	3,249
LTIP Fund Units	**(559,145)**	**(8,405)**	(332,426)	(5,493)
	56,341,912	**$ 722,857**	43,081,791	$ 571,401
Transactions during the year				
Issuance of Fund Units under the Exchange Agreement	**77,795**	**833**	13,486,840	150,935
Issuance of Fund Units on conversion of debentures	**280,147**	**5,253**	–	–
LTIP compensation obligation, net of vested Fund Units	**–**	**935**	–	3,433
Purchase of LTIP Fund Units	**(493,410)**	**(9,620)**	(633,228)	(9,163)
Settlement of LTIP obligation through transfer of Fund Units to LTIP participants	**512,532**	**8,557**	406,509	6,251
	377,064	**5,958**	13,260,121	151,456
Closing balance – End of year				
Fund Units	**57,258,999**	**722,120**	56,901,057	716,034
Convertible debentures – equity component	**–**	**8,546**	–	8,546
LTIP compensation obligation	**–**	**7,617**	–	6,682
LTIP Fund Units	**(540,023)**	**(9,468)**	(559,145)	(8,405)
	56,718,976	**$ 728,815**	56,341,912	$ 722,857

During the year ended December 31, 2010, under the provisions of an exchange agreement (as amended or restated from time to time, the "Exchange Agreement") entered into at the time of the Fund's initial public offering designed to facilitate the exchange of LP Units into Fund Units, 77,795 Class B LP Units were exchanged for 77,795 Fund Units. As a result of these transactions, during the second quarter of 2010 the Fund indirectly increased its ownership in the Partnership to 99.7% excluding the unconverted Class C LP Units.

During the year ended December 31, 2010, convertible debentures issued by the Fund with a principal amount of $5.3 million were converted into 280,147 Fund Units. The convertible debentures bear interest at a rate of 6% per annum, pay interest semi-annually and are convertible at the option of the holder into Common Shares at $18.75 per Common Share.

During the year ended December 31, 2009, under terms of the Exchange Agreement, Onex exchanged its indirect interests in the Partnership for 11,985,818 Fund Units, and 1,501,022 Class B LP Units were exchanged for 1,501,022 Fund Units.

Prior to January 1, 2011, Class B LP Units of the Partnership were exchangeable for Fund Units on a one-for-one basis. The following Class B LP Units had not been exchanged for Fund Units at December 31:

Number of LP Units

	2010	2009
Class B, Series 1	**6,890**	6,890
Class B, Series 2-G	**164,945**	242,740
	171,835	249,630

Officers and key employees of the Partnership are eligible to participate in the Fund's LTIP. Pursuant to the LTIP, the Fund set aside a pool of funds based on the amount, if any, by which the Fund's distributable cash per Fund Unit, for the entire fiscal year, exceeded certain defined distributable cash threshold amounts. This pool of funds was transferred to a trustee, who used 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 Fund Units vest 30 days after the Fund's consolidated financial statements for the corresponding year were approved by its Board of Trustees, with an additional one-third vesting on the first and second anniversaries of that date. LTIP participants are entitled to receive distributions on all Fund Units held for their accounts prior to the applicable vesting date. Unvested Fund 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. On January 1, 2011, all Fund Units held pursuant to the LTIP were converted to Common Shares, all entitlements to Fund Units became entitlements to Common Shares and all entitlements to receive distributions on Fund Units became entitlements to dividends on Common Shares.

LTIP costs are estimated at the grant date based on expected performance results, 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. Subsequent to the Fund's conversion to a corporation, the LTIP plan design will be changed to a performance-share Common Share plan that vests three years from the grant date.

Cineplex has an incentive option plan (the "Option Plan") for certain of its employees. The aggregate number of Common Shares that may be issued under the plan is limited to 5.3 million. Options issued under the Option Plan vest at the rate of one-third on each of the three subsequent anniversaries of the grant date. All of the options must be exercised over specified periods not to exceed five years from the date granted (ten years for options issued after December 31, 2010). The options may be exercised in one of three ways, at the optionee's election: by purchasing from treasury the Common Shares for the exercise price; by surrendering the options and receiving cash equal to the difference between the current market price of the Common Shares on the date of surrender and the exercise price of the Common Shares underlying the options surrendered; or by surrendering the options and receiving the number of Common Shares from treasury computed by dividing the difference between the current market price of the Common Shares on the date of surrender and the exercise price for the Common Shares underlying the options surrendered by the market price at the date of surrender. Cineplex has the overriding right to substitute Common Shares issued from treasury where an optionee has elected cash.

On February 12, 2008, 1,250,000 options with an exercise price equal to the market price of $17.03 per Fund Unit were granted to 21 employees. On February 18, 2009, 1,250,000 options with an exercise price equal to the market price of $14.00 per Fund Unit were granted to 21 employees. The options vest one third on each of the successive anniversaries of the grant date and expire five years after the grant date if unexercised. Following the completion of the conversion on January 1, 2011, all options to acquire Fund Units became options to acquire Common Shares.

Cineplex anticipates that optionholders will exercise, and that the administrators of the option plan will settle the options for cash. The Fund, therefore, accounted for options issued under the plan as cash-settled liabilities. The options were recorded at fair value at each balance sheet date, based on the market price of Fund Units in excess of the exercise price, taking into account the options vested on a graded schedule. Forfeitures were recorded as they occurred.

A summary of option activities for the years ended December 31, 2010 and 2009 is as follows:

			2010		2009
	Weighted average remaining contractual life (years)	**Number of underlying Fund Units**	**Weighted average exercise price**	Number of underlying Fund Units	Weighted average exercise price
Fund Unit options outstanding – January 1	**3.63**	**2,475,001**	**$ 15.50**	1,250,000	$ 17.03
Granted		**–**	**–**	1,250,000	14.00
Cancelled		**(16,666)**	**15.21**	(5,000)	17.03
Exercised for cash		**(937,391)**	**16.07**	(19,999)	17.03
Fund Unit options outstanding – December 31	**2.75**	**1,520,944**	**$ 15.15**	2,475,001	$ 15.50

10 SEASONALITY AND QUARTERLY RESULTS

Historically, the Fund's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures were historically 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. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex has available for its use the Revolving Facility. As of December 31, 2010, 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, unless otherwise noted):

	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenues								
Box office revenues	**$ 138,351**	**$ 157,877**	**$ 144,542**	**$ 160,327**	$ 143,570	$ 155,884	$ 151,383	$ 130,277
Concession revenues	**68,382**	**80,068**	**72,613**	**74,898**	72,909	77,995	74,225	63,126
Other revenues	**34,061**	**31,075**	**26,588**	**22,000**	30,691	23,661	23,009	17,618
	240,794	**269,020**	**243,743**	**257,225**	247,170	257,540	248,617	211,021
Expenses								
Film cost	**71,388**	**81,323**	**78,408**	**87,376**	75,759	82,024	81,372	65,940
Cost of concessions	**14,121**	**16,399**	**15,066**	**16,918**	14,654	16,517	15,172	12,924
Occupancy expense	**39,702**	**40,355**	**40,638**	**40,793**	40,755	39,154	38,868	40,150
Other operating expenses	**62,555**	**61,355**	**56,518**	**59,510**	62,812	58,801	55,795	50,721
General and administrative	**15,897**	**14,394**	**11,492**	**17,297**	15,089	13,805	12,737	11,372
	203,663	**213,826**	**202,122**	**221,894**	209,069	210,301	203,944	181,107
Income before undernoted	**37,131**	**55,194**	**41,621**	**35,331**	38,101	47,239	44,673	29,914
Net income	**$ 10,852**	**$ 25,160**	**$ 17,401**	**$ 9,543**	$ 9,450	$ 20,401	$ 19,892	$ 3,703
Basic earnings per Fund Unit	**$ 0.19**	**$ 0.45**	**$ 0.31**	**$ 0.17**	$ 0.17	$ 0.36	$ 0.35	$ 0.07
Diluted earnings per Fund Unit[i]	**$ 0.18**	**$ 0.42**	**$ 0.25**	**$ 0.17**	$ 0.17	$ 0.36	$ 0.35	$ 0.07
Cash provided by operating activities	**60,411**	**39,929**	**25,362**	**21,601**	88,706	28,611	42,989	18,557
Cash used in investing activities	**(25,283)**	**(13,720)**	**(18,159)**	**(9,061)**	(10,314)	(10,476)	(11,845)	(12,149)
Cash used in financing activities	**(24,608)**	**(18,531)**	**(18,513)**	**(28,108)**	(18,439)	(18,431)	(18,424)	(27,579)
Net change in cash	**$ 10,520**	**$ 7,678**	**$ (11,310)**	**$ (15,568)**	$ 59,953	$ (296)	$ 12,720	$ (21,171)
Box office revenue per patron	**$ 8.79**	**$ 8.35**	**$ 8.67**	**$ 8.88**	$ 8.40	$ 8.30	$ 8.34	$ 8.16
Concession revenue per patron	**$ 4.34**	**$ 4.24**	**$ 4.36**	**$ 4.15**	$ 4.26	$ 4.15	$ 4.09	$ 3.95
Attendance (in thousands of patrons)	**15,743**	**18,906**	**16,667**	**18,045**	17,096	18,779	18,156	15,966
Theatre locations (at period end)	**131**	**129**	**131**	**130**	129	129	129	130
Theatre screens (at period end)	**1,362**	**1,342**	**1,353**	**1,347**	1,329	1,328	1,328	1,328

(i) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the third quarter of 2010 where conversion of the convertible debentures were dilutive.

SUMMARY OF DISTRIBUTABLE CASH BY QUARTER

Prior to the January 1, 2011 conversion to a corporation, the Fund calculated distributable cash per Fund Unit as follows (see Section 18, Non-GAAP Measures, for a discussion of distributable cash) (expressed in thousands of Canadian dollars except per unit data and number of Fund Units outstanding):

	2010				2009			
	Q4	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Cash provided by operating activities	**$ 60,411**	**$ 39,929**	**$ 25,362**	**$ 21,601**	$ 88,706	$ 28,611	$ 42,989	$ 18,557
Less: Total capital expenditures	**(18,823)**	**(14,711)**	**(13,167)**	**(10,411)**	(10,353)	(10,534)	(10,581)	(12,557)
Standardized distributable cash	**41,588**	**25,218**	**12,195**	**11,190**	78,353	18,077	32,408	6,000
Less:								
Changes in operating assets and liabilities	**(29,076)**	**10,317**	**10,786**	**8,209**	(53,602)	12,767	(1,114)	10,381
Tenant inducements	**(262)**	**(1,220)**	**(598)**	**(409)**	(2,938)	–	(2,492)	(4,560)
Principal component of capital lease obligations	**(520)**	**(504)**	**(495)**	**(485)**	(437)	(428)	(422)	(413)
Add:								
New build capital expenditures and other	**14,745**	**10,082**	**9,759**	**7,295**	5,220	8,037	7,697	10,542
Non-cash components in operating assets and liabilities	**(235)**	**(235)**	**(234)**	**(235)**	(180)	(180)	(172)	(167)
Distributable cash	**$ 26,240**	**$ 43,658**	**$ 31,413**	**$ 25,565**	$ 26,416	$ 38,273	$ 35,905	$ 21,783
Less: Non-controlling interests share	**(79)**	**(131)**	**(128)**	**(112)**	(115)	(167)	(381)	(870)
Distributable cash available to Fund unitholders	**$ 26,161**	**$ 43,527**	**$ 31,285**	**$ 25,453**	$ 26,301	$ 38,106	$ 35,524	$ 20,913
Average number of Fund Units outstanding	**57,182,396**	**57,060,387**	**56,974,020**	**56,901,546**	56,901,057	56,900,680	56,544,125	54,867,332
Distributable cash per Fund Unit	**$ 0.458**	**$ 0.763**	**$ 0.549**	**$ 0.447**	$ 0.462	$ 0.670	$ 0.628	$ 0.381

11 RELATED PARTY TRANSACTIONS

Cineplex performs certain management and film booking services for joint ventures in which it is a partner. During the year ended December 31, 2010, the Fund earned revenue in the amount of $0.4 million with respect to these services (2009 – $0.5 million). These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by related parties.

During the year ended December 31, 2009, investors related to the Fund exchanged Class B LP Units for Fund Units under the provisions of the Exchange Agreement (see Section 9, Fund Units Outstanding, for details), and for Common Shares immediately prior to the Fund's conversion to a corporate structure on January 1, 2011.

Cineplex may have transactions in the normal course of business with entities whose management, directors or trustees are also directors of Cineplex. Any such transactions are in the normal course of operations and are measured at market based exchange amounts. Unless otherwise noted, these transactions are not considered related party transactions for financial statement purposes.

12 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

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.

Cash Flows and Potential Asset Impairments, including Goodwill

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, 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. As at December 31, 2010 the Fund's market capitalization was in excess of the book value of its equity and the value of the Fund's goodwill. These factors, combined with the record results reported by the Fund in 2010, are consistent with management's determination that there was no goodwill or other intangible asset impairments during the year.

Unredeemed Gift Certificates and Loyalty Points – Revenue Recognition

Management monitors trends in redemption rates for each of the products sold for redemption including coupons, which can be redeemed for admission or concession items, and gift cards (collectively, "gift certificates"). The estimate of the value of the gift certificates that will not be redeemed ("breakage") affects the amount of revenue recognized in a period. On an annual basis, Cineplex adjusts breakage to reflect current estimates of breakage based on historical trends.

As the SCENE loyalty program commenced in 2007, Cineplex does not have an established redemption history and therefore no amounts have been recognized by the Fund for the estimated non-redemption of SCENE loyalty points.

Management assumes future redemptions will follow historical trends. If future redemptions are significantly lower than estimated, other revenues would increase with additional breakage. If future redemptions are significantly higher than historical trends, other revenues would decrease. All gift certificate redemptions have associated costs of sales or services, so to the extent redemptions are higher than estimated, film or other costs increase, resulting in lower net income.

Film Costs Accrued

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.

Asset Retirement Obligations

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.

Amounts Due under Lease Guarantees

Cineplex is guarantor under certain theatre leases for theatres sold during 2005 and 2006. From time to time, landlords have acted on these guarantees following default by the purchasers of certain theatres. Management estimates amounts due under lease guarantees based on the amount of rent in arrears, the length remaining on the lease, the relationship with the landlord, and the ability of the Fund to manage the property until the end of the lease.

13 ACCOUNTING POLICIES

13.1 FUTURE CHANGES IN ACCOUNTING POLICIES

Management of Cineplex 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, 2010:

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

In February 2008, the CICA confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. Cineplex has established a project team to manage the transition to IFRS and to ensure successful implementation within the required timeframe. On a quarterly basis, the Fund's Audit Committee has been updated on the progress of the conversion plan. As at December 31, 2010, the following progress has been made relating to Cineplex's IFRS conversion plan:

Key Activity	Milestones	Progress at December 31, 2010
Project Team and Project Management • Audit committee engagement. • Steering committee creation. • Technical review committee creation and training. • Engagement of external consultants.	Project team in place by end of 2008 and meeting plan in place for steering committee and audit committee communication.	• Project team assembled during Q2 2008, including engagement of professional services firm. • Steering committee meetings scheduled based on project outputs. • Audit committee meeting updates scheduled quarterly.
Accounting Policies and Procedures • Identification of differences between Canadian GAAP and IFRS applicable to the Fund. • Selection of the Fund's IFRS accounting policies. • Determination of IFRS 1 choices.	Complete diagnostic identifying major areas of difference by the end of 2008. Evaluate accounting policy options and develop IFRS accounting policy documents during 2009. Quantify differences and prepare opening balance sheet during 2010.	• IFRS diagnostic completed in Q4 2008. • Evaluation and analysis of IFRS policy choices ongoing – see table below for details on decisions that have been made and impacts on the financial statements as at December 31, 2010.
Financial Statement Preparation • Development of financial statement template under IFRS. • Ensure data required for enhanced note disclosures will be available.	Develop draft IFRS financial statements in conjunction with accounting policy choice selection in 2009. Ensure all required data is available and auditable during 2010.	• Financial statement templates developed during 2009. • Drafted shell financial statements and initial note disclosures during the second quarter of 2010 in order to perform an assessment of the accuracy and completeness of IFRS information captured to date. • Teams within the organization tasked with preparing the required reports for enhanced note disclosures.

