CINEPLEX GALAXY INCOME FUND

GO BIG

FIRST QUARTER 2007

Cineplex Entertainment LP owns, operates or has an interest in 128 theatres with 1,290 screens. The company operates theatres with the following top tier brands: Cineplex Odeon, Galaxy and Famous Players (including Colossus, Coliseum, SilverCity) and Scotiabank Theatres.

TABLE OF CONTENTS

1) Management's Discussion and Analysis of Financial Position
26) Cineplex Galaxy Income Fund
40) Cineplex Galaxy Limited Partnership

Letter to Unitholders:

I am very pleased to present our first quarter 2007 results to you. Canadian box office revenues were up approximately 2-3% this quarter versus the same period last year, while Cineplex box office revenues were up 9.6% versus the first quarter last year principally driven by strong film performance, new theatres that opened in 2006 and the success of our Metropolitan Opera – LIVE in High Definition series.

I am also very pleased to report that our Cineplex Media group generated an increase in revenues of 23.7% this quarter versus the same period last year. We continue to focus on this area of the business and see tremendous opportunities for continued growth. In March, we expanded the distribution of our Famous Magazine from Famous Players brand theatres only into all of our theatres across Canada.

Total revenues for this quarter were up 9.8% at $178.6 million compared to $162.7 million reported for 2006.

Our distributable cash per unit for the quarter established a new first quarter record at $0.2794 compared to $0.1823 per unit in the prior year. Our adjusted EBITDA for the quarter also established a new first quarter record of $24.7 million compared to $18.3 million for 2006. Our declared distribution per unit for this period was $0.2874. We are pleased to announce an increase in cash distributions per unit to an annual rate of $1.20 from the current annual rate of $1.1496 effective for the month of May 2007.

In May we opened Galaxy Cinemas Collingwood, a new 7-screen movie complex North of Toronto. Later this year, a new 12 screen SilverCity cinema will open in Oakville and will feature a new prototype theatre design that will include a one-of-a-kind entertainment centre featuring premium bowling, two licensed lounges, pool tables and three VIP auditoriums with "service at your seat."

We are also very pleased to announce the very successful phase one launch in the greater Toronto area of SCENE, our new loyalty marketing program with Scotiabank. Phase two is scheduled to expand the program across the country and will launch on May 2nd.

On behalf of the Board of Directors,

Ellis Jacob
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of March 31, 2007, Cineplex Galaxy Income Fund indirectly owned an approximate 59.7% interest in Cineplex Entertainment Limited Partnership. For the period ended March 31, 2007, Cineplex Galaxy Income Fund did not consolidate the results and operations of Cineplex Entertainment Limited Partnership (see "Subsequent Events" below for a discussion of prospective consolidation). For this reason we present the unaudited interim financial statements with accompanying notes therein for both Cineplex Galaxy Income Fund and Cineplex Entertainment Limited Partnership. The following management's discussion and analysis of the Cineplex Entertainment Limited Partnership financial condition and results of operations should be read together with the financial statements and related notes. This management's discussion and analysis (MD&A) contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our annual information form and in this MD&A. Those risks and uncertainties include adverse factors generally encountered in the film exhibition industry such as poor film product and unauthorized copying; the risks associated with world events, including war, terrorism, international conflicts, natural disasters, extreme weather conditions and infectious diseases, changes in income tax legislation, and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of Cineplex Galaxy Income Fund or Cineplex Entertainment Limited Partnership, its financial or operating results or its securities. Additional information, including Cineplex Galaxy Income Fund's Annual Information Form (AIF) can be found on SEDAR at www.sedar.com.

OVERVIEW

Cineplex Entertainment Limited Partnership (the "Partnership") was formed on November 26, 2003 to acquire substantially all of the business assets of Cineplex Odeon Corporation ("COC") and all of the shares of Galaxy Entertainment Inc. ("GEI"). The Partnership's investors include Cineplex Galaxy Trust (the "Trust"), Cineplex Entertainment Corporation (the "General Partner"), COC, Cineplex Odeon (Quebec) Inc. and certain former investors in GEI. The Trust is wholly owned by Cineplex Galaxy Income Fund (the "Fund"). On July 22, 2005 the Partnership completed the acquisition (the "Acquisition") of the Famous Players Limited Partnership ("Famous Players") movie exhibition business from Viacom Inc. ("Viacom") and Viacom Canada Inc. ("Viacom Canada"), becoming Canada's largest film exhibition operator with theatres in six provinces. The Partnership's theatre circuit is concentrated in major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. As of March 31, 2007, the Partnership owned, leased or had a joint-venture interest in 1,290 screens in 128 theatres. This total includes 58 screens in seven theatres held in joint ventures.

As result of the issuance of units of the Fund ("Fund Units") by the Fund during 2004, 2005 and 2006, in one-for-one exchange's for units of the Partnership ("LP Units") under provisions of an exchange agreement entered into at the time of the Fund's IPO (as amended or restated from time to time, the "Exchange Agreement") designed to facilitate the exchange LP Units into Fund, Units transactions surrounding the acquisition of Famous Players, and the additional investment by the Fund on June 20, 2006 in connection with an equity offering by the Fund, as at March 31, 2007 the Fund indirectly owned approximately 59.7% of the Partnership (excluding the Class C Limited Partnership Units ("Class C LP Units")). On April 2, 2007, as a result of a one-for-one exchange of 9,122,752 LP Units for Fund Units, the

Funds' indirect ownership in the Partnership increased to 75.7% (excluding the Class C LP Units) (see "Subsequent Events" below).

REVENUE AND EXPENSES

Revenues

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

Expenses

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

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

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

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

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

Accounting for joint ventures

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

DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

RESULTS OF OPERATIONS

The following table presents summarized financial data for the Partnership for the three months ended March 31, 2007 and March 31, 2006 (expressed in thousands of dollars except per LP Unit and per patron data).

	For the three months ended March 31,	
	2007	**2006**
Total revenue	$178,596	$162,662
Cost of operations	153,941	144,380
Income from operations	24,655	18,282
Amortization	16,274	15,238
Loss on disposal of theatre assets	1,867	184
Interest on long-term debt	7,506	7,414
Interest on loan from the Cineplex Galaxy Trust	3,500	3,500
Interest income	(252)	(104)
Income tax (recovery) expense	(465)	55
Loss from discontinued operations	-	(958)
Non-controlling interest	-	(37)
Net income	($3,775)	($8,926)
Net income per LP Unit (i)	($0.066)	($0.162)
Total assets	759,486	775,777
Total long term financial liabilities (ii)	353,000	351,100
Cash distributions declared per LP Unit	$0.2874	$0.2874
Distributable cash per LP Unit	$0.2794	$0.1823
Box office revenue per patron	$8.13	$7.81
Concession revenue per patron	$3.77	$3.72
Film cost as a percentage of box office revenue	50.4%	49.8%
Attendance	13,893	13,195

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

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

	For the three months ended March 31, 2007	2006
Cash used in operating activities	($14,091)	($24,119)
Less: Changes in operating assets and liabilities (i)	28,591	32,458
Tenant inducements (ii)	(617)	(974)
Capital lease payments	(357)	(327)
Maintenance capital expenditures (iii)	(1,495)	(849)
Add: Interest on loan from Cineplex Galaxy Trust (iv)	3,500	3,500
Non-cash components in operating assets and liabilities (v)	421	320
Expenses funded through integration and restructuring reserve (vi)	16	44
Distributable cash	$15,968	$10,053
Number of LP Units outstanding (vii)	57,150,421	55,150,421
Distributable cash per LP Unit (vii)	$0.2794	$0.1823

(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) Maintenance capital expenditures are funded out of distributable cash. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005. Maintenance capital expenditures for the three months ended March 31, 2006 and 2007 are not representative of the expected run-rate due to seasonality fluctuations and timing of commitments.

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

(v) Reflects non-cash expenses including accretion on Class C LP Units and amortization of deferred gain on a RioCan Real Estate Investment Trust ("RioCan") sale-leaseback transaction. 2006 also includes non-cash amortization of swap on extinguished debt.

(vi) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash. See discussion under "Liquidity and Capital Resources - Future Obligations" below.

(vii) Excluding Class C LP Units

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

	For the three months ended March 31,	
	2007	2006
Income before undernoted	$24,655	$18,282
Adjust for:		
Interest on long-term debt	(7,506)	(7,414)
Interest income	252	104
Income taxes - current portion	(6)	(55)
Maintenance capital expenditures (i)	(1,495)	(849)
Principal component of capital lease obligations	(357)	(327)
Expenses funded through integration and restructuring reserve (ii)	16	44
Income before undernoted from discontinued operations	-	(620)
Non-cash items:		
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(447)	(84)
Amortization of debt issuance costs	186	652
Other non-cash items (iii)	670	320
Distributable Income	$15,968	$10,053

(i) Maintenance capital expenditures are funded out of distributable cash. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005. Maintenance capital expenditures for the three months ended March 31, 2006 and 2007 are not representative of the expected run-rate due to seasonality fluctuations and timing of commitments.

(ii) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash. See discussion under "Liquidity and Capital Resources – Future Obligations" below.

(iii) Includes accretion on Class C LP Units, amortization of deferred gain on RioCan sale-leaseback transaction and non-cash movement in the fair value of the interest rate swap (2006 - amortization of swap on extinguished debt).

Three months ended March 31, 2007 compared to the three months ended March 31, 2006 for the Partnership

Total revenues. Total revenues for the three months ended March 31, 2007 increased $15.9 million to $178.6 million. A discussion of the factors affecting the changes in box office, concession and other revenues for this period in comparison to the same period in 2006 is provided below.

Box office revenues. Box office revenues for the three months ended March 31, 2007 increased $9.9 million to $112.9 million compared to the same period in 2006. Sources report that Canadian industry box office was up approximately 2.0-3.4% for the first quarter of 2007 due to stronger overall film product in the first quarter of 2007 versus the same quarter in 2006. Box office revenues also include admissions for alternative programming including opera, hockey, wrestling and music concerts. The increase in box office revenues was due to increased average ticket prices ($4.4 million), increased same store attendance levels ($2.0 million) and an increase due to new theatres ($4.2 million), partially offset by the impact of disposed theatres ($0.7 million). The average box office revenue per patron of the Partnership increased from $7.81 to $8.13. The increase in average box office revenue per patron was a result of a slate of films that catered to adult audiences in the first quarter of 2007 including *300* and *Wild Hogs*.