Key Activity	Milestones	Progress at December 31, 2010
Information Technology Impacts • Ensure systems are in place to create and disseminate required information accurately and in a timely manner.	Upgrade the Fund's general ledger system to enable ability to run dual reporting during 2010.	• System upgrade completed during 2009. • Dual reporting enabled and initial data collection for IFRS has commenced. • Financial statement reports and supporting schedules were embedded in the general ledger system based on the shell financial statements drafted during the second quarter of 2010.
Business Impacts • Determine if employee incentive plans based on Canadian GAAP measures, which may differ under IFRS, require amendments. • Determine impact on budgeting functions for the 2011 transition year. • Determine any potential impact on the Partnership's bank covenants with change to IFRS.	Incentive plans to be reviewed for relevance following finalization of IFRS accounting policy choices. Budgeting for 2011 to consider IFRS impact once final accounting policies selected.	• Cineplex continues to review the impact of IFRS on its internal processes and agreements. • Cineplex entered the Third Amended Credit Facilities effective January 1, 2011, which allow for the calculation of its bank covenants under IFRS.
Internal Control over Financial Reporting Impacts • Evaluate process changes made in response to IFRS changes to determine impact on internal controls over financial reporting as well as disclosure controls and procedures.	For identified differences between IFRS and Canadian GAAP, assess and modify internal controls over financial reporting and disclosure controls, if required.	• Cineplex continues to review the impact of IFRS on its internal controls and procedures. • Risk Management department is reviewing process changes related to IFRS for compliance with internal controls over financial reporting.
Training and Communication • Ensure members of the project team receive adequate training and guidance. • Develop awareness of impacts of IFRS throughout the organization. • Provide communication of project status to external stakeholders in a timely manner.	Technical review committee members to participate in training courses as required. Internal training to be provided to personnel directly impacted by IFRS in their daily activities throughout implementation. Steering Committee meetings to be held regularly to update members on progress. Audit Committee meetings to be held at least quarterly to update members on progress. External updates to be provided quarterly.	• Professional services firm engaged since Q2 2008. • Key members of the project team have completed IFRS specific training courses. • Accounting personnel have been trained on the impact of IFRS, and are calculating and recording IFRS journal entries. • Steering committee meetings have occurred as required based on project progress. • Audit committee meetings have been held quarterly since the inception of the project. • Communication to external stakeholders ongoing through MD&A disclosures quarterly.

Based on the scoping and analysis phase of the project, it is expected that the implementation of the following International Accounting Standards ("IAS") and IFRS will most likely have the greatest potential impact on the Fund's financial statements in 2011:

Standard	Difference from existing GAAP	Potential Impact
IAS 1: Presentation of Financial Statements	IFRS requires significantly more disclosure than existing Canadian GAAP. In addition, classification and presentation may be different for some balance sheet and income statement items.	The Fund planned for additional disclosure through its general ledger upgrade, completed in 2009. IFRS financial statement templates and supporting schedules required for additional disclosure have been developed and embedded in the general ledger. Cineplex is finalizing the impact of the classification and presentation changes on its financial statements as accounting policy decisions are finalized.
IFRS 1: First-Time Adoption of IFRS	A number of mandatory and optional exemptions and elections are available upon first-time adoption of IFRS. For Cineplex, the material exemptions relate primarily to the restatement of prior business combinations, and accounting for costs of certain defined benefit pension plans.	While Cineplex has not fully analyzed and concluded on IFRS 1, the following elections have been made: Cineplex will not restate business combinations executed prior to January 1, 2010. Cineplex will disclose the IFRS impact of any business combinations executed in 2010. Cineplex will recognize all unamortized actuarial losses and prior service costs in equity at January 1, 2010. The decrease in equity and corresponding increase in the accrued pension liability will be approximately $1.4 million. Pension expense will be slightly lower in future periods for the amounts that otherwise would have been amortized over time.
	The most significant election for Cineplex will be whether to revalue (at fair value) any or all property, equipment and leasehold assets.	Cineplex has tentatively recorded certain property, equipment and leaseholds for a number of theatres at fair value effective January 1, 2010. The impact on the balance sheet is a net book value increase of $1.1 million. The impact on amortization expense relating to the fair value adjustments will not be material.

Standard	Difference from existing GAAP	Potential Impact
IAS 19: Employee Benefits	Under IFRS, the unit options issued in 2008 and 2009 will continue to be accounted for as cash-settled liabilities, but will be measured at fair value using an option pricing model rather than the intrinsic method under Canadian GAAP.	The fair value of the option liability will result in an increase of $0.2 million at January 1, 2010 with a corresponding decrease in equity.
	Under IFRS, forfeitures must be estimated; they may not be accounted for as they occur as was the practice under Canadian GAAP for the Fund.	Forfeitures have been estimated at 5% for the unit option plan, and this estimate is included in the fair value of the option liability at January 1, 2010.
IAS 16: Property, Plant and Equipment	IFRS allows the periodic revaluation of property, equipment and leaseholds.	Cineplex has elected not to periodically revalue its property, equipment and leaseholds.
	IFRS requires capitalization of interest over the corporate borrowing base, and has more specific guidance on capitalization and componentization of assets.	Cineplex will capitalize more interest, resulting in lower interest expense, depending on the length and cost of construction in any period. Some costs currently capitalized will be expensed. The amounts for each change are not material.
IAS 17: Leases	Under IFRS, the sale-leaseback transactions executed previously by the Fund would have required immediate recognition of the resulting gains. The Fund deferred those gains and is amortizing them as a reduction of occupancy expense on a straight-line basis over the lease term.	Cineplex will recognize the full amount of the deferred gains on January 1, 2010 under IFRS. This will result in a $9.7 million decrease in other liabilities and a corresponding increase in equity. Occupancy expense will be higher in future periods for the deferred gain amounts that otherwise would have been amortized over the life of the leases.
IAS 18: Revenue	IFRS may differ from existing GAAP on the timing and classification of certain types of revenues, including breakage income.	Cineplex has not identified any material differences between IFRS and Canadian GAAP relating to revenue recognition.
IAS 31: Joint Arrangements	A proposed IFRS exposure draft requires accounting for joint ventures through equity accounting, rather than proportionate consolidation.	Cineplex will report its interests in joint ventures using equity accounting in accordance with IAS 31, Interests in Joint Ventures.
IAS 32: Financial Instruments: Presentation	Under IFRS, a financial instrument which gives the holder the right to put the instrument back to the issuer for cash should be classified as a financial liability, unless certain criteria are met to allow for classification as equity.	The Fund's units satisfied the criteria under IAS 32 to be classified as equity, resulting in no change to the treatment of the units under IFRS from Canadian GAAP.

Standard	Difference from existing GAAP	Potential Impact
IAS 36: Impairment of Assets	The IFRS standard requires the analysis of property, equipment and leaseholds for impairment using discounted cash flows. The existing Canadian standard has a two-step approach, the first using cash flows without discounting. IFRS requires the reversal of impairment losses associated with property, equipment and leaseholds in certain circumstances.	Impairment losses may be recognized earlier, or recorded when they may not have been recorded at all under existing GAAP. Cineplex will not recognize an impairment loss on its January 1, 2010 opening balance sheet.
IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Under IFRS, provisions are recognized if they are "more likely than not", a lower threshold than the existing GAAP criterion, "probable".	Some provisions may be recorded earlier, or recorded when they may not have been recorded at all under existing GAAP.
	Cineplex will be required to reflect interest relating to the time value of money for provisions for which payment extends beyond one year.	Cineplex has not identified any material differences between IFRS and Canadian GAAP relating to provisions or contingencies.
IAS 39: Financial Instruments: Recognition and Measurement	Under Canadian GAAP, the Fund expensed certain transaction costs associated with its credit facilities. IFRS requires these costs to be accreted using the effective interest method over the term of the facilities.	Recognition of the previously expensed transaction costs will result in a $0.3 million decrease in long-term debt and a corresponding increase in equity on January 1, 2010. Interest expense will increase in future periods under IFRS.
	Under Canadian GAAP, the conversion option of the convertible debentures has been accounted for as equity. Under IFRS, that conversion option has attributes of debt based on IAS 39: Financial Instruments: Recognition and Measurement. As such, the debentures will be recorded as a liability at fair value through December 31, 2010. Immediately upon conversion to a corporation, the underlying conversion is settled in Common Shares, and the fair value at that date is transferred to equity.	The difference between the carrying value and the fair value on January 1, 2010 will increase or decrease equity. Changes in fair value during 2010 will affect net income during that period. Cineplex is in the process of preparing these adjustments.
	Transaction costs of $4.2 million relating to the issuance of the convertible debentures were expensed under existing GAAP. IFRS requires these costs to be accreted using the effective interest method over the term of the convertible debentures.	Recognition of the previously expensed transaction costs will impact the value of the convertible debentures and interest expense in future periods.
IAS 12: Income Taxes	While IAS 12 is similar to the existing Canadian standard, any material adjustments to balances resulting from the adoption of IFRS would have a corresponding effect on future income tax balances.	Potential impact will depend primarily on other adjustments made upon transition to IFRS. Cineplex is also considering the impact of the Fund's conversion to a corporation in its analysis of IAS 12.

Any changes to recognized financial figures may affect non-GAAP and performance measures including, but not limited to, EBITDA, distributable cash, BPP and CPP.

Several IFRS standards are in the process of being amended by the International Accounting Standards Board, which drafts and implements the IAS and IFRS. Amendments to existing standards are expected to continue in 2011 and beyond. Certain standards, if approved and implemented in their current state, could result in material differences between the Fund's Canadian GAAP reported results and proposed IFRS reporting. These areas include revenue recognition, lease accounting and financial statement presentation.

At December 31, 2010, Cineplex cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as it has not yet completed analysis and calculations relating to financial instruments and income taxes, as discussed above. These disclosures reflect the Fund's expectations based on information available at December 31, 2010.

MULTIPLE DELIVERABLE REVENUE ARRANGEMENTS

In December 2009, the CICA issued Emerging Issues Committee Abstract 175, *Multiple Deliverable Revenue Arrangements*, which discusses the determination of whether multiple elements of revenue exist in an arrangement, and the measurement of those elements. The abstract is effective no later than January 1, 2011. There will be no impact on the consolidated financial statements as the new standard is effective at the same date as Cineplex will commence reporting under IFRS.

FINANCIAL INSTRUMENTS

In June 2009, the CICA issued amendments to Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The first amendment clarifies the application of the effective interest method after a debt instrument has been impaired, effective immediately. There was no impact on the consolidated financial statements on adoption of this amendment. The second amendment clarified when an embedded prepayment option is separated from its host debt instrument for accounting purposes, effective no later than January 1, 2011. There will be no impact on the consolidated financial statements as the amendment is effective at the same date as Cineplex will commence reporting under IFRS.

BUSINESS COMBINATIONS

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaces CICA Handbook Section 1581, *Business Combinations*. The new standard, which is substantially the same as the corresponding IFRS standard, must be adopted on or before January 1, 2011 and will be applied prospectively; previous business combinations will not be restated. There will be no impact on the consolidated financial statements as the new standard is effective at the same date as Cineplex will commence reporting under IFRS.

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-controlling Interests*, which together replace CICA Handbook Section 1600, *Consolidated Financial Statements*. The new standards, which are substantially the same as the corresponding IFRS standards, must be adopted on or before January 1, 2011. There will be no impact on the consolidated financial statements as the new standard is effective at the same date as Cineplex will commence reporting under IFRS.

14 RISK MANAGEMENT

Cineplex is exposed to a number of risks in the normal course of business that have the potential to affect operating performance. Cineplex has operating and risk management strategies and insurance programs to help minimize these operating risks. In addition Cineplex has entity level controls and governance procedures including a corporate code of business conduct and ethics, whistle-blowing procedures, clearly articulated corporate values, and detailed policies outlining the delegation of authority within Cineplex.

Cineplex conducts an annual enterprise risk management assessment which is overseen by Cineplex's executive management team and reported to the Board of Trustees. The enterprise risk management framework sets out principles and tools for identifying, evaluating, prioritizing and managing risk effectively and consistently across Cineplex. In addition Cineplex monitors risks and changing economic conditions on an ongoing basis and adapts its operating strategies as required.

Industry Risk

Cineplex's ability to operate successfully depends upon the availability, diversity and appeal of films, the ability of Cineplex to license films and the performance of these films in Cineplex's markets. Cineplex primarily licenses first-run films, the success of which is dependent upon their quality, as well as on the marketing efforts of film studios and distributors. Cineplex continues to diversify its entertainment offerings to include alternative programming and to move into other sources of revenue such as e-commerce and expanded media offerings. Nonetheless, Cineplex is highly dependent on film product and film performance, including the number and success of blockbuster films. A reduction in quality or quantity of film product or any disruption in the production or release of films, including a strike or threat of a strike, a reduction in the marketing efforts of film studios and distributors or a significant change in film release patterns, would have a negative effect on film attendance and adversely affect Cineplex's business and results of operations.

In 2010, nine major film distributors accounted for approximately 97.5% of the Fund's box office revenues, which is consistent with industry standards. Deterioration in Cineplex's relationships with any of the major film distributors could affect its ability to negotiate film licences on favourable terms or its ability to obtain commercially successful films. Cineplex actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licences at all.

Cineplex competes with other film delivery methods, including cable and satellite television and DVDs, as well as pay-per-view services and downloads via the Internet. The release date of a film in other channels of distribution such as pay television or DVD is at the discretion of each distributor and earlier release windows for these or new alternative channels could have a negative impact on Cineplex's business. Recent media publications have discussed a possible new premium video on demand window, where customers may be able to pay a premium price to watch movies at home prior to the official DVD release date. No determination can be made if this will happen, or what the impact would be on Cineplex's revenue should it happen.

Competition Risk

Cineplex competes in each of its local markets with other national and regional circuits and independent film exhibitors, particularly with respect to film licensing, attracting guests and acquiring and developing new theatre sites and acquiring existing theatres. Movie-goers are generally not brand conscious and usually choose a theatre based on its location, the films showing, show times available and the theatre's amenities. As a result, the building of new theatres or the addition of screens to existing theatres by competitors in areas in which Cineplex operates theatres may result in reduced attendance levels at Cineplex's theatres.

In response to this risk, management fosters strong ties with the real estate and development community and monitors potential development sites closely. Most prime locations in larger markets have been developed such that further development would be generally uneconomical. In addition the exhibition industry is capital intensive with high operating costs and long-term contractual commitments. Rising construction and real estate costs make it increasingly difficult to develop new sites profitably, reducing the risk of competition through development.

Technology Risk

The film exhibition industry is in the process of conversion from a physical film-based medium to a digital medium of film exhibition. Digital technology poses additional risks including increased capital costs and changing requirements for digital hardware. Financial costs of the conversion to digital projection equipment are likely to be primarily financed by third parties, with the funding to be covered by distributors through a virtual print fee. Cineplex is in the process of negotiations and anticipates the creation of a funding vehicle similar to Digital Cinema Implementation Partners LLP that was created by US exhibitors.

Technological advances and the conversion of films into digital formats have made it easier to create, transmit and "share" via downloading over the Internet or unauthorized copying, high-quality copies of films in theatrical release. Some consumers may choose to obtain unauthorized copies of films rather than attending a theatre which may have an adverse effect on Cineplex's business. In addition, as home theatre technology becomes more sophisticated, consumers may choose to stay home rather than attending a theatre. 3D televisions are available in the Canadian market, which could result in consumers choosing to consume 3D product in home rather than in theatre; however, the number of 3D televisions and 3D content available is extremely limited to date. To mitigate these risks, Cineplex continues to enhance the out-of-home experience through the addition of new technologies including 3D, VIP, UltraAVX and digital projection in order to further differentiate the theatrical product from the home product. Cineplex has also diversified its offerings to customers by operating the Cineplex Store which sells DVDs, Blu-ray discs and digital downloads in order to participate in the in-home entertainment market.

Cineplex needs an effective information technology infrastructure including hardware, networks, software, people and processes to effectively support the current and future needs of the business in an efficient, cost-effective and well-controlled fashion. Cineplex is continually upgrading systems and infrastructure to meet business needs.

Customer Risk

Cineplex competes for the public's leisure time and disposable income with other forms of entertainment including home theatre systems, sporting events, live music concerts, live theatre and restaurants. If Cineplex is too aggressive in raising ticket prices or concession prices, there may be an adverse effect on attendance and concession revenues. Cineplex aims to deliver an affordable out-of-home entertainment experience. Cineplex monitors pricing in all markets to ensure that it offers a reasonably priced out-of-home experience compared to other entertainment alternatives. In addition, historical data shows that movie attendance has not been negatively affected by economic downturns over the past 25 years. Record breaking box office revenue in 2009 indicates that movie-going is perceived as an affordable entertainment experience even in times when consumer spending on other discretionary purchases may decline.

Cineplex monitors customer needs to ensure that the out-of-home theatre experience meets the anticipated needs of key demographic groups. Cineplex is differentiating the movie-going experience by providing UltraAVX auditoriums, VIP cinemas and XSCAPE family entertainment centres in select theatres and by providing alternative programming which appeals to specific demographic groups. In addition, the advent of digital technology will allow for more niche programming. In the event that consumer preferences change, Cineplex may need to incur further capital expenditures to redevelop existing locations. In consideration of this risk, Cineplex continues to improve the quality of its theatre assets through ongoing theatre upgrades and retrofits.

Cineplex is dependent on its theatre locations to provide a satisfactory entertainment experience. If Cineplex's execution of processes does not consistently meet or exceed customer expectations due to a lack of focus on the customer, movie attendance may be adversely affected. Cineplex monitors customer satisfaction through surveys, mystery shops, and focus groups and maintains a guest services department to address customer concerns. Guest satisfaction is tied to performance measures for theatre management ensuring alignment between corporate and operational objectives.

Cineplex continues to pursue other revenue opportunities such as advertising, games, promotions and alternative uses of its theatres during non-peak hours. Cineplex's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams. Media revenue has been shown to be particularly sensitive to economic conditions and any changes in the economy may either adversely influence this revenue stream in times of a downturn or positively influence this revenue stream should economic conditions improve. Cineplex monitors customer satisfaction with advertising through customer satisfaction surveys and has introduced more entertainment content into its pre-show advertising and set limits on rolling stock advertising in order to maintain satisfaction in this area.

Human Resources Risk

The success of Cineplex depends upon the retention of senior executive management, including Ellis Jacob. The loss of services of one or more members of the executive management team could adversely affect Cineplex's business, results of operations and Cineplex's ability to effectively pursue its business strategy. Cineplex does not maintain key-man life insurance for any of its employees but does provide long term incentive programs to retain key personnel.

Approximately 91% of the employees of Cineplex are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Approximately 4% of Cineplex's employees are represented by unions, which are almost exclusively in Quebec. Because of the small percentage of employees represented by unions, the risk of labour disruption is low.

Real Estate Risk

The acquisition and development of new theatre sites to be operated by Cineplex is dependent on the ability of Cineplex to identify, acquire and develop suitable sites for potential theatre locations in both new and existing markets. The cost to develop a new theatre is substantial, but its success is not assured. While Cineplex is careful in selecting sites for new theatres, the significant time lag from identifying a new site to theatre opening can result in a change in local market circumstances and could negatively impact the theatre's chance of success. In addition, the building of new theatres may draw audiences away from less appealing older theatres owned by Cineplex. Cineplex considers the overall return for the theatres in a geographic area when making the decision to build a new theatre.

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

Cineplex may also continue to be liable for obligations under theatre leases in respect of divested theatres. If the transferee of such theatres fails to satisfy the obligations under such leases, Cineplex may be required to assume the lease obligations.

Financial Markets Risk

Cineplex requires efficient access to capital in order to fuel growth, execute strategies, and generate future financial returns. For this reason Cineplex has established credit facilities at favourable rates. Cineplex has $130.0 million available in a revolving credit facility which does not mature until 2012, protecting Cineplex from any uncertainty in near term refinancing.

Cineplex hedges interest rates, thereby minimizing the impact of significant fluctuations in the market rates. Cineplex's exposure to currency and commodity risk is minimal as the majority of its transactions are in Canadian dollars and commodity costs are not a significant component of the overall cost structure.

Sourcing Risk

Substantially all of Cineplex's beverage concessions are products of one major beverage company. If this relationship was disrupted, Cineplex may be forced to negotiate a substitute arrangement that could be less favourable to Cineplex than the current arrangement. Any such disruptions could therefore increase the cost of concessions and harm Cineplex's operating margins, which would adversely affect its business and results of operations. Cineplex's contract with this beverage company expires during the second quarter of 2011.

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

In order to minimize operating risks, Cineplex actively monitors and manages its relationships with its major suppliers.

Health and Safety Risk

Cineplex is subject to risks associated with food safety, product handling and the operation of machinery. Cineplex is in compliance with health and safety legislation and conducts employee awareness and training programs on a regular basis. Health and safety issues related to our guests such as pandemics and the current bedbug concerns are risks that may deter people from attending the theatre. For those risks that it can control, Cineplex has programs in place to mitigate its exposure.

Business Continuity Risk

Cineplex purchases insurance coverage from third-party insurance companies to cover certain operational risks, and is self-insured for other matters.

Cineplex's primary source of revenue is derived from providing an out-of-home entertainment experience. A terrorist threat or the outbreak of a pandemic may cause people to stay away from public places including movie theatres which would significantly impact business results. Cineplex operates in six provinces which somewhat mitigates the risk to a specific location. Cineplex also has communications and public relations plans to deal with crises of this nature. Cineplex has updated its procedures to manage such events should they occur. These procedures identify risks, prioritize key services, plan for large staff absences and clarify communication processes. However, should there be a national threat, it is uncertain to what extent Cineplex could mitigate this risk and the costs that may be associated with any such crises.

Legal, Taxation, and Accounting Risk

Changes to any of the various federal and provincial laws, rules and regulations related to Cineplex's business could have a material impact on its financial results. Compliance with any proposed changes could also result in significant cost to Cineplex. Failure to fully comply with various laws, rules and regulations may expose Cineplex to proceedings which may materially affect its performance.

To mitigate these risks, Cineplex uses third-party tax and legal experts to assist in structuring significant transactions and contracts. Cineplex also has systems and controls that ensure the timely production of financial information in order to meet regulatory requirements and has implemented disclosure controls and internal controls over financial reporting which are tested for effectiveness on an ongoing basis. In addition Cineplex promotes a strong ethical culture through its values and code of conduct.

In 2007, legislation was enacted whereby the income tax rules applicable to certain publicly traded or listed trusts and partnerships were significantly modified to tax certain income and distributions made by these entities. The changes became effective on January 1, 2011. In connection with the new legislation, the Fund converted to a corporation on January 1, 2011 (See Section 16, Subsequent Events).

Environment/Sustainability Risk

Cineplex's business is primarily a service and retail business which delivers guest experiences rather than physical commercial products. Cineplex operates multiple locations in major urban markets and does not anticipate any dramatic changes to operations due to climate change. Because of these factors, should legislation change to require more stringent management of carbon emissions or more stringent reporting of environmental impacts, Cineplex anticipates this will result in minimal cost increases or changes to operating procedures.

Information Management Risk

Cineplex requires relevant and reliable information to support the execution of the business model and reporting on performance. The integrity, reliability and security of information are critical to Cineplex's daily and strategic operations. Inaccurate, incomplete or unavailable information or inappropriate access to information could lead to incorrect financial or operational reporting, poor decisions, privacy breaches or inappropriate disclosure of sensitive information. Cineplex continues to strengthen general information technology controls by developing operating policies and procedures in the areas of change management, computer operations and security access.

15 CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

Management of Cineplex is responsible for establishing and maintaining disclosure controls and procedures for the Fund as defined under National 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 Cineplex, 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 has evaluated the design and operation of the Fund's disclosure controls and procedures as of December 31, 2010 and has concluded that such disclosure controls and procedures are effective.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management of Cineplex is responsible for designing and evaluating the effectiveness of internal controls over financial reporting for Cineplex as defined under National 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.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal controls over financial reporting, which is a recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Because of its inherent limitations, internal controls over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate.

Management has evaluated the design and operation of the Fund's internal controls over financial reporting as of December 31, 2010, and has concluded that such controls over financial reporting are effective. There are no material weaknesses that have been identified by management in this regard.

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.

16 SUBSEQUENT EVENTS

16.1 REORGANIZATION

Subsequent to the period end, on January 1, 2011, the Fund completed the reorganization of the Fund from an income trust structure into a corporation named Cineplex Inc. The reorganization ("Reorganization") was approved by the Ontario Superior Court of Justice on December 8, 2010. Cineplex now directly and indirectly owns and operates the businesses which were previously owned and operated by the Fund and its subsidiaries. The management and trustees of the Fund are now the management and directors of Cineplex.

Prior to the Reorganization, holders of exchangeable Class B LP Units of the Partnership received Common Shares in exchange for their Class B LP Units, on a one-for-one basis. Additionally, pursuant to the Reorganization, holders of Fund Units received Common Shares in exchange for their Fund Units, on a one-for-one basis, making the Partnership a wholly owned subsidiary of Cineplex. Cineplex also

assumed all of the covenants and obligations of the Fund under its outstanding convertible debentures and entered into a supplemental trust indenture. The Common Shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "CGX".

On conversion of the convertible debentures, debentureholders are now entitled to receive Common Shares, rather than Fund Units, on the basis of one Common Share in lieu of each Fund Unit which the holder was previously entitled to receive. The convertible debentures continue to be listed on the TSX under the symbol "CGX.DB".

Equity-based compensation arrangements of the Fund will be continued by Cineplex with Common Shares, rather than Fund Units, on the basis of one Common Share in lieu of each Fund Unit where the employee was previously entitled to receive or exercise an option upon.

16.2 CREDIT FACILITY AMENDMENT

Cineplex announced that the Partnership entered into the Third Amended Credit Facilities effective January 1, 2011, reflecting the changes in its corporate structure implemented by virtue of the Reorganization. The terms of the Third Amended Credit Facilities are otherwise substantially similar to those contained in the Second Amended Credit Facilities previously entered into by the Partnership with the same lending syndicate.

17 OUTLOOK

The following discussion is qualified in its entirety by the caution regarding forward-looking statements at the beginning of this MD&A and Section 14, Risk Management.

THEATRE EXHIBITION

Box office revenues for 2010 were the highest in the history of the Fund, despite a slight decrease in attendance compared to 2009, due to the record-setting annual BPP of $8.67. The increased BPP was due in part to the strong performance of 3D films, as three of the Fund's top four films for the year were screened in 3D, and 3D and IMAX revenues accounted for 28.3% of total box office revenues, up from 14.4% in 2009. Cineplex has made the expansion of its digital projection and 3D capable systems across its circuit a priority. This expansion, which resulted in the installation of 225 digital projectors and 217 RealD 3D systems during 2010, allowed the Fund to capitalize on the success of these 3D releases during the period. At December 31, 2010, the Fund's circuit features 415 digital projectors and 366 RealD 3D systems. Highly anticipated 3D films to be released in 2011 include *Pirates of the Caribbean: On Stranger Tides*, *Cars 2*, *Transformers: Dark of the Moon* and *Harry Potter and the Deathly Hallows: Part 2*. Cineplex believes that 3D technology will provide an enhanced guest experience and will continue to charge a ticket price premium for 3D films and events.

During 2010, the Fund launched UltraAVX, the next evolution of the audio visual entertainment experience in Canada. This new innovation has provided further differentiation to the Fund's entertainment options at select theatres. At December 31, 2010, the Fund's circuit features 11 UltraAVX auditoriums in 11 locations.

In order to finance the conversion to digital projection, Cineplex is in the process of negotiations and anticipates the creation of a funding vehicle similar to Digital Cinema Implementation Partners LLP that was created by US exhibitors.

The Fund continued to expand the size of its circuit during 2010, opening two new theatres and acquiring four others during the year. When factoring in theatre closures, the result was a net increase in its theatre count of two and a net increase in its screen count of 33 at December 31, 2010 compared to the same date in 2009. Cineplex has announced four new theatres opening over the next two years, which include 36 screens.

The first quarter of 2010 resulted in the highest quarterly box office revenues in the Fund's history, due to the record-breaking success of *Avatar* in all formats, specifically IMAX and 3D. Despite the strong slate of films scheduled for release during the first quarter of 2011, Cineplex anticipates box office revenues and attendance will be lower than the prior year period due to the absence of a record-breaking title, and more in line with previous years' results.

MERCHANDISING

The Fund has continued to show growth in the average CPP over the past five years. CPP in 2010 was $4.27, a record annual amount for the Fund and $0.15 higher than the previous record, achieved in 2009. Although pricing does impact CPP, Cineplex's core focus is on operational execution and providing the optimal product mix to provide further growth in this area.

MEDIA

Cineplex believes that cinema advertising is a compelling media offering which is supported by a significant amount of third-party evidence and research. Cinema advertising provides an effective medium to reach the 17- to 25-year-old demographic. This demographic is a significant proportion of overall attendance and is a more challenging demographic to reach through other traditional media vehicles. Media revenues increased 23.2% in 2010 compared to the prior year. Higher full motion advertising spending contributed to these increases, led by higher spending by the automotive and telecommunications industries. Automotive spending has increased year over year as the industry rebounds from challenging economic times. Increased spending by both existing and new market entrants has led to the increase in media spending by the telecommunications sector.

Cineplex continues to enhance its media offerings; including enhanced website opportunities, the DLN whose implementation began in 2009 and continued in 2010, and increasing its offerings in the digital out-of-theatre signage business. During 2010, the Fund acquired DDC, which has enhanced the scope of products and services offered by the Fund's CDM business. CDM contributed 28.7% of the 2010 media growth during the year.

ALTERNATIVE PROGRAMMING

During 2010, the Fund offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series, the 2010 Olympic Winter Games live from Vancouver and Whistler, performances from the National Theatre in London, a classic film series and various concert performances by popular recording artists.

Aside from 3D feature films, it is expected that alternative programming events such as sporting events and concerts will be broadcast in 3D in the near future, providing an exciting out-of-home entertainment alternative for the consumer.

INTERACTIVE MEDIA

During 2010, the Fund continued the evolution of the www.cineplex.com website to enhance and simplify the Cineplex interactive experience and drive incremental traffic to the Cineplex Store. During the fourth quarter of 2010, the Fund launched DTO and VoD download services at the Cineplex Store, providing a wider range of in-home entertainment offerings to complement its offerings of DVDs, Blu-ray discs and Cineplex gift cards for sale.

The Cineplex mobile app, now available as a free download for a wide variety of smartphones and select devices, was also launched during 2010. The app allows guests to access movie showtimes and provides them the ability to purchase tickets using their mobile devices.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 2.7 million members at December 31, 2010. SCENE's pilot program with the Milestones Grill & Bar locations in Ontario continued through the end of 2010 and has been expanded in 2011 to include locations in Alberta and British Columbia. SCENE offered programs with numerous partners during 2010, and continues to evaluate potential program partners to provide value to program members.

The Fund integrated SCENE elements into various film promotion campaigns during 2010, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects the program to encourage increased frequency of visitation by SCENE members and additional revenue opportunities through the use of the database and additional partnership agreements.

FINANCIAL OUTLOOK

Cineplex is pleased to report its strongest results in the Fund's history, following its record year in 2009. The Fund reported record amounts for total revenue, EBITDA, BPP, CPP, media revenue, and other revenue; all key success indicators. During 2010 and 2009, the Fund generated distributable cash of $2.217 and $2.141, respectively, as compared to declared distributions of $1.260 in each period. The payout ratios for these periods were approximately 57% and 59%, respectively.

As discussed above in Section 16, Subsequent Events, the Fund completed its Reorganization of its legal structure to a corporation named Cineplex Inc. on January 1, 2011. Following the Reorganization, distributions to shareholders will be dividends and certain investors may be entitled to dividend tax credits for Canadian tax purposes. Cineplex has set its initial dividend at $0.105 per share payable on a monthly basis, or $1.26 annually, representing no change to the annual amount as a result of the conversion. Consistent with past practice of the Fund distributions, the level of dividends will be reviewed periodically by the Board of Directors on the basis of a number of factors including the financial performance, future prospects and capital requirements of the business.

Cineplex's Third Amended Credit Facilities mature in 2012. Cineplex has a $130.0 million revolving credit facility which is available to finance acquisitions, new theatre construction, working capital and distributions. As defined under its credit facility, as at December 31, 2010, the Fund reported a leverage ratio of 1.58x as compared to a covenant of 3.00x. Given this wide spread, Cineplex believes that its covenant compliance risk is minimal. Between the free cash flow generated in excess of the dividends paid and amounts available under the Third Amended Credit Facilities, Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex'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 Cineplex's control.