Concession revenues. Concession revenues for the three months ended March 31, 2007 increased $3.3 million to $52.3 million compared to the same period in 2006. The increase was due to increased same store attendance levels ($1.0 million), increased average concession revenues per patron ($0.6 million) and additional revenues from the operation of new theatres ($2.1 million), partially offset by the impact of disposed theatres ($0.4 million). The average concession revenue per patron of the Partnership increased from $3.72 to $3.77.

Other revenues. Other revenues for the three months ended March 31, 2007 increased $2.8 million, or 26.1% to $13.4 million. The components of other revenue are as follows (expressed in millions of dollars):

	Three months ended March 31, 2007	Three months ended March 31, 2006	% Change
Media	$ 7.3	$ 5.9	24%
Games	1.4	1.2	17%
Other	4.7	3.5	34%
	$ 13.4	$ 10.6	26%

Media revenue increased 24% over the prior year primarily as a result of the incremental contribution of the digital pre-show program which was implemented throughout 2006 and revenue enhancement initiatives. Games revenues increased 17% as a result of a combination of increased attendance and an increase in game machine utilization. The other component increased principally due to breakage revenue for the first quarter of 2006 being adversely impacted by the standardization and net extension of expiry dates on the Partnership's gift certificate and discount ticket programs implemented in November 2005.

Film cost. Film cost for the three months ended March 31, 2007 increased $5.6 million to $56.9 million. As a percentage of box office revenue, film cost increased to 50.4% for the three months ended March 31, 2007 from 49.8% for the three months ended March 31, 2006.

Cost of concessions. Cost of concessions for the three months ended March 31, 2007 increased $0.7 million to $10.4 million. The increase in cost of concessions was due to additional costs from the operation of new theatres ($0.4 million), increased purchase incidence ($0.2 million) and increased same-store attendance ($0.2 million), partially offset by the impact of disposed theatres ($0.1 million). As a percentage of concession revenues, cost of concessions increased from 19.8% for the three months ended March 31, 2006, to 19.9% for the three months ended March 31, 2007.

Occupancy expense. Occupancy expense for the three months ended March 31, 2007 decreased $0.4 million to $36.6 million. The decrease was primarily due to a one-time benefit related to the settlement of lease related amounts during the period ($1.4 million) and the impact of disposed theatres ($0.2 million), partially offset by the incremental costs associated with new theatres that were opened ($1.1 million) and rent increases ($0.1 million).

Other theatre operating expenses. Other theatre operating expenses for the three months ended March 31, 2007 increased $3.4 million to $41.7 million. The overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($1.5 million) and increased operating costs ($2.1 million) due to variable costs and inflationary increases, launch costs associated with the SCENE loyalty program and development costs of the Partnership's interactive business, partially offset by the impact of disposed theatres ($0.2 million).

General and administrative costs. General and administrative costs increased from $8.1 million for the three months ended March 31, 2006 to $8.4 million for the three months ended March 31, 2007 as a result of increased costs under the Partnership's Long Term Incentive Plan ($1.0 million), partially offset by decreased supplies and services ($0.4 million), professional fees ($0.2 million) and other corporate expenses ($0.1 million).

Income before undernoted. The Partnership reported income before undernoted for the three months ended March 31, 2007 of $23.6 million as compared to income before undernoted of $18.3 million for the three months ended March 31, 2006. This change was due to the aggregate effect of the factors described above.

Amortization. For the three months ended March 31, 2007 amortization costs increased $1.0 million to $16.3 million. The increase was due primarily to the impact of new theatres.

Loss on disposal of theatre assets. The loss on disposal of theatre assets represents the loss on theatre assets that were sold or otherwise disposed of. For the three months ended March 31, 2007 the Partnership recorded a loss of $1.9 million as compared to a loss of $0.2 million for the three months ended March 31, 2006. The loss primarily relates to a lease termination payment of $2.0 million related to a theatre generating negative cash flow.

Interest on long-term debt and capital lease obligations. Interest on long-term debt for the three months ended March 31, 2007 increased to $7.5 million from $7.4 million for the three months ended March 31, 2006. Interest expense is comprised of $0.2 million for the amortization of deferred financing fees, interest on capital leases of $0.7 million, interest of $1.6 million and accretion expense of $0.6 million on the Class C LP Units and $4.4 million of interest on long-term debt. For the three months ended March 31, 2006 interest expense includes $0.6 million for the amortization of deferred financing fees, interest on capital leases of $0.7 million, interest of $1.6 million and accretion expense of $0.6 million on the Class C LP Units and $3.9 million of interest on long-term debt.

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

Interest income. Interest income was $0.3 million for the three months ended March 31, 2007 and $0.1 million for the three months ended March 31, 2006.

Income taxes. For the three months ended March 31, 2007, a subsidiary of the Partnership recorded a future income tax recovery of $0.5 million (2006 – current income tax expense of $0.1 million).

Income from discontinued operations. Income from discontinued operations for the three months ended March 31, 2006 amounted to a loss of $1.0 million, of which $0.3 million related to the costs associated with the disposal of theatre properties and a loss of $0.7 million arising from the operations of

the Alliance Atlantis Cinemas branded theatres that were still held, in part, by the Partnership and the seven Quebec theatres which were sold at the end of the first quarter of 2006.

Non-controlling interests. Non-controlling interests for the three months ended March 31, 2006 of $37 thousand) represents the minority share of the results of FP Media Inc., which is in the process of being wound up.

Net loss. Net loss for the three months ended March 31, 2007 decreased from $8.9 million for the three months ended March 31, 2006 to $3.8 million, primarily due to the net effect of all the other factors described above.

EBITDA

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

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

	Three months ended March 31,	
	2007	2006
Net loss	($3,775)	($8,926)
Amortization	16,274	15,238
Interest on long-term debt	7,506	7,414
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(252)	(104)
Income tax (recovery) expense	(465)	55
EBITDA	$22,788	$17,177
Non-controlling interest	-	(37)
Loss from discontinued operations	-	958
Loss on disposal of theatre assets	1,867	184
Adjusted EBITDA	$24,655	$18,282

SEASONALITY AND QUARTERLY RESULTS

Historically, the Partnership's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures are generally released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. In order to stabilize working capital requirements during the slower quarters, the Partnership has available for its use a $50.0 million Working Capital Facility (see "Liquidity and Capital Resources – Credit Facilities" discussed below). As of March 31, 2007, $5.0 million was drawn on the Working Capital Facility.

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

	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total revenue	$178,596	$194,964	$198,976	$183,642	$162,662	$193,186	$151,879	$75,197
Cost of operations	153,941	158,539	163,273	156,430	144,380	157,735	140,883	63,688
Income from operations	24,655	36,425	35,703	27,212	18,282	35,451	10,996	11,509
Amortization	16,274	17,081	16,340	15,834	15,238	16,235	14,136	6,364
Loss (gain) on disposal of theatre assets	1,867	793	344	(1,173)	184	(54)	195	(19)
Loss on extinguishment of debt	-	-	-	-	-	-	4,156	-
Loss on impairment of assets	-	-	-	-	-	-	4,296	-
Interest on long-term debt	7,506	7,912	8,002	8,026	7,414	7,691	6,160	2,344
Interest on loan from Cineplex Galaxy Trust	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Interest income	(252)	(248)	(237)	(156)	(104)	(91)	(109)	(60)
Income taxes	(465)	(112)	(1,450)	243	55	(925)	(712)	119
Income (loss) from discontinued operations	-	(2,830)	108	1,607	(958)	(620)	26,912	981
Non-controlling interest	-	106	10	(352)	(37)	1,214	614	-
Net income (loss)	($3,775)	$4,563	$9,302	$2,897	($8,926)	$7,261	$5,672	$242
Net income (loss) per LP Unit (i)	($0.066)	$0.080	$0.163	$0.052	($0.162)	$0.132	$0.106	$0.005
Cash flows from operations	(14,091)	79,639	30,415	15,109	(24,119)	57,141	327	6,710
Cash flows from investing activities	(8,804)	(13,771)	(21,757)	(21,706)	(15,634)	(10,083)	(286,671)	(23,622)
Cash flows from financing activities	(5,984)	(33,182)	(6,778)	7,458	14,914	(26,697)	302,255	2,292
Net change in cash	($28,879)	$32,686	$1,880	$861	($24,839)	$20,361	$15,911	($14,620)
Box office revenue per patron	$8.13	$8.17	$8.09	$7.87	$7.81	$7.97	$7.76	$7.50
Concession revenue per patron	$3.77	$3.67	$3.77	$3.72	$3.72	$3.68	$3.40	$3.26
Attendance	13,893	14,369	15,380	14,481	13,195	14,815	12,471	6,420

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

Distributable Cash

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

	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash used in operating activities	$(14,091)	$79,639	$30,415	$15,109	$(24,119)	$57,141	$327	$6,710
Less: Changes in operating assets and liabilities (i)	28,591	(46,995)	5,027	4,487	32,458	(27,864)	8,922	(384)
Tenant inducements (ii)	(617)	(6,829)	(10,604)	(2,907)	(974)	(5,497)	(269)	(605)
Capital lease payments	(357)	(347)	(345)	(339)	(327)	(322)	(210)	-
Dividends paid by subsidiary to non-controlling interest	-	-	-	(196)	-	(490)	(1,372)	-
Maintenance capital expenditures (iii)	(1,495)	(4,039)	(1,905)	(1,057)	(849)	(1,482)	(590)	(1,304)
Add: interest on loan from Cineplex Galaxy Trust (iv)	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Non cash components in operating assets and liabilities (v)	421	320	333	312	320	319	283	-
Expenses funded through integration and restructuring reserve (vi)	16	20	27	32	44	65	784	-
Distributable cash	$15,968	$25,269	$26,448	$18,941	$10,053	$25,370	$11,375	$7,917
Number of LP units outstanding (vii)	57,150,421	57,150,421	57,150,421	55,809,762	55,150,421	55,150,421	55,150,421	47,566,974
Distributable cash per LP Unit	$0.2794	$0.4421	$0.4628	$0.3394	$0.1823	$0.4600	$0.2063	$0.1664

(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 flow.
(iii) Maintenance capital expenditures are funded out of distributable cash. Board approved projects are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities"). Certain integration related capital expenditures are funded out of reserve funds established on November 26, 2003 and July 22, 2005. Maintenance capital expenditures for 2006 are not representative of the expected run-rate as the Partnership has focused on integrating the two circuits and evaluating capital requirements. Maintenance capital expenditures for the period ended March 31, 2007 are not representative of the expected run-rate due to seasonality fluctuations and timing of commitments.
(iv) Subject to "Catch-up Payment" provision and is considered part of distributable cash.
(v) Reflects non-cash expenses including accretion on Class C LP Units, amortization of deferred gain on RioCan sale-leaseback transaction and amortization of swap on extinguished debt.
(vi) Amounts financed by the $25 million reserve set up upon completion of the Acquisition not considered a use of distributable cash. See discussion under "Liquidity and Capital Resources – Future Obligations" below.
(vii) LP Units outstanding reflect the issuance on July 22, 2005 of 6,835,000 Class A LP Units and 748,447 Class D LP Units to the fund the Acquisition and the June 20, 2006 issuance of 2,000,000 Class A LP Units, and excludes Class C LP Units.

Balance Sheet

Assets

Assets decreased $60.2 million to $759.5 million as at March 31, 2007 due mainly to a decrease in cash of $28.9 million, accounts receivable of $15.6 million, property, equipment and leaseholds of $9.5 million, and goodwill of $4.0 million.

Accounts receivable. Accounts receivable decreased $15.6 million to $19.9 million as at March 31, 2007 from $35.5 million as at December 31, 2006. This decrease was due mainly to the collection of media advertising receivables from the 2006 holiday season.

Fixed assets. The decrease in fixed assets from $447.9 million as at December 31, 2006 to $438.4 million as at March 31, 2007 is due to amortization expenses ($14.9 million) offset by capital expenditures primarily on new theatre builds ($5.4 million).

Goodwill. Goodwill decreased by $4.0 million from $200.9 million as at December 31, 2006 to $196.9 million as at March 31, 2007. The decrease is due to a $0.6 million payment received relating to a lease for a closed property for which a shutdown accrual had been recorded ($3.4 million). Upon termination of the lease, both the payment and the accrual were charged to goodwill.

Liabilities

Liabilities decreased $39.7 million from $784.8 million as at December 31, 2006 to $741.3 million as at March 31, 2007 primarily due to a decrease in accounts payable and accrued expenses of $37.4 million and a decrease in deferred revenue of $11.9 million, offset by an increase in borrowings, net of transitional adjustments, of $7.3 million.

Accounts payable and accrued expenses. Accounts payable and accrued expenses decreased from $90.6 million as at December 31, 2006 to $53.2 million as at March 31, 2007. The decrease is due to the settlement of year end liabilities that were high due to increased business volumes during the fourth quarter of 2006.

Deferred revenue. Deferred revenue decreased by $11.9 million to $38.3 million as at March 31, 2007 from $50.2 million as at December 31, 2006. This was due primarily to the redemption of Cineplex gift cards and coupons that were sold during the holiday season in December 2006 and a traditional slow period in gift card and coupon sales in the first quarter of 2007.

Current and long-term debt. Current debt increased $5.0 million at March 31, 2007. The Partnership borrowed $5.0 million on the Working Capital Facility to fund general corporate requirements during a historically slower period of the year. Long term debt increased from $248.0 million as at December 31, 2006 to $250.3 million as at March 31, 2007 as a result of amounts borrowed to fund construction and approved projects partially offset by a $2.9 million transitional adjustment upon the adoption of CICA Handbook section 3855.

Outstanding Fund Units

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

	2007		2006	
	Number of Fund Units	Amount	Number of Fund Units	Amount
Fund Units beginning of year	34,116,698	$428,365	27,838,992	$334,287
Issuance of Fund Units under Exchange agreement	-	-	85,240	1,189
	34,116,698	$428,365	27,924,232	$335,476

Class B and Class D LP Units of the Partnership may be exchanged for Fund Units. As at March 31, the following Class B and Class D LP Units had not been exchanged for Fund Units:

	Number of Units	
	2007	**2006**
Class B Series 1	19,038,502	20,297,954
Class B Series 2-C	2,086,957	2,086,957
Class B Series 2-G	1,779,264	4,092,831
Class D	129,000	-
	23,033,723	26,477,742

On April 2, 2007, as a result of a one-for-one exchange of 9,122,752 LP Units for Fund Units, the Funds' indirect ownership in the Partnership increased to 75.7% (excluding Class C LP Units) (see "Subsequent Events" below).

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

Cash used by operating activities was $14.1 million for the three months ended March 31, 2007 as compared to a use of $24.1 million for the three months ended March 31, 2006. The primary reason for the difference was a decrease in the net loss for the period versus the same period one year earlier ($5.2 million), a decrease in changes in operating assets and liabilities versus the same period one year earlier ($3.9 million), and an increase in the non-cash loss on disposal of theatre assets ($1.3 million).

Investing Activities

Cash used by investing activities for the three months ended March 31, 2007 of $8.8 million primarily related to capital expenditures ($4.9 million), a lease guarantee payment (see "Future Obligations" below) ($4.5 million) and theatre shutdown payments ($2.0 million), partially offset by proceeds from real estate transactions ($3.0 million).

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

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

Financing Activities

Cash used by financing activities for the three months ended March 31, 2007 of $3.3 million was due primarily to distribution payments ($12.9 million), partially offset by net borrowings under the Amended Credit Facilities ($10.0 million). Cash provided by financing activities for the three months ended March 31, 2006 of $14.9 million was due primarily to net borrowings under the Amended Credit Facilities ($27.6 million), partially offset by distribution payments ($12.4 million).

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

Distributions

Partnership distributions are made on a monthly basis to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. For the three months ended March 31, 2007, the Partnership's distributable cash flow per LP Unit was $0.2794 compared to $0.1823 for the three months ended March 31, 2006. The declared distribution per LP Unit and interest on the Galaxy Note (see "Credit Facilities" below) per LP Unit for each of these periods totaled $0.2874. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts, as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

As distributions on the Class C LP Units are made twice a year, on the business day before June 30 and December 31, the Partnership made no distributions on the Class C LP Units during the three months ended March 31, 2007. Distributions on Class C LP Units are deducted by the Partnership in computing its net income and distributable income.

For the three months ended March 31, 2007 and March 31, 2006, the Fund declared distributions totaling $0.2874 per Fund Unit. The Fund is entirely dependent on distributions from the Partnership and interest payments from GEI to make its own distributions.

The after-tax return to unitholders of the Fund subject to Canadian federal income tax from an investment in Fund Units will depend, in part, on the composition for tax purposes of the distributions paid by the Fund, portions of which may be fully or partially taxable or may constitute non-taxable returns of capital, which are not included in a unitholder's income but which reduce the adjusted cost base of the

Fund Units to the unitholder. The composition for tax purposes of these distributions may change over time, thus affecting the after-tax return to such unitholders. For the year ended December 31, 2006, 93.3% of the Fund's distributions ($1.07256 per Fund Unit) represented taxable income and 6.7% ($0.07704 per Fund Unit) representing a return of capital to the unitholder. For the year ended December 31, 2005, 67.3% of the Fund's distributions ($0.77332 per Fund Unit) represented taxable income, 16.6% of the Fund's distributions ($0.19097 per Fund Unit) represented a capital gain with the balance, 16.1% of the Fund's distributions ($0.18531 per Fund Unit) representing a return of capital to the unitholder.

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

On October 31, 2006 the Department of Finance (Canada) introduced modifications to the income tax rules that will result in the taxation of distributions made by the Fund beginning in the year 2011. See "Accounting Policies and Recent Developments – Income Taxes".

Credit Facilities

In connection with the Acquisition, the Partnership entered into the Amended Credit Facilities that are comprised of the following:

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

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

The Working Capital Facility is a revolving facility available for general corporate purposes, including up to $15 million to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The Working Capital Facility may be extended for a period not to exceed the maturity date of the Term Facility.

The Development Facility is to be used for the development or acquisition of projects approved by the Trustees of the Fund. The Development Facility has a term of four years and is payable in full at maturity.

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

During the three months ended March 31, 2007, the Partnership borrowed $21.0 million and repaid $11.0 million under the Amended Credit Facilities. As at March 31, 2007 the Partnership had $5.0 million outstanding under the Working Capital Facility, $235.0 million outstanding under the Term Facility and $18.0 million outstanding under the Development Facility.

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

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

Interest rate swap. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects the mark-to-market buyout of the previous interest rate swap on the Former Credit Facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200 million. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the four-year senior secured non-revolving Term Facility. Under the provisions of CICA Handbook Section 3865, "Hedges", the interest rate swap is recorded on the balance sheet at its fair market value effective January 1, 2007, with subsequent changes in fair value recorded in either net income or other comprehensive income. As at March 31, 2007, the fair market value of the swap is an unrealized gain of $2.1 million ($3.3 million as at March 31, 2006).

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

Future Obligations

As of March 31, 2007, the Partnership had aggregate capital commitments of $20.2 million related to the completion of construction of five theatre properties to include an aggregate of 45 screens. The Partnership expects to complete construction and to open these theatres during 2007 and 2008.

As of March 31, 2007 the Partnership had outstanding letters of credit totaling $0.6 million (2006 – $1.3 million).

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

During 2005, the Partnership and Famous Players sold 29 theatres to third parties, of which 24 were leased properties. The Partnership and Famous Players are guarantors under the 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.

During the three months ended March 31, 2006, the Partnership entered into an agreement with a third party to divest seven theatres, six of which were leased properties, as required by the Commissioner of Competition, and to provide advertising services to the purchaser until December 31, 2012. The Partnership is guarantor under the leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. The Partnership has also guaranteed certain advertising revenues based on attendance levels. 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 Partnership is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Partnership's share in the theatres does not fulfill its obligations under the respective lease. No amounts have been provided in the consolidated financial statements for these guarantees as at March 31, 2007 in accordance with the transitional provisions for CICA Section 3855, "Financial Instruments – Recognition and Measurement", the Partnership assessed the fair value of these

guarantees to be a nominal amount. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Partnership could face a substantial financial burden. During January 2007, the Partnership was notified that the guarantee provided to a landlord of one of the theatre properties disposed of had been triggered. As a result, in December 2006 the Partnership reversed the gain previously recognized as part of discontinued operations on disposition of the theatre. During the first quarter of 2007, the Partnership made a payment of $4.5 million to the landlord of the guaranteed property as payment for the settlement of the guarantee relating to that property. The Partnership also took possession of assets from this former theatre location for use in its other theatre properties. The Partnership recognized a loss of $0.1 million upon settlement of the liability.

RELATED PARTY TRANSACTIONS

The Fund has entered into transactions with parties to which it is related. During the three months ended March 31, 2007 and 2006, distributions in the amount of $6.3 million and $4.5 million, respectively, were received from the Partnership. The Fund had distributions receivable from the Partnership at March 31, 2007 and 2006 in the amount of $2.1 million and $1.5 million, respectively.