18 NON-GAAP MEASURES

The following measures included in this MD&A do not have a standardized meaning under GAAP and may not be comparable to similar measures provided by other issuers. Cineplex includes these measures because its management believes that they assist investors in assessing financial performance.

18.1 EBITDA AND ADJUSTED EBITDA

Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. Adjusted EBITDA excludes the gain on disposal of assets, extraordinary gain and the impact of the Fund's non-controlling interest. Cineplex's 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 non-GAAP measures generally used as an indicator of financial performance and they should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Fund's EBITDA and adjusted EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA or adjusted EBITDA as reported by other entities.

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

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Net income	**$ 62,956**	$ 53,446	$ 29,003
Amortization	**81,996**	80,403	84,280
Interest and accretion expense on convertible debentures	**7,429**	7,447	7,386
Interest on long term debt and capital lease obligations	**15,340**	15,929	17,081
Interest income	**(534)**	(330)	(777)
Income tax expense (recovery)	**1,643**	1,105	(3,539)
EBITDA	**$ 168,830**	$ 158,000	$ 133,434
Non-controlling interests	**179**	420	2,519
Extraordinary gain	**–**	(1,059)	–
Loss on disposal of assets	**268**	2,566	4,588
Adjusted EBITDA	**$ 169,277**	$ 159,927	$ 140,541

18.2 DISTRIBUTABLE CASH

Distributable cash is the amount available for distribution to the Fund's unitholders based on the operating cash flows and capital maintenance of the Fund, as calculated by management. 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.

Management presents standardized distributable cash and distributable cash per Fund Unit because they are key measures used by investors to value and assess the Fund. 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 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. Distributable cash available to Fund unitholders represents distributable cash, less the share of distributable cash due to the non-controlling direct partners of the Partnership.

Management calculates distributable cash per Fund Unit as follows (expressed in thousands of Canadian dollars except Fund Units outstanding and per unit data):

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Cash provided by operating activities	**$ 147,303**	$ 178,863	$ 140,630
Less: Total capital expenditures	**(57,112)**	(44,025)	(60,177)
Standardized distributable cash	**90,191**	134,838	80,453
Less:			
Changes in operating assets and liabilities[(i)]	**236**	(31,568)	(12,656)
Tenant inducements[(ii)]	**(2,489)**	(9,990)	(8,113)
Principal component of capital lease obligations	**(2,004)**	(1,700)	(1,581)
Add:			
New build capital expenditures and other[(iii)]	**41,881**	31,496	48,588
Interest on loan from Cineplex Galaxy Trust	**–**	–	–
Non-cash components in operating assets and liabilities[(iv)]	**(939)**	(699)	(656)
Distributable cash	**$ 126,876**	$ 122,377	$ 106,035
Less: Non-controlling interests share of distributable cash	**(457)**	(1,799)	(25,541)
Distributable cash available to Fund unitholders	**$ 126,419**	$ 120,578	$ 80,494
Average number of Fund Units outstanding	**57,030,442**	56,310,507	43,384,657
Distributable cash per Fund Unit	**$ 2.217**	$ 2.141	$ 1.855

(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 as well as any expenditures for digital equipment anticipated to be incorporated into a third-party digital integrator financing structure, and exclude maintenance capital expenditures. The Partnership's Revolving Facility (discussed above in Section 7.4, Credit facilities) was available to the Fund and is available to Cineplex for use to fund Board approved projects.
(iv) 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 amortization of deferred gains on sale-leaseback transactions and non-cash pension adjustments relating to the Fund's acquisition of the Partnership.

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

	Year ended December 31, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Income before undernoted	**$ 169,277**	$ 159,927	$ 140,541
Adjust for:			
Interest on long-term debt and capital lease obligations	**(15,340)**	(15,929)	(17,081)
Interest on convertible debentures, net of accretion expense	**(6,205)**	(6,300)	(6,300)
Interest income	**534**	330	777
Income taxes – current portion	**(32)**	(7)	4
Maintenance capital expenditures	**(15,231)**	(12,529)	(11,589)
Principal component of capital lease obligations	**(2,004)**	(1,700)	(1,581)
Non-cash items:			
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	**(3,075)**	(1,166)	13
Amortization of debt issuance costs	**598**	598	595
Other non-cash items[i]	**(1,646)**	(847)	656
Distributable cash	**$ 126,876**	$ 122,377	$ 106,035

(i) Includes amortization of deferred gains on sale-leaseback transactions, non-cash pension adjustments relating to the Fund's acquisition of the Partnership and non-cash movement in the fair value of the interest rate swap agreements.

18.3 OTHER NON-GAAP MEASUREMENTS MONITORED BY MANAGEMENT

Management uses the following non-GAAP measurements as indicators of performance for the Fund.

BPP: Calculated as total box office revenues divided by total paid attendance for the period.

CPP: Calculated as total concession revenues divided by total paid attendance for the period.

Film cost percentage: Calculated as total film cost expense divided by total box office revenues for the period.

Concession Cost Percentage: Calculated as total concession costs divided by total concession revenues for the period.

Concession margin per patron: Calculated as total concession revenues less total concession cost, divided by attendance.

Attendance: Attendance is calculated as the total number of paying patrons that frequent the Fund's theatres during the period.

Payout ratio: Distributions paid per Fund Unit divided by distributable cash per Fund Unit.

19 CONSOLIDATED FINANCIAL STATEMENTS OF THE PARTNERSHIP

The following Consolidated Balance Sheets for the Partnership at December 31, 2010 and 2009, Consolidated Statements of Operations, Consolidated Statements of Partners' Deficiency and Comprehensive Income and Consolidated Statements of Cash Flows for the Partnership for the years ended December 31, 2010 and 2009 are presented to provide comparable results to prior periods.

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP CONSOLIDATED BALANCE SHEETS

(expressed in thousands of Canadian dollars)	**December 31, 2010**	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 86,661**	$ 94,169
Accounts receivable	**58,550**	54,332
Inventories	**3,778**	4,260
Prepaid expenses and other current assets	**3,854**	4,310
Due from related parties	**6**	180
	152,849	157,251
Property, equipment and leaseholds	**400,306**	404,040
Future income taxes	**7,931**	9,520
Deferred charges	**688**	821
Intangible assets	**38,750**	41,740
Goodwill	**208,772**	200,301
	$ 809,296	$ 813,673
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	**$ 100,603**	$ 109,116
Distributions payable	**–**	4,834
Due to related parties	**325**	–
Income taxes payable	**50**	34
Deferred revenue	**95,571**	85,501
Capital lease obligations – current portion	**2,242**	2,004
Fair value of interest rate swap agreements	**5,482**	6,881
	204,273	208,370
Long-term debt	**233,875**	233,459
Fair value of interest rate swap agreements	**3,298**	5,382
Capital lease obligations – long-term portion	**28,885**	31,127
Due to Cineplex Galaxy Trust	**100,000**	100,000
Accrued pension benefit liability	**2,452**	2,012
Other liabilities	**142,855**	154,439
Class C Limited Partnership Units – liability component	**99,742**	104,995
	815,380	839,784
Partners' deficiency	**(6,084)**	(26,111)
	$ 809,296	$ 813,673

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP CONSOLIDATED STATEMENTS OF OPERATIONS

(expressed in thousands of Canadian dollars)	**2010**	2009
REVENUES		
Box office	**$ 601,097**	$ 581,114
Concessions	**295,961**	288,255
Other	**113,724**	94,979
	1,010,782	964,348
EXPENSES		
Film cost	**318,495**	305,095
Cost of concessions	**62,504**	59,267
Occupancy	**157,496**	154,921
Other operating	**239,938**	228,129
General and administrative	**58,975**	52,693
	837,408	800,105
Income before undernoted	**173,374**	164,243
Amortization	**65,452**	63,822
Loss on disposal of assets	**760**	3,058
Interest on long-term debt and capital lease obligations	**21,564**	22,251
Interest on loan from Cineplex Galaxy Trust	**14,000**	14,000
Interest income	**(522)**	(320)
Income before income taxes and extraordinary gain	**72,120**	61,432
Provision for Income Taxes		
Current	**32**	7
Future	**1,443**	1,870
	1,475	1,877
Income before extraordinary gain	**70,645**	59,555
Extraordinary gain	**–**	1,059
Net income	**$ 70,645**	$ 60,614

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP CONSOLIDATED STATEMENTS OF PARTNERS' DEFICIENCY AND COMPREHENSIVE INCOME

For the year ended December 31, 2010

(expressed in thousands of Canadian dollars)	Accumulated income	Accumulated distributions	**Accumulated distributions in excess of accumulated income**	Accumulated other comprehensive loss	Partners' capital	Formation of Partnership deficit	**Total Partners' deficiency**	**Comprehensive income**
Balance – December 31, 2009	$ 179,522	$ (308,903)	**$ (129,381)**	$ (10,032)	$ 261,097	$ (147,795)	**$ (26,211)**	**$ –**
Distributions declared	–	(58,136)	**(58,136)**	–	–	–	**(58,136)**	**–**
Investment in Cineplex Galaxy Income Fund units	–	–	**–**	–	(1,063)	–	**(1,063)**	**–**
Conversion of Class C LP units	–	–	**–**	–	5,253	–	**5,253**	**–**
LTIP compensation obligation	–	–	**–**	–	928	–	**928**	**–**
Net income	70,645	–	**70,645**	–	–	–	**70,645**	**70,645**
Other comprehensive income - interest rate swap agreements	–	–	**–**	2,400	–	–	**2,400**	**2,400**
Comprehensive income for the year	–	–	**–**	–	–	–	**–**	**$ 73,045**
Balance – December 31, 2010	$ 250,167	$ (367,039)	**$ (116,872)**	$ (7,632)	$ 266,215	$ (147,795)	**$ (6,084)**	

The sum of accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at December 31, 2010 is $124,504.

For the year ended December 31, 2009

(expressed in thousands of Canadian dollars)	Accumulated income	Accumulated distributions	**Accumulated distributions in excess of accumulated income**	Accumulated other comprehensive loss	Partners' capital	Formation of Partnership deficit	**Total Partners' deficiency**	**Comprehensive income**
Balance – December 31, 2008	$ 118,908	$ (250,893)	**$ (131,985)**	$ (19,865)	$ 261,580	$ (147,795)	**$ (38,065)**	**$ –**
Distributions declared	–	(58,010)	**(58,010)**	–	–	–	**(58,010)**	**–**
Investment in Cineplex Galaxy Income Fund units	–	–	**–**	–	(2,912)	–	**(2,912)**	**–**
LTIP compensation obligation	–	–	**–**	–	2,429	–	**2,429**	**–**
Net income	60,614	–	**60,614**	–	–	–	**60,614**	**60,614**
Other comprehensive income – interest rate swap agreements	–	–	**–**	9,833	–	–	**9,833**	**9,833**
Comprehensive income for the year	–	–	**–**	–	–	–	**–**	**$ 70,447**
Balance – December 31, 2009	$ 179,522	$ (308,903)	**$ (129,381)**	$ (10,032)	$ 261,097	$ (147,795)	**$ (26,111)**	

The sum of accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at December 31, 2009 is $139,413.

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP CONSOLIDATED STATEMENTS OF CASH FLOWS

(expressed in thousands of Canadian dollars)	**2010**	2009
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net income	**$ 70,645**	$ 60,614
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	**65,452**	63,822
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	**(7,068)**	(5,174)
Amortization of debt issuance costs	**598**	598
Loss on disposal of assets	**760**	3,058
Future income taxes	**1,443**	1,870
Cash flow hedges – non-cash interest	**(707)**	(148)
Extraordinary gain	**–**	(1,059)
Tenant inducements	**2,489**	9,990
Changes in operating assets and liabilities	**188**	31,707
	133,800	165,278
Investing Activities		
Proceeds from sale of assets	**1,756**	535
Purchases of property, equipment and leaseholds	**(57,112)**	(44,025)
Acquisition of businesses	**(11,358)**	(1,933)
	(66,714)	(45,423)
Financing Activities		
Distributions paid	**(62,970)**	(58,010)
Borrowings under credit facility	**67,000**	35,000
Repayment of credit facility	**(67,000)**	(35,000)
Payments under capital leases	**(2,004)**	(1,700)
Investment in Cineplex Galaxy Income Fund units	**(9,620)**	(9,163)
	(74,594)	(68,873)
(Decrease) increase in cash and cash equivalents during the period	**(7,508)**	50,982
Cash and cash equivalents – Beginning of period	**94,169**	43,187
Cash and cash equivalents – End of period	**$ 86,661**	$ 94,169
Supplemental Information		
Cash paid for interest	**$ 29,464**	$ 27,154
Class C LP distributions paid and classified as interest	**6,226**	6,321
Cash paid for income taxes – net	**119**	21

The following table illustrates the consolidation adjustments that result in the differences between the statements of operations of the Partnership compared to the statement of operations for the Fund for the year ended December 31, 2010 (expressed in thousands of Canadian dollars):

	Partnership year ended December 31, 2010	Consolidation adjustments	Fund year ended December 31, 2010
Revenue			
Box office	**$ 601,097**	$ –	$ 601,097
Concessions	**295,961**	–	295,961
Other	**113,724**	–	113,724
	1,010,782	–	1,010,782
Expenses			
Film cost	**318,495**	–	318,495
Cost of concessions	**62,504**	–	62,504
Occupancy	**157,496**	3,992 (i)	161,488
Other operating	**239,938**	–	239,938
General and administrative	**58,975**	105 (ii)	59,080
	837,408	4,097	841,505
Income before undernoted	**173,374**	(4,097)	169,277
Amortization	**65,452**	16,544 (i)	81,996
Loss on disposal of assets	**760**	(492) (iv)	268
Interest and accretion expense on convertible debentures	**–**	7,429 (iii)	7,429
Interest on long-term debt and capital lease obligations	**21,564**	(6,224) (iv)	15,340
Interest on loan from Cineplex Galaxy Trust	**14,000**	(14,000) (iv)	–
Interest income	**(522)**	(12) (v)	(534)
Income before income taxes and non-controlling interests	**72,120**	(7,342)	64,778
Provision for Income Taxes			
Current	**32**	–	32
Future	**1,443**	168 (vi)	1,611
	1,475	168	1,643
Income before non-controlling interests	**70,645**	(7,510)	63,135
Non-controlling interests	**–**	179 (vii)	179
Net income	**$ 70,645**	$ (7,689)	$ 62,956

(i) Amounts relate to step acquisition valuation differences.
(ii) Relates to ongoing administration expenses arising as a result of the January 5, 2009 exchange of units.
(iii) Fund's interest and accretion on its convertible debentures
(iv) Consolidation adjustments to eliminate transactions between the Fund and the Partnership.
(v) Interest income earned at the Fund level.
(vi) Fund's future income tax expense.
(vii) Represents the non-controlling interests of the Partnership arising from the consolidation of the Fund and the Partnership.

Management's report to shareholders

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 accordance 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 consolidated financial statements.

The Board of Directors of Cineplex Inc. (the "Board" of the "Company") 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 auditor 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 Company's auditor. PricewaterhouseCoopers LLP's report on the accompanying consolidated financial statements follows. It 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 9, 2011

Independent auditor's report

TO THE SHAREHOLDERS OF CINEPLEX INC.

We have audited the accompanying consolidated financial statements of Cineplex Galaxy Income Fund (the "Fund") and its subsidiaries, which comprise the consolidated balance sheet as at December 31, 2010 and 2009 and the consolidated statements of operations, unitholders' equity and comprehensive income and cash flows for the years then ended, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2010 and 2009 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
February 9, 2011

Consolidated balance sheets

AS AT DECEMBER 31, 2010 AND 2009

(expressed in thousands of Canadian dollars)	2010	2009
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 87,111**	$ 95,791
Accounts receivable	**59,111**	54,892
Inventories	**3,778**	4,260
Prepaid expenses and other current assets	**3,854**	4,310
	153,854	159,253
Property, equipment and leaseholds (note 6)	**415,951**	428,253
Future income taxes (note 7)	**19,435**	20,221
Deferred charges	**688**	820
Intangible assets (note 8)	**92,705**	103,674
Goodwill (note 9)	**609,035**	600,564
	$ 1,291,668	$ 1,312,785
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses (note 10)	**$ 101,454**	$ 109,900
Distributions payable (note 11)	**–**	6,001
Income taxes payable	**50**	34
Deferred revenue	**95,571**	85,501
Capital lease obligations – current portion (note 12)	**2,242**	2,004
Fair value of interest rate swap agreements (note 4)	**5,482**	6,881
	204,799	210,321
Long-term debt (note 14)	**233,875**	233,459
Fair value of interest rate swap agreements (note 4)	**3,298**	5,382
Capital lease obligations – long-term portion (note 12)	**28,885**	31,127
Accrued pension benefit liability (note 15)	**2,452**	2,012
Other liabilities (note 16)	**107,350**	114,941
Convertible debentures – liability component (note 17)	**96,953**	100,982
	677,612	698,224
Non-controlling interests (note 2)	**1,790**	2,669
Unitholders' Equity	**612,266**	611,892
	$ 1,291,668	$ 1,312,785

Business acquisitions (note 3)
Commitments, guarantees and contingencies (note 24)
Subsequent events (note 28)

Approved by the Board of Cineplex Inc.