The Fund recorded interest income from the Partnership with respect to the Class C LP Units during the three months ended March 31, 2007 in the amount of $1.6 million (2006 – $1.6 million).

The Fund received interest income in the amount of $3.5 million for both the three months ended March 31, 2007 and 2006 with respect to the Galaxy Note.

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

COC charged the Partnership $0.1 million for the three months ended March 31, 2007 for rent for the Partnership's head office (2006 - $0.1 million).

For the three months ended March 31, 2007 and 2006, the Partnership incurred expenses for film rental totaling $6.4 million and $8.5 million, respectively, to Motion Picture Distribution LP ("Motion Picture"), a subsidiary of Alliance Atlantis Communications Inc. ("Alliance"). Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the three months ended March 31, 2007, the Partnership earned revenue in the amount of $0.3 million with respect to these services (2006 - $0.2 million).

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

	Three months ended March 31,	
	2007	2006
Fund	$6,306	$4,517
Onex Corporation and its subsidiaries	6,505	7,439
Other related parties	73	216

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

	As at March 31,	
	2007	2006
Fund	$2,102	$1,509
Onex Corporation and its subsidiaries	2,168	2,480
Other related parties	24	72

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

ACCOUNTING POLICIES AND RECENT DEVELOPMENTS

Critical Accounting Policies and Estimates

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

Revenues

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

Film Rental Costs

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

Leases

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

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

The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities. Certain

of the leases to which the Partnership is party require a portion of rent to be determined with respect to the volume of activity at the specific theatre. An estimate of the expected expense is determined by management and recorded throughout the lease year.

Goodwill

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

Intangible Assets

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

Income Taxes

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

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

On October 31, 2006, the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby the income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These proposals will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006. For trusts which were publicly traded or listed prior to November 1, 2006, the application of the rules will be delayed to the earlier of (i) the trust's 2011 taxation year, and (ii) a taxation year of the trust in which the trust exceeds normal growth as determined by reference to the normal growth guidelines, as amended from time to time, unless that excess arose as a result of a prescribed transaction.

On December 15, 2006, the Department of Finance (Canada) released the normal growth guidelines for income trusts and other flow-through entities that qualify for the four-year transitional relief. The guidance establishes objective tests with respect to how much an income trust is permitted to grow without jeopardizing its transitional relief. In general, the Fund will be permitted to issue new equity over the next four years equal to its market capitalization as of the end of trading on October 31, 2006 (subject to certain annual limits). Market capitalization, for these purposes, is to be measured in terms of the value of the Fund's issued and outstanding publicly-traded units. If these limits are exceeded, the Fund may lose its transitional relief and thereby become immediately subject to the proposed rules.

On March 27, 2007, the Department of Finance (Canada) issued revised draft legislation to implement these proposals. There is no assurance that this draft legislation or the normal growth guidelines will be enacted in the manner proposed.

The Fund is considering these announcements and the possible impact of the proposed rules to the Fund. The proposed rules (including the guidance released on December 15, 2006) may adversely affect the marketability of the Fund's units and the ability of the Fund to undertake financings and acquisitions, and, at such time as the proposed rules apply to the Fund, the distributable cash of the Fund may be materially reduced.

Disposal of long-term assets and discontinued operations

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

Long-Lived Assets

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

Use of Estimates

The preparation of financial statements in conformity with 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. The most significant assumptions made by management in the preparation of the financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Famous Players business combination, the assessment of theatre cash flows to identify potential asset impairments, the assessment of the fair value of GEI and Famous Players to identify

a potential goodwill impairment, estimating the fair value of the indefinite life assets to identify a potential impairment, the value of gift certificates that remain unutilized and in circulation for revenue recognition purposes, the film cost payable accrual, valuation of future income tax assets and the determination of the asset retirement obligation as certain leases may require the retirement of leaseholds, and this outcome is at the landlords' discretion at the end of the lease. Actual results could differ from those estimates. Where required, management has obtained external valuation assistance. For other estimates, management uses historical indicators adjusted for new developments and anticipated future events.

Recent Accounting Developments

In April 2005, the CICA issued new Handbook Sections: Section 1530, "Comprehensive Income"; Section 3251, "Equity"; and Section 3855, "Financial Instruments – Recognition and Measurement", for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting comprehensive income. These standards require that an enterprise present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other primary financial statements. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period in addition to the requirements of Section 1530. Section 3855 establishes standards for the recognition and measurement of all financial instruments, provides a characteristics-based definition of a derivative financial instrument, provides criteria to be used to determine when a financial instrument should be recognized, and provides criteria to be used when a financial instrument is to be extinguished. Sections 1530, 3251 and 3855 all apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2006. The Fund and the Partnership adopted these standards during the first quarter of 2007. Details of the impact of the application of these standards are discussed in Note 2 to the Fund's and Partnership's Consolidated Financial Statements.

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

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

In April 2006, the CICA issued EIC-161, "Discontinued Operations" which was to be applied prospectively and should be applied to all disposal transactions initiated after the date of issue (April 12, 2006). The standard addresses the allocation of interest expense and general corporate overhead expenses to Discontinued Operations, as well as the use of the Discontinued Operations classification to an entity where the remaining operations are insignificant. Subsequent to April 12, 2006, the Partnership has not identified any assets as held for sale. Management has assessed the requirements under this standard and determined that it has no impact on the financial statements of the Partnership.

In July 2006, the Accounting Standards Board ("AcSB") issued a replacement of CICA Handbook Section 1506, "Accounting Changes". The new standard allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior

period errors to be corrected retrospectively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. Section 1506 also requires disclosure of information relevant to assessing the possible impact that the application of a new GAAP standard will have on the financial statements in the period of initial application. The impact that the adoption of Section 1506 will have on the Fund or Partnership's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 has had no impact on the unaudited interim financial statements dated March 31, 2007 for the Fund and the Partnership.

RISKS AND UNCERTAINTIES

Investment in the Fund Units is subject to a number of risk factors. Cash distributions to unitholders are dependent upon the ability of the Partnership to generate income. The ability of the Partnership to generate income is susceptible to a number of risk factors which include: (i) the reliance on film production and film performance; (ii) alternative film delivery methods and other forms of entertainment; (iii) increased capital expenditures resulting from the development of digital technologies for film exhibition; (iv) reliance on key personnel; (v) the acquisition and development of new theatre sites; (vi) impact of new theatres; (vii) unauthorized copying of films; (viii) rising insurance and labor costs; (ix) financial liability arising from lawsuits; (x) the shrinking DVD window; and (xi) the ability to generate additional ancillary revenue. See "Risk Factors" detailed in the Fund's Annual Information Form dated March 29, 2007 for a more detailed description of risks facing the Partnership.

On October 31, 2006 the Department of Finance (Canada) announced the "Tax Fairness Plan" whereby income tax rules applicable to publicly traded trusts and partnerships will be significantly modified. In particular, certain income of (and distributions made by) these entities will be taxed in a manner similar to income earned by (and distributions made by) a corporation. These proposals will be effective for the 2007 taxation year with respect to trusts which commence public trading after October 31, 2006, but the application of the rules will be delayed to the 2011 taxation year with respect to trusts which were publicly traded prior to November 1, 2006. The Fund is considering this announcement and the possible impact of the proposed rules to the Fund. See discussion under "Accounting Policies and Recent Developments – Income Taxes.

As at March 31, 2007, COC, Cineplex Odeon (Quebec) Inc. ("COQ"), and former investors in GEI (collectively the "Investors") held in aggregate approximately 40.3% of the outstanding LP Units of the Partnership (excluding the Class C LP Units) which, pursuant to the Exchange Agreement, could be exchanged at any time, subject to certain conditions, thereby causing the issuance of additional Fund Units. Restrictions on the ability of COC and COQ to exchange certain of their LP Units expired on November 26, 2006. If COC and COQ sell substantial amounts of Fund Units in the public market, the market price of the Fund Units could fall. The perception among the public that these sales may occur could also produce such effect. See "Subsequent Events" for a description of the exchange of LP Units which occurred on April 2, 2007.

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

Market Risk

The Partnership is exposed to financial market risks, including changes in interest rates and other relevant market prices. As discussed in "Liquidity and Capital Resources – Credit Facilities" the Partnership has entered into various interest rate swaps agreements on $200 million of outstanding indebtedness. The fair market value of the swap is an unrealized gain of $2.1 million (gain of $3.3 million as at March 31, 2006). As required by CICA handbook section 3865, this balance is recorded on the

balance sheet. Fair value changes in the swap are recorded in net income and other comprehensive income as appropriate.

Interest Rate Risk

As of March 31, 2007, the Partnership had long-term debt and amounts due to the Trust (including current maturities) of $353.0 million, excluding deferred financing fees. Approximately $253.0 million of this debt is variable rate debt. An increase or decrease in interest rates would affect interest costs relating to this debt. For comparative purposes, for every change of 0.125% in interest rates, the Partnership's interest costs would change by approximately $0.3 million per year. Offsetting this risk is the impact of the interest rate swap referred to above.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership, Alliance Atlantis Cinemas Partnership and Famous Players Limited Partnership alleging discrimination against hearing-impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against other exhibitors and certain film distributors. All complaints have been referred to the Human Rights Tribunal (the "Tribunal") and have been joined together for hearing. At the present time, the Partnership is unable to assess the magnitude of any potential judgment from the Tribunal. If the Tribunal were to rule against the Partnership and force the maximum provision of technology to the complainants, the Partnership could face a material financial burden.

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

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

OUTLOOK

Management believes there are opportunities to grow revenue and distributable cash per unit. For example, cinema advertising in Canada has only recently been established and represents a growth opportunity for the Partnership. Management believes that its cinema advertising network, which reaches an audience of up to 80 million guests annually on a national basis, will continue to receive enhanced demand from advertisers. In addition, the Partnership continues to realize and seek out other revenue growth opportunities which include such opportunities as naming rights on certain theatres, extracting the benefits of the recently announced loyalty program, alternative programming and entertainment opportunities and web-based initiatives.

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

On October 31, 2006 the Department of Finance (Canada) introduced modifications to the income tax rules that will result in the taxation of distributions made by the Fund beginning in the year 2011 (see discussion in "Accounting Policies and Recent Developments – Income Taxes").

SUBSEQUENT EVENTS

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

On April 2, 2007, under the provisions of the Exchange Agreement, certain minority investing partners of Onex Corporation ("Onex") exchanged 9,122,752 Class B, Series 1 and Series 2-C LP Units for 9,122,752 Fund Units. The Fund will record the LP Units it acquired at the fair market value of the Fund Units on the date of the transaction, which is estimated to be $143.1 million. As a result of the exchange, Onex Corporation's effective controlling interest in the Partnership was reduced to approximately 23.7%. In this transaction, Onex did not sell nor exchanged any of its LP Units for Fund Units. Based on public disclosure, Onex continues to own or control directly or indirectly an aggregate of 14,866,434 Fund Units and units of a partnership exchangeable for Fund Units, representing approximately 23.7% of Fund Units that are outstanding on a fully-diluted basis (assuming the exchange of all outstanding LP Units of the Partnership and the conversion of all outstanding convertible debentures of the Fund).

Prior to the April 2, 2007 exchange, the Fund accounted for the Partnership under the equity method. As a result of the exchange, the Fund indirectly acquired an additional 16.0% interest in the Partnership, increasing it's ownership to 75.7% (excluding the Class C LP Units). The acquisition of the additional interest in the Partnership will be accounted for as a step acquisition as at April 2, 2007. As a result of the April 2, 2007 step acquisition, the Fund acquired control of the Partnership and will consolidate the Partnership on a prospective basis. Accordingly, the results of operations of the business acquired will be included in the consolidated financial statements starting on April 2, 2007. The Fund's financial statements for the period ended March 31, 2007 do not reflect the acquisition.

Based on management's preliminary assessment, the assets and liabilities acquired as a result of the April 2, 2007 step acquisition are as follows: property, equipment and leaseholds, advertising contracts, trademarks and trade names, goodwill, fair value of leases – assets, fair value of leases – liabilities, net pension liability, working capital items, other liabilities, and capital leases.

The purchase price allocation has not been disclosed as fair value assessments are not yet practicable to estimate. Carrying values of the acquired assets and liabilities as at March 31, 2007 are presented in the Partnership's unaudited interim financial statements.

April 30, 2007

Cineplex Galaxy Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 1,282	$ 1,270
Interest receivable from Cineplex Entertainment Limited Partnership	1,576	-
Distributions receivable from Cineplex Entertainment Limited Partnership	2,102	2,102
	4,960	3,372
Due from Galaxy Entertainment Inc.	100,000	100,000
Investment in Cineplex Entertainment Limited Partnership (notes 1 and 3)	265,914	275,921
Investment in Cineplex Entertainment Limited Partnership Class C LP Units (note 3)	105,000	105,000
Investment in Cineplex Entertainment Corporation	2	2
	$ 475,876	$ 484,295
Liabilities		
Current liabilities		
Distributions payable (note 5)	$ 3,268	$ 3,268
Interest payable on Convertible Debentures	1,570	-
Due to Cineplex Entertainment Limited Partnership	4	4
	4,842	3,272
Convertible Debentures - liability component	97,990	98,112
	102,832	101,384
Unitholders' Equity	373,044	382,911
	$ 475,876	$ 484,295

Business acquisition - subsequent event (note 8)

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

Approved by the Board of Trustees

"Howard Beck"
Trustee

"Robert Steacy"
Trustee

Cineplex Galaxy Income Fund

Consolidated Statements of Loss
(Unaudited)

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

	Three months ended March 31, 2007	Three months ended March 31, 2006
Share of loss of Cineplex Entertainment Limited Partnership (note 4)	$ (4,241)	$ (6,607)
Interest income	5,087	5,084
Interest and accretion expense on Convertible Debentures	(1,798)	(1,857)
Net loss for the period	$ (952)	$ (3,380)
Basic loss per unit	$ (0.03)	$ (0.12)
Weighted average number of units outstanding used in computing basic loss per unit	34,116,698	27,909,078
Diluted loss per unit	$ (0.04)	$ (0.13)
Weighted average number of units outstanding used in computing diluted loss per unit (note 7)	57,150,421	54,401,974

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

Cineplex Galaxy Income Fund

Consolidated Statements of Unitholders' Equity and Comprehensive Loss
(Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2007

		Accumulated earnings	Accumulated distributions	Accumulated distributions in excess of accumulated earnings	Accumulated other comprehensive income	Unitholders' capital	Total unitholders' equity	Comprehensive loss
Balance - December 31, 2006	$	43,089	(88,543)	**(45,454)**	-	428,365	**382,911**	**-**
Adoption of new accounting standards (note 2)		(782)	-	**(782)**	1,449	-	**667**	**-**
Balance - January 1, 2007		42,307	(88,543)	**(46,236)**	1,449	428,365	**383,578**	**-**
Distributions declared (note 5)		-	(9,804)	**(9,804)**	-	-	**(9,804)**	**-**
Net loss for the period		(952)	-	**(952)**	-	-	**(952)**	**(952)**
Fund's share of the Partnership's other comprehensive income		-	-	**-**	222	-	**222**	**222**
Comprehensive loss for the period								**(730)**
Balance - March 31, 2007	$	41,355	(98,347)	**(56,992)**	1,671	428,365	**373,044**	

The sum of the accumulated distributions in excess of accumulated earnings and accumulated other comprehensive income as at March 31, 2007 is $(55,321).

For the three months ended March 31, 2006

		Accumulated earnings	Accumulated distributions	Accumulated distributions in excess of accumulated earnings	Unitholders' capital	Total unitholders' equity
Balance - January 1, 2006	$	32,988	(52,436)	**(19,448)**	334,287	**314,839**
Issuance of units under Exchange Agreement (note 6)		-	-	**-**	1,189	**1,189**
Distributions declared (note 5)		-	(8,025)	**(8,025)**	-	**(8,025)**
Net loss for the period		(3,380)	-	**(3,380)**	-	**(3,380)**
Balance - March 31, 2006	$	29,608	(60,461)	**(30,853)**	335,476	**304,623**

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

Cineplex Galaxy Income Fund

Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Cash provided by (used in)		
Operating activities		
Net loss for the period	$ (952)	$ (3,380)
Items not affecting cash and cash equivalents		
Share of loss from Cineplex Entertainment Limited Partnership (note 4)	4,241	6,607
Accretion of Convertible Debentures	227	286
Distributions received from Cineplex Entertainment Limited Partnership	6,306	4,518
Changes in operating assets and liabilities	(6)	(5)
	9,816	8,026
Financing activities		
Distributions paid	(9,804)	(8,017)
Increase in cash and cash equivalents during the period	12	9
Cash and cash equivalents - Beginning of period	1,270	1,209
Cash and cash equivalents - End of period	$ 1,282	$ 1,218
Supplemental information		
Cash received for interest	$ 3,511	$ 3,508

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

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

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

1 Description of the Fund

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

On July 22, 2005, the Partnership acquired 100% of Famous Players Limited Partnership and its general partner, Famous Players Co.

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

As at March 31, 2007, the Fund indirectly owned 59.7% of the Partnership (see Subsequent event - note 8).

2 Summary of significant accounting policies

Basis of presentation

The Fund prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006.

Due to the limited amount of information that these unaudited interim consolidated financial statements provide on the underlying operations of the Partnership, these unaudited interim consolidated financial statements should be read in conjunction with the unaudited interim consolidated financial statements of the Partnership for the three months ended March 31, 2007.

Results for the three months ended March 31, 2007 are not necessarily indicative of results expected for the full fiscal year or any other future period due to the business seasonality of the Partnership. As the Fund has significant influence over the Partnership, its investment is accounted for using the equity method.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2006, except as described in the remainder of this note.

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

Accounting changes

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

Financial instruments

As required by The Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Fund adopted CICA Handbook Section 1530, *Comprehensive Income;* Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement;* and Section 3861, *Financial Instruments - Disclosure and Presentation*. The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and the recognition of certain transition adjustments that have been recorded in opening accumulated earnings or opening accumulated other comprehensive income as described below. As required by the implementation of these new standards, the prior period consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

a) Section 1530, Comprehensive Income

Section 1530 requires a statement of comprehensive income, which consists of net income and other comprehensive income ("OCI"). OCI is a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes adjustments to the accumulated earnings and OCI of the Partnership that impact the Fund's investment in the Partnership. Comprehensive income and its components are presented in the consolidated statements of unitholders' equity and comprehensive income.

b) Section 3251, Equity

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from OCI. Accumulated changes in OCI are included in accumulated other comprehensive income ("AOCI") and are presented in the consolidated statements of unitholders' equity and comprehensive income as a separate component of unitholders' equity.

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

c) Section 3855, Financial Instruments - Recognition and Measurement
Section 3861, Financial Instruments - Disclosure and Presentation

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Fund's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity and available-for-sale financial assets that do not have quoted market prices in an active market. Settlement date accounting continues to be used for all financial assets, except changes in fair value between the trade date and settlement date are reflected in the consolidated statements of loss for held-for-trading financial assets, while changes in fair value between trade date and settlement date are reflected in OCI for available-for-sale financial assets.

Held-for-trading

Held-for-trading financial assets are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in interest income or expense. Speculative financial assets or liabilities, other than loans or receivables and derivative instruments, are accounted for as held-for-trading financial assets or liabilities unless the derivative is linked to, and must be settled with, equity instruments of another entity whose fair value cannot be reliably measured. In addition, if the fair value of a non-derivative instrument is reliably measurable, the Fund may elect to designate it as held-for-trading at the time of its initial recognition. The designation for such an instrument is irrevocable.

Financial liabilities designated at fair value are those non-derivative financial liabilities that the Fund elects to designate on initial recognition as instruments that it will measure at fair value through interest expense. These are accounted for in the same manner as held-for-trading financial assets. The Fund has not designated any non-derivative financial liabilities as fair value financial liabilities.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets such as investments in debt securities with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. After initial recognition at fair value, these financial assets are measured at amortized cost using the effective interest method.

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

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading financial assets. Available-for-sale financial assets are carried at fair value with unrealized gains and losses included in OCI until the instrument is sold or an other than temporary impairment exists, at which time the cumulative gain or loss is recorded in the statement of earnings. The Fund has not designated any financial assets as available-for-sale.

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.

Other liabilities

Other liabilities are initially recorded at fair value and thereafter are recorded at cost or amortized cost using the effective interest method and include all liabilities, other than derivatives or liabilities to which the fair value designation has been applied.

Derivatives

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The change in fair value during the period is recorded in earnings. At March 31, 2007 and December 31, 2006, the Fund does not have any derivatives outstanding.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free-standing derivative; and the combined instrument or contract is not measured at fair value, with changes in fair value recognized in income. These embedded derivatives are measured at fair value with changes therein recognized in the statement of earnings. As at March 31, 2007 and December 31, 2006, the Fund does not have any outstanding contracts or financial instruments with embedded derivatives that require bifurcation.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon 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

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

prices for financial liabilities. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

Classification of financial instruments

The following is a summary of the accounting model the Fund has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.