(Signed:) (Signed:)

Phyllis Yaffe **Robert Steacy**

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

Consolidated statements of operations

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(expressed in thousands of Canadian dollars, except per Fund unit amounts)	2010	2009
Revenues		
Box office	$ 601,097	$ 581,114
Concessions	295,961	288,255
Other	113,724	94,979
	1,010,782	964,348
Expenses		
Film cost	318,495	305,095
Cost of concessions	62,504	59,267
Occupancy	161,488	158,927
Other operating	239,938	228,129
General and administrative	59,080	53,003
	841,505	804,421
Income before undernoted	169,277	159,927
Amortization	81,996	80,403
Loss on disposal of assets	268	2,566
Interest and accretion expense on convertible debentures	7,429	7,447
Interest on long-term debt and capital lease obligations	15,340	15,929
Interest income	(534)	(330)
Income before income taxes, extraordinary gain and non-controlling interests	64,778	53,912
Provision for income Taxes		
Current	32	7
Future	1,611	1,098
	1,643	1,105
Income before extraordinary gain and non-controlling interests	63,135	52,807
Extraordinary gain (note 3d)	-	1,059
Income before non-controlling interests	63,135	53,866
Non-controlling interests	179	420
Net income	$ 62,956	$ 53,446
Basic net income per Fund unit before extraordinary gain	$ 1.11	$ 0.94
Basic net income per Fund unit	1.11	0.96
Weighted average number of Fund units outstanding used in computing basic net income per Fund unit	56,478,226	55,784,056
Diluted net income per Fund unit before extraordinary gain (note 19)	$ 1.11	$ 0.93
Diluted net income per Fund unit (note 19)	1.11	0.95
Weighted average number of Fund units outstanding used in computing diluted net income per Fund unit (note 19)	57,028,111	56,624,235

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, 2010 AND 2009

2010

(expressed in thousands of Canadian dollars)	Accumulated income	Accumulated distributions	**Accumulated distributions in excess of accumulated income**	Accumulated other comprehensive loss	Unitholders' capital (note 18)	**Total unitholders' equity**	**Comprehensive income**
Balance – December 31, 2009	$ 155,981	$ (262,094)	**$ (106,113)**	$ (4,852)	$ 722,857	**$ 611,892**	**$ –**
Issuance of Fund units under Exchange Agreement (note 2)	–	–	**–**	–	833	**833**	**–**
LTIP compensation obligation (note 20)	–	–	**–**	–	935	**935**	**–**
Issuance of Fund units on conversion of debentures	–	–	**–**	–	5,253	**5,253**	**–**
LTIP Fund units	–	–	**–**	–	(1,063)	**(1,063)**	**–**
Distributions declared (note 11)	–	(71,878)	**(71,878)**	–	–	**(71,878)**	**–**
Net income	62,956	–	**62,956**	–	–	**62,956**	**62,956**
Other comprehensive income – interest rate swap agreements, including $944 of future income tax recovery	–	–	**–**	3,338	–	**3,338**	**3,338**
Comprehensive income for the year	–	–	**–**	–	–	**–**	**$ 66,294**
Balance – December 31, 2010	$ 218,937	$ (333,972)	**$ (115,035)**	$ (1,514)	$ 728,815	**$ 612,266**	

The sum of the accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at December 31, 2010 is $116,549.

2009

(expressed in thousands of Canadian dollars)	Accumulated income	Accumulated distributions	**Accumulated distributions in excess of accumulated income**	Accumulated other comprehensive loss	Unitholders' capital (note 18)	**Total unitholders' equity**	**Comprehensive income**
Balance – December 31, 2008	$ 102,535	$ (190,881)	**$ (88,346)**	$ (13,683)	$ 571,401	**$ 469,372**	**$ –**
Issuance of Fund units under Exchange Agreement (note 2)	–	–	**–**	–	150,935	**150,935**	**–**
LTIP compensation obligation (note 20)	–	–	**–**	–	3,433	**3,433**	**–**
LTIP Fund units	–	–	**–**	–	(2,912)	**(2,912)**	**–**
Distributions declared (note 11)	–	(71,213)	**(71,213)**	–	–	**(71,213)**	
Net income	53,446	–	**53,446**	–	–	**53,446**	**53,446**
Other comprehensive income – interest rate swap agreements, net of $952 of future income tax provision	–	–	**–**	8,831	–	**8,831**	**8,831**
Comprehensive income for the year	–	–	**–**	–	–	**–**	**$ 62,277**
Balance – December 31, 2009	$ 155,981	$ (262,094)	**$ (106,113)**	$ (4,852)	$ 722,857	**$ 611,892**	

The sum of the accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at December 31, 2009 is $110,965.

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

Consolidated statements of cash flows

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(expressed in thousands of Canadian dollars)	2010	2009
CASH PROVIDED BY (USED IN)		
Operating Activities		
Net income	**$ 62,956**	$ 53,446
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	**81,996**	80,403
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	**(3,075)**	(1,166)
Amortization of debt issuance costs	**598**	598
Loss on disposal of assets	**268**	2,566
Future income taxes	**1,611**	1,098
Cash flow hedges – non-cash interest	**(707)**	(148)
Extraordinary gain (note 3(d))	**–**	(1,059)
Non-controlling interests	**179**	420
Accretion of convertible debentures	**1,224**	1,147
Tenant inducements	**2,489**	9,990
Changes in operating assets and liabilities (note 23)	**(236)**	31,568
	147,303	178,863
Investing Activities		
Proceeds from sale of assets	**2,247**	535
Purchases of property, equipment and leaseholds	**(57,112)**	(44,025)
Cash acquired in exchanges of LP units (note 2)	**–**	639
Acquisition of businesses (note 3)	**(11,358)**	(1,933)
	(66,223)	(44,784)
Financing Activities		
Distributions paid	**(77,853)**	(69,795)
Distributions paid by the Partnership to non-controlling interests	**(283)**	(2,215)
Borrowings under credit facility	**67,000**	35,000
Repayment of credit facility	**(67,000)**	(35,000)
Payments under capital leases	**(2,004)**	(1,700)
Acquisition of long-term incentive plan Fund units	**(9,620)**	(9,163)
	(89,760)	(82,873)
(Decrease) increase in cash and cash equivalents during the year	**(8,680)**	51,206
Cash and cash equivalents – Beginning of year	**95,791**	44,585
Cash and cash equivalents – End of year	**$ 87,111**	$ 95,791
Supplemental Information		
Cash paid for interest	**$ 21,669**	$ 19,454
Cash paid for income taxes – net	**119**	21
Cash received for interest	**511**	296

Certain non-cash transactions occurred relating to exchanges of Class B LP Units and Class D LP Units for Fund units (notes 2 and 18).

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

Notes to consolidated financial statements

DECEMBER 31, 2010 AND 2009
(EXPRESSED IN THOUSANDS OF CANADIAN DOLLARS, EXCEPT PER UNIT AMOUNTS)

1 DESCRIPTION OF THE FUND

Until December 31, 2010, Cineplex Galaxy Income Fund (the "Fund") was 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 Fund converted to a corporation subsequent to year-end (note 28, "Subsequent events, Reorganization"). The notes to the consolidated financial statements refer to the Fund.

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"). In 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. As of December 31, 2010, the Fund indirectly owned 99.7% of the Partnership. The Partnership is currently Canada's largest film exhibition organization, with theatres in six provinces.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The Fund prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The consolidated financial statements of the Fund include its accounts and those of the Trust, and of the Partnership, its majority-owned subsidiary, which in turn consolidates its own subsidiaries and proportionately consolidates its joint venture interests.

The Fund also consolidates a trust administered by a third party that acts as trustee for the long-term incentive plan ("LTIP"). When required under the terms of the LTIP, the Partnership funds the LTIP trust subsequent to which the trustee acquires Fund units on the open market. The unvested Fund units, recorded at their carrying amount, are held in the LTIP trust to be distributed under the terms of the LTIP. The LTIP trust is considered a variable interest entity ("VIE") under The Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, *Consolidation of Variable Interest Entities,* as the total investment at risk is not sufficient to permit the LTIP trust to finance its activities without additional support. The Fund holds a variable interest in the LTIP trust and has determined that it is the primary beneficiary of the LTIP trust, and, therefore, has consolidated the LTIP trust. The Fund has not guaranteed the value of the units held by the LTIP trust should the fair value of the Fund's units decrease from the value at which the LTIP trust acquired the Fund units. As at December 31, 2010, consolidating the LTIP trust resulted in a $9,468 (2009 – $8,405) decrease in assets and unitholders' capital and had no impact on the net income of the Fund.

The Fund has an interest in three joint ventures. The joint ventures were determined not to be VIEs; accordingly, they continue to be accounted for using proportionate consolidation.

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

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 on April 2, 2007, exchangeable units are accounted for in accordance with Emerging Issues Committee Abstract 151, *Exchangeable Securities Issued by Subsidiaries of Income Trusts* ("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 after 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.

During 2010, under provisions of the Exchange Agreement, 77,795 Partnership units were exchanged for 77,795 Fund units. The Fund's indirect ownership of the Partnership increased to 99.7% as a result of these exchanges. The Fund recorded additional unitholders' capital of $833, comprised of $808 reclassified from non-controlling interests and accounts payable and accrued expenses, and the recognition of $25 of additional future income tax assets.

During 2009, non-controlling interests exchanged interests in the Partnership for 13,486,840 Fund units under the provisions of the Exchange Agreement. As a result of the exchanges, the Fund increased its indirect ownership of the Partnership to approximately 99.6% and recorded additional unitholders' capital of $150,935, comprised of $147,022 reclassified from non-controlling interests, and the recognition of $3,913 of additional future income tax assets.

SIGNIFICANT ACCOUNTING POLICIES

Accounting Changes

The Fund reviews all changes in GAAP to determine the impact, if any, on the consolidated financial statements. The Fund voluntarily changes accounting policies only when they result in the consolidated financial statements' providing reliable and more relevant information. All changes in accounting policy are applied retrospectively, unless doing so is prohibited by a revised accounting standard or is impracticable. Prior periods' errors are corrected retrospectively and the effects of changes in accounting policies, estimates and errors on the consolidated financial statements are disclosed.

Cash and Cash Equivalents

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

Financial Assets and Financial Liabilities

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 year 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 financial liabilities measured at amortized cost.

Settlement date accounting is used for all financial assets, except that changes in fair value between the trade date and settlement date for held-for-trading financial assets are reflected in the consolidated statements of operations, while changes in fair value between trade date and settlement date for available-for-sale financial assets are reflected in other comprehensive income ("OCI").

Held-for-trading Financial Assets and Financial Liabilities

Held-for-trading financial assets and financial 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. Changes in fair value during the year are recorded in the consolidated statements of operations, unless the derivative is designated and qualifies for hedge accounting. As at December 31, 2010, the only significant derivatives outstanding are the Fund's interest rate swap agreements, which are accounted for as cash flow hedges. 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 on the consolidated statements of operations as interest expense when incurred.

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 amount 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 business 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.

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 leases.

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 amounts 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 credit facilities that are used to finance the ongoing development of theatre projects. Interest is capitalized on projects under development up to the date each theatre enters productive use.

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 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 amount. 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. Goodwill is allocated to operating segments, which comprise groups of theatres within areas of geographic operating and financial management responsibility. The operating segments are considered reporting units for the purposes of impairment testing. A goodwill impairment loss is recognized in net income when the estimated fair value of the goodwill of an operating segment is less than the carrying amount of that operating segment.

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 Obligations

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 are recognized in the year in which they are 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 operating expense for the year.

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 properties.

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 2030, has been estimated to be $2,914. The credit-adjusted, risk-free rate at which the cash flows have been discounted ranges from 4.90% to 6.27%.

Employee Future Benefits

The Fund is the sponsor of a number of employee benefit plans. These plans include defined benefit pension plans, a defined contribution pension 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 plan assets is based on the fair value of plan 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.

b) Defined Contribution Pension Plan

Costs for the Fund's defined contribution pension plan are recognized in income during the period in which the employees' services are provided.

Revenues

Box office and concession sales are recognized, net of applicable taxes, when sales are recorded at the theatres. 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 year 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 unit 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 residual method calculation. 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's 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 year the Fund settles with the distributors. Actual settlement of these film costs could differ from those estimates.

Consideration Received from Vendors

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 vendors. The Fund recognizes rebates earned for purchases of each 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 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

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 value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Financial assets and financial liabilities classified as held for sale are recorded in the consolidated balance sheets as financial assets held for sale and as financial 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, 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 individually distinguished.

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 are 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.

Currently, the Fund does not pay taxes on income it distributes to its unitholders. Income tax changes will result in the Fund's income being subject to income taxes at the Trust level effective January 1, 2011.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income 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 year 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 dates of the transactions. Foreign currency exchange gains and losses arising from translation are included in net income.

Unit Based Compensation

The Fund accounts for its Fund unit options in accordance with the fair value based method. The fair value of Fund unit options that will be settled in cash is measured at each balance sheet date, based on the market price of Fund units and is recorded as compensation expense on a graded basis over the Fund unit options' vesting periods. Forfeitures are not estimated, but are recorded when they occur.

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

FUTURE CHANGES IN ACCOUNTING STANDARDS

The Fund reviews all changes to the CICA Handbook when issued. The following will become effective after December 31, 2010:

International Financial Reporting Standards

In February 2008, the CICA confirmed that International Financial Reporting Standards ("IFRS") will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued Emerging Issues Committee Abstract 175, *Multiple Deliverable Revenue Arrangements*, which discusses the determination of whether multiple elements of revenue exist in an arrangement, and the measurement of those elements. The abstract is effective no later than January 1, 2011. There will be no impact on the consolidated financial statements as the new standard is effective at the same date as the Fund commences reporting under IFRS.

Financial Instruments

In June 2009, the CICA issued amendments to Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. The first amendment clarifies the application of the effective interest method after a debt instrument has been impaired. There was no impact on the consolidated financial statements on adoption of this amendment. The second amendment clarifies when an embedded prepayment option is separated from its host debt instrument for accounting purposes, effective no later than January 1, 2011. There will be no impact on the consolidated financial statements as the amendment is effective at the same date as the Fund commences reporting under IFRS.

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, *Business Combinations*, which replaces CICA Handbook Section 1581, *Business Combinations*. The new standard, which is substantially the same as the corresponding IFRS standard, must be adopted on or before January 1, 2011 and will be applied prospectively; previous business combinations will not be restated. There will be no impact on the consolidated financial statements as the new standard is effective at the same date as the Fund commences reporting under IFRS.

Consolidated Financial Statements and Minority Interests

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-controlling Interests*, which together replace CICA Handbook Section 1600, *Consolidated Financial Statements*. The new standards, which are substantially the same as the corresponding IFRS standards, must be adopted on or before January 1, 2011. There will be no impact on the consolidated financial statements as the new standards are effective at the same date as the Fund commences reporting under IFRS.

3 BUSINESS ACQUISITIONS

A) THEATRE ACQUISITION

On November 26, 2010, the Fund acquired a theatre in Vancouver, British Columbia. Based on management's best estimates, the purchase price of $6,427, including transaction costs of $15, net of cash acquired, has been allocated to the assets and liabilities as follows:

Assets acquired		
Net working capital	$	40
Property, equipment and leaseholds		790
Goodwill		5,625
Net assets		6,455
Less: Cash from the acquisition		28
	$	6,427
Consideration given		
Cash paid for the acquisition	$	6,440
Transaction costs		15
Less: Cash from the acquisition		28
	$	6,427

B) DIGITAL DISPLAY AND COMMUNICATIONS, INC.

On July 2, 2010, the Fund acquired 100% of the issued and outstanding shares of Digital Display and Communications, Inc. ("DDC") for approximately $3,439, net of cash acquired, including transaction costs of $55. Based on management's best estimates, the purchase price has been allocated to the assets of DDC as follows:

Assets acquired		
Net working capital	$	1,191
Property, equipment and leaseholds		151
Goodwill		2,213
Net assets		3,555
Less: Cash from the acquisition		116
	$	3,439
Consideration given		
Cash paid for the acquisition	$	3,500
Transaction costs		55
Less: Cash from the acquisition		116
	$	3,439

The allocation of the purchase price was finalized in the fourth quarter of 2010, resulting in small adjustments to net working capital, property, equipment and leaseholds and goodwill.

C) FORMER JOINT VENTURES

During the second and third quarters of 2010, the Fund acquired the other venturers' interests in two joint ventures, representing a 66.7% and a 53.7% interest, respectively, in two theatres in Quebec. On closing, the Fund controls 100% of both of these former joint ventures. The Fund paid consideration in the amount of $1,492, including transaction costs of $7 and amounts payable to vendors, net of cash acquired. Based on management's best estimates, the purchase price has been allocated as follows:

Assets and liabilities acquired		
Net working capital	$	77
Future income taxes		(148)
Property, equipment and leaseholds		1,063
Goodwill		633
Net assets		1,625
Less: Cash from the acquisitions		133
	$	1,492
Consideration given		
Cash paid for the acquisitions	$	1,514
Transaction costs		7
Payable to vendors		104
Less: Cash from the acquisitions		133
	$	1,492

The allocations of the purchase price were finalized in the fourth quarter of 2010, with small adjustments to assets and goodwill.

D) ONSITE MEDIA NETWORK INC. AND EXTRAORDINARY GAIN

On April 30, 2009, the Fund acquired 100% of the issued and outstanding shares of Onsite Media Network Inc. ("Onsite") for approximately $1,803, including transaction costs of $99.

Based on management's best estimates, the purchase price has been allocated to the assets and liabilities of Onsite as follows:

Assets and liabilities acquired		
Future income taxes	$	5,285
Net working capital deficiency (including cash of $101)		(1,595)
Other liabilities		(336)
Long-term debt – debentures		(492)
Net assets		2,862
Total consideration		1,803
Extraordinary gain	$	1,059
Consideration was paid as follows:		
Cash paid for shares	$	1,212
Debenture funding		492
		1,704
Transaction costs		99
Total consideration		1,803
Less: Cash acquired		101
Consideration, net	$	1,702

The excess of net assets acquired over the purchase price resulted in recognizing an extraordinary gain. The allocation of the purchase price was finalized in the third quarter of 2009.

E) DISPOSITION OF FORMER JOINT VENTURE

During the year, the Fund disposed of its interest in a joint venture, representing a 50% interest in a theatre in Quebec, for proceeds of $863, net of transaction costs and cash transferred to the purchaser.

4 FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and distributions payable are reflected in the consolidated financial statements at carrying amounts that approximate fair values because of the short-term maturities of these financial instruments.

The long-term debt has a fair value approximately equal to its face value of $235,000 as at December 31, 2010 and 2009, due to its market rate of interest.

The convertible debentures are publicly traded on the Toronto Stock Exchange ("TSX"), and are recorded at amortized cost. Based on the published trading prices, management estimates that the convertible debentures have a fair value of $119,690 as at December 31, 2010 (2009 – $111,295).

In 2008, the Fund entered into three interest rate swap agreements. Under these interest rate swap agreements, the Fund pays a fixed rate of 3.97% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. The interest rate swap agreements have a term of three years, commencing in July 2009 and maturing in July 2012, and an aggregate notional principal amount of $235,000. These interest rate swap agreements have a fair value liability of approximately $8,780 as at December 31, 2010 (2009 – $12,263).

The purpose of the interest rate swap agreements is to act as a cash flow hedge to manage the floating interest rate payable under the Term Facility (note 14). The Fund considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with CICA Handbook Section 3865, *Hedges*.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical financial assets or financial liabilities that the Fund has the ability to access. The Fund's cash and cash equivalents are valued based on the quoted market price for those securities.

Fair values determined by Level 2 inputs use inputs other than the quoted prices included in Level 1 that are observable for the financial asset or financial liability, either directly or indirectly. Level 2 inputs include quoted prices for similar financial assets and financial liabilities in active markets, and inputs other than quoted prices that are observable for the financial assets or financial liabilities. The Fund uses market interest rates and yield curves that are observable at commonly quoted intervals in the valuation of its interest rate swap agreements. The derivative positions are valued using models developed internally by the respective counterparty that use as its basis readily observable market parameters (such as forward yield curves) and are classified within Level 2 of the valuation hierarchy. The Fund considers its own credit risk as well as the credit risk of its counterparties when evaluating the fair value of its derivatives. Any adjustments resulting from credit risk are recorded as a change in fair value of the derivatives and reflected in OCI.

Level 3 inputs are unobservable inputs for the financial asset or financial liability, and include situations where there is little, if any, market activity for the financial asset or financial liability. The Fund's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the financial asset or financial liability. The Fund had no financial instruments valued under Level 3 inputs on the 2010 or 2009 consolidated balance sheet.

CREDIT RISK

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligation. Management believes the credit risk on cash and cash equivalents is low because the counterparties are banks with high credit ratings.

Accounts receivable include trade and other receivables. Trade receivables are amounts billed to customers for the sales of goods and services, and represent the maximum exposure to credit risk of those financial assets, exclusive of the allowance for doubtful accounts. Normal credit terms for amounts due from customers call for payment within 30 to 45 days. Other receivables include amounts due from suppliers, landlords and municipal tax authorities and other miscellaneous amounts. The Fund's credit risk is primarily related to its trade receivables, as other receivables generally are recoverable through ongoing business relationships with the counterparties.

The Fund grants credit to customers in the normal course of business. The Fund typically does not require collateral or other security from customers; however, credit evaluations are performed prior to the initial granting of credit when warranted and periodically thereafter. Based on historical experience, the Fund records a reserve for estimated uncollectible amounts, which management believes reduces credit risk. Management assesses the adequacy of the reserve quarterly, taking into account historical experience, current collection

trends, the age of receivables and, when warranted and available, the financial condition of specific counterparties. Management focuses on trade receivables outstanding for more than 120 days in assessing the Fund's credit risk and records a reserve, when required, to mitigate that risk. When collection efforts have been exhausted, specific balances are written off.

The following schedule reflects the balance and age of trade receivables as at December 31, 2010 and 2009:

	2010	2009
Trade receivables carrying amount	**$ 51,205**	$ 48,934
Percentage past due	**22%**	19%
Percentage outstanding more than 120 days	**2%**	5%

The following schedule reflects the changes in the allowance for trade receivables during the years ended December 31, 2010 and 2009:

	2010	2009
Allowance for trade receivables – Beginning of year	**$ 1,035**	$ 1,064
Allowance recorded against current year's sales	**1,392**	613
Adjustment based on collection experience	**(491)**	217
Amounts written off	**(1,520)**	(859)
Allowance for trade receivables – End of year	**$ 416**	$ 1,035

Due to the Fund's diversified client base, management believes the Fund does not have a significant concentration of credit risk.

LIQUIDITY RISK

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities.

The table below reflects the contractual maturity of the Fund's undiscounted cash flows for its financial liabilities and interest rate swap agreements:

Payments due by period

Contractual obligations	Total	Within 1 year	2 – 3 years	4 – 5 years	After 5 years
Accounts payable and accrued expenses	$ 101,454	$ 101,454	$ –	$ –	$ –
Interest rate swap agreements	16,327	9,330	6,997	–	–
Long-term debt	235,000	–	235,000	–	–
Convertible debentures	99,742	–	99,742	–	–
Capital lease obligations	43,579	4,440	8,880	9,062	21,197
Total contractual obligations	$ 496,102	$ 115,224	$ 350,619	$ 9,062	$ 21,197

The Fund also has significant contractual obligations in the form of operating leases (note 21) and new theatre and other capital commitments (note 24), as well as contingent obligations in the form of letters of credit, guarantees and long-term incentive and option plans.

The Fund expects to fund lease commitments through cash flows from operations. New theatre capital commitments not funded through cash flows from operations will be funded through the Fund's committed Revolving Facility (note 14).

Management believes the Fund's cash flows from operations and the Revolving Facility will be adequate to support all of its financial liabilities.

CURRENCY RISK

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in foreign currency exchange rates.

Substantially all of the Fund's revenues are in Canadian dollars, as are all except an insignificant portion of expenses, which is denominated in US dollars. Management considers currency risk to be low and does not hedge its currency risk. As variations in foreign currency exchange rates are not expected to have a significant impact on the results of operations, a sensitivity analysis is not presented.

INTEREST RATE RISK

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to interest rate risk on its cash and cash equivalents and long-term debt, which earn and bear interest at floating rates.

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, 2010, the Fund recorded a non-cash interest expense reduction of $707 relating to the cash flow hedge (2009 – non-cash interest expense reduction of $148). The Fund expects to reclassify $5,342 from accumulated other comprehensive loss to the consolidated statement of operations in 2011, excluding the impact of income taxes.

The following table shows the Fund's exposure to interest rate risk and the pre-tax effects on net income and OCI for the year ended December 31, 2010 of a 1% change in interest rates management believes is reasonably possible:

Pre-tax effects on net income and OCI – increase (decrease)

		1% decrease in interest rates		1% increase in interest rates	
	Carrying amount of financial liability	Net income	OCI	Net income	OCI
Long-term debt	$ 233,875	$ 2,350	$ –	$ (2,350)	$ –
Interest rate swap agreements – net	8,780	(2,350)	(3,310)	2,350	3,244
		$ –	$ (3,310)	$ –	$ 3,244

5 CAPITAL DISCLOSURES

The Fund's objectives when managing capital are to:

a) maintain financial flexibility to preserve its ability to meet financial obligations and growth objectives, including future investments;

b) deploy capital to provide an appropriate investment return to its unitholders; and

c) maintain a capital structure that allows multiple financing options to the Fund, should a financing need arise.

The Fund defines its capital as follows:

a) unitholders' equity and non-controlling interests;

b) long-term debt and capital leases, including the current portion;

c) convertible debentures; and

d) cash and cash equivalents and short-term investments.

It is the Fund's policy to distribute annually to unitholders available cash from operations after cash required for maintenance capital expenditures, working capital and other reserves at the discretion of the trustees.

The Fund is subject to certain covenants on the Partnership's credit facilities agreement, which defines certain non-GAAP terms and measures. The Partnership's total leverage ratio may not exceed 3.00 to 1 unless an acquisition is undertaken, in which case, the ratio allowance increases to 3.50 to 1 for a 12-month period before reverting automatically to 3.00 to 1. The total leverage ratio is determined by dividing total debt at the period-end (as defined in the credit facilities agreement) by the adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") (as defined in the credit facilities agreement) for the past four quarters. The Partnership also

must maintain a fixed charge coverage ratio of greater than 1.25 to 1. The fixed charge coverage ratio (as defined in the credit agreement) is computed by dividing the sum of adjusted EBITDA (as defined in the credit agreement) and rent expense for the past four quarters by fixed charges for the same period. Fixed charges include interest expense, scheduled debt repayments, maintenance capital expenditures, rent expense and income taxes paid in the year. Management reviews the Fund's covenants on a quarterly basis in conjunction with filing requirements under its credit facilities agreement but also maintains a rolling projection to assess future growth capital commitments. The Fund has complied with all covenant requirements during the years ended December 31, 2010 and 2009. Management also monitors the Partnership's annualized payout ratio, calculated as distributions declared divided by distributable cash. All of these ratios are managed with certain target ranges determined by management to allow for flexibility in considering growth opportunities.

The basis for the Fund's capital structure is dependent on the Fund's expected growth and changes in the business and regulatory environments. To maintain or adjust its capital structure, the Fund may purchase Fund units for holding or cancellation, issue new Fund units, raise debt or refinance existing debt with different characteristics. The capital structure changed subsequent to year-end, as a result of the Fund's conversion to a corporation (note 28, "Subsequent events, Reorganization").

While objectives and strategies are reviewed periodically, the Fund's capital and objectives in managing capital have remained substantially unchanged over the past two completed fiscal years.

6 PROPERTY, EQUIPMENT AND LEASEHOLDS

Property, equipment and leaseholds consist of:

2010

	Cost	**Accumulated amortization**	**Net**
Land	**$ 16,344**	**$ –**	**$ 16,344**
Buildings and leasehold improvements	**470,382**	**207,736**	**262,646**
Buildings and leasehold improvements under capital lease	**34,339**	**12,472**	**21,867**
Equipment	**404,124**	**294,947**	**109,177**
Equipment under capital lease	**17,977**	**13,952**	**4,025**
Construction-in-progress	**1,892**	**–**	**1,892**
	$ 945,058	**$ 529,107**	**$ 415,951**

2009

	Cost	Accumulated amortization	Net
Land	$ 17,038	$ –	$ 17,038
Buildings and leasehold improvements	455,289	184,161	271,128
Buildings and leasehold improvements under capital lease	34,339	10,153	24,186
Equipment	363,477	256,144	107,333
Equipment under capital lease	17,977	11,339	6,638
Construction-in-progress	1,930	–	1,930
	$ 890,050	$ 461,797	$ 428,253

Total amortization during the year ended December 31, 2010 was $70,891 (2009 – $66,426). Included in this amount is amortization of property under capital lease of $4,932 (2009 – $4,931).

In accordance with CICA Handbook Section 3063, *Impairment of Long-lived Assets*, the Fund assessed the recoverability of certain of its theatre assets and determined that those theatres had estimated future cash flows that are not expected to be sufficient to recover the carrying amount of the theatre assets. The carrying value of the assets in those theatres was written down to the estimated fair value, as determined by a third-party valuation. The Fund recorded an impairment charge of $3,863 in amortization expense in the third quarter of 2010.

7 FUTURE INCOME TAXES

The future income taxes recorded reflect temporary differences primarily expected to reverse in 2011 and, thereafter, at a tax rate of 27.79% (2009 – 27.68%) as follows:

	2010	2009
Future income tax assets		
Property, equipment and leaseholds and deferred tenant inducements – difference between net carrying amount and undepreciated capital cost	**$ 35,276**	$ 33,031
Accounting provisions not currently deductible	**7,549**	5,152
Rent averaging liabilities	**8,117**	9,717
Deferred revenue	**115**	115
Interest rate swap agreements	**2,430**	1,483
Losses available for carry-forward	**9,520**	9,711
Total gross future income tax assets	**63,007**	59,209
Future income tax liabilities		
Intangible assets	**(21,555)**	(21,618)
Goodwill	**(18,279)**	(14,792)
Other	**(342)**	(288)
Total gross future income tax liabilities	**(40,176)**	(36,698)
Net future tax asset before valuation reserve	**22,831**	22,511
Valuation reserve	**(3,396)**	(2,290)
Net future income tax asset	**$ 19,435**	$ 20,221

Current income taxes arise with respect to GEI, Cineplex Digital Media Inc. ("CDM") and certain other subsidiaries of the Fund.