- Interest and distributions receivable are classified as loans and receivables.

- Interest and distributions payable are classified as other financial liabilities.

- Convertible Debentures are recorded at amortized cost using the effective interest method. The Convertible Debentures are traded on the Toronto Stock Exchange. The Convertible Debentures are accounted for in accordance with their substance rather than their legal form and are presented in the consolidated financial statements in component parts, measured at their respective fair value at the time of issuance, with $8,546 recorded in equity and, originally, $96,454 classified as a liability accreting interest using the effective interest method to the face value of $105,000 on December 31, 2012. Based on the published fair values, management estimates that the Convertible Debentures have a fair value of $107,100 as at March 31, 2007 (December 31, 2006 - $105,525).

- The Fund has a $105,000 investment in Class C LP Units and $100,000 due from Galaxy Entertainment Inc., which are recorded at the agreed upon exchange amount in accordance with Section 3840, Related Party Transactions. The Class C LP Units are not publicly traded; however, they have similar characteristics as the Convertible Debentures and, therefore, management estimates that the Class C LP Units have a fair value of $107,100 as at March 31, 2007 (December 31, 2006 - $105,525). The Galaxy Note matures on November 26, 2028 and bears interest at 14% per annum. The fair value of the Galaxy Note is not practical to determine given the many factors, terms and conditions that would influence such a determination.

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

Transitional adjustments

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

	December 31, 2006	Transition adjustments	January 1, 2007
Assets			
Investment in Cineplex Entertainment Limited Partnership (i)	$ 275,921	$ 318	$ 276,239
All other assets	208,374	-	208,374
	$ 484,295	$ 318	$ 484,613
Liabilities			
Convertible Debentures - liability component (ii)	$ 98,112	$ (349)	$ 97,763
All other liabilities	3,272	-	3,272
	101,384	(349)	101,035
Unitholders' Equity			
Accumulated distributions in excess of accumulated earnings (i), (ii)	(45,454)	(782)	(46,236)
Accumulated other comprehensive income (i)	-	1,449	1,449
Unitholders' capital	428,365	-	428,365
Total Unitholders' Equity	382,911	667	383,578
Total Liabilities and Unitholders' Equity	$ 484,295	$ 318	$ 484,613

(i) Investment in Cineplex Entertainment Limited Partnership

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

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

(ii) Convertible Debentures - liability component

Section 3855 requires that the Fund use the effective interest method to accrete interest whereby the interest recognized varies over the expected lives of the Convertible Debentures, based on the liability balance outstanding. Prior to January 1, 2007, an equal amount of accretion expense was recognized each period over the expected lives of the Convertible Debentures. As at January 1, 2007, the Fund adjusted the carrying value of the liability component of the Convertible Debentures using the effective interest method. The impact was a decrease in the carrying value of the Convertible Debentures by $349 and an increase in opening accumulated earnings.

3 Investment in Cineplex Entertainment Limited Partnership

As at March 31, 2007, the Fund's investment in the Partnership consists of the following:

Equity investment	
28,235,000 Class A LP Units	$ 235,842
5,262,251 Class B LP Units	74,740
619,447 Class D LP Units	9,235
Adjustment from adoption of new accounting standard (note 2)	318
Accumulated share of Partnership loss	(2,975)
Accumulated share of Partnership OCI	222
Less: Accumulated distributions received or receivable	(51,468)
	265,914
5,600,000 Class C LP Units	105,000
Total investment	$ 370,914

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

4 Share of Partnership loss

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

	Three months ended March 31, 2007	Three months ended March 31, 2006
Consolidated Partnership net loss for the period from January 1 to March 31	$ (3,775)	$ (8,926)
Adjustment for Catch-up Payment from Partnership to Class B LP and Class D LP unitholders	(2,364)	(3,417)
Remaining loss to be distributed pro rata to Class A LP, Class B LP and Class D LP unitholders	$ (6,139)	$ (12,343)
Fund's proportionate % share	$ (3,665)	$ (6,250)
Adjustments for excess of purchase price over net assets acquired	(576)	(357)
Share of Partnership loss	$ (4,241)	$ (6,607)

The Fund's share of the Partnership's income from discontinued operations is $nil (2006 - ($482)).

5 Distributions payable

The Fund has declared the following distributions during the three-month periods ended March 31, 2007 and 2006:

	2007		2006	
Record date	**Amount**	**Amount per unit**	**Amount**	**Amount per unit**
January	$ 3,268.4	$ 0.0958	$ 2,675.1	$ 0.0958
February	3,268.4	0.0958	2,675.1	0.0958
March	3,268.4	0.0958	2,675.1	0.0958

The distributions are paid within 30 days following the end of each month. Distributions are determined by reducing the amounts received by the Fund, including distributions received from the Partnership, interest, returns of capital and cash receipt from the repayment of loans made to other parties, including payments in respect of the amount due from Galaxy Entertainment Inc., reduced by all interest, expenses and repayment of borrowings incurred or reasonably expected to be incurred by the Fund, including any tax liabilities of the Fund, and all amounts which are related to the redemption of the Convertible Debentures or Fund units. Distributions paid are at the discretion of the Board of Trustees of the Fund.

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

6 Unitholders' capital

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

During the three months ended March 31, 2007, there were no exchanges undertaken (note 8).

There are 34,116,698 Fund units issued as at March 31, 2007 (March 31, 2006 - 27,924,232) for $428,365 (March 31, 2006 - $335,476).

	2007			2006		
	Number of Fund units		**Amount**	**Number of Fund units**		**Amount**
Units - Beginning of period	34,116,698	$	428,365	27,838,992	$	334,287
Issuance of units under Exchange Agreement	-		-	85,240		1,189
Units - End of period	34,116,698	$	428,365	27,924,232	$	335,476

7 Diluted loss per unit

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

8 Subsequent event

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

On April 2, 2007, under the provisions of the Exchange Agreement, COC, a related party investor, exchanged 9,122,752 Class B, Series 1 and Series 2-C LP Units for 9,122,752 Fund units. The Fund will record the Partnership units it acquired at the fair market value of the Fund units on the date of the transaction, which is estimated to be $143,136.

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

Prior to the April 2, 2007 step acquisition, the Fund accounted for the Partnership under the equity method. As a result of the exchange, the Fund indirectly acquired an additional 16.0% interest in the Partnership, increasing its ownership to 75.7%. The acquisition of the additional interest in the Partnership will be accounted for as a step acquisition as at April 2, 2007. As a result of the April 2, 2007 step acquisition, the Fund acquired control of the Partnership and will consolidate the Partnership on a prospective basis. Accordingly, the results of operations of the business acquired will be included in the consolidated financial statements starting on April 2, 2007. The Fund's financial statements for the period ended March 31, 2007 do not reflect the April 2, 2007 acquisition.

Based on management's preliminary assessment, the assets and liabilities acquired as a result of the step acquisition are as follows: property, equipment and leaseholds, advertising contracts, trademarks and trade names, goodwill, fair value of leases - assets, fair value of leases - liabilities, net pension liability, working capital items, other liabilities and capital leases.

The purchase price allocation has not been disclosed as fair value assessments are not yet practicable to estimate. Carrying values of the acquired assets and liabilities as at March 31, 2007 are presented in the Partnership's unaudited interim financial statements.

Cineplex Entertainment Limited Partnership
Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 27,504	$ 56,383
Accounts receivable	19,908	35,500
Inventories	2,749	3,193
Prepaid expenses and other current assets	7,501	4,297
Income taxes receivable	15	34
Due from related parties	11	11
	57,688	99,418
Property, equipment and leaseholds	438,387	447,932
Goodwill (note 9)	196,911	200,910
Fair value of interest rate swap agreements (note 2)	2,121	-
Intangible assets	56,567	57,946
Future income taxes	6,627	6,156
Deferred charges (note 2)	1,185	7,329
	$ 759,486	$ 819,691

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

Cineplex Entertainment Limited Partnership

Consolidated Balance Sheets ... *continued*

(expressed in thousands of Canadian dollars)

	March 31, 2007 (Unaudited)	December 31, 2006
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 53,176	$ 90,596
Distributions payable	4,308	4,308
Due to related parties	4,548	3,143
Deferred revenue	38,325	50,184
Current portion of capital lease obligations	1,497	1,470
Bank indebtedness	5,000	-
	106,854	149,701
Long-term debt (note 3)	250,280	248,000
Capital lease obligations - long-term	36,042	36,426
Due to Cineplex Galaxy Trust	100,000	100,000
Accrued pension benefit liability	3,401	3,840
Other liabilities	144,439	146,791
Class C Limited Partnership Units - liability component (note 2)	100,317	100,037
	741,333	784,795
Non-controlling interest	561	561
Partners' Equity	17,592	34,335
	$ 759,486	$ 819,691

Commitments, guarantees and contingencies (note 6)

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

Approved by the Board of Directors of Cineplex Entertainment Corporation

"Ellis Jacob"
Director

"Anthony Munk"
Chairman, Board of Directors

Cineplex Entertainment Limited Partnership

Consolidated Statements of Operations
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Revenue		
Box office	$ 112,887	$ 103,014
Concessions	52,324	49,032
Other	13,385	10,616
	178,596	162,662
Expenses		
Film cost	56,877	51,307
Cost of concessions	10,423	9,696
Occupancy	36,632	37,025
Other theatre operating expenses	41,654	38,269
General and administrative	8,355	8,083
	153,941	144,380
Income before undernoted	24,655	18,282
Amortization	16,274	15,238
Loss on disposal of theatre assets - net	1,867	184
Interest on long-term debt and capital lease obligations	7,506	7,414
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(252)	(104)
Loss before income taxes, non-controlling interest and discontinued operations	(4,240)	(7,950)
Provision for (recovery of) income taxes		
Current	6	55
Future	(471)	-
	(465)	55
Loss before non-controlling interest and discontinued operations	(3,775)	(8,005)
Non-controlling interest	-	(37)
Loss from continuing operations	(3,775)	(7,968)
Loss from discontinued operations (note 5)	-	(958)
Net loss for the period	$ (3,775)	$ (8,926)

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

Cineplex Entertainment Limited Partnership

Consolidated Statements of Partners' Equity and Comprehensive Loss
(Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2007

		Accumulated earnings	Accumulated distributions	Accumulated distributions in excess of accumulated earnings	Accumulated other comprehensive income	Partners' capital	Formation of Partnership deficit	Total partners' equity	Comprehensive loss
Balance - December 31, 2006	$	59,761	(140,405)	**(80,644)**	-	262,774	(147,795)	**34,335**	**-**
Adoption of new accounting standards (note 2)		(1,894)	-	**(1,894)**	2,427	-	-	**533**	**-**
Balance - January 1, 2007		57,867	(140,405)	**(82,538)**	2,427	262,774	(147,795)	**34,868**	**-**
Distributions declared		-	(12,925)	**(12,925)**	-	-	-	**(12,925)**	**-**
Investment in Cineplex Galaxy Income Fund units (note 7)		-	-	**-**	-	(1,677)	-	**(1,677)**	**-**
LTIP compensation obligation (note 7)		-	-	**-**	-	731	-	**731**	**-**
Net loss for the period		(3,775)	-	**(3,775)**	-	-	-	**(3,775)**	**(3,775)**
Other comprehensive income - interest rate swaps		-	-	**-**	370	-	-	**370**	**370**
Comprehensive loss for the period									**(3,405)**
Balance - March 31, 2007	$	54,092	(153,330)	**(99,238)**	2,797	261,828	(147,795)	**17,592**	

The sum of accumulated distributions in excess of accumulated earnings and accumulated other comprehensive income as at March 31, 2007 is $(96,441).