The provision for income taxes included in the consolidated statements of operations differs from the statutory income tax rate for the years ended December 31, 2010 and 2009 as follows:

	2010	2009
Income before income taxes and non-controlling interests	**$ 64,778**	$ 54,971
Combined Canadian federal and provincial income tax rate	**27.79%**	27.68%
Income taxes payable at statutory rate	**18,002**	15,216
Income not taxable in the Fund	**(16,554)**	(14,143)
Change in tax rate for future income taxes	**(12)**	892
Permanent differences	**39**	(88)
Change in estimated future income tax balance as at December 31 caused by current year's activity	**168**	(772)
Provision for income taxes	**$ 1,643**	$ 1,105

As at December 31, 2010, GEI and CDM have losses available for carry-forward with the following expiry dates:

2012	$ 64
2013	761
2014	575
2024	1,608
2025	7,072
2026	5,378
2027	3,061
2028	3,824
2030	1,058
	$ 23,401

8 INTANGIBLE ASSETS

Intangible assets consist of the following:

a) Intangible assets subject to amortization

2010

	Cost	Accumulated amortization	Net
Advertising contracts	**$ 42,535**	**$ 32,706**	**$ 9,829**
Fair value of leases – assets	**9,974**	**3,769**	**6,205**
Trademarks and trade names	**370**	**84**	**286**
	$ 52,879	**$ 36,559**	**$ 16,320**

2009

	Cost	Accumulated amortization	Net
Advertising contracts	$ 65,835	$ 46,179	$ 19,656
Fair value of leases – assets	10,696	3,373	7,323
Trademarks and trade names	370	60	310
	$ 76,901	$ 49,612	$ 27,289

Amortization during the year ended December 31, 2010 was $10,973 (2009 – $13,762). During 2010, fully amortized advertising contracts related to the 2005 Famous Players acquisition were removed from the consolidated financial statements.

b) Intangible assets not subject to amortization

	2010	2009
Trademarks and trade names	**$ 76,385**	$ 76,385

9 GOODWILL

The following table discloses the change in goodwill for the years ended December 31:

2009

Balance – Beginning of year	$ 600,564	$ 600,564
Goodwill acquired (note 3)	8,471	–
Balance – End of year	$ 609,035	$ 600,564

10 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consist of:

	2010	2009
Accounts payable – trade	**$ 27,998**	$ 28,146
Film and advertising payables	**27,172**	39,958
Accrued salaries and benefits	**28,515**	22,129
Sales tax payable	**5,121**	8,870
Accrued occupancy costs	**3,099**	3,383
Other payables and accrued expenses	**9,549**	7,414
	$ 101,454	$ 109,900

11 DISTRIBUTIONS PAYABLE

The Fund has declared the following distributions during the year:

	2010		2009	
Record Date	**Amount**	**Amount per unit**	Amount	Amount per unit
January	**$ 5,975**	**$ 0.1050**	$ 5,817	$ 0.1050
February	**5,975**	**0.1050**	5,817	0.1050
March	**5,975**	**0.1050**	5,817	0.1050
April	**5,982**	**0.1050**	5,971	0.1050
May	**5,982**	**0.1050**	5,971	0.1050
June	**5,991**	**0.1050**	5,971	0.1050
July	**5,991**	**0.1050**	5,975	0.1050
August	**5,991**	**0.1050**	5,975	0.1050
September	**5,999**	**0.1050**	5,975	0.1050
October	**6,002**	**0.1050**	5,975	0.1050
November	**6,003**	**0.1050**	5,975	0.1050
December	**6,012**	**0.1050**	5,975	0.1050

The distributions were paid within 30 days following the end of each month, except for the Fund's final distribution, which was paid in December 2010. 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 income 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.

12 CAPITAL LEASE OBLIGATIONS

The Fund has 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:

2011	$ 4,440
2012	4,440
2013	4,440
2014	4,440
2015	4,622
Thereafter	21,197
	43,579
Less: Amount representing interest (average rate of 7.3%)	12,452
	31,127
Less: Current portion	2,242
	$ 28,885

Interest expense related to capital lease obligations was $2,353 for the year ended December 31, 2010 (2009 – $2,487).

13 RELATED PARTY TRANSACTIONS

The Fund may have transactions in the normal course of business with entities whose management, directors or trustees are also trustees of the Fund or directors of the General Partner of the Partnership. Any such transactions are in the normal course of operations and are measured at market-based exchange amounts. Unless otherwise noted, these transactions are not considered related party transactions for financial statement purposes.

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, 2010, the Fund earned revenue in the amount of $408 with respect to these services (2009 – $528).

During the years ended December 31, 2010 and 2009, investors related to the Fund exchanged Class B LP Units and Class D LP Units for Fund units under the provisions of the Exchange Agreement (notes 2 and 18).

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

14 LONG-TERM DEBT

During the current year, the Fund entered into the third amended and restated credit agreement effective January 1, 2011 continuing the existing arrangement (note 28, "Subsequent events") with the same syndicate of lenders and substantially similar terms, consisting of the following facilities (collectively the "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 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. 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 Emerging Issues Committee Abstract 88, *Debtor's Accounting for a Modification or Exchange of Debt Instruments*, and, as a result, deferred financing fees of $183 associated with the Credit Facilities were added to the unamortized deferred financing fees of $942, associated with the previous amended credit facilities, and are being amortized using the effective interest method over the remaining 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 Credit Facilities are repayable without any prepayment penalties.

Long-term debt consists of:

	2010	2009
Term Facility	**$ 235,000**	$ 235,000
Deferred financing fees	**(1,125)**	(1,541)
	$ 233,875	$ 233,459

As at December 31, 2010, letters of credit of $1,445 were reserved against the Revolving Facility (2009 – $1,065).

As at December 31, 2010, the Fund was subject to a margin of 0.375% (2009 – 0.375%) on the prime rate and 1.375% (2009 – 1.375%) on the banker's acceptance rate, plus a 0.125% (2009 – 0.125%) per annum fee for letters of credit issued on the Revolving Facility. The average interest rate on borrowings under the Credit Facilities was 5.3% for the year ended December 31, 2010 (2009 – 5.1%). 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, 2010 (2009 – 0.35%).

The 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; and (iii) the Fund's investment in Famous Players and its general partner, Famous Players Co. The Credit Facilities are also guaranteed by GEI. In addition, the Trust has guaranteed the 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 GEI note receivable.

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

2011	$ –
2012	235,000
	$ 235,000

15 ACCRUED PENSION BENEFIT LIABILITY

PENSION AND OTHER RETIREMENT BENEFIT PLANS

The Fund sponsors the Defined Contribution Pension Plan for Employees of Cineplex Entertainment Limited Partnership ("Cineplex Entertainment Plan"), covering substantially all full-time employees. In addition, the Fund sponsors a defined benefit 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. Effective December 31, 2007, the Fund declared a full windup of the Retirement Plan for Salaried Employees of Famous Players Limited Partnership. Regulatory approval was granted in December 2008 and all defined benefit pension entitlements were settled and recognized in 2009.

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

CASH CONTRIBUTIONS

Cash contributed in 2010 by the Fund to the Cineplex Entertainment Plan's defined contribution provision was $1,183 (2009 – $1,152). Cash contributed by the Fund to the Famous Players' defined benefit plan was $162 (2009 – $2,049). Cash payments of $45 (2009 – $32) were made toward the defined benefit provision under the Cineplex Entertainment Plan.

As at December 31, 2010, none of the remaining defined benefit plans were fully funded.

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 Famous Players defined benefit pension plan for funding purposes was as at December 31, 2008, reflecting the windup position.

Reconciliation of the Accrued Benefit Obligations

	2010	2009
Accrued benefit obligations		
Balance – Beginning of year	**$ 3,407**	$ 16,244
Current service cost – defined benefit provisions	**218**	164
Interest cost	**219**	569
Benefits paid	**(162)**	(227)
Actuarial losses	**482**	811
Plan amendments	**425**	162
Settlements	**–**	(14,316)
Balance – End of year	**$ 4,589**	$ 3,407

The accrued benefit obligation in respect of post-retirement health care benefits at the end of 2010 is $346 (2009 – $478).

The aggregate accrued benefit obligation for the individual defined benefit pension plans that have deficits is $4,589 and the fair value of plan assets is $55 as at December 31, 2010.

Reconciliation of the Fair Value of Plan Assets

	2010	2009
Fair value of plan assets		
Balance – Beginning of year	**$ 32**	$ 12,528
Actual return on plan assets	**(22)**	(34)
Employer contributions	**207**	2,081
Benefits paid	**(162)**	(227)
Settlements	**–**	(14,316)
Balance – End of year	**$ 55**	$ 32

Plan assets consist of:

Percentage of defined benefit plan assets	**2010**	2009
Asset category		
Equity securities	**–**	–
Debt securities	**–**	–
Other	**100%**	100%
	100%	100%

Reconciliation of the Unfunded Status of the Defined Benefit Provisions

	2010	2009
Fair value of plan assets	**$ 55**	$ 32
Accrued benefit obligations	**(4,589)**	(3,407)
Unfunded status of plans as at December 31	**(4,534)**	(3,375)
Unamortized net actuarial loss	**1,162**	707
Unamortized past service costs	**920**	656
Accrued pension benefit liability	**$ (2,452)**	$ (2,012)

Elements of Benefit Costs for Defined Benefit Provisions Recognized in the Year

	2010	2009
Current service cost – defined benefit provisions	**$ 218**	$ 164
Interest cost	**219**	569
Actual return on plan assets	**22**	34
Actuarial losses	**482**	1,030
Plan amendments	**425**	162
Settlement loss	**–**	2,436
Elements of future pension costs before adjustments to recognize long-term nature	**1,366**	4,395
Adjustments to recognize long-term nature of future benefit costs		
Difference between expected and actual return on plan assets	**(22)**	(379)
Difference between recognized and actual actuarial gains	**(437)**	(790)
Difference between amortization of past service costs and actual plan amendments	**(264)**	(65)
	(723)	(1,234)
Benefit cost recognized	**$ 643**	$ 3,161

The benefit cost in respect of post-retirement health care benefits for 2010 is $64 (2009 – $51).

Significant Assumptions

The significant assumptions used are as follows:

	2010	2009
Accrued benefit obligations as at December 31		
Discount rate		
All plans	**5.00%**	6.00%
Rate of compensation increase	**–%**	–%
Benefit cost for year ended December 31		
Discount rate		
All plans	**5.00%**	6.00%
Expected long-term rate of return on plan assets	**–%**	–%
Rate of compensation increase	**–%**	–%
Health care cost trend rates as at December 31		
Initial rate	**8.50%**	8.50%
Ultimate rate	**4.50%**	4.50%
Year ultimate rate reached	**2015**	2015

Sensitivity Analysis

		2010
	Benefit obligation	**Benefit expense**
Impact of 1% increase in health care cost trend rate	**$ 42**	**$ 2**
Impact of 1% decrease in health care cost trend rate	**$ (36)**	**$ (2)**

Defined Contribution Provision

	2010	2009
Total cost recognized for defined contribution provision	**$ 1,183**	$ 1,152

16 OTHER LIABILITIES

Other liabilities consist of the following:

	2010	2009
Deferred tenant inducements	**$ 52,716**	$ 52,136
Excess of straight-line amortization over lease payments	**21,225**	26,805
Fair value of leases – liabilities	**23,099**	25,125
Asset retirement obligations	**1,001**	806
Deferred gain on sale-leaseback transaction	**9,309**	9,652
Other	**–**	417
	$ 107,350	$ 114,941

17 CONVERTIBLE DEBENTURES

The convertible debentures were issued on July 22, 2005, have a final maturity date of December 31, 2012, bear interest at a rate of 6.0% per annum, and are payable semi-annually on June 30 and December 31 each year. Each debenture is convertible into Fund units at the option of the holder at a conversion price of $18.75 per Fund unit. On or prior to December 31, 2010, the convertible debentures were 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.

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 debentures' aggregate face value outstanding of $99,742 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.

18 UNITHOLDERS' CAPITAL

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

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

Fund units are redeemable at any time on demand by the unitholders. The redemption price per Fund 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 will 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.

During 2010, 77,795 Class B LP Units were exchanged for 77,795 Fund units and $833 of unitholders' capital was recorded (note 2).

During 2009, 13,486,840 Class B LP Units were exchanged for 13,486,840 Fund units and $150,935 of unitholders' capital was recorded (note 2).

The convertible debentures have a final maturity date of December 31, 2012 and are convertible into Fund units at the option of the holder.

Unitholders' capital as at December 31 and transactions during the year are as follows:

	2010		2009	
	Number of Fund units	**Amount**	Number of Fund units	Amount
Opening balance – Beginning of year				
Fund units	**56,901,057**	**$ 716,034**	43,414,217	$ 565,099
Convertible debentures – equity component	**–**	**8,546**	–	8,546
LTIP compensation obligation	**–**	**6,682**	–	3,249
LTIP Fund units	**(559,145)**	**(8,405)**	(332,426)	(5,493)
	56,341,912	**722,857**	43,081,791	571,401
Transactions during the year				
Issuance of Fund units under the Exchange Agreement (note 2)	**77,795**	**833**	13,486,840	150,935
Issuance of Fund units on conversion of debentures	**280,147**	**5,253**	–	–
LTIP compensation obligation, net of vested Fund units	**–**	**935**	–	3,433
Purchase of LTIP Fund units	**(493,410)**	**(9,620)**	(633,228)	(9,163)
Settlement of LTIP obligation through transfer of Fund units to LTIP participants	**512,532**	**8,557**	406,509	6,251
	377,064	**5,958**	13,260,121	151,456
Fund units	**57,258,999**	**722,120**	56,901,057	716,034
Convertible debentures – equity component	**–**	**8,546**	–	8,546
LTIP compensation obligation	**–**	**7,617**	–	6,682
LTIP Fund units	**(540,023)**	**(9,468)**	(559,145)	(8,405)
Closing balance – End of year	**56,718,976**	**$ 728,815**	56,341,912	$ 722,857

The Fund treats its 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 fair value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

19 DILUTED NET INCOME PER FUND UNIT

The weighted average number of Fund 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 $99,742 were excluded from the computation of diluted net income per Fund unit, as their effect would have been anti-dilutive. The $99,742 of convertible debentures can be converted into 5,319,587 Fund units at the option of the holders. If converted, the weighted average number of Fund units outstanding used in computing diluted net income per Fund unit would be 5,319,573 units higher (2009 – 5,599,734). The Fund unit options outstanding were excluded from the computation of diluted net income per Fund unit, as their effect would have been anti-dilutive. LTIP units held by the Fund decrease the weighted average number of Fund units outstanding for both the basic and diluted net income per Fund unit.

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

Number of Partnership Units	**2010**	2009
Class B, Series 1	**6,890**	6,890
Class B, Series 2-G	**164,945**	242,740
	171,835	249,630

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

Subsequent to year-end, the remaining Class B LP units were exchanged (note 28, "Subsequent events, Reorganization").

20 FUND UNIT BASED COMPENSATION

FUND UNIT OPTION PLAN

The Fund has an incentive unit option plan (the "Plan") for certain employees of the Partnership. The aggregate number of Fund units that may be issued under the Plan is limited to 5,250,000. Fund unit options issued under the Plan vest at the rate of one third on each of the three subsequent anniversaries of the grant date. All of the Fund unit options must be exercised over specified periods not to exceed five years from the date granted (ten years for options granted after December 31, 2010). The Fund unit options may be exercised in one of three ways, at the optionee's election: by purchasing from treasury the Fund units for the exercise price; by surrendering the Fund unit options and receiving cash equal to the difference between the current market price of the Fund units on the date of surrender and the exercise price for the Fund units underlying the options surrendered; or by surrendering the Fund unit options and receiving the number of Fund units from treasury computed by dividing the difference between the current market price of the Fund units on the date of surrender and the exercise price for the Fund units underlying the Fund unit options surrendered by the market price at the date of surrender. The Fund has the overriding right to substitute Fund units issued from treasury where an optionee has elected cash.

On February 12, 2008, 1,250,000 Fund unit options with an exercise price equal to the market price of $17.03 per unit were granted to 21 employees. The Fund unit options vest one third on each of the successive anniversaries of the grant date, and expire five years after the grant date if unexercised.

On February 18, 2009, 1,250,000 Fund options with an exercise price equal to the market price of $14.00 per unit were granted to 21 employees. The Fund unit options vest one third on each of the successive anniversaries of the grant date, and expire five years after the grant date if unexercised.

The Fund recorded $9,119 of general and administrative expenses with respect to the Fund unit options during the year ended December 31, 2010 (2009 – $4,220). As at December 31, 2010, $9,403 is included in accounts payable and accrued expenses (2009 – $4,205).

The Fund anticipates that Fund unit optionholders will exercise, and that the administrators of the Plan will settle, the Fund unit options for cash. The Fund, therefore, accounts for Fund unit options issued under the Plan as cash-settled liabilities. The Fund unit options are recorded at fair value at each balance sheet date, based on the market price of Fund units in excess of the exercise price, taking into the account the Fund unit options vested on a graded schedule. Forfeitures are recorded as they occur.

A summary of Fund unit option activities in 2010 and 2009 is as follows:

		2010		2009	
(expressed in thousands of Canadian dollars, except per unit amounts)	Weighted average remaining contractual life (years)	**Number of underlying Fund Units**	**Weighted average exercise price**	Number of underlying Fund Units	Weighted average exercise price
Fund unit options outstanding, January 1	3.63	**2,475,001**	**$ 15.50**	1,250,000	$ 17.03
Granted		**–**	**–**	1,250,000	14.00
Cancelled		**(16,666)**	**15.21**	(5,000)	17.03
Exercised for cash		**(937,391)**	**16.07**	(19,999)	17.03
Fund unit options outstanding, December 31	2.75	**1,520,944**	**15.15**	2,475,001	15.50

As at December 31, 2010 and 2009, Fund unit options are vested and exercisable as follows:

	2010	2009
Fund unit options exercisable at $17.03	**165,073**	395,001
Fund unit options exercisable at $14.00	**117,538**	–
	282,611	395,001

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 Fund 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 Fund 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 accounts prior to the applicable vesting date. Unvested Fund 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 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, 2010, the Fund recognized $9,986 (2009 – $9,059) of compensation costs under the LTIP.

From January 1, 2007 through December 31, 2009, awards were earned based on the amount by which the Fund's distributable cash per Fund unit exceeded a base distribution threshold of $1.20 per Fund unit per annum. The base distribution threshold is subject to adjustment at a minimum every three years. It was adjusted to $1.26 per Fund unit effective January 1, 2010. 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 Fund 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%

21 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 Credit Facilities.

The Fund's and the Fund's proportionate share of the joint ventures' future minimum rental commitments as at December 31, 2010 under the above-mentioned operating leases are set forth as follows:

2011	$ 112,037
2012	110,876
2013	110,063
2014	107,008
2015	103,965
Thereafter	674,909
	$ 1,218,858

Minimum rent expense relating to operating leases on a straight-line basis in 2010 was $114,140 (2009 – $109,418). In addition to the minimum rent expense, in 2010 the Fund incurred percentage rent charges of $2,808 (2009 – $1,508).

22 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 loss therein:

	2010	2009
Assets	**$ 4,314**	$ 3,838
Liabilities	**16,518**	12,089
Revenues	**4,633**	5,340
Expenses	**8,398**	9,599
Net loss	**(3,765)**	(4,259)

23 CHANGES IN OPERATING ASSETS AND LIABILITIES

The following summarizes the changes in operating assets and liabilities:

	2010	2009
Accounts receivable	**$ (520)**	$ (9,556)
Inventories	**958**	(246)
Prepaid expenses and other current assets	**551**	(363)
Accounts payable and accrued expenses	**(1,657)**	34,330
Income taxes payable	**16**	(14)
Deferred revenue	**9,820**	8,572
Accrued pension benefit liability	**440**	1,079
Other liabilities	**(9,844)**	(2,234)
	$ (236)	$ 31,568
Non-cash investing activities		
Property, equipment and leasehold purchases financed through accounts payable and accrued expenses	**$ 7,836**	$ 6,065

24 COMMITMENTS, GUARANTEES AND CONTINGENCIES

COMMITMENTS

As of December 31, 2010, the Fund has aggregate capital commitments as follows:

Capital commitments for eight theatres to be completed during 2011–2013	$ 56,312
Other capital commitments	12,653
Letters of credit	1,445

See note 21 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, 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. In the fourth quarter of 2009, the Fund was notified of claims by landlords of four theatres against the guarantees. A provision for these guarantees of $1,757, the estimated maximum amount payable, was recorded as occupancy expense in the December 31, 2009 consolidated financial statements. The Partnership reacquired the leases for two of the four theatres in 2010.

Also during 2006, the Partnership entered into an agreement with a related party to divest its 49% share in its three remaining Alliance Atlantis 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 one remaining lease.

The Fund has assessed the fair value of the lease guarantees and determined that the fair value of these guarantees as at December 31, 2010 is nominal. As such, no additional amounts have been provided in the consolidated financial statements for these guarantees. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Fund could face a substantial 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.

25 CONSENT AGREEMENT

The Partnership entered into a consent agreement (the "Consent Agreement") with the Commissioner of Competition (the "Commissioner") in respect of its acquisition of Famous Players on July 22, 2005. Under the terms of the Consent Agreement, the Partnership agreed to divest a total of 34 specified theatres, held by both the Partnership and Famous Players, within a specified period of time on the terms and conditions set out in the Consent Agreement. These conditions were met during the first quarter of 2006. The 34 specified theatres had been disposed of prior to December 31, 2006, as were five Alliance Atlantis branded theatres. Until May 27, 2010, the Partnership was required to provide the Commissioner with prior written notice of any acquisition by it of any non-Partnership operating theatre or assumption of lease where the remaining term exceeds two years. The Partnership also could not, during this time, reacquire any of the divested theatres without prior approval of the Commissioner. During 2009, the Partnership received permission from the Commissioner and reacquired one previously divested theatre for an immaterial amount. During 2010, the Partnership received permission from the Commissioner and reacquired three previously divested theatres, closing one immediately.

26 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.

27 NON-MONETARY TRANSACTIONS

The Fund occasionally enters into non-monetary arrangements with other parties to exchange goods or services. During the year ended December 31, 2010, the Fund provided advertising and media services to third parties and recognized advertising revenues of $7,157 (2009 – $9,270). The Fund received sponsorship and advertising services in exchange, recording marketing expenses of $7,962 (2009 – $7,913). The exchanges were measured at the value of the services provided by the Fund, by reference to similar services provided by the Fund for monetary consideration to arm's-length third parties other than those with whom the transactions were entered into.

28 SUBSEQUENT EVENTS

REORGANIZATION

Subsequent to the year-end, on January 1, 2011, the Fund completed the reorganization of the Fund from an income trust structure into a public corporation named Cineplex Inc. ("Cineplex"). The reorganization (the "Reorganization") was approved by the Ontario Superior Court of Justice on December 8, 2010. Cineplex now directly and indirectly owns and operates the businesses, which were previously owned and operated by the Fund and its subsidiaries. The management and trustees of the Fund are now the management and directors of Cineplex.

Prior to the Reorganization, holders of exchangeable Class B LP Units of the Partnership received common shares in the capital of Cineplex (the "Shares") in exchange for their LP Units, on a one-for-one basis. Additionally, pursuant to the Reorganization, holders of Fund units received Shares in exchange for their Fund units, on a one-for-one basis, making the Partnership a wholly owned subsidiary of Cineplex. Cineplex also assumed all of the covenants and obligations of the Fund under its outstanding convertible debentures and entered into a supplemental trust indenture. The Shares are listed on the TSX under the symbol "CGX".

On conversion of the convertible debentures, debentureholders are now entitled to receive Shares, rather than Fund units, on the basis of one Share in lieu of each Fund unit which the holder was previously entitled to receive. The convertible debentures continue to be listed on the TSX under the symbol "CGX.DB".

Equity-based compensation arrangements of the Fund will be continued by Cineplex, with Shares, rather than Fund units, on the basis of one Share in lieu of each Fund unit, which the employee was previously entitled to receive or exercise an option upon.

CREDIT FACILITY AMENDMENT

Cineplex announced that the Partnership entered into an amended and restated credit agreement (the "Third Amended Credit Facilities") effective January 1, 2011, reflecting the changes in its corporate structure implemented by virtue of the Reorganization. The terms of the Third Amended Credit Facilities are otherwise substantially similar to those contained in the Second Amended Credit Facilities previously entered into by the Partnership with the same lending syndicate.

29 COMPARATIVE FIGURES

Certain of the 2009 consolidated financial statement figures have been reclassified to conform to the 2010 consolidated financial statement presentation.

Board of directors

Robert Bruce

Mr. Bruce currently serves as President, Communications for Rogers Communications Inc., having previously served as President, Rogers Wireless from May 2005 to September 2009. In his current role, he is responsible for marketing, sales, distribution, retail stores, customer care and operations for both cable and wireless. Mr. Bruce joined Rogers Wireless in September 2001 as Executive Vice President and Chief Marketing Officer and President, Wireless Data Services. Prior to joining Rogers Wireless, Mr. Bruce was Senior Vice President, Marketing at BCE Mobile Communications. Previously, he held senior operating and marketing roles with Pepsi-Cola Canada, Oshawa Foods Limited and Warner Lambert. In addition to his role as a director of Cineplex Inc., Mr. Bruce sits on the board of the Canadian Wireless Telecommunications Association and the United Way Campaign Cabinet.

Joan Dea

Ms. Dea is the Chief Executive Officer of Beckwith Investment Corp., a private investment and advisory company. From 2003 to 2008, Ms. Dea worked with BMO Financial Group, most recently as Executive Vice President, Head of Strategic Management and Corporate Marketing. In that capacity, she was responsible for strategy development and performance management, branding and customer experience and major change initiatives. From 1989 to 2003, Ms. Dea worked at the Boston Consulting Group and its predecessor firm, Canada Consulting Group, where she was a leader on issues of global competitiveness, customer experience strategies and financial services. She became a partner in 1994. She began her career in Corporate Finance with Chemical Bank. In addition to her role as a director of Cineplex Inc., Ms. Dea is a member of the board of directors of Torstar Corporation and is a leader with several community organizations. She was named one of the 100 most powerful women in Canada in 2007.

Ian Greenberg

Mr. Greenberg has been the President and Chief Executive Officer of Astral Media Inc. since 1996. He also serves as a member of the board of directors of Astral Media Inc. in addition to his role as a director of Cineplex Inc. He is actively involved in a number of industry and charitable associations, including the MS Society of Canada, the Canadian Cancer Society, United Way, Centraide and the Montreal Museum of Fine Arts. A graduate of Harvard Business School's Advanced Management Program, Mr. Greenberg was named one of Québec's most influential business personalities by Revue Commerce in February 2001. In 2007, Mr. Greenberg received the prestigious Ted Rogers and Velma Rogers Graham Award for his unique contribution to the Canadian broadcasting system and in November 2008, he was inducted into the Canadian Association of Broadcasters' Hall of Fame.

Ellis Jacob, C.M.

Mr. Jacob has been working in the motion picture exhibition industry since 1987. Prior to assuming his current position as President and Chief Executive Officer of Cineplex Inc., Mr. Jacob was Chief Executive Officer and co-founder of Galaxy Entertainment Inc. Prior to founding Galaxy, Mr. Jacob represented Alliance Atlantis Communications Inc. as Head of Integration during 1998 and 1999. From 1987 to 1998, Mr. Jacob held various positions with Cineplex Odeon Corporation as Vice President, Finance, Chief Financial Officer, Executive Vice President and, ultimately, Chief Operating Officer. Mr. Jacob is a director of Cineplex Inc., as well as a member of the board of directors and a member of the finance committee of the Toronto International Film Festival. He is a director of the Motion Picture Theatre Associations of Canada and a member of the board of directors of the National Association of Theatre Owners ("NATO") in the United States as well as a member of its executive committees. Mr. Jacob is also a member of the board of directors and chair of the audit committee for Husky Injection Molding Systems Ltd., and director and member of the audit committee of Dundee Corporation and Dundee Capital Markets Inc. He is also a member of the board of directors for Baycrest, a member of Baycrest's strategic planning committee and chairs its finance and audit committee. Additionally, he is a member of the board of governors for Mount Sinai Hospital. Mr. Jacob holds the ICD.D designation from the Institute of Corporate Directors and was appointed a Member of the Order of Canada in December 2010.

Sarabjit Marwah

Mr. Marwah is currently the Vice-Chairman and Chief Operating Officer of The Bank of Nova Scotia ("Scotiabank"). He is responsible for the bank's corporate financial and administrative functions, and is actively involved in developing the bank's strategic plans and priorities. He joined Scotiabank's Finance Division in 1979 and over the years held successively more senior positions, including Deputy Comptroller, Senior Vice-President and Comptroller, and Executive Vice-President Finance. He was appointed Chief Financial Officer in 1998, Senior Executive Vice-President & Chief Financial Officer in 2002 and his current role in 2008. In addition to his role as a director of Cineplex Inc., Mr. Marwah is a member of the board of directors of several Scotiabank subsidiaries as well as The Hospital for Sick Children. He was past chair of the Humber River Regional Hospital, a past member of the boards of directors of the C.D. Howe Institute, Torstar Corporation, and the 2008 and 2009 United Way Cabinets. He remains active in several community organizations.

Anthony Munk

Mr. Munk is currently a Managing Director of Onex Corporation, a leading North American private equity firm. Prior to joining Onex in 1988, Mr. Munk was a vice-president with First Boston Corporation in London, England. He is chair of the board of directors of Husky Injection Molding Systems Ltd. and a member of the boards of directors of Barrick Gold Corporation, RSI Home Products, Tomkins Building Products, Inc. and Cineplex Inc.

Edward Sonshine, O.Ont., Q.C.

Mr. Sonshine is the President and Chief Executive Officer as well as a member of the board of trustees of RioCan Real Estate Investment Trust. He has held these positions since the company's founding in 1993. In addition to his director role with Cineplex Inc., Mr. Sonshine is a member of the board of directors of the Royal Bank of Canada and chair of the board of directors of Chesswood Group Limited. Mr. Sonshine is also active in the community and currently serves as vice chair of Mount Sinai Hospital and as chair of the Israel Bonds Organization of Canada. Mr. Sonshine was appointed Queen's Counsel in 1983 and a Member of the Order of Ontario in 2011.

Robert J. Steacy

Mr. Steacy retired as Executive Vice President and Chief Financial Officer of Torstar Corporation in 2005, where he served as the senior financial officer for 16 years. Mr. Steacy has been a Chartered Accountant since 1976 (Institute of Chartered Accountants of Ontario). In addition to sitting on the board of directors of Cineplex Inc., he currently serves as a director of the Canadian Imperial Bank of Commerce and of Domtar Corporation, where he is chair of the audit committee. Mr. Steacy also serves as a director of Postmedia Network Canada Corporation, a private media company, and OCP Holdings Corporation, a private investment company.

Phyllis Yaffe (Chair)

In 2007, Ms. Yaffe retired from the role of Chief Executive Officer of Alliance Atlantis Communications Inc., a position that she held from 2005. She has held a number of strategic positions in film and television in Canada since the 1980s including Chief Operating Officer of Alliance Atlantis Communications Inc. and Chief Executive Officer of Alliance Atlantis Broadcasting Inc. In addition to being chair of the board of directors of Cineplex Inc., she is a member of the boards of directors of Astral Media Inc. and Lions Gate Entertainment Corporation and is the lead director on the board of directors of Torstar Corporation. She is also chair of the board of governors for Ryerson University and chair of Women Against Multiple Sclerosis. Ms. Yaffe was selected as the Canadian Women in Communications 1999 Woman of the Year and received the Lifetime Achievement Award from Women in Film and Television in 2000.

Investor information

BOARD OF DIRECTORS

Robert Bruce[4]
President, Communications
Rogers Communications Inc.
Toronto, ON

Joan Dea[5]
Chief Executive Officer
Beckwith Investment Corp.
Ross, CA

Ian Greenberg[5]
President & Chief Executive Officer
Astral Media Inc.
Montreal, QC

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

Sarabjit (Sabi) Marwah[4]
Vice Chairman &
Chief Operating Officer
Scotiabank
Toronto, ON

Anthony Munk[4]
Managing Director
Onex Corporation
Toronto, ON

Edward Sonshine, O.ONT., QC[2]
President & Chief Executive Officer
RioCan Real Estate Investment Trust
Toronto, ON

Robert Steacy[3]
Corporate Director
Toronto, ON

Phyllis Yaffe[1][5]
Corporate Director
Toronto, ON

INVESTOR RELATIONS

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STOCK EXCHANGE LISTING

The Toronto Stock Exchange
CGX

AUDITORS

PricewaterhouseCoopers LLP
Toronto, ON

TRANSFER AGENT

Canadian Stock Transfer Company
(formerly CIBC Mellon Trust Company)
Toronto, ON
416 643 5500
1 800 387 0825
email: inquiries@cibcmellon.com
www.cibcmellon.com

ANNUAL MEETING

Wednesday, May 18, 2011
10:30 AM Eastern Standard Time
Scotiabank Theatre Toronto
259 Richmond St. West
Toronto, ON

(1) Chair of the Board of Directors of Cineplex Inc.
(2) Chair of the Compensation, Nominating and Corporate Governance Committee
(3) Chair of the Audit Committee
(4) Member of the Audit Committee
(5) Member of the Compensation, Nominating and Corporate Governance Committee

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