For the three months ended March 31, 2006

		Accumulated earnings	Accumulated distributions	Accumulated distributions in excess of accumulated earnings	Partners' capital	Formation of Partnership deficit	Total partners' equity
Balance - January 1, 2006	$	51,925	(89,664)	**(37,739)**	232,975	(147,795)	**47,441**
Distributions declared		-	(12,350)	**(12,350)**	-	-	**(12,350)**
Issuance of Partnership units - cost		-	-	**-**	(72)	-	**(72)**
Investment in Cineplex Galaxy Income Fund units (note 7)		-	-	**-**	142	-	**142**
LTIP compensation obligation (note 7)		-	-	**-**	(116)	-	**(116)**
Net loss for the period		(8,926)	-	**(8,926)**	-	-	**(8,926)**
Balance - March 31, 2006	$	42,999	(102,014)	**(59,015)**	232,929	(147,795)	**26,119**

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

Cineplex Entertainment Limited Partnership

Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2007	Three months ended March 31, 2006
Cash provided by (used in)		
Operating activities		
Net loss for the period	$ (3,775)	$ (8,926)
Adjustments to reconcile net income to net cash used in operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	16,274	15,238
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(447)	(84)
Amortization of debt issuance costs	186	652
Loss on disposal of theatre assets	1,867	522
Future income taxes	(471)	-
Cash flow hedges - interest rate swaps, ineffective portion	249	-
Non-controlling interest	-	(37)
Tenant inducements	617	974
Changes in operating assets and liabilities (note 4)	(28,591)	(32,458)
	(14,091)	(24,119)
Investing activities		
Proceeds from sale of theatre assets	2,475	70
Proceeds from sale of discontinued operations	-	502
Purchases of property, equipment and leaseholds	(4,928)	(15,106)
Theatre shutdown payment	(1,445)	-
Acquisition of Famous branded magazines	(406)	(1,100)
Lease guarantee payment and acquisition of theatre assets (note 6)	(4,500)	-
	(8,804)	(15,634)
Financing activities		
Borrowings under credit facility	21,000	30,600
Repayment of credit facility	(11,000)	(3,009)
Payments under capital leases	(357)	(327)
Distributions paid (note 8)	(12,925)	(12,350)
Investment in Cineplex Galaxy Income Fund units (note 7)	(2,702)	-
	(5,984)	14,914
Decrease in cash and cash equivalents during the period	(28,879)	(24,839)
Cash and cash equivalents - Beginning of period	56,383	45,795
Cash and cash equivalents - End of period	$ 27,504	$ 20,956
Supplemental information		
Cash paid for interest	$ 8,377	$ 8,676
Cash paid for income taxes - net	$ 6	$ 52

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

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

1 Description of business

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

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

On July 22, 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co.

2 Summary of significant accounting policies

Basis of presentation

The Partnership prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of GAAP for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2006.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2006, except as noted below.

Accounting changes

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

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

Financial instruments

As required by The Canadian Institute of Chartered Accountants ("CICA"), on January 1, 2007, the Partnership adopted CICA Handbook Section 1530, *Comprehensive Income;* Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement;* Section 3861, *Financial Instruments - Disclosure and Presentation;* and Section 3865*, Hedges*. The adoption of these new standards resulted in changes in the accounting and presentation for financial instruments and hedging relationships as well as the recognition of certain transition adjustments that have been recorded in opening accumulated earnings or opening accumulated other comprehensive income as described below. As required by the implementation of these new standards, the prior period consolidated financial statements have not been restated. The principal changes in the accounting for financial instruments due to the adoption of these accounting standards are described below.

a) Section 1530, Comprehensive Income

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

b) Section 3251, Equity

Section 3251 describes the changes in how to report and disclose equity and changes in equity as a result of the new requirements of Section 1530, including the changes in equity for the period arising from other comprehensive income. Accumulated changes in OCI are included in accumulated other comprehensive income ("AOCI") and are presented in the consolidated statements of partners' equity and comprehensive loss as a separate component of partners' equity.

c) Section 3855, Financial Instruments - Recognition and Measurement
Section 3861, Financial Instruments - Disclosure and Presentation

Financial Assets and Financial Liabilities

Under the new standards, financial assets and financial liabilities are initially recognized at fair value and their subsequent measurements are dependent on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Partnership's designation of such instruments. The standards require that all financial assets be classified either as held-for-trading, available-for-sale, held-to-maturity, or loans and receivables. The standards require that all financial assets, including all derivatives, be measured at fair value with the exception of loans and receivables, debt securities classified as held-to-maturity and available-for-sale financial assets that do not have quoted market prices in an active market. Settlement date accounting continues to be used for all financial assets, except changes in fair value between the trade date and settlement date are reflected in the consolidated statements of operations for held-for-trading

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

financial assets, while changes in fair value between trade date and settlement date are reflected in OCI for available-for-sale financial assets.

Held-for-trading

Held-for-trading financial assets are measured at fair value at the balance sheet date. Interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses from market fluctuations are included in interest income or expense. Speculative financial assets or liabilities, other than loans or receivables, and derivative instruments are accounted for as held-for-trading financial assets or liabilities unless the derivative is linked to, and must be settled with, equity instruments of another entity whose fair value cannot be reliably measured. In addition, if the fair value of a non-derivative instrument is reliably measurable, the Partnership may elect to designate it as held-for-trading at the time of its initial recognition. The designation for such an instrument is irrevocable.

Financial liabilities designated at fair value are those non-derivative financial liabilities that the Partnership elects to designate on initial recognition as instruments that it will measure at fair value through the consolidated statements of operations. These are accounted for in the same manner as held-for-trading financial assets. The Partnership has not designated any non-derivative financial liabilities as fair value financial liabilities.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets such as investments in debt securities with fixed or determinable payments and a fixed maturity, other than loans and receivables, that an entity has the positive intention and ability to hold to maturity. After initial recognition at fair value, these financial assets are measured at amortized cost.

Available-for-sale

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity investments or held-for-trading. Available-for-sale financial assets are carried at fair value with unrealized gains and losses and are included in OCI until realized when the cumulative gain or loss is recorded in the consolidated statements of operations. The Partnership has not designated any financial assets as available-for-sale.

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.

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

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 and include all liabilities, other than derivatives or liabilities to which the fair value designation has been applied.

Derivatives

Derivatives are carried at fair value and are reported as assets where they have a positive fair value and as liabilities where they have a negative fair value. The change in fair value during the period is recorded in earnings. At March 31, 2007 and December 31, 2006, the only derivatives outstanding are the Partnership's interest rate swaps, which are accounted for as cash flow hedges.

Embedded derivatives

Derivatives embedded in other financial instruments or contracts are separated from their host contracts and accounted for as derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a free-standing derivative; and the combined instrument or contract is not measured at fair value, with changes in fair value recognized in the consolidated statements of operations. These embedded derivatives are measured at fair value with changes therein recognized in the consolidated statements of operations.

Transaction costs

Transaction costs are expensed as incurred. Transaction costs do not include debt premiums or discounts or financing costs, which are netted against the carrying value of the liability and then amortized over the expected life of the instrument using the effective interest method.

Determination of fair value

The fair value of a financial instrument is the amount of consideration that would be agreed upon 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 which refer to observable market data. These include comparisons with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. For certain derivatives, fair values may be determined in whole or in part from valuation techniques using non-observable market data or transaction prices. A number of factors such as bid-offer spread, credit profile and model uncertainty are taken into account, as appropriate, when values are calculated using valuation techniques.

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

Classification of financial instruments

The following is a summary of the accounting model the Partnership has elected to apply to each of its significant categories of financial instruments outstanding as of January 1, 2007:

- Cash and cash equivalents are classified as held-for-trading. Changes in fair value for the period are recorded in earnings as interest income.

- Accounts receivable are classified as loans and receivables.

- Due from related parties is accounted for on recognition in accordance with Section 3840, Related Party Transactions and subsequently classified as loans and receivables.

- Interest rate swaps are accounted for as cash flow hedges.

- Distributions payable and accounts payable and accrued expenses are accounted for as other liabilities.

- Due to related parties is accounted for on recognition in accordance with Section 3840, Related Party Transactions and subsequently classified as other liabilities.

- Bank indebtedness is accounted for as other liabilities measured at cost and long-term debt is accounted for as other liabilities at amortized cost.

- Class C LP Units are recorded at amortized cost using the effective interest method. The Partnership has $105,000 of Class C LP Units issued to the Fund, which was initially recorded at the agreed upon exchange amount in accordance with Section 3840, Related Party Transactions. The Class C LP Units are accounted for in accordance with their substance rather than their legal form and presented in the consolidated financial statements in component parts, measured at their respective fair value at the time of issuance, with $8,546 recorded in equity and, originally, $96,454 classified as a liability accreting interest using the effective interest method to the face value of $105,000 on December 31, 2008. The Class C LP Units are not publicly traded; however, they have similar characteristics as the Fund's Convertible Debentures and, therefore, management estimates that the Class C LP Units have a fair value of $107,100 as at March 31, 2007 (December 31, 2006 - $105,525).

- The $100,000 Due to Cineplex Galaxy Trust was initially accounted for in accordance with Section 3840, Related Party Transactions and subsequently classified as other payables and recorded at cost. The Due to Cineplex Galaxy Trust matures on November 26, 2028 and bears interest at 14% per annum. The fair value of the Due to Cineplex Galaxy Trust is not practical to determine given the many factors, terms and conditions that would influence such a determination.

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

d) Section 3865, Hedges

Section 3865 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of, hedge accounting and hedge effectiveness testing requirements. Under the guideline, the Partnership is required to document its hedging transactions and explicitly demonstrate that hedges are effective in order to continue hedge accounting for positions hedged with derivatives. Any derivative financial instruments that fail to meet the hedging criteria will be recorded on the consolidated balance sheets at fair value and changes in fair value will be recognized in income in the period in which the change occurs.

The Partnership enters into interest rate swaps in order to reduce the impact of fluctuating interest rates on its long-term debt. Effective July 22, 2005, the Partnership entered into three interest rate swap agreements. In accordance with the swap agreements, the Partnership pays interest at a fixed rate of 3.8% per annum, plus an applicable margin, and receives a floating rate. The 3.8% fixed interest rate reflects the mark-to-market buyout of the previous interest rate swap on the previous credit facilities. The swaps have a term of four years in the aggregate principal amount outstanding of $200,000. The purpose of the interest rate swaps is to act as a cash flow hedge to manage the floating rate payable under the term facility. The Partnership considered its hedging relationships and determined that its interest rate swap agreements on its term facility (note 3) qualified for hedge accounting.

These swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which payments are based. Interest expense on the long-term debt is adjusted to include the payments made or received under the interest rate swaps. The estimated fair value of the interest rate swap is recognized in the consolidated balance sheets at its estimated fair value. The effective portion of the change in fair value of the interest rate swap is recognized in OCI while the ineffective portion is recognized in the consolidated statements of operations as interest expense.

Realized and unrealized gains or losses previously recognized in AOCI that are associated with cash flow hedges, which have been terminated or cease to be effective prior to maturity, are recognized in income in the period in which the underlying hedged transaction is recognized. In the event that a designated hedged item is sold, extinguished or matures prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized immediately as an adjustment to the gain or loss on the extinguishment of debt.

The three interest rate swap cash flow hedges totaling $200,000 have a July 22, 2009 maturity date, which is consistent with the term facility maturity date. During the three months ended March 31, 2007, the Partnership recorded interest income of $26 relating to the ineffective portion of the cash flow hedge that was realized during the period.

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

Transitional adjustments

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

	December 31, 2006	Transition adjustments	January 1, 2007
Assets			
Deferred charges (i)	$ 7,329	$ (6,111)	$ 1,218
Fair value of interest rate swaps (ii)	-	2,000	2,000
All other assets	812,362	-	812,362
	$ 819,691	$ (4,111)	$ 815,580
Liabilities			
Deferred loss on the previous interest rate swap (iii)	$ 1,424	$ (1,424)	$ -
Class C LP Units (iv)	100,037	(314)	99,723
Long-term debt (i)	248,000	(2,906)	245,094
All other liabilities	435,334	-	435,334
	784,795	(4,644)	780,151
Non-controlling interest	561	-	561
Partners' Equity			
Accumulated distributions in excess of accumulated earnings (i), (iv), (v)	(228,439)	(1,894)	(230,333)
Partners' capital	262,774	-	262,774
AOCI (ii), (iii), (v)	-	2,427	2,427
Total Partners' Equity	34,335	533	34,868
Total Liabilities and Partners' Equity	$ 819,691	$ (4,111)	$ 815,580

(i) Deferred charges of $2,906 relating to financing fees were reclassified and netted against long-term debt. Deferred charges of $3,205 relating to transaction costs were written off with a corresponding debit to accumulated earnings.

(ii) To record $2,000 fair value of the interest rate swaps with a corresponding credit to AOCI.

(iii) To reclass $1,424 of other liabilities relating to the deferred loss on the previous interest rate swaps to AOCI.

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

(iv) To adjust the accretion on the Class C LP Units balance using the effective interest method instead of on a straight-line basis. This reduced the Class C LP Units by $314 with a credit to accumulated earnings.

(v) The interest rate swaps reflect the mark-to-market buyout of the previous interest rate swaps on the previous credit facilities. As a result, the $997 ineffective portion of the interest rate swaps was reclassed from AOCI with a corresponding credit to accumulated earnings.

3 Long-term debt

Long-term debt consists of:

	March 31, 2007	December 31, 2006
Term facility	$ 235,000	$ 235,000
Development facility	18,000	13,000
Deferred financing fees	(2,720)	-
	$ 250,280	$ 248,000

4 Cash flow statement

The following summarizes the changes in operating assets and liabilities:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Accounts receivable	$ 16,231	$ 402
Inventories	444	222
Prepaid expenses and other current assets	(502)	(3,969)
Deferred charges	-	(350)
Income taxes receivable	19	-
Accounts payable and accrued expenses	(34,049)	(21,850)
Due to related parties	1,405	1,272
Income taxes payable	-	695
Deferred revenue	(11,859)	(8,449)
Accrued pension liability	(439)	(396)
Other liabilities	159	(35)
	$ (28,591)	$ (32,458)
Non-cash investing activities:		
Capital asset purchases financed through accrued liabilities	$ 680	$ 6,033

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

5 Discontinued operations

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

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

6 Commitments, guarantees and contingencies

Commitments

As at March 31, 2007, the Partnership has aggregate capital commitments as follows:

Capital commitments for five theatres to be completed during 2007 and 2008	$	20,161
Digital pre-show equipment	$	500
Theatre rebranding	$	429
Letters of credit	$	572

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 Partnership is guarantor under the leases for the remainder of the lease term in the event that the purchaser of the theatres does not fulfill its obligations under the respective lease. The Partnership has also guaranteed certain advertising revenues based on attendance levels. During January 2007, the Partnership was notified that the guarantee provided to a landlord of one of the theatre properties disposed of had been triggered and was

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

settled for $4,500 during the first quarter of 2007. A provision for this guarantee, net of the estimated value of the assets acquired from this former theatre as a result of the transaction, was previously recorded in the December 31, 2006 financial statements.

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 Partnership is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Partnership's share in the theatres does not fulfill its obligation under the respective lease.

The Partnership has assessed the fair market value of the above-noted guarantees and determined that the fair market value of these guarantees, as at March 31, 2007, is nominal. As such, no amounts have been provided in the consolidated financial statements for these guarantees. Should the purchaser of the theatres fail to fulfill its lease commitment obligations, the Partnership could face a substantial financial burden.

Other

Since 2003, three complaints have been filed with the Ontario Human Rights Commission against the Partnership and Famous Players alleging discrimination against hearing-impaired individuals for not providing sufficient technology to accommodate for their disability. Similar complaints have been filed against other exhibitors and certain film distributors. All complaints have been referred to the Human Rights Tribunal (the "Tribunal") and have been joined together for hearing. The trial is scheduled to begin in 2007 and the parties are currently in mediation. At the present time, the Partnership is unable to assess the magnitude of any potential judgment from the Tribunal. If the Tribunal were to rule against the Partnership and force the maximum provision of technology to the complainants, the Partnership could face a material financial burden.

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

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

7 Partners' capital

Partnership units outstanding as at March 31 are as follows:

	Three months ended March 31, 2007		Three months ended March 31, 2006	
	Number of units	**Amount**	**Number of units**	**Amount**
Opening balance				
Class A Partnership units	28,235,000	$ 214,231	26,235,000	$ 181,720
Class B, Series 1 LP units	20,949,582	16,860	20,949,582	16,860
Class B, Series 2-C LP units	2,086,957	-	2,086,957	-
Class B, Series 2-G LP units	5,130,435	14,085	5,130,435	14,085
Class C LP units - equity component	5,600,000	8,546	5,600,000	8,546
Class D LP units	748,447	12,050	748,447	12,050
Other issuance costs	-	(2,989)	-	(222)
Investment in Fund units	-	(125)	-	(267)
LTIP compensation obligation	-	116	-	203
	62,750,421	262,774	60,750,421	232,975
Transactions during the period				
Vesting of Fund units	-	1,025	-	142
Other issuance costs	-	-	-	(72)
Investment in Fund units	-	(2,702)	-	-
LTIP compensation obligation	-	731	-	(116)
	-	(946)	-	(46)
Outstanding at March 31				
Class A LP units	28,235,000	214,231	26,235,000	181,720
Class B, Series 1 LP units	20,949,582	16,860	20,949,582	16,860
Class B, Series 2-C LP units	2,086,957	-	2,086,957	-
Class B, Series 2-G LP units	5,130,435	14,085	5,130,435	14,085
Class C LP units - equity component	5,600,000	8,546	5,600,000	8,546
Class D LP units	748,447	12,050	748,447	12,050
Other issuance costs	-	(2,989)	-	(294)
Investment in Fund units	-	(1,802)	-	(125)
LTIP compensation obligation	-	847	-	87
Outstanding - End of period	62,750,421	$ 261,828	60,750,421	$ 232,929

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

As the Fund's only investment is in the Partnership, the Partnership treats its $1,802 (December 31, 2006 - $125) investment in Fund units relating to the LTIP plan as treasury stock and nets this investment against partners' capital. The LTIP compensation obligation is recorded as a liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point in time it is reclassified as partners' capital as the Partnership is now obligated to deliver a fixed number of Fund units, the value of which will vary with the market value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

8 Distributions

The Partnership intends to make monthly cash distributions to holders of record of Class A LP Units, Class B LP Units and Class D LP Units on the last business day of each month. The holders of Class C LP Units will be entitled to a distribution on the business day before June 30 and December 31 each year, in priority to distributions paid on the Class A LP Units, Class B LP Units and Class D LP Units, equal to 6.02% per annum. Cash distributions will consist, in general, of the Partnership's cash, less any estimated cash amounts required for debt service obligations of the Partnership's, if any, other expense obligations, maintenance capital expenditures, taxes, reserves (including amounts on account of capital expenditures, and to stabilize distributions to Unitholders), and such other amounts as may be considered appropriate at the discretion of the General Partner. The Partnership may, in addition, make a distribution at any other time subject to the approval of the General Partner.

9 Goodwill

As a result of a theatre shutdown transaction completed during the quarter, the ultimate costs expended were less than the amount recorded for a theatre shutdown and lease buyout accrual assumed in the July 22, 2005 business acquisition of Famous Players. As a result, the $3,999 difference was recorded as a reduction of the acquisition cost with a corresponding decrease in goodwill.

10 Segment information

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

11 Seasonal fluctuations

The Partnership's business is seasonal. Consequently, the results of operations and cash flows for the three-month periods ended March 31, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year, although film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods.