

Cineplex Galaxy Income Fund
First Quarter 2010

evolving the entertainment **experience**




CINEPLEX
ENTERTAINMENT

As of March 31, 2010, Cineplex Entertainment LP owns, operates or has an interest in 130 theatres with 1,347 screens. The company operates theatres with the following top tier brands: Cineplex Odeon, Galaxy, Famous Players (including Colossus, Coliseum, Silvercity), Scotiabank Theatres and Cinema City.

Table of Contents

1) Management's Discussion and Analysis
51) Cineplex Galaxy Income Fund Financial Statements

Letter to Unitholders:

During the first quarter of 2010, Cineplex recorded its highest ever quarterly box office revenues. We also established record first quarter results for revenue, attendance, net income, adjusted EBITDA and distributable cash per unit among others.

Total revenues for the quarter increased 21.9% to \$257.2 million as compared to the first quarter of 2009. Cineplex box office revenues were up 23.1% and our attendance increased 13.0% compared to the same period last year. First quarter box office results were driven primarily by the strong film performances of two films, *Avatar* and *Alice in Wonderland*, which represented 38.3% of total box office revenue.

Concession revenue increased 18.6% as compared to the first quarter of 2009, driven by the 13.0% increase in attendance and a 5.0% increase in the average concession revenue per patron. Concession revenue per patron in the first quarter of 2010 was \$4.15 compared to \$3.95 in the prior year. Additionally, we saw strength in our Cineplex Media business which grew 34% during the period and was the major contributor behind our other revenue increase of 24.9% to \$22.0 million during the first quarter of 2010 versus the same period in 2009.

We continued to expand our digital and 3D projection installations in order to capitalize on the great lineup of 3D films. As of March 31, 2010, we had 238 digital projectors installed strategically in 101 theatres across the country and 199 of these screens are 3D capable utilizing RealD 3D technology. 3D and IMAX presentations represented 33.9% of box office revenue during the first quarter of 2010 as compared to 7.0% in the same period a year prior.

During the quarter, our SCENE loyalty program continued to add new members reaching approximately 2.3 million members as of March 31, 2010. In March, we announced a limited-time promotional partnership with Milestones Restaurants offering SCENE members the opportunity to earn and redeem SCENE points while dining in any Ontario location.

At our Annual General Meeting, we announced our newest entertainment concept entitled UltraAVX. This is an enhanced entertainment experience featuring giant screens that are significantly larger than our traditional screens, digital projectors, 3D technology, Dolby digital surround sound and extra large rocker chairs featuring reserved seating. UltraAVX was designed to create the best and most immersive entertainment experience for Cineplex guests. The first two installations will open on June 30th at our new CrossIron Mills Cinema outside Calgary and at Cineplex Odeon Queensway Cinemas in Toronto.

We also announced our plans for conversion from an income trust to a traditional corporate structure which we anticipate will occur on January 1, 2011. Unitholders will be pleased to learn that we plan to maintain the current distribution level upon conversion to a corporation and set our annual dividend at \$0.105 per share payable on a monthly basis or \$1.26 annually. For further details please visit the Investor Relations section of our website at www.cineplex.com.

On behalf of the Board of Directors,



Ellis Jacob
President and Chief Executive Officer

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 12, 2010

As of March 31, 2010, Cineplex Galaxy Income Fund (the "Fund") indirectly owned approximately 99.6% of Cineplex Entertainment Limited Partnership (the "Partnership"). The following management's discussion and analysis ("MD&A") of the Fund's financial condition and results of operations should be read together with the consolidated financial statements and related notes of the Fund (see Section 1, Overview of the Fund). These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP").

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

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

Section	Contents	Page
1	Overview of the Fund	2
2	Industry overview	4
3	Business strategy	4
4	Overview of operations	5
5	Results of operations	7
6	Balance sheets	17
7	Liquidity and capital resources	18
8	Distributable cash and distributions	22
9	Fund units outstanding	24
10	Seasonality and quarterly results	27
11	Related party transactions	28
12	Critical accounting estimates	29
13	Accounting policies	29
14	Risk management	34
15	Controls and procedures	39
16	Outlook	40
17	Non-GAAP measures	43
18	Financial statement of the Partnership	46

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Non-GAAP Measures

The Fund reports on certain non-GAAP measures that are used by management to evaluate performance of the Partnership and the Fund. In addition, non-GAAP measures are used in measuring compliance with debt covenants and are used to manage the Fund's capital structure. Because non-GAAP measures do not have a standardized meaning, securities regulations require that non-GAAP measures be clearly defined and qualified, and reconciled to their nearest GAAP measure. The definition, calculation and reconciliation of non-GAAP measures are provided in Section 17, Non-GAAP measures.

Forward Looking Statements

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

1. OVERVIEW OF THE FUND

The Fund and the Partnership were formed on November 26, 2003 to acquire substantially all of the business assets of Cineplex Odeon Corporation ("COC") and all of the shares of Galaxy Entertainment Inc. ("GEI"). The Partnership's investors include Cineplex Galaxy Trust (the "Trust"), Cineplex Entertainment Corporation (the "General Partner"), COC (directly and indirectly through CELP 2007 Limited Partnership ("CELP 2007 LP")) and certain former investors in GEI. The Trust is wholly owned by the Fund and in turn COC and CELP 2007 LP are wholly owned, directly and indirectly, by the Trust. On July 22, 2005 the Partnership acquired the movie exhibition business of Famous Players Limited Partnership ("Famous Players"), becoming Canada's largest film exhibition operator with theatres in six provinces. The Fund's theatre circuit is concentrated in major metropolitan and mid-sized markets, with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. The business of the Fund is carried on through the Partnership and its subsidiaries. As of March 31, 2010, the Fund owned, leased or had a joint-venture interest in 1,347 screens in 130 theatres, including 37 screens in four theatres held in joint ventures.

Cineplex Entertainment Locations and Screens as at March 31, 2010					
Province	Locations	Screens	Digital Screens	Digital 3D Screens	IMAX Screens
Ontario	61	636	137	100	4
Quebec	24	260	30	30	1
British Columbia	19	184	30	30	2
Alberta	14	164	30	28	2
Manitoba	6	52	5	5	-
Saskatchewan	6	51	6	6	-
TOTALS	130	1,347	238	199	9
% of screens			18%	15%	1%

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

1.1 FIRST QUARTER OF 2010 OVERVIEW

During the first quarter of 2010, the Fund recorded its highest ever quarterly box office revenues primarily due to the success of the 3D and IMAX releases 'Avatar' and 'Alice in Wonderland'. The 3D and IMAX releases during the quarter accounted for 33.9% of the Fund's box office revenues, compared to 7.0% during the prior year period. The price premium earned on these releases contributed to the record box office per patron amount recorded during the quarter of \$8.88, up 8.9% from the \$8.16 amount reported in the prior year period. As a result of these factors the Canadian motion picture industry and the Fund both achieved record box office during the period.

1.2 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars)	First Quarter		
	2010	2009	Change
Total revenues	\$ 257,225	\$ 211,021	21.9%
Attendance	18,045	15,966	13.0%
Other revenue	22,000	17,618	24.9%
Net income	9,543	3,703	157.7%
Adjusted EBITDA	35,331	29,914	18.1%
Adjusted EBITDA margin	13.7%	14.2%	-0.5%
Distributable cash per Fund Unit	\$ 0.447	\$ 0.381	17.3%

1.3 KEY DEVELOPMENTS IN THE FIRST QUARTER OF 2010

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

Exhibition

- Acquired two theatres: Star Cite Hull in Hull, Quebec and Cineplex Odeon Cavendish Mall in Montreal, Quebec.
- Installed 48 digital projectors and 50 RealD 3D systems in its theatres during the first quarter of 2010, bringing its totals to 238 digital projectors and 199 RealD 3D systems in 101 theatres across the circuit.

Merchandising

- Concession revenue per patron showed continued growth, increasing 5.0% from \$3.95 in the first quarter of 2009 to \$4.15 in the first quarter of 2010.
- Continued the implementation of process improvements designed to increase the speed of service at the concession counter in addition to ongoing optimization of retail branded outlets available at the Fund's theatres.

Media

- Media revenues during the first quarter of 2010 increased 34.0% compared to the prior year period, primarily due to increased full-motion cinema advertising.
- Higher spending by the automotive and telecommunications industries contributed to this increase in media revenue.

Alternative Programming

- The highly successful Metropolitan Opera series continued its strong performance at the Fund's theatres.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

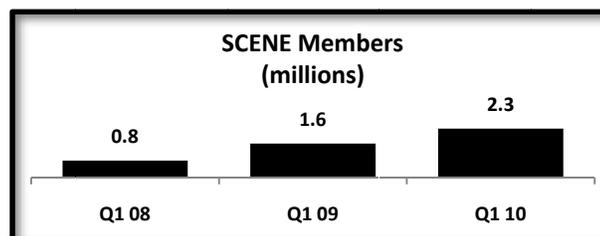
- Additional alternative programming offers included the 2010 Winter Olympic Games and concert screenings by recording artists, including Celine Dion and the Black Eyed Peas.

Interactive

- Continued the evolution of the Cineplex.com website to enhance and simplify the Cineplex interactive experience and drive incremental traffic to the Cineplex Store.
- Enhancements include streamlining and reorganization of showtime information, a redesigned navigation system, relaunch of the online ticketing system, deeper integration of entertainment content, implementation of accessibility recommendations and a larger, more robust promotional area.

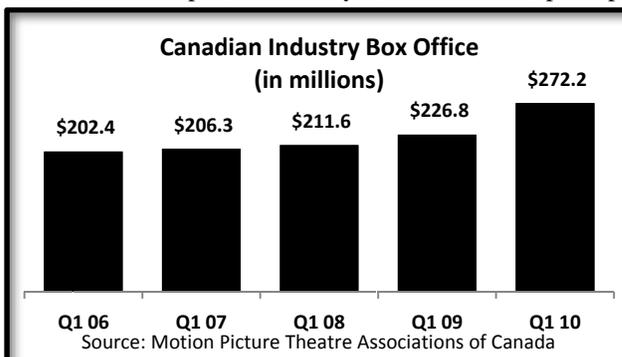
Loyalty

- Increased membership in the SCENE loyalty program to approximately 2.3 million members, an increase of approximately 170,000 members during the first quarter of 2010.
- Announced a pilot project with Milestones Grill & Bar® locations in Ontario where SCENE members can earn and redeem SCENE points at these locations until July 31, 2010.



2. INDUSTRY OVERVIEW

The motion picture industry consists of three principal activities: production, distribution and exhibition.



Production involves the development, financing and creation of feature-length motion pictures. Distribution involves the promotion and exploitation of motion pictures in a variety of different channels. Theatrical exhibition is the primary channel for new motion picture releases. A detailed discussion of the motion picture exhibition industry in Canada can be found in the Fund's MD&A for the year ended December 31, 2009. The film exhibition industry in Canada has not changed materially in the first three months of 2010.

3. BUSINESS STRATEGY

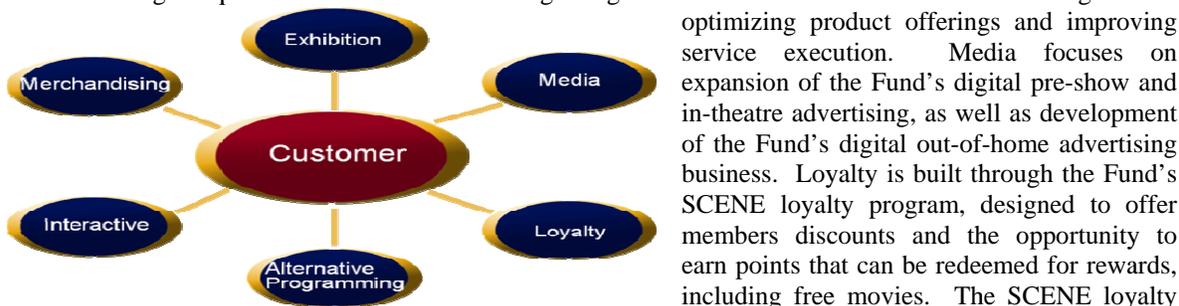
The Fund's business strategy is to enhance its position as a leading exhibitor in the Canadian market by focusing on providing customers with a premium entertainment experience in its theatres, through its media vehicles and on its website. The Fund strives to execute this strategy while delivering on its mission statement, "Passionately delivering an exceptional entertainment experience". All of its efforts are focused towards this mission to consistently provide guests with an exceptional entertainment experience at a fair value.

The Fund focuses on interacting with its customers through six key channels: theatre exhibition, merchandising, media, loyalty, alternative programming and interactive media. Theatre exhibition is the

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Fund's core business. The expansion of digital and 3D projectors during 2009 and into 2010 has positioned the Fund to capitalize on the strong slate of 3D films scheduled for release in 2010 and beyond. Merchandising comprises the Fund's food retailing and games business. Initiatives in merchandising include



optimizing product offerings and improving service execution. Media focuses on expansion of the Fund's digital pre-show and in-theatre advertising, as well as development of the Fund's digital out-of-home advertising business. Loyalty is built through the Fund's SCENE loyalty program, designed to offer members discounts and the opportunity to earn points that can be redeemed for rewards, including free movies. The SCENE loyalty

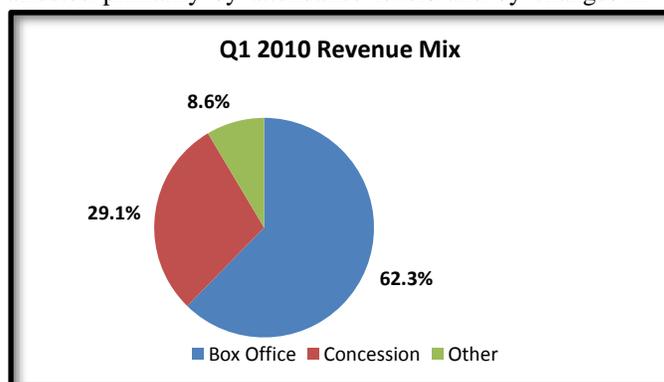
program also allows the Fund to extend special offers to its guests, implement tailored marketing programs and deliver targeted messages. Alternative programming includes non-Hollywood motion picture entertainment, including the Metropolitan Opera series, ethnic film programming, World Wrestling Entertainment events, sporting events and concerts. Interactive media incorporates the Fund's website, www.cineplex.com and the Cineplex Store, selling DVDs, Blu-Ray discs and Cineplex gift cards.

A detailed discussion of the Fund's business strategy can be found in the Fund's MD&A for the year ended December 31, 2009. That strategy has not changed materially during the first three months of 2010.

4. OVERVIEW OF OPERATIONS

Revenues

The Fund generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in the average box office revenue per patron and average concession revenue per patron. The



commercial appeal of the films and alternative content released during the period, the success of marketing as well as promotion for those films by film studios, distributors and content providers, all drive attendance. Average box office revenue per patron is affected by the mix of film and alternative content product that appeals to certain audiences (such as children or seniors who pay lower ticket prices), the surcharge related to 3D film product, ticket prices during the period and the appeal of premium

priced product available. The Fund's main focus is to drive incremental visits to the theatre and to employ a ticket price strategy which takes into account the local demographics and competition at each individual theatre.

Average concession revenue per patron ("CPP") is impacted by concession product mix, concession prices and film genre. Film product targeted to children tends to result in a higher CPP and more adult oriented product tends to result in a lower CPP. As a result, CPP tends to fluctuate from quarter to quarter based on the genre of film product playing during the quarter. Although pricing has an impact on CPP, the Fund focuses on growing CPP by optimizing the product offerings and improving operational excellence.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

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

Cost of Sales and Expenses

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

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

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

Other operating expenses consist of fixed and variable expenses, including marketing and advertising, media, loyalty, interactive, theatre salaries and wages, supplies and services, utilities and maintenance. Although theatre salaries and wages include a fixed cost component, these expenses vary in relation to revenues as theatre staffing levels are adjusted to handle fluctuations in attendance.

General and administrative expenses are primarily costs associated with managing the Fund's business, including film buying, marketing and promotions, operations and concession management, accounting and financial reporting, legal, treasury, construction and design, real estate development, information systems and administration. Included in these costs are payroll and occupancy costs related to the Fund's corporate offices, professional fees (such as public accountant and legal fees) and travel and related costs. The Fund's management maintains general and administrative staffing and associated costs at a level that it deems appropriate to manage and support the size and nature of its theatre portfolio and its business activities.

Accounting for Joint Ventures

The financial statements incorporate the operating results of joint ventures in which the Fund has an interest using the proportionate consolidation method as required by GAAP.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for the Fund for the three months ended March 31, 2010 and 2009 (expressed in thousands of dollars except units of the Fund ("Fund Units") outstanding, per Fund Unit data and per patron data, unless otherwise noted).

	2010	2009	Change (%)
Box office revenues	\$ 160,327	\$ 130,277	23.1%
Concession revenues	74,898	63,126	18.6%
Other revenues	22,000	17,618	24.9%
Total revenues	257,225	211,021	21.9%
Film Cost	87,376	65,940	32.5%
Cost of concessions	16,918	12,924	30.9%
Occupancy	40,793	40,150	1.6%
Other operating expenses	59,510	50,721	17.3%
General and administrative	17,297	11,372	52.1%
Cost of operations	221,894	181,107	22.5%
Income from operations	35,331	29,914	18.1%
Net income	\$ 9,543	\$ 3,703	157.7%
Basic net income per Fund Unit	\$ 0.17	\$ 0.07	142.9%
Diluted net income per Fund Unit (i)	\$ 0.17	\$ 0.07	142.9%
Total assets	\$ 1,267,809	\$ 1,237,941	2.4%
Total long-term financial liabilities (ii)	\$ 336,228	\$ 335,099	0.3%
Fund Units outstanding at March 31	56,902,923	55,400,035	2.7%
Cash distributions declared per Fund Unit	\$ 0.315	\$ 0.315	0.0%
Distributable cash per Fund Unit (iii)	\$ 0.447	\$ 0.381	17.3%
Box office revenue per patron	\$ 8.88	\$ 8.16	8.9%
Concession revenue per patron	\$ 4.15	\$ 3.95	5.0%
Film cost as a percentage of box office revenue	54.5%	50.6%	7.7%
Attendance (in thousands of patrons)	18,045	15,966	13.0%
Theatre locations (at period end)	130	130	0.0%
Theatre screens (at period end)	1,347	1,328	1.4%

- (i) Excludes the conversion of the Fund's convertible debentures, as such conversion would be anti-dilutive.
- (ii) Comprised of long-term debt and the Fund's convertible debentures – liability component. Excludes fair value of interest rate swap agreements, capital lease obligations, accrued pension benefit liability, other liabilities and deferred financing fees net against long-term debt.
- (iii) See Section 17, Non-GAAP Measures for the definition and calculation of distributable cash per Fund Unit.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

5.2 OPERATING RESULTS FOR THE FIRST QUARTER OF 2010

Total revenues

Total revenues for the three months ended March 31, 2010 increased \$46.2 million (21.9%) as compared to the prior year period. A discussion of the factors affecting the changes in box office, concession and other revenues for the first quarter of 2010 compared to the first quarter of 2009 is provided on the following pages.

Box office revenues

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

Box office revenues	First Quarter		
	2010	2009	Change
Box office revenues	\$ 160,327	\$ 130,277	23.1%
Attendance	18,045	15,966	13.0%
Box office revenue per patron	\$ 8.88	\$ 8.16	8.9%
Canadian industry revenues (1)			17.0%
Same store box office revenues	\$ 157,808	\$ 129,496	21.9%
Same store attendance	17,762	15,843	12.1%
% Total box from IMAX & 3D	33.9%	7.0%	384.3%

(1) The Motion Picture Theatre Associations of Canada ("MPTAC") reported that the Canadian exhibition industry reported a box office increase of 20.0% for the period from January 1, 2010 to April 1, 2010 as compared to the period from January 2, 2009 to April 2, 2009. On a basis consistent with the Fund's calendar reporting period (January 1 to March 31), the Canadian industry box office increase is estimated to be 17.0%.

Box office continuity In thousands of dollars	First Quarter	
	Box Office	Attendance
2009 as reported	\$ 130,277	15,966
Same store attendance change	15,689	1,919
Impact of same store BPP change	12,624	-
New and acquired theatres	2,497	280
Disposed and closed theatres	(760)	(120)
2010 as reported	\$ 160,327	18,045

Top Cineplex Films – First Quarter 2010 compared to First Quarter 2009					
Q1 2010 Top Cineplex Films		% Total Box	Q1 2009 Top Cineplex Films		% Total Box
1	Avatar	25.8%	1	Paul Blart: Mall Cop	5.4%
2	Alice in Wonderland	12.5%	2	Slumdog Millionaire	5.1%
3	Shutter Island	4.8%	3	He's Just Not That Into You	4.8%
4	Sherlock Holmes	4.7%	4	Watchmen	4.6%
5	Valentines' Day	3.3%	5	Taken	4.2%

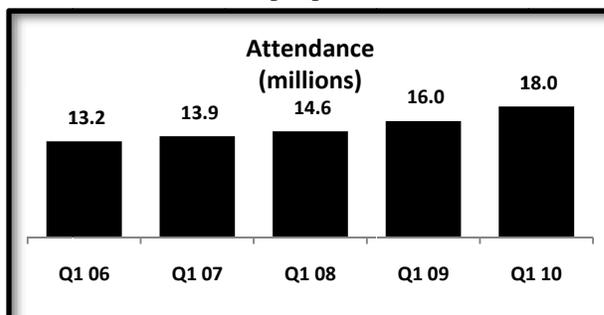
The first quarter of 2010 resulted in the highest quarterly box office revenues recorded in the Fund's history. Historically, the Fund's box office revenues have been seasonal, with the highest box office revenues recorded in the second and third quarters, when the major distributors tend to release their most marketable film product, with the lowest box office revenues generally recorded in the first quarter. The continued success of the 2009 release 'Avatar', which became the highest-grossing film of all-time during the first quarter, was the driving force behind the record result. 'Avatar' accounted for 25.8% of the Fund's box office revenues during the quarter, compared to the 5.4% earned by the Fund's number one film during the

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

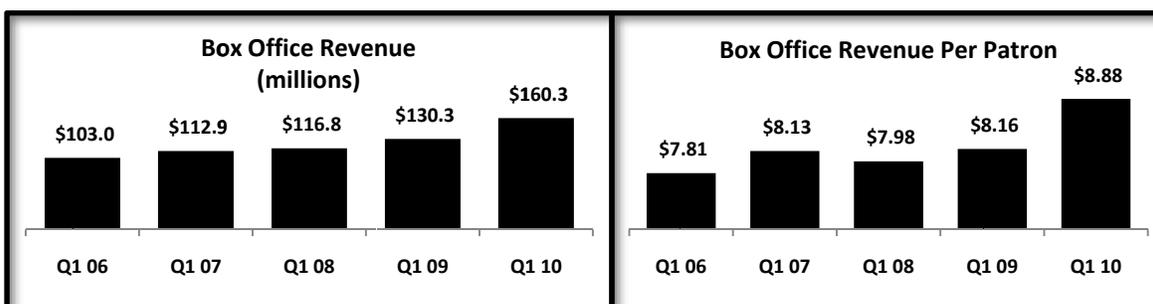
first quarter of 2009, *'Paul Blart: Mall Cop'*. The first quarter of 2010 represents the sixth consecutive quarter that the Fund has reported its' highest-ever box office revenue for a given quarter.

Box office revenue per patron increased \$0.72, or 8.9%, from \$8.16 in the first quarter of 2009 to \$8.88



in the first quarter of 2010. This represents a record BPP for the Fund, exceeding the \$8.40 recorded in the fourth quarter of 2009. The dominance of the top two films during the quarter, *'Avatar'* and *'Alice in Wonderland'*, which were both exhibited in 3D and IMAX, contributed to this record BPP amount. The percentage of box office revenues earned from the 3D and IMAX titles represented 33.9% of the Fund's total box office results during the quarter, up from 7.0% from the prior year period. These premium priced

offerings also contributed to the Fund outperforming the industry results as the Fund's circuit contains the largest number of 3D and IMAX systems in Canada.



Concession revenues

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

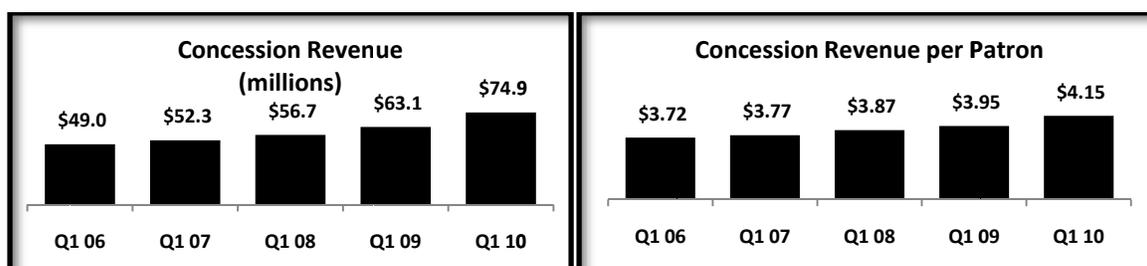
Concession revenues	First Quarter		
	2010	2009	Change
Concession revenues	\$ 74,898	\$ 63,126	18.6%
Attendance	18,045	15,966	13.0%
Concession revenue per patron	\$ 4.15	\$ 3.95	5.0%
Same store concession revenues	\$ 73,691	\$ 62,739	17.5%
Same store attendance	17,762	15,843	12.1%

Concession revenue continuity In thousands of dollars	First Quarter	
	Concession	Attendance
2009 as reported	\$ 63,126	15,966
Same store attendance change	7,601	1,919
Impact of same store CPP change	3,351	-
New and acquired theatres	1,193	280
Disposed and closed theatres	(373)	(120)
2010 as reported	\$ 74,898	18,045

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Concession revenues increased 18.6% as compared to the prior year period, due to the 13.0% increase in attendance and a 5.0% increase in average concession revenue per patron, which increased from \$3.95 in the first quarter of 2009 to \$4.15 in the first quarter of 2010. The Fund believes that revised concession offerings, as well as process improvements designed to increase speed of service contributed to this period-over-period increase. The 2010 results include the impact of the Fund's 'Telus Tuesdays' program, which features a reduced price movie and concession offering. The Fund believes the program drives incremental attendance and concession purchase incidence on Tuesdays.

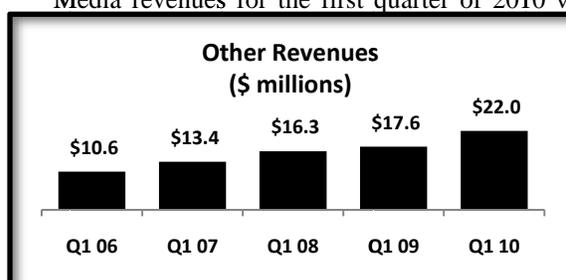


Other revenues

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

Other revenues	First Quarter		
	2010	2009	Change
Media	\$ 14,232	\$ 10,622	34.0%
Games	1,181	1,168	1.1%
Other	6,587	5,828	13.0%
Total	\$ 22,000	\$ 17,618	24.9%

Media revenues for the first quarter of 2010 were \$14.2 million, up \$3.6 million from the prior year period. This increase was due to a \$3.3 million increase in cash-settled transactions and a \$0.3 million increase in non-cash barter revenue. The cash-settled revenue increase was primarily due to increased full-motion media revenue. Spending from the automotive sector increased period over period as the first quarter of 2009 saw reduced spending by this sector in response to the difficult economic climate at that time. Telecommunications spending was also up in the quarter over the prior period due to increased spending from existing companies and new market entrants.



Rather than settling cash-based transactions, since 2008 the Fund has entered into a number of cross-promotional non-cash barter agreements with certain promotional partners to provide radio and television promotions for the Fund's business initiatives. During the first quarter of 2010 the Fund recognized \$2.5 million in media revenue and \$2.9 million in marketing costs related to these transactions (first quarter of 2009: \$2.2 million in media revenue and \$1.7 million in marketing costs).

Other revenues are up \$0.8 million, primarily due to higher breakage revenues associated with increased sales of gift cards and coupons.

Cineplex Galaxy Income Fund

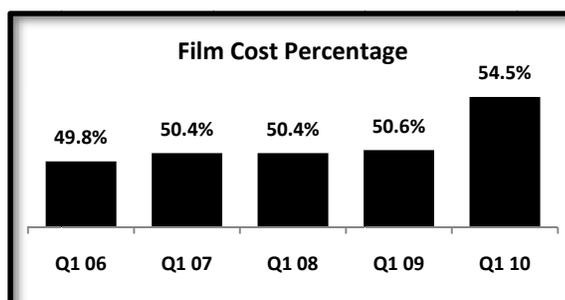
Management's Discussion and Analysis

Film cost

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

Film cost	First Quarter		
	2010	2009	Change
Film cost	\$ 87,376	\$ 65,940	32.5%
Film cost percentage	54.5%	50.6%	7.7%

Film cost varies primarily with box office revenue, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The quarterly increase was due to the 23.1% increase in box office revenues and the 7.7% increase in the film cost percentage as compared to the prior year period. The increase in film cost percentage is primarily due to the settlement rate on certain strong performing titles during the quarter being higher than the average film settlement rate.



Cost of concessions

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

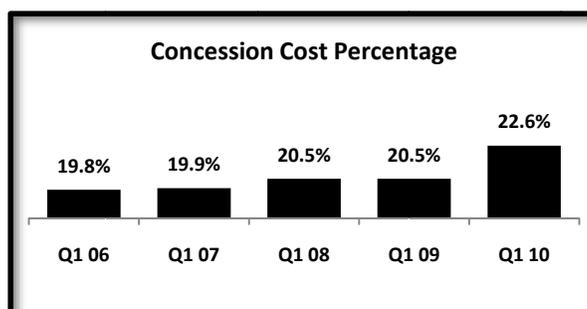
Cost of concessions	First Quarter		
	2010	2009	Change
Concession cost	\$ 16,918	\$ 12,924	30.9%
Concession cost percentage	22.6%	20.5%	10.2%
Concession margin per patron	\$ 3.21	\$ 3.14	2.2%

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The increase in concession cost as compared to the prior year period was due to the 13.0% increase in attendance, increased purchase incidence and the 10.2% higher concession cost percentage.

The continued growth of the SCENE loyalty program and the associated 10% discount on concession products also contributed to the higher concession cost percentage. The 'Telus Tuesdays' program is designed to increase concession purchase incidence on Tuesdays, however the discounted price of the concession offering negatively impacts the Fund's concession cost percentage and concession margin per patron. Despite the increase in concession cost percentage, the concession margin per patron increased from \$3.14 in the first quarter of 2009 to \$3.21 in the same period in 2010.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis



Occupancy expenses

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

Occupancy expense	First Quarter		
	2010	2009	Change
Rent	\$ 27,334	\$ 26,848	1.8%
Other occupancy	13,841	13,529	2.3%
One-time items	(382)	\$ (227)	68.3%
Total	\$ 40,793	\$ 40,150	1.6%

Occupancy continuity In thousands of dollars	First Quarter Occupancy
2009 as reported	\$ 40,150
Impact of new theatres	938
Same store rent change	99
Impact of disposed theatres	(217)
Non-recurring items	(155)
Other	(22)
2010 as reported	\$ 40,793

Occupancy expense increased \$0.6 million during the three months ended March 31, 2010 compared to the prior year period. Since March 31, 2009, the Fund has acquired three theatres and opened one, accounting for 45 screens. During the same timeframe, the Fund has closed four theatres, accounting for 26 screens. This increased screen count resulted in the net impact of new and acquired theatres less disposed and closed theatres increasing occupancy expense by \$0.7 million during the first quarter of 2010 compared to the prior year period.

Other operating expenses

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

Other operating expenses	First Quarter		
	2010	2009	Change
Other operating expenses	\$ 59,510	\$ 50,721	17.3%

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Other operating continuity In thousands of dollars	First Quarter Other Operating	
2009 as reported	\$	50,721
Impact of new theatres		855
Impact of disposed theatres		(374)
Same store payroll change		2,497
Marketing change		1,472
New business initiatives		817
Other		3,522
2010 as reported	\$	59,510

Other operating expenses increased \$8.8 million during the first quarter of 2010 compared to the prior year period primarily as a result of increased business volumes due to the 13.0% increase in attendance. Theatre payroll for same store locations increased \$2.5 million due to minimum wage increases and increased theatre staffing in response to higher theatre attendance in the first quarter of 2010. Marketing costs increased \$1.4 million, of which \$1.2 million relates to the non-cash barter agreements previously discussed under 'Other revenues'. New business initiatives include costs for the Cineplex Store, the Cineplex.com website and costs relating to Cineplex Digital Media ("CDM"), which was acquired in the second quarter of 2009.

The \$3.5 million increase in Other includes technology enhancements and expanded service offerings including the cost of online ticketing and 3D technology licensing payments (\$1.4 million) and increased costs relating to the higher business volumes including the increased media activity during the period (\$2.1 million). Total theatre payroll accounted for 44.0% of the total expenses in other operating expenses during the first quarter of 2010, as compared to 46.1% for the same period in 2009.

General and administrative expenses

The following table highlights the movement in general and administrative ("G&A") expenses during the quarter, including the Fund's Long-Term Incentive Plan ("LTIP") and unit option plan costs, and G&A net of these costs (in thousands of dollars):

G&A expenses	First Quarter		
	2010	2009	Change
G&A excluding LTIP and option plan expense	\$ 9,908	\$ 8,693	14.0%
LTIP	3,502	2,679	30.7%
Option plan	3,887	-	NM
G&A expenses as reported	\$ 17,297	\$ 11,372	52.1%

General and administrative costs increased \$5.9 million primarily as a result of increased costs under the Fund's unit option plan (\$3.9 million). The Fund's unit option plan has outstanding options with exercise prices of \$17.03 and \$14.00. The Fund's closing unit price at March 31, 2010 was \$20.30, as compared to \$18.33 at December 31, 2009. This increased unit price resulted in the \$3.9 million option plan expense during the period (see Section 9, Fund Units Outstanding, for a more detailed discussion of the unit option plan). Higher head office payroll of \$1.0 million and increased costs for the LTIP (\$0.8 million) also contributed to the period over period increase.

Amortization

During the first quarter of 2010, amortization decreased as compared to the prior period primarily due to the effect of fully amortized theatre assets and disposed assets, offset by new and acquired assets (in thousands of dollars):

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Amortization expenses	First Quarter		
	2010	2009	Change
Amortization of property, equipment and leaseholds	\$ 15,894	\$ 17,301	-8.1%
Amortization of intangible assets and other	3,475	3,563	-2.5%
Amortization expenses as reported	\$ 19,369	\$ 20,864	-7.2%

Loss (gain) on disposal of assets

The loss (gain) on disposal of assets represents the loss or gain on assets that were sold or otherwise disposed of. Disposal of assets resulted in a loss of \$0.2 million for the three months ended March 31, 2010 and a gain of \$5 thousand in the prior year period (in thousands of dollars):

Loss (gain) on disposal of assets	First Quarter		
	2010	2009	Change
Loss (gain) on disposal of assets	\$ 165	\$ (5)	NM

Interest and accretion expense on convertible debentures

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

Interest and accretion expense on convertible debentures	First Quarter		
	2010	2009	Change
Convertible debenture interest expense	\$ 1,571	\$ 1,571	0.0%
Convertible debenture accretion expense	281	265	6.0%
Total interest and accretion expense on convertible debentures	\$ 1,852	\$ 1,836	0.9%

Interest on long-term debt and capital lease obligations

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

Interest on long-term debt and capital lease obligations	First Quarter		
	2010	2009	Change
Long-term debt interest expense	\$ 3,226	\$ 3,422	-5.7%
Capital lease interest expense	602	633	-4.9%
Sub-total - cash interest expense	3,828	4,055	-5.6%
Deferred financing fee amortization	147	149	-1.3%
Interest rate swap - non-cash	(226)	10	NM
Sub-total - non-cash interest expense	(79)	159	NM
Total interest expense	\$ 3,749	\$ 4,214	-11.0%

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Interest on long-term debt and capital lease obligations for the first quarter of 2010 decreased to \$3.7 million from \$4.2 million for the same period in 2009, primarily due to the change in non-cash interest on the Fund's interest rate swap agreements (\$0.2 million) and lower long-term debt interest expense (\$0.2 million).

Interest income

The decrease in interest income in the first quarter of 2010 as compared to the prior year period is due to lower interest rates, despite a larger balance of cash and cash equivalents invested during the period (in thousands of dollars):

Interest income	First Quarter		
	2010	2009	Change
Interest income	\$ 84	\$ 125	-32.8%

Income taxes

For the three months ended March 31, 2010, the Fund recorded a future income tax expense of \$0.7 million and a current income tax expense of \$4 thousand (2009 – recovery of \$0.7 million and current income tax expense of \$7 thousand) (in thousands of dollars):

Income taxes	First Quarter		
	2010	2009	Change
Current income tax expense	\$ 4	\$ 7	-42.9%
Future income tax expense (recovery)	\$ 704	\$ (737)	NM

Non-controlling interests

Non-controlling interests for the three months ended March 31, 2010 and 2009 represent the share of the Partnership's operating results that are not controlled by the Fund. During the three months ended March 31, 2010, the Fund's ownership of the Partnership was approximately 99.6%, whereas in the prior year period, the Fund's ownership of the Partnership was approximately 97% (in thousands of dollars):

Non-controlling interests (in thousands of dollars)	First Quarter		
	2010	2009	Change
Non-controlling interests	\$ 29	\$ 157	-81.5%

Net income

Net income for the three months ended March 31, 2010 increased to \$9.5 million from \$3.7 million for the three months ended March 31, 2009. These increases were due to the net effect of all the other factors described previously (in thousands of dollars):

Net income (in thousands of dollars)	First Quarter		
	2010	2009	Change
Net income	\$ 9,543	\$ 3,703	157.7%

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 17, Non-GAAP Measures)

The following table represents the Fund's EBITDA and adjusted EBITDA for the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 (expressed in thousands of dollars, except adjusted EBITDA margin):

	Three months ended March 31,	
	2010	2009
EBITDA	\$ 35,137	\$ 29,762
Adjusted EBITDA	\$ 35,331	\$ 29,914
Adjusted EBITDA margin	13.7%	14.2%

Adjusted EBITDA for the first quarter of 2010 increased \$5.4 million, or 18.1%, as compared to the prior year period. The increase is primarily due to the higher exhibition and merchandising revenues realized due to the strong film product screened during the period, and the higher media revenues as a result of increased advertising spending due to the improved economic climate in the first quarter of 2010 compared to the prior year period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 13.7%, down from 14.2% in the prior year period. The decrease is primarily due to the increase in film cost percentage and the \$3.9 million increase in the Fund's option plan expense during the period.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

6. BALANCE SHEETS

The following sets out significant changes to the Fund's consolidated balance sheets during the three months ended March 31, 2010 (in thousands of dollars):

(\$ thousands)	March 31, 2010	December 31, 2009	Change (\$)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	\$ 80,223	\$ 95,791	\$ (15,568)	-16.3%
Accounts receivable	33,951	54,892	(20,941)	-38.1%
Inventories	3,613	4,260	(647)	-15.2%
Prepaid expenses and other current assets	9,117	4,310	4,807	111.5%
	126,904	159,253	(32,349)	-20.3%
Property, equipment and leaseholds	419,754	428,253	(8,499)	-2.0%
Future income taxes	19,568	20,221	(653)	-3.2%
Deferred charges	787	820	(33)	-4.0%
Intangible assets	100,232	103,674	(3,442)	-3.3%
Goodwill	600,564	600,564	-	0.0%
	\$ 1,267,809	\$ 1,312,785	\$ (44,976)	-3.4%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	\$ 93,511	\$ 109,900	\$ (16,389)	-14.9%
Distributions payable	6,001	6,001	-	0.0%
Income taxes payable	30	34	(4)	-11.8%
Deferred revenue	68,904	85,501	(16,597)	-19.4%
Capital lease obligations - current portion	2,064	2,004	60	3.0%
Fair value of interest rate swap agreements	6,578	6,881	(303)	-4.4%
	177,088	210,321	(33,233)	-15.8%
Long-term debt	233,606	233,459	147	0.1%
Fair value of interest rate swap agreements	4,290	5,382	(1,092)	-20.3%
Capital lease obligations - long-term portion	30,582	31,127	(545)	-1.8%
Accrued pension benefit liability	2,123	2,012	111	5.5%
Other liabilities	114,093	114,941	(848)	-0.7%
Convertible debentures - liability component	101,228	100,982	246	0.2%
	663,010	698,224	(35,214)	-5.0%
Non-controlling interests	2,624	2,669	(45)	-1.7%
Unitholders' equity	602,175	611,892	(9,717)	-1.6%
	\$ 1,267,809	\$ 1,312,785	\$ (44,976)	-3.4%

Accounts receivable. The decrease in accounts receivable is primarily due to the collection of receivables from the sale of gift cards and coupons, as well as the collection of media advertising revenues relating to the 2009 holiday period. December represents the busiest month for gift card and coupon sales and is one of the busiest months for media sales.

Prepaid expenses and other current assets. The increase in prepaid expenses and other current assets relates primarily to certain prepaid real estate tax installments which are paid during the first quarter.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Property, equipment and leaseholds. The decrease in property, equipment and leaseholds is due to amortization expenses (\$15.9 million) and asset dispositions (\$1.4 million) offset by increased new build and other capital expenditures (\$5.7 million) and maintenance capital expenditures (\$3.1 million).

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

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses primarily relates to the settlement of year-end liabilities relating to increased business volumes during the 2009 holiday period.

Deferred revenue. Deferred revenue decreased primarily due to increased redemptions of gift cards and gift certificates sold during the holiday season in December 2009.

Fair value of interest rate swap agreements. The fair value of the Fund's interest rate swap agreements liability decreased by \$1.4 million during the first quarter of 2010 (current portion decrease of \$0.3 million and long term portion decrease of \$1.1 million). The decrease was primarily due to the settlement made during the quarter.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

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

Cash provided by operating activities was \$21.6 million for the three months ended March 31, 2010 compared to \$18.6 million for the same period in 2009. The increase was primarily due to higher net income (\$5.8 million) and the changes in operating assets and liabilities (\$2.6 million), offset by lower tenant inducement receipts.

7.2 INVESTING ACTIVITIES

Cash used in investing activities for the three months ended March 31, 2010 of \$9.1 million related to capital expenditures (\$10.4 million), offset by the proceeds on the sale of assets (\$1.3 million). Cash used in investing activities for the three months ended March 31, 2009 of \$12.1 million related to capital expenditures (\$12.5 million) and the final payment relating to the acquisition of the *Famous* magazines (\$0.2 million), offset by cash acquired as a result of the exchange transaction described in Section 9, Fund Units Outstanding (\$0.6 million). Capital expenditures were lower in 2010 than 2009 due to less construction activities as theatre openings in 2010 are scheduled for later in the year than 2009. Capital expenditures during the first quarter of 2010 include \$3.1 million relating to the purchase of digital projector equipment (2009 - \$2.7 million), which is anticipated to be reimbursed by a third-party integrator financing structure. As of March 31, 2010, the Fund has spent \$16.8 million on digital equipment.

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

7.3 FINANCING ACTIVITIES

Cash used in financing activities for the three months ended March 31, 2010 of \$28.1 million was due to distribution payments (\$18.0 million), the acquisition of Fund Units for the 2009 LTIP (\$9.6 million) and

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

payments under capital leases (\$0.5 million). Cash used in financing activities for the three months ended March 31, 2009 of \$27.6 million was due to distribution payments (\$18.0 million), the acquisition of Fund Units for the 2008 LTIP (\$9.2 million) and payments under capital leases (\$0.4 million).

The Fund believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under the Second Amended Credit Facilities as described in Section 7.4, Credit Facilities.

7.4 CREDIT FACILITIES

The Fund's credit facilities are available through the Partnership's credit agreement with a syndicate of lenders consists of the following facilities (collectively, the "Second Amended Credit Facilities") (in millions of dollars):

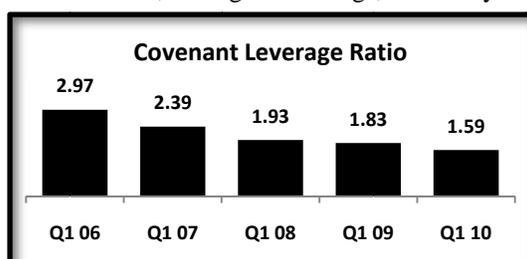
	Available	Drawn	Reserved (1)	Remaining
(i) a five-year senior secured revolving credit facility ("Revolving Facility")	\$ 130.0	\$ -	\$ 1.4	\$ 128.6
(ii) a five-year senior secured non-revolving term facility ("Term Facility")	\$ 235.0	\$ 235.0	\$ -	\$ -

(1) Letters of credit outstanding at March 31, 2010 of \$1.4 million reserved against the Revolving Facility.

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

During the three months ended March 31, 2010, the Fund borrowed and repaid \$5.0 million under the Second Amended Credit Facilities (2009 - \$18.0 million). At March 31, 2010 and 2009 the Fund had no amounts outstanding under the Revolving Facility and \$235.0 million outstanding under the Term Facility.

The Partnership's Second Amended Credit Facilities contain numerous restrictive covenants that limit the discretion of the Fund'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. One of the key financial covenants in the Second Amended Credit Facilities is the leverage covenant. As at March 31, 2010, the Partnership's leverage ratio as calculated in accordance with the credit facility definition was 1.59x, as compared to a covenant of 3.00x. The definition of debt as per the credit facility includes long-term debt (excluding any convertible debentures), capital leases and letters of credit but does not include a reduction for cash on hand and excludes the Class C units of the Partnership ("LP Units"), which can be treated as equity in certain circumstances. For the purposes of the credit facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions. See Section 19, Financial Statements of the Partnership, for the Partnership's financial statements as at March 31, 2010 and 2009.



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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

The Fund believes that the Second Amended Credit Facilities, in place until 2012, and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures, investments in working capital and distributions. However, the Fund's needs may change and in such event the Fund'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 Fund's control.

Interest rate swap agreements. Effective July 22, 2005, the Fund entered into three interest rate swap agreements. In accordance with the interest rate swap agreements, the Fund paid interest at a fixed rate of 3.8% per annum, plus an applicable margin, and received a floating rate. The 3.8% fixed interest rate reflected the mark-to-market buyout of the previous interest rate swap agreement on the Former Amended Credit Facilities. These interest rate swap agreements matured in July 2009.

Effective April 23, 2008, the Fund entered into three interest rate swap agreements. Under these interest rate swap agreements, the Fund pays a fixed rate of 3.97% per annum, plus an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of three years that commenced in July 2009 and have an aggregate notional principal amount of \$235.0 million. Based on the leverage ratio covenant at March 31, 2010, the Fund's effective cost of borrowing on the \$235.0 million is 5.345%.

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

7.5 FUTURE OBLIGATIONS

At March 31, 2010, the Fund had aggregate gross capital commitments of \$51.8 million (\$40.6 million net of tenant inducements) related to the completion of construction of six theatre properties to include an aggregate of 58 screens (including 6 VIP screens) over the next three years. In addition, the Fund has gross commitments over the next year of \$5.9 million (\$4.4 million net of inducements) for other theatre projects.

The Fund has \$105.0 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2012. At March 31, 2010, the liability component of the convertible debentures was recorded on the Fund's balance sheet at \$101.2 million (March 31, 2009 - \$100.1 million). The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*. On redemption or at the December 31, 2012 maturity date, the Fund may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the convertible debentures by issuing and delivering Fund Units.

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

During 2005, the Fund and Famous Players sold 29 theatres to third parties, of which 24 were leased properties. The Fund is guarantor under the 24 leases for the remainder of the lease term in the event that the

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

purchaser of each theatre does not fulfill its obligations under the respective lease. At March 31, 2010, three of the disposed leased theatres have since closed, extinguishing the Fund's obligations for these properties.

During the first quarter of 2006, the Fund also divested to a third party seven theatres, six of which were leased properties. The Fund was a guarantor under the six leases for the remainder of the lease term in the event that the purchaser of the theatres did not fulfill its obligations under the respective leases. During 2007, the Fund settled for \$4.5 million a guarantee dispute regarding one theatre. In 2009 the Fund re-purchased and assumed operations at one of the previously divested theatres, relieving the guarantee associated with that particular theatre as of that date. During the fourth quarter of 2009, the Fund was advised by the landlords of the four remaining divested theatres of their intention to trigger the provisions of the lease guarantees. As a result, during 2009 the Fund recorded a provision for \$1.8 million in occupancy expense. During the first quarter of 2010, the Fund reacquired the leases for two of the four theatres. A third party assumed operations of the third theatre. The fourth theatre was closed, and all outstanding obligations relating to the theatre were settled, extinguishing the Fund's future obligation for the property.

During 2006, the Fund entered into an agreement to divest its 49% share in the three remaining Alliance Atlantis branded theatres. The Fund is guarantor for its 49% share of the leases for the remainder of the lease term in the event that the purchaser of the Fund's share in the theatres does not fulfill its obligations under the respective lease. One of the disposed theatres closed during 2007, extinguishing the Fund's obligations for that property.

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

No amounts have been provided in the consolidated financial statements for guarantees for which the Fund has not been notified of triggering events at March 31, 2010 in accordance with the transitional provisions for CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, the Fund assessed the fair value of these guarantees to be a nominal amount. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, the Fund could face a substantial financial burden.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

8. DISTRIBUTABLE CASH AND DISTRIBUTIONS (see Section 17, Non-GAAP Measures)

8.1 DISTRIBUTABLE CASH

The Fund distributes cash to its unitholders on a monthly basis. Although the Fund has made a distribution for each month of its operation, the amount and timing of distributions cannot be assured and are dependent upon operating performance, as cash available for distributions is received solely from operating cash flows of the Fund (for a more detailed discussion of risks, see Section 14, Risk Management). The following table illustrates distributable cash per Fund Unit, distributions paid per Fund Unit, and the payout ratio of Fund distributions relative to distributable cash for the first quarter of 2010 compared to the prior year period:

Distributable cash	First Quarter		
	2010	2009	Change
Distributable cash per Fund Unit	\$ 0.447	\$ 0.381	17.3%
Distributions paid per Fund Unit	\$ 0.315	\$ 0.315	0.0%
Payout ratio	70.5%	82.7%	-14.8%

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

	For the three months ended March 31,	
	2010	2009
Fund cash flows from operations	\$ 21,601	\$ 18,557
Fund net income	\$ 9,543	\$ 3,703
Standardized distributable cash	\$ 11,190	\$ 6,000
Distributable cash	\$ 25,565	\$ 21,783
Distributable cash available to Fund Unitholders (i)	\$ 25,453	\$ 20,913
Cash distributions declared	\$ 17,924	\$ 17,451
Average number of Fund Units outstanding	56,901,546	54,867,332

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

For the three months ended March 31, 2010, standardized distributable cash increased \$5.2 million, from \$6.0 million to \$11.2 million. The increase is due to higher cash flows generated from operations (\$3.0 million) and lower capital expenditures (\$2.2 million) in the first quarter of 2010. The decreased capital expenditures were due to fewer new theatre construction activities in 2010 as compared to 2009, as one theatre was being completed for a May opening in 2009 compared to later openings planned for 2010.

For the three months ended March 31, 2010, distributable cash increased \$3.8 million, from \$21.8 million to \$25.6 million. The increase was primarily due to the \$5.2 increase in standardized distributable

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

cash, partially offset by the increased maintenance capital expenditures, up \$1.1 million to \$3.1 million in 2010, from \$2.0 million in the same period in 2009.

New build capital expenditures and other are financed using either cash generated from operations or the Revolving Facility. As at March 31, 2010, the Fund had spent \$16.8 million (\$3.1 million during the first quarter of 2010 and \$13.7 million in prior years) on digital projectors for its theatres that was not included in maintenance capital expenditures as these expenditures will be incorporated into a third-party integrator financing structure.

The Fund historically has maintained a payout ratio lower than 100%, reflecting management's and the Board of Trustees' intention to provide cash returns to the Fund's unitholders while investing in future growth initiatives. The payout ratio for the Fund since its inception is 75.1%. Given the low payout ratio, management believes that the Fund will be able to generate sufficient distributable cash to maintain cash distributions in 2010.

8.2 DISTRIBUTIONS

The Fund distributes cash to its unitholders on a monthly basis. Although the Fund has made a distribution for each month of its operation, the amount and timing of distributions cannot be assured and are dependent upon operating performance, as cash available for distributions is received solely from operating cash flows of the Fund's subsidiaries, including the Partnership.

Fund distributions are made on a monthly basis to unitholders of record on the last business day of each month. For each of the three month periods ended March 31, 2010 and 2009 the Fund declared distributions totaling \$0.315 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. The composition of distributions for tax purposes for each of the following years ended December 31 were as follows (in dollars per Fund Unit):

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

At March 31, 2010, based on substantively enacted tax rates and the tax returns filed to December 2009, the Fund had tax pools of \$581.3 million available to offset future taxable income. Use of these tax pools is restricted to a percentage claim based on the nature of the original expenditure.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

9. FUND UNITS OUTSTANDING

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

	<u>2010</u>		<u>2009</u>	
	<u>Number of Fund Units</u>	<u>Amount</u>	<u>Number of Fund Units</u>	<u>Amount</u>
Opening balance – January 1				
Fund Units	56,901,057	\$ 716,034	43,414,217	\$ 565,099
Convertible debentures - equity component	-	8,546	-	8,546
LTIP compensation obligation	-	6,682	-	3,249
LTIP Fund Units	(559,145)	(8,405)	(332,426)	(5,493)
	<u>56,341,912</u>	<u>\$ 722,857</u>	<u>43,081,791</u>	<u>\$ 571,401</u>
Transactions during the period				
Issuance of Fund Units under the Exchange Agreement	-	-	11,985,818	134,403
Issuance of Fund Units on conversion of debentures	1,866	35	-	-
LTIP compensation obligation, net of vested Fund Units	-	(1,587)	-	1,068
Purchase of LTIP Fund Units	(493,410)	(9,620)	(633,228)	(9,163)
Settlement of LTIP obligation through transfer of Fund Units to LTIP participants	512,532	8,557	406,509	6,251
	<u>20,988</u>	<u>(2,615)</u>	<u>11,759,099</u>	<u>132,559</u>
Closing balance – End of period				
Fund Units	56,902,923	716,069	55,400,035	699,502
Convertible debentures - equity component	-	8,546	-	8,546
LTIP compensation obligation	-	5,095	-	4,317
LTIP Fund Units	(540,023)	(9,468)	(559,145)	(8,405)
	<u>56,362,900</u>	<u>\$ 720,242</u>	<u>54,840,890</u>	<u>\$ 703,960</u>

During the three months ended March 31, 2010, convertible debentures issued by the Fund with a principal amount of \$35 thousand were converted for 1,866 Fund Units. The convertible debentures bear interest at a rate of 6% per annum, pay interest semi-annually and are convertible at the option of the holder into Fund Units at \$18.75 per unit. Subsequent to March 31, 2010, convertible debentures issued by the Fund with a principal amount of \$1.4 million were converted for 74,397 Fund Units. As at May 12, 2010, the number of Fund Units outstanding was 56,977,320.

During the three months ended March 31, 2009, under the provisions of an exchange agreement entered into at the time of the Fund's initial public offering (as amended or restated from time to time, the "Exchange Agreement") designed to facilitate the exchange of LP Units into Fund Units, Onex through COC and CELP 2007 LP exchanged 11,376,119 Class B LP Units and 609,699 Class B, Series 1 LP Units for 11,985,818 Fund Units. As a result, during the first quarter of 2009 the Fund indirectly increased its ownership in the Partnership to 97% excluding the Class C LP Units.

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

	<u>Number of LP Units</u>	
	<u>2010</u>	<u>2009</u>
Class B, Series 1	6,890	16,890
Class B, Series 2-G	242,740	1,733,762
	<u>249,630</u>	<u>1,750,652</u>

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

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

LTIP costs are estimated at the grant date based on expected performance results, and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are recognized as they occur as a reduction to compensation costs.

The LTIP compensation is recorded as an accrued liability until the corresponding LTIP pool of funds is utilized to acquire Fund Units, at which point, the liability is reclassified to unitholders' capital, as the Fund is obligated to deliver a fixed number of Fund Units, the value of which will vary with the fair value of the Fund Units. Subsequent changes in the fair value of the Fund Units are not recognized. The Fund accounts for its investment in Fund Units relating to the LTIP as treasury stock, reducing unitholders' capital.

The Fund has an incentive Fund Unit option plan for certain employees of the Partnership. The aggregate number of Fund Units that may be issued under the plan is limited to 4.5 million. Fund Unit options issued under the Plan vest at the rate of one-third on each of the three subsequent anniversaries of the grant date. All of the Fund Unit options must be exercised over specified periods not to exceed five years from the date granted. The Fund Unit options may be exercised in one of three ways, at the optionee's election: by purchasing from treasury the Fund Units for the exercise price; by surrendering the Fund Unit options and receiving cash equal to the difference between the current market price of the Fund Units on the date of surrender and the exercise price of the Fund Units underlying the options surrendered; or by surrendering the Fund Unit options and receiving the number of Fund Units from treasury computed by dividing the difference between the current market price of the Fund Units on the date of surrender and the exercise price for the Fund Units underlying the Fund Unit options surrendered by the market price at the date of surrender. The Fund has the overriding right to substitute Fund Units issued from treasury where an optionee has elected cash.

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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

A summary of Fund Unit option activities for the three months ended March 31, 2010 and 2009 is as follows:

	2010			2009	
	Weighted average remaining contractual life (years)	Number of underlying Fund Units	Weighted average exercise price	Number of underlying Fund Units	Weighted average exercise price
Fund Unit options outstanding - January 1	3.63	2,475,001	\$ 15.50	1,250,000	\$ 17.03
Granted		-		1,250,000	
Cancelled/forfeited		(16,666)		(5,000)	
Exercised		(397,392)		-	
Fund Unit options outstanding - End of period	3.38	<u>2,060,943</u>	\$ 15.52	<u>2,495,000</u>	\$ 15.51

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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

10. SEASONALITY AND QUARTERLY RESULTS

Historically, the Fund's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures 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. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, the Fund has available for its use the Revolving Facility. As of March 31, 2010, there were no amounts drawn on the Revolving Facility.

Summary of Quarterly Results (expressed in thousands of dollars except per unit, per patron and attendance data, unless otherwise noted):

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues								
Box office revenue	\$160,327	\$143,570	\$155,884	\$151,383	\$130,277	\$122,797	\$144,957	\$126,357
Concession revenues	74,898	72,909	77,995	74,225	63,126	61,373	71,520	62,031
Other revenues	22,000	30,691	23,661	23,009	17,618	27,251	22,626	20,936
	257,225	247,170	257,540	248,617	211,021	211,421	239,103	209,324
Expenses								
Film cost	87,376	75,759	82,024	81,372	65,940	62,360	76,212	67,706
Cost of concessions	16,918	14,654	16,517	15,172	12,924	12,192	14,690	13,657
Occupancy expense	40,793	40,755	39,154	38,868	40,150	38,390	38,541	38,637
Other operating expenses	59,510	62,812	58,801	55,795	50,721	52,212	52,370	46,712
General and administrative	17,297	15,089	13,805	12,737	11,372	11,220	9,500	9,998
	221,894	209,069	210,301	203,944	181,107	176,374	191,313	176,710
Income before undernoted	35,331	38,101	47,239	44,673	29,914	35,047	47,790	32,614
Net income	\$ 9,543	\$ 9,450	\$ 20,401	\$ 19,892	\$ 3,703	\$ 6,870	\$ 18,378	\$ 6,010
Basic earnings per Fund Unit	\$ 0.17	\$ 0.17	\$ 0.36	\$ 0.35	\$ 0.07	\$ 0.16	\$ 0.43	\$ 0.14
Diluted earnings per Fund Unit (i)	\$ 0.17	\$ 0.17	\$ 0.36	\$ 0.35	\$ 0.07	\$ 0.13	\$ 0.39	\$ 0.11
Cash provided by operating activities	21,601	88,706	28,611	42,989	18,557	74,363	35,782	21,694
Cash used in investing activities	(9,061)	(10,314)	(10,476)	(11,845)	(12,149)	(34,527)	(13,808)	(6,369)
Cash used in financing activities	(28,108)	(18,439)	(18,431)	(18,424)	(27,579)	(18,408)	(18,402)	(17,823)
Net change in cash	\$(15,568)	\$ 59,953	\$ (296)	\$ 12,720	\$(21,171)	\$ 21,428	\$ 3,572	\$ (2,498)
Box office revenue per patron	\$ 8.88	\$ 8.40	\$ 8.30	\$ 8.34	\$ 8.16	\$ 8.06	\$ 8.06	\$ 8.08
Concession revenue per patron	\$ 4.15	\$ 4.26	\$ 4.15	\$ 4.09	\$ 3.95	\$ 4.03	\$ 3.98	\$ 3.97
Attendance (in thousands of patrons)	18,045	17,096	18,779	18,156	15,966	15,229	17,988	15,630
Theatre locations (at period end)	130	129	129	129	130	130	129	132
Theatre screens (at period end)	1,347	1,329	1,328	1,328	1,328	1,331	1,317	1,337

(i) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Summary of distributable cash by quarter

Management calculates distributable cash per Fund Unit as follows (see Section 17, Non-GAAP Measures, for a discussion of distributable cash) (expressed in thousands of dollars except per unit data and number of Fund Units outstanding):

	2010	2009				2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	\$ 21,601	\$ 88,706	\$ 28,611	\$ 42,989	\$ 18,557	\$ 74,363	\$ 35,782	\$ 21,694
Less: Total capital expenditures	(10,411)	(10,353)	(10,534)	(10,581)	(12,557)	(32,138)	(13,412)	(6,810)
Standardized distributable cash	11,190	78,353	18,077	32,408	6,000	42,225	22,370	14,884
Less:								
Changes in operating assets and liabilities	8,209	(53,602)	12,767	(1,114)	10,381	(39,072)	7,082	6,163
Tenant inducements	(409)	(2,938)	-	(2,492)	(4,560)	(5,112)	(736)	(447)
Principal component of capital lease obligations	(485)	(437)	(428)	(422)	(413)	(406)	(399)	(392)
Add:								
New build capital expenditures and other	7,295	5,220	8,037	7,697	10,542	28,333	10,280	2,992
Non-cash components in operating assets and liabilities	(235)	(180)	(180)	(172)	(167)	(168)	(164)	(162)
Distributable cash	\$ 25,565	\$ 26,416	\$ 38,273	\$ 35,905	\$ 21,783	\$ 25,800	\$ 38,433	\$ 23,038
Less: Non-controlling interests share	(112)	(115)	(167)	(381)	(870)	(6,201)	(9,238)	(5,537)
Distributable cash available to Fund unitholders	\$ 25,453	\$ 26,301	\$ 38,106	\$ 35,524	\$ 20,913	\$ 19,599	\$ 29,195	\$ 17,501
Average number of Fund Units outstanding	56,901,546	56,901,057	56,900,680	56,544,125	54,867,332	43,414,217	43,414,217	43,414,217
Distributable cash per Fund Unit	\$ 0.447	\$ 0.462	\$ 0.670	\$ 0.628	\$ 0.381	\$ 0.451	\$ 0.672	\$ 0.403

11. RELATED PARTY TRANSACTIONS

The Fund performs certain management and film booking services for joint ventures in which it is a partner. During the three months ended March 31, 2010, the Fund earned revenue in the amount of \$0.1 million with respect to these services (2009 - \$0.1 million). These transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by related parties.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

During the three months ended March 31, 2009, investors related to the Fund exchanged Class B LP Units and Class D LP Units for Fund Units under the provisions of the Exchange Agreement (see Section 9, Fund Units Outstanding, for details).

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

12. CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates made by management in the preparation of the financial statements relate to the allocation of the purchase price to the assets and liabilities acquired in the Fund's consolidation of the Partnership and the Partnership's acquisition of other businesses, the assessment of theatre cash flows to identify potential asset impairments, the value of unredeemed loyalty points and of gift certificates that remain unutilized and in circulation for revenue recognition purposes, the film cost payable accrual and the determination of asset retirement obligations. The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on the Fund's results of operations and financial position for the years ended December 31, 2009 and 2008 can be found in the Fund's MD&A for the year ended December 31, 2009. These estimates have not changed materially during the first quarter of 2010. There were no events that occurred during the three months ended March 31, 2010 that would indicate the Fund's property, equipment and leasehold assets, as well as its goodwill and intangible assets, had been impaired.

13. ACCOUNTING POLICIES

13.1 FUTURE CHANGES IN ACCOUNTING POLICIES

Management of the Fund reviews all changes to the CICA Handbook when issued. The following is a discussion of relevant items that were released, revised or will become effective after March 31, 2010:

International Financial Reporting Standards ("IFRS")

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

Key Activity	Milestones	Progress at March 31, 2010
Project team and project management <ul style="list-style-type: none">• Audit committee engagement• Steering committee creation• Technical review committee creation and training• Engagement of external consultants	Project team in place by end of 2008 and meeting plan in place for steering committee and audit committee communication.	<ul style="list-style-type: none">• Project team assembled during Q2 2008, including engagement of professional services firm.• Steering committee meetings scheduled based on project outputs.• Audit committee meeting updates scheduled quarterly.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Key Activity	Milestones	Progress at March 31, 2010
Accounting policies and procedures <ul style="list-style-type: none"> • Identification of differences between Canadian GAAP and IFRS applicable to the Fund. • Selection of the Fund's IFRS accounting policies. • Determination of IFRS 1 choices. 	Complete diagnostic identifying major areas of difference by the end of 2008. Evaluate accounting policy options and develop IFRS accounting policy documents during 2009. Quantify differences and prepare opening balance sheet during 2010.	<ul style="list-style-type: none"> • IFRS diagnostic completed in Q4 2008. • Evaluation and analysis of IFRS policy choices ongoing – see table below for details on decisions that have been made and impacts on the financial statements as at March 31, 2010.
Financial statement preparation <ul style="list-style-type: none"> • Development of financial statement template under IFRS. • Ensure data required for enhanced note disclosures will be available. 	Develop draft IFRS financial statements in conjunction with accounting policy choice selection in 2009. Ensure all required data is available and auditable during 2010.	<ul style="list-style-type: none"> • Financial statement templates developed during 2009. • Teams within the organization tasked with preparing the required reports for enhanced note disclosures.
Information technology impacts <ul style="list-style-type: none"> • Ensure systems are in place to create and disseminate required information accurately and in a timely manner. 	Upgrade the Fund's general ledger system to enable ability to run dual reporting during 2010.	<ul style="list-style-type: none"> • System upgrade completed during 2009. • Dual reporting enabled and initial data collection for IFRS has commenced.
Business impacts <ul style="list-style-type: none"> • Determine if employee incentive plans based on Canadian GAAP measures, which may differ under IFRS, require amendments. • Determine impact on budgeting functions for the 2011 transition year. • Determine any potential impact on the Partnership's bank covenants with change to IFRS. 	Incentive plans to be reviewed for relevance following finalization of IFRS accounting policy choices. Budgeting for 2011 to consider IFRS impact once final accounting policies selected.	<ul style="list-style-type: none"> • The Fund continues to review the impact of IFRS on its internal processes and agreements. • Second Amended Credit Facilities state that bank covenants to be calculated based on Canadian GAAP existing at the time of the agreement, therefore IFRS will not impact covenant compliance throughout the term of the Facilities.
Internal control over financial reporting impacts <ul style="list-style-type: none"> • Evaluate process changes made in response to IFRS changes to determine impact on internal controls over financial reporting as well as disclosure controls and procedures. 	For identified differences between IFRS and Canadian GAAP, assess and modify internal controls over financial reporting and disclosure controls, if required.	<ul style="list-style-type: none"> • The Fund continues to review the impact of IFRS on its internal controls and procedures. • Risk Management department is reviewing process changes related to IFRS for compliance with internal controls over financial reporting.
Training and communication <ul style="list-style-type: none"> • Ensure members of the project team receive adequate training and guidance. • Develop awareness of impacts of IFRS throughout the organization. • Provide communication of project status to external stakeholders in a timely manner. 	Technical review committee members to participate in training courses as required. Internal training to be provided to personnel directly impacted by IFRS in their daily activities throughout implementation. Steering Committee meetings to be held regularly to update members on progress. Audit Committee meetings to be held at least quarterly to update members on progress. External updates to be provided quarterly.	<ul style="list-style-type: none"> • Professional services firm engaged since Q2 2008. • Key members of the project team have completed IFRS specific training courses. • Steering committee meetings have occurred as required based on project progress. • Audit committee meetings have been held quarterly since the inception of the project. • Communication to external stakeholders ongoing through MD&A disclosures quarterly.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

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

Standard	Difference from existing GAAP	Potential impact
IAS 1: Presentation of Financial Statements	<p>IFRS requires significantly more disclosure than existing Canadian GAAP.</p> <p>In addition, classification and presentation may be different for some balance sheet and income statement items.</p>	<p>The Fund has planned for additional disclosure through its general ledger upgrade, completed in 2009.</p> <p>The Fund is analyzing the impact of the classification and presentation changes on its financial statements.</p>
IFRS 1: First-Time Adoption of IFRS	<p>A number of mandatory and optional exemptions and elections are available upon first-time adoption of IFRS.</p> <p>For the Fund, the material exemptions relate primarily to the restatement of prior business combinations, and accounting for costs of certain defined benefit pension plans.</p> <p>The most significant election for the Fund will be whether to revalue (at fair value) any or all property, equipment and leasehold assets.</p>	<p>The Fund has not fully analyzed and concluded on IFRS 1, but has concluded on some items.</p> <p>The Fund will not restate business combinations executed prior to January 1, 2010. The Fund will disclose the IFRS impact of any business combinations executed in 2010.</p> <p>The Fund will recognize all unamortized actuarial losses and prior service costs in equity at January 1, 2010. The decrease in equity and corresponding increase in the accrued pension liability will be approximately \$1.4 million. Pension expense will be slightly lower in future periods for the amounts that otherwise would have been amortized over time.</p> <p>The Fund has not yet determined which of its property, equipment and leasehold assets will be revalued, and by how much. For assets that are revalued, there will be a related effect on depreciation expense.</p>
IFRS 2: Share-Based Payments	<p>Under IFRS, the unit options issued in 2008 and 2009 will continue to be accounted for as cash-settled liabilities, but will be measured at fair value using an option pricing model rather than the intrinsic method under Canadian GAAP.</p> <p>Under IFRS, forfeitures must be estimated; they may not be accounted for as they occur as is current practice for the Fund.</p>	<p>The Fund is still analyzing the effect on the January 1, 2010 IFRS opening balance sheet and ongoing impact on general and administrative expenses.</p> <p>The impact of the estimated and actual forfeitures is not yet quantified but is not expected to be material.</p>
IAS 16: Property, Plant and Equipment	<p>IFRS allows the periodic revaluation of property, equipment and leaseholds.</p> <p>IFRS requires capitalization of interest over the corporate borrowing base, and has more specific guidance on capitalization and componentization of assets.</p>	<p>The Fund has elected not to periodically revalue its property, equipment and leaseholds.</p> <p>The Fund likely will capitalize more interest, reflecting lower interest expense, depending on the length and cost of construction in any period. Some costs currently capitalized may be expensed. The amounts for each change are not known at this time, but are not expected to be material.</p>

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Standard	Difference from existing GAAP	Potential impact
IAS 17: Leases	Under IFRS, the sale-leaseback transactions executed previously by the Fund would have required immediate recognition of the resulting gains. The Fund deferred those gains and is amortizing them as a reduction of occupancy expense on a straight-line basis over the lease term.	The Fund is still analyzing the impact on the deferred gain on its sales-leaseback transactions on the January 1, 2010 IFRS opening balance sheet and ongoing occupancy costs.
IAS 18: Revenue	IFRS may differ from existing GAAP on the timing and classification of certain types of revenues, including breakage income.	The Fund is still analyzing the effect on the January 1, 2010 IFRS opening balance sheet.
IAS 31: Joint Arrangements	A proposed IFRS exposure draft requires accounting for joint ventures through equity accounting, rather than proportionate consolidation.	If the proposed exposure draft is approved, most financial statement items on the income statement and balance sheet will be affected, with no resulting change in net income.
IAS 32: Financial Instruments: Presentation	Under IFRS, a financial instrument which gives the holder the right to put the instrument back to the issuer for cash should be classified as a financial liability, unless certain criteria are met to allow for classification as equity.	The Fund is currently analyzing the impact of this section on the classification of its equity.
IAS 36: Impairment of Assets	The IFRS standard requires the analysis of property, equipment and leaseholds for impairment using discounted cash flows. The existing Canadian standard has a two-step approach, the first using cash flows without discounting. IFRS requires the reversal of impairment losses associated with property, equipment and leaseholds in certain circumstances.	Impairment losses may be recognized earlier, or recorded when they may not have been recorded at all under existing GAAP.
IAS 37: Provisions, Contingent Liabilities and Contingent Assets	Under IFRS, provisions are recognized if they are "more likely than not", a lower threshold than the existing GAAP criterion, "probable". The Fund will be required to reflect interest relating to the time value of money for provisions for which payment extends beyond one year.	Some provisions may be recorded earlier, or recorded when they may not have been recorded at all under existing GAAP. The Fund is analyzing the impact of the changes on its financial statements.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Standard	Difference from existing GAAP	Potential impact
IAS 39: Financial Instruments: Recognition and Measurement	<p>Under existing GAAP, the Fund has expensed certain transaction costs associated with its credit facilities. IFRS requires these costs to be accreted using the effective interest method over the term of the facilities.</p> <p>The allocation between debt and equity for the Fund's convertible debentures is computed differently from Canadian GAAP under IFRS; the liability is recognized at fair value and the equity is the residual amount. The Fund recognized each at the relative fair value at the time of issuance under existing GAAP. Additionally, \$4.2 million of transaction costs relating to the issuance of the convertible debentures were expensed under existing GAAP. IFRS requires these costs to be accreted using the effective interest method over the term of the convertible debentures.</p>	The Fund is analyzing the impact of the changes on its financial statements.
IAS 12: Income Taxes	While IAS 12 is similar to the existing Canadian standard, any material adjustments to balances resulting from the adoption of IFRS would have a corresponding effect on future income tax balances.	<p>Potential impact will depend primarily on other adjustments made upon transition to IFRS.</p> <p>The Fund is also considering its upcoming conversion to a corporation in its analysis of IAS 12.</p>

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

Several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"), which draft and implement the IAS's and IFRS's. Amendments to existing standards are expected to continue until the transition date of January 1, 2011. Certain standards, if approved and implemented in their current state, could result in material differences between the Fund's current Canadian GAAP reporting and proposed IFRS reporting. These areas include revenue recognition, lease accounting and financial statement presentation.

The Fund has discussed key elements and timing of its IFRS conversion plan previously, and will continue to provide quarterly updates on the plan's progress throughout the conversion period, to allow stakeholders to assess the impact of the conversion of the Fund's financial performance, and to assess the Fund's ability to meet the January 1, 2011 transition date. The Fund anticipates communicating decisions about IFRS accounting policy selection, and the impact of these selections on the Fund's financial statements, as decisions are made.

At March 31, 2010, the Fund cannot reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects the Fund's most recent assumptions and expectations; circumstances may arise, such as changes in existing IFRS, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect the Fund's expectations based on information available at March 31, 2010. Changes in IFRS standards or

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

circumstances relating to the Fund may cause the Fund to revise its expectations, its project plan, and its potential IFRS accounting policy choices prior to the conversion date.

Business Combinations

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

Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-controlling Interests*, which together replace CICA Handbook Section 1600, *Consolidated Financial Statements*. The new standards, which are substantially the same as the corresponding IFRS standards, must be adopted on or before January 1, 2011. The Fund is analyzing the impact on its consolidated financial statements.

Financial Instruments

In June 2009, the CICA issued amendments to Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, clarifying the application of the effective interest method after a debt instrument has been impaired, effective immediately, and clarifying when an embedded prepayment option is separated from its host debt instrument for accounting purposes, effective no later than January 1, 2011. The Fund is analyzing the impact of the amendments on its consolidated financial statements.

Multiple Deliverable Revenue Arrangements

In December 2009, the CICA issued Emerging Issues Committee Abstract 175, *Multiple Deliverable Revenue Arrangements*, which discusses the determination of whether multiple elements of revenue exist in an arrangement, and the measurement of those elements. The abstract is effective no later than January 1, 2011. The Fund is analyzing the impact of the abstract on its consolidated financial statements.

14. RISK MANAGEMENT

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

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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Industry Risk

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

Because of the long lead time required to produce a film, there may be a reduction in film product in 2010 and years thereafter because of the reduced ability to finance films and the capital constraints on studios due to the economic downturn in 2009.

In 2009, nine major film distributors accounted for approximately 93% of the Fund's box office revenues, which is consistent with industry standards. Deterioration in the Fund's relationships with any of the major film distributors could affect its ability to negotiate film licenses on favourable terms or its ability to obtain commercially successful films. The Fund actively works on maintaining good relations with these distributors, as this affects its ability to negotiate commercially favourable licensing terms for first-run films or to obtain licenses at all.

The Fund competes with other film delivery methods, including cable and satellite television and DVDs, as well as pay-per-view services and downloads via the Internet. The release date of a film in other channels of distribution such as pay television or DVD is at the discretion of each distributor and earlier release windows for these or new alternative channels could have a negative impact on the Fund's business. While release windows have stabilized in the past four years, the Fund continues to emphasize with film distributors the need to maintain reasonable release windows in order to maintain the strength of the theatrical box office which is the lead indicator of a film's success.

Competition Risk

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

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

Technology Risk

The film exhibition industry is in the early stages of conversion from a physical film-based medium to a digital medium of film exhibition. Digital technology poses additional risks including increased capital costs

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

and changing requirements for digital hardware. Financial costs of the conversion to digital projection equipment are likely to be primarily financed by third parties, with the funding to be covered by distributors through a virtual print fee.

Technological advances and the conversion of films into digital formats have made it easier to create, transmit and "share" via downloading over the Internet or unauthorized copying, high quality copies of films in theatrical release. Some consumers may choose to obtain unauthorized copies of films rather than attending a theatre which may have an adverse effect on the Fund's business. In addition, as home theatre technology becomes more sophisticated, consumers may choose to stay home rather than attending a theatre. It is expected that 3D televisions will become available in the Canadian market during 2010, which could result in consumers choosing to consume 3D product in home rather than in theatre. To mitigate these risks, the Fund continues to enhance the out-of-home experience through the addition of new technologies including 3D and digital projection in order to further differentiate the theatrical product from the home product. The Fund has also diversified its offerings to customers by operating the Cineplex Store which sells DVDs and Blu-Ray discs in order to participate in the in-home entertainment market.

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

Customer Risk

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

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

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

The Fund continues to pursue other revenue opportunities such as advertising, games, promotions and alternative uses of its theatres during non-peak hours. The Fund's ability to achieve its business objectives may depend in part on its ability to successfully increase these revenue streams. Media revenue has been shown to be particularly sensitive to economic conditions and any changes in the economy may either adversely influence this revenue stream in times of a downturn or positively influence this revenue stream

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

should economic conditions improve. The Fund monitors customer satisfaction with advertising through customer satisfaction surveys and has introduced more entertainment content into its pre-show advertising and set limits on rolling stock advertising in order to maintain satisfaction in this area.

Human Resources Risk

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

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

Real Estate Risk

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

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

The Fund may also continue to be liable for obligations under theatre leases in respect of divested theatres. If the transferee of such theatres fails to satisfy the obligations under such leases, the Fund may be adversely affected. If the current economic downturn impacts the business of the transferee, the Fund may need to assume the lease obligations.

Financial Markets Risk

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

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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Sourcing Risk

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

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

The Fund has had no indication that the current economic downturn will affect the viability of these relationships.

Health and Safety Risk

The Fund is subject to risks associated with food safety, product handling and the operation of machinery. The Fund is in compliance with health and safety legislation and conducts employee awareness and training programs on a regular basis.

Business Continuity Risk

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

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

Legal, Taxation, and Accounting Risk

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

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

In 2007, legislation was enacted whereby the income tax rules applicable to certain publicly traded or listed trusts and partnerships will be significantly modified to tax certain income and distributions made by these entities. The changes become effective in the trust's 2011 taxation year or immediately if the trust exceeds normal growth, which is defined as the issue of new equity over the four year period 2007 – 2010

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

greater than its market capitalization as of October 31, 2006. The legislation 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 rules apply to the Fund, its distributable cash may be materially reduced. As a result of the new legislation, the Fund intends to convert to a corporation effective January 1, 2011. Conversion to a corporation is subject to various approvals, including approval of the Fund's unitholders. There can be no assurance that the reorganization undertaken by the Fund will not give rise to adverse Canadian or U.S. income tax consequences.

Environment/Sustainability Risk

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

Information Management Risk

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

The Fund's Annual Information Form dated March 31, 2010 is available on www.sedar.com and contains additional risks related to an investment in Fund Units.

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

Management of the Fund is responsible for establishing and maintaining disclosure controls and procedures for the Fund as defined under National Instrument 52-109 issued by the Canadian Securities Administrators. Management has designed such disclosure controls and procedures, or caused them to be designed under its supervision, to provide reasonable assurance that material information relating to 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.

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

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

16. OUTLOOK

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

THEATRE EXHIBITION

The first three months of 2010 resulted in the best quarterly box office results for the Fund since its inception, despite the first quarter in prior years resulting in the Fund's lowest quarterly box office revenues during four of the last five years. It also represented the sixth consecutive quarter where the Fund has reported its' highest-ever box office revenue for a given quarter. During 2009, the Fund made the expansion of its digital projection and 3D capable systems across its circuit a priority. This expansion, which resulted in the installation of 116 digital projectors and 111 RealD 3D systems during the last twelve months, allowed the Fund to capitalize on the success of the two blockbuster 3D releases during the first quarter of 2010, *'Avatar'* and *'Alice in Wonderland'*. Combined, these two titles accounted for 38.3% of the Fund's first quarter box office. Highly anticipated 3D films to be released over the balance of 2010 include *'Shrek Forever After'* in May, *'Toy Story 3'* in June and *'Harry Potter and the Deathly Hallows: Part 1'* in November. The Fund believes that 3D technology will provide an enhanced guest experience and will continue to charge a ticket price premium for 3D films and events.

Given the lead time in the film production schedules, any reductions in film financing due to difficult credit and economic environments experienced in late 2008 and early 2009 could affect film product in 2010 or thereafter. The Fund may be impacted by the reduction of films but the Fund's operating results are impacted more by the quality of product and financial success of a limited number of films rather than the number of films produced. Additionally, the Fund's average screen count of 10.4 screens per location can be effectively managed with fewer film titles.

MERCHANDISING

The Fund has continued to show growth in the average concession spend per patron over the past five years. The CPP of \$4.15 recorded in the first three months of 2010 represented the first time that the first quarter CPP exceeded \$4.00 in the Fund's history. Although pricing does impact the average spend per patron, the Fund's core focus is on operational execution and providing the optimal product mix to provide further growth in this area.

MEDIA

The Fund believes that cinema advertising is a compelling media offering which is supported by a significant amount of third party evidence and research. Cinema advertising provides an effective medium to reach the 17-25 year old demographic. This demographic is a significant proportion of overall attendance and is a more challenging demographic to reach through other traditional media vehicles. Media revenues increased 34.0% during the first quarter of 2010, demonstrating that the difficult economic conditions that resulted in reduced media spending during the first quarter of 2009 are improving. Increased full motion spending was attributable to higher spending by the automotive and telecommunications industries. Automotive spending increased period over period as the industry rebounds from challenging economic times. Telecommunications spending increased from existing companies and new market entrants. The Fund continues to enhance its media offerings; including enhanced website opportunities and a digital media lobby network whose implementation began in 2009 and continues in 2010.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

LOYALTY

The SCENE loyalty program continues to add members at an impressive pace, with membership of approximately 2.3 million at March 31, 2010. The program announced a pilot program with the Milestones Grill & Bar® locations in Ontario during the first quarter of 2010, and the SCENE continues to evaluate potential program partners to provide value to program members. The Fund has integrated SCENE elements into various film promotion campaigns during the first quarter of 2010, applying the data accumulated in the SCENE database to provide members targeted offers. The Fund expects the program to encourage increased frequency of visitation by SCENE members and additional revenue opportunities through the use of the database and additional partnership agreements.

ALTERNATIVE PROGRAMMING

During the first quarter of 2010, the Fund screened four Metropolitan Operas live in HD, and three in replay, continuing the success of this in-demand series. In addition to Opera, the Fund screened the 2010 Olympic Winter Games live from Vancouver and Whistler each day of the games. The Opera series continues into the second quarter of 2010, and live action events such as WWE and UFC will continue to be screened throughout the year.

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

INTERACTIVE MEDIA

The Fund continued development of the Cineplex Store during the first quarter of 2010, offering DVDs, Blu-Ray discs and Cineplex gift cards for sale online. During the first quarter of 2010, the Fund signed an agreement with CinemaNow to provide the infrastructure for sales of digital movie downloads, projected to commence in the fourth quarter of 2010.

FINANCIAL OUTLOOK

The Fund is pleased to report its strongest first quarter results in its history, following its record year in 2009. The Fund reported first quarter record amounts for total revenue, EBITDA, attendance, average ticket price, CPP, media revenue, other revenue and distributable cash per Fund Unit, all key success indicators. The Fund generated distributable cash of \$0.447 as compared to declared distributions of \$0.315 during the first quarter of 2010. During the twelve months ended March 31, 2010 and 2009, the Fund generated distributable cash of \$2.207 and \$1.908, respectively, as compared to declared distributions of \$1.260 and \$1.255, respectively. The payout ratios for these periods were approximately 57% and 66%, respectively. Given the relatively low payout ratio, the Fund believes that it can support the current level of distributions through the end of 2010.

The Fund anticipates that it will convert its legal structure to a corporation on January 1, 2011 subject to approval of unitholders of the Fund and all regulatory, stock exchange and court approvals. It is contemplated that the conversion will be undertaken pursuant to a statutory Plan of Arrangement under the Business Corporations Act (Ontario). In such a case, a management information circular outlining the details of the planned conversion would be mailed to unitholders in the fourth quarter of 2010 and a special meeting of unitholders would be held in the fourth quarter of 2010 to approve the proposed conversion. At the date of conversion, all members of the Fund's Board as well as all senior management of the Fund are expected to continue serving as directors and officers of the new corporation. It is expected that the conversion will be completed on a tax-deferred rollover basis for Canadian resident unitholders. Following conversion, distributions to shareholders will be characterized as dividends for Canadian tax purposes and certain investors may be entitled to dividend tax credits.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Commencing in 2011, the Fund anticipates that the new corporation will set its initial dividend at \$0.105 per share payable on a monthly basis, or \$1.26 annually, representing no change to the annual amount as a result of the conversion. Consistent with past practice of the Fund, the level of distributions/dividends will be reviewed periodically by the Board on the basis of a number of factors including the financial performance, future prospects and capital requirements of the business.

The Fund's Second Amended Credit Facilities mature in 2012 . The Fund has a \$130.0 million revolving credit facility which is available to finance acquisitions, new theatre construction, working capital and distributions. As defined under its credit facility, as at March 31, 2010, the Fund reported a leverage ratio of 1.59x as compared to a covenant of 3.00x. Given this wide spread, the Fund believes that its covenant compliance risk is minimal. Between the distributable cash flow generated in excess of the distributions paid and amounts available under the Second Amended Credit Facilities, the Fund believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and distributions. However, the Fund's needs may change and in such event the Fund'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 Fund's control.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

17. NON-GAAP MEASURES

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

17.1 EBITDA AND ADJUSTED EBITDA

Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. Adjusted EBITDA excludes the loss on disposal of assets, extraordinary gain and the impact of the Fund's non-controlling interest. The Fund's management uses adjusted EBITDA to evaluate performance primarily because of the significant effect certain unusual or non-recurring charges and other items have on EBITDA from period to period. EBITDA adjusted for various unusual items is also used to define certain financial covenants in the Partnership's credit facilities.

EBITDA and adjusted EBITDA are non-GAAP measures generally used as an indicator of financial performance and they should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Fund's EBITDA and adjusted EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA or adjusted EBITDA as reported by other entities.

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

	Three months ended March 31,	
	2010	2009
Net income	\$ 9,543	\$ 3,703
Amortization	19,369	20,864
Interest and accretion expense on convertible debentures	1,852	1,836
Interest on long-term debt and capital lease obligations	3,749	4,214
Interest income	(84)	(125)
Provision for (recovery of) income taxes	708	(730)
EBITDA	35,137	29,762
Non-controlling interest	29	157
Loss (gain) on disposal of assets	165	(5)
Adjusted EBITDA	\$ 35,331	\$ 29,914

17.2 DISTRIBUTABLE CASH

Distributable cash is the amount available for distribution to the Fund's unitholders based on the operating cash flows and capital maintenance of the Fund, as calculated by management. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts and other flow-through entities as an indicator of financial performance, and it should not be viewed as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Standardized distributable cash is a non-GAAP measure recommended by the Canadian Institute of Chartered Accountants ("CICA") in its July 2007 interpretive release, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities*, and is designed to enhance comparability.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

Management presents standardized distributable cash and distributable cash per Fund Unit because they are key measures used by investors to value and assess the Fund.

Management defines distributable cash as standardized distributable cash adjusted for certain items, and considers distributable cash the amount available for distribution to unitholders. Standardized distributable cash is defined by the CICA as cash from operating activities as reported in the GAAP financial statements, less total capital expenditures and any restrictions on distributions arising from compliance with financial covenants and limitations arising from the existence of a minority interest of a subsidiary. Distributable cash available to Fund unitholders represents distributable cash, less the share of distributable cash due to the non-controlling direct partners of the Partnership.

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

	For the three months ended	
	March 31,	
	2010	2009
Cash provided by operating activities	\$ 21,601	\$ 18,557
Less: Total capital expenditures	(10,411)	(12,557)
Standardized distributable cash	11,190	6,000
Less:		
Changes in operating assets and liabilities (i)	8,209	10,381
Tenant inducements (ii)	(409)	(4,560)
Principal component of capital lease obligations	(485)	(413)
Add:		
New build capital expenditures and other (iii)	7,295	10,542
Non-cash components in operating assets and liabilities (iv)	(235)	(167)
Distributable cash	<u>\$ 25,565</u>	<u>\$ 21,783</u>
Less: Non-controlling interests share of distributable cash	(112)	(870)
Distributable cash available to Fund unitholders	<u>\$ 25,453</u>	<u>\$ 20,913</u>
Average number of Fund Units outstanding	56,901,546	54,867,332
Distributable cash per Fund Unit	\$ 0.447	\$ 0.381

- (i) Changes in operating assets and liabilities are not considered a source or use of distributable cash.
- (ii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of distributable cash.
- (iii) New build capital expenditures and other represent expenditures on Board approved projects as well as any expenditures for digital equipment anticipated to be incorporated into a third-party digital integrator financing structure, and exclude maintenance capital expenditures. The Partnership's Revolving Facility (discussed above in Section 7.4, Credit facilities) is available to the Fund for use to fund Board approved projects.
- (iv) Certain non-cash components of other assets and liabilities are indirectly excluded from distributable cash to the extent they reflect permanent, not timing differences. Such items include the amortization of deferred gains on sale-leaseback transactions and non-cash pension adjustments relating to the Fund's acquisition of the Partnership.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

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

	For the three months ended March 31,	
	2010	2009
Income before undernoted	\$ 35,331	\$ 29,914
Adjust for:		
Interest on long-term debt and capital lease obligations	(3,749)	(4,214)
Interest on convertible debentures, net of accretion expense	(1,571)	(1,571)
Interest income	84	125
Provision for income taxes - current portion	(4)	(7)
Maintenance capital expenditures	(3,116)	(2,015)
Principal component of capital lease obligations	(485)	(413)
Non-cash items:		
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(611)	(28)
Amortization of debt issuance costs	147	149
Other non-cash items (i)	(461)	(157)
Expenses funded through integration and restructuring reserve	-	-
Distributable cash	<u>\$ 25,565</u>	<u>\$ 21,783</u>
Less: Non-controlling interests share of distributable cash	(112)	(870)
Distributable cash available to Fund unitholders	<u>\$ 25,453</u>	<u>\$ 20,913</u>

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

17.3 OTHER NON-GAAP MEASUREMENTS MONITORED BY MANAGEMENT

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

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

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

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

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

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

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

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

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

18. CONSOLIDATED FINANCIAL STATEMENTS OF THE PARTNERSHIP

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

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP INTERIM CONSOLIDATED BALANCE SHEETS (unaudited) (expressed in thousands of dollars)

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 78,637	\$ 94,169
Accounts receivable	33,391	54,332
Inventories	3,613	4,260
Prepaid expenses and other current assets	9,117	4,310
Due from related parties	180	180
	<u>124,938</u>	<u>157,251</u>
Property, equipment and leaseholds	397,090	404,040
Future income taxes	9,350	9,520
Deferred charges	787	821
Intangible assets	40,357	41,740
Goodwill	200,301	200,301
	<u>\$ 772,823</u>	<u>\$ 813,673</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 91,154	\$ 109,116
Distributions payable	4,834	4,834
Due to related parties	1,576	-
Income taxes payable	30	34
Deferred revenue	68,904	85,501
Capital lease obligations - current portion	2,064	2,004
Fair value of interest rate swap agreements	6,578	6,881
	<u>175,140</u>	<u>208,370</u>
Long-term debt	233,606	233,459
Fair value of interest rate swap agreements	4,290	5,382
Capital lease obligations - long term portion	30,582	31,127
Due to Cineplex Galaxy Trust	100,000	100,000
Accrued pension benefit liability	2,123	2,012
Other liabilities	152,588	154,439
Class C Limited Partnership Units - liability component	104,960	104,995
	<u>803,289</u>	<u>839,784</u>
Partners' Deficiency	<u>(30,466)</u>	<u>(26,111)</u>
	<u>\$ 772,823</u>	<u>\$ 813,673</u>

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

(expressed in thousands of dollars)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenues		
Box office	\$ 160,327	\$ 130,277
Concessions	74,898	63,126
Other	22,000	17,618
	<u>257,225</u>	<u>211,021</u>
Expenses		
Film cost	87,376	65,940
Cost of concessions	16,918	12,924
Occupancy	39,790	39,116
Other operating	59,510	50,721
General and administrative	17,261	11,209
	<u>220,855</u>	<u>179,910</u>
Income before undernoted	36,370	31,111
Amortization	15,762	16,595
Loss (gain) on disposal of assets	165	(5)
Interest on long-term debt and capital lease obligations	5,325	5,790
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(83)	(123)
	<u>11,701</u>	<u>5,354</u>
Income before income taxes	11,701	5,354
Provision for (recovery of) income taxes		
Current	4	7
Future	170	(151)
	<u>174</u>	<u>(144)</u>
Net income	<u>\$ 11,527</u>	<u>\$ 5,498</u>

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

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

(unaudited)

(expressed in thousands of dollars)

For the three months ended March 31, 2010

	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Partners' capital	Formation of Partnership deficit	Total Partners' deficiency	Comprehensive income
Balance - December 31, 2009	\$ 179,522	\$ (308,903)	\$ (129,381)	\$ (10,032)	\$ 261,097	\$ (147,795)	\$ (26,211)	\$ -
Conversion of Class C LP units	-	-	-	-	35	-	35	-
Distributions declared Investment in Cineplex Galaxy Income Fund units	-	(14,503)	(14,503)	-	-	-	(14,503)	-
LTIP compensation obligation	-	-	-	-	(1,063)	-	(1,063)	-
Net income	11,527	-	11,527	-	(1,585)	-	11,527	11,527
Other comprehensive income - interest rate swap agreements	-	-	-	1,234	-	-	1,234	1,234
Comprehensive income for the period	-	-	-	-	-	-	-	\$ 12,761
Balance - March 31, 2010	\$ 191,049	\$ (323,406)	\$ (132,357)	\$ (8,798)	\$258,484	\$ (147,795)	\$ (30,466)	

The sum of accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at March 31, 2010 is \$141,155.

For the three months ended March 31, 2009

	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Partners' capital	Formation of Partnership deficit	Total Partners' deficiency	Comprehensive income
Balance - December 31, 2008	\$ 118,908	\$ (250,893)	\$ (131,985)	\$ (19,865)	\$ 261,580	\$ (147,795)	\$ (38,065)	\$ -
Distributions declared Investment in Cineplex Galaxy Income Fund units	-	(14,503)	(14,503)	-	-	-	(14,503)	-
LTIP compensation obligation	-	-	-	-	(2,912)	-	(2,912)	-
Net income	5,498	-	5,498	-	176	-	5,498	5,498
Other comprehensive income - interest rate swap agreements	-	-	-	154	-	-	154	154
Comprehensive income for the period	-	-	-	-	-	-	-	\$ 5,652
Balance - March 31, 2009	\$ 124,406	\$ (265,396)	\$ (140,990)	\$ (19,711)	\$258,844	\$ (147,795)	\$ (49,652)	

The sum of accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at March 31, 2009 is \$160,701.

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

CINEPLEX ENTERTAINMENT LIMITED PARTNERSHIP INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (expressed in thousands of dollars)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash provided by (used in)		
Operating activities		
Net income	\$ 11,527	\$ 5,498
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	15,762	16,595
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(1,613)	(1,062)
Amortization of debt issuance costs	147	149
Loss (gain) on disposal of assets	165	(5)
Future income taxes	170	(151)
Cash flow hedges - non cash interest	(226)	10
Tenant inducements	409	4,560
Changes in operating assets and liabilities	(8,204)	(10,684)
	<u>18,137</u>	<u>14,910</u>
Investing activities		
Proceeds from sale of assets	1,350	-
Purchases of property, equipment and leaseholds	(10,411)	(12,557)
Acquisition of businesses	-	(231)
	<u>(9,061)</u>	<u>(12,788)</u>
Financing activities		
Distributions paid	(14,503)	(14,503)
Borrowings under credit facility	5,000	18,000
Repayment of credit facility	(5,000)	(18,000)
Payments under capital leases	(485)	(413)
Investment in Cineplex Galaxy Income Fund units	(9,620)	(9,163)
	<u>(24,608)</u>	<u>(24,079)</u>
Decrease in cash and cash equivalents during the period	(15,532)	(21,957)
Cash and cash equivalents - Beginning of period	94,169	43,187
Cash and cash equivalents - End of period	<u>\$ 78,637</u>	<u>\$ 21,230</u>
Supplemental information		
Cash paid for interest	7,266	6,277
Cash paid for income taxes - net	8	5

Cineplex Galaxy Income Fund

Management's Discussion and Analysis

The following table illustrates the consolidation adjustments that result in the differences between the statements of operations of the Partnership compared to the statement of operations for the Fund for the three months ended March 31, 2010:

	Partnership three months ended March 31, 2010	Consolidation adjustments		Fund three months ended March 31, 2010
Revenues				
Box office	\$ 160,327	\$ -		\$ 160,327
Concessions	74,898	-		74,898
Other	22,000	-		22,000
	<u>257,225</u>	<u>-</u>		<u>257,225</u>
Expenses				
Film cost	87,376	-		87,376
Cost of concessions	16,918	-		16,918
Occupancy	39,790	1,003	(i)	40,793
Other operating	59,510	-		59,510
General and administrative	17,261	36	(ii)	17,297
	<u>220,855</u>	<u>1,039</u>		<u>221,894</u>
Income before undernoted	36,370	(1,039)		35,331
Amortization	15,762	3,607	(i)	19,369
Loss on disposal of theatre assets	165	-		165
Interest and accretion expense on convertible debentures	-	1,852	(iii)	1,852
Interest on long-term debt and capital lease obligations	5,325	(1,576)	(iv)	3,749
Interest on loan from Cineplex Galaxy Trust	3,500	(3,500)	(iv)	-
Interest income	(83)	(1)	(v)	(84)
	<u>11,701</u>	<u>(1,421)</u>		<u>10,280</u>
Income before income taxes and non-controlling interests	11,701	(1,421)		10,280
Provision for income taxes				
Current	4	-		4
Future	170	534	(vi)	704
	<u>174</u>	<u>534</u>		<u>708</u>
Income before non-controlling interests	11,527	(1,955)		9,572
Non-controlling interests	-	29	(vii)	29
	<u>-</u>	<u>29</u>		<u>29</u>
Net income	<u>\$ 11,527</u>	<u>\$ (1,984)</u>		<u>\$ 9,543</u>

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

Cineplex Galaxy Income Fund

Interim Consolidated Balance Sheets (Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2010	December 31, 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 80,223	\$ 95,791
Accounts receivable	33,951	54,892
Inventories	3,613	4,260
Prepaid expenses and other current assets	9,117	4,310
	<hr/>	<hr/>
	126,904	159,253
Property, equipment and leaseholds	419,754	428,253
Future income taxes (note 3)	19,568	20,221
Deferred charges	787	820
Intangible assets	100,232	103,674
Goodwill	600,564	600,564
	<hr/>	<hr/>
	\$ 1,267,809	\$ 1,312,785

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

Cineplex Galaxy Income Fund
 Interim Consolidated Balance Sheets ...*continued*
 (Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2010	December 31, 2009
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	\$ 93,511	\$ 109,900
Distributions payable (note 4)	6,001	6,001
Income taxes payable	30	34
Deferred revenue	68,904	85,501
Capital lease obligations - current portion	2,064	2,004
Fair value of interest rate swap agreements	6,578	6,881
	<hr/>	<hr/>
	177,088	210,321
Long-term debt	233,606	233,459
Fair value of interest rate swap agreements	4,290	5,382
Capital lease obligations - long-term portion	30,582	31,127
Accrued pension benefit liability	2,123	2,012
Other liabilities	114,093	114,941
Convertible debentures - liability component	101,228	100,982
	<hr/>	<hr/>
	663,010	698,224
Non-controlling interests (note 3)	2,624	2,669
Unitholders' Equity	602,175	611,892
	<hr/>	<hr/>
	\$ 1,267,809	\$ 1,312,785
	<hr/>	<hr/>

Approved by the Board of Trustees

"Phyllis Yaffe"
 Trustee

"Robert Steacy"
 Trustee

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

Cineplex Galaxy Income Fund

Interim Consolidated Statements of Operations

(Unaudited)

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

	Three months ended March 31, 2010	Three months ended March 31, 2009
Revenues		
Box office	\$ 160,327	\$ 130,277
Concessions	74,898	63,126
Other	22,000	17,618
	<u>257,225</u>	<u>211,021</u>
Expenses		
Film cost	87,376	65,940
Cost of concessions	16,918	12,924
Occupancy	40,793	40,150
Other operating	59,510	50,721
General and administrative	17,297	11,372
	<u>221,894</u>	<u>181,107</u>
Income before undernoted	35,331	29,914
Amortization	19,369	20,864
Loss (gain) on disposal of assets	165	(5)
Interest and accretion expense on convertible debentures	1,852	1,836
Interest on long-term debt and capital lease obligations	3,749	4,214
Interest income	(84)	(125)
Income before income taxes and non-controlling interests	<u>10,280</u>	<u>3,130</u>
Provision for (recovery of) income taxes		
Current	4	7
Future	704	(737)
	<u>708</u>	<u>(730)</u>
Income before non-controlling interests	9,572	3,860
Non-controlling interests	29	157
Net income	<u>\$ 9,543</u>	<u>\$ 3,703</u>
Basic net income per Fund unit	\$ 0.17	\$ 0.07
Weighted average number of Fund units outstanding used in computing basic net income per Fund unit	56,312,078	54,440,777
Diluted net income per Fund unit (note 6)	\$ 0.17	\$ 0.07
Weighted average number of Fund units outstanding used in computing diluted net income per Fund unit (note 6)	56,893,763	56,761,381

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

Cineplex Galaxy Income Fund

Interim Consolidated Statements of Unitholders' Equity and Comprehensive Income (Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2010

	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Unitholders' capital (note 5)	Total unitholders' equity	Comprehensive income
Balance - December 31, 2009	\$ 155,981	\$ (262,094)	\$ (106,113)	\$ (4,852)	\$ 722,857	\$ 611,892	\$ -
Issuance of units on conversion of debentures	-	-	-	-	35	35	-
LTIP compensation obligation	-	-	-	-	(1,587)	(1,587)	-
LTIP Fund units	-	-	-	-	(1,063)	(1,063)	-
Distributions declared (note 4)	-	(17,924)	(17,924)	-	-	(17,924)	-
Net income	9,543	-	9,543	-	-	9,543	9,543
Other comprehensive income - interest rate swap agreements, net of \$50 future income tax recovery	-	-	-	1,279	-	1,279	1,279
Comprehensive income for the period	-	-	-	-	-	-	\$ 10,822
Balance - March 31, 2010	\$ 165,524	\$ (280,018)	\$ (114,494)	\$ (3,573)	\$ 720,242	\$ 602,175	

The sum of the accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at March 31, 2010 is \$118,067.

For the three months ended March 31, 2009

	Accumulated income	Accumulated distributions	Accumulated distributions in excess of accumulated income	Accumulated other comprehensive loss	Unitholders' capital (note 5)	Total unitholders' equity	Comprehensive income
Balance - December 31, 2008	\$ 102,535	\$ (190,881)	\$ (88,346)	\$ (13,683)	\$ 571,401	\$ 469,372	\$ -
Issuance of units under Exchange Agreement (note 3)	-	-	-	-	134,403	134,403	-
LTIP compensation obligation	-	-	-	-	1,068	1,068	-
LTIP Fund units	-	-	-	-	(2,912)	(2,912)	-
Distributions declared (note 4)	-	(17,451)	(17,451)	-	-	(17,451)	-
Net income	3,703	-	3,703	-	-	3,703	3,703
Other comprehensive income - interest rate swap agreements, net of \$73 future income tax provision	-	-	-	223	-	223	223
Comprehensive income for the period	-	-	-	-	-	-	\$ 3,926
Balance - March 31, 2009	\$ 106,238	\$ (208,332)	\$ (102,094)	\$ (13,460)	\$ 703,960	\$ 588,406	

The sum of the accumulated distributions in excess of accumulated income and accumulated other comprehensive loss as at March 31, 2009 is \$115,554.

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

Cineplex Galaxy Income Fund

Interim Consolidated Statements of Cash Flows

(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2010	Three months ended March 31, 2009
Cash provided by (used in)		
Operating activities		
Net income	\$ 9,543	\$ 3,703
Adjustments to reconcile net income to net cash used in operating activities		
Amortization of property, equipment and leaseholds, deferred charges and intangible assets	19,369	20,864
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(611)	(28)
Amortization of debt issuance costs	147	149
Loss (gain) on disposal of assets	165	(5)
Future income taxes	704	(737)
Cash flow hedges - non-cash interest	(226)	10
Non-controlling interests	29	157
Accretion of convertible debentures	281	265
Tenant inducements	409	4,560
Changes in operating assets and liabilities (note 7)	(8,209)	(10,381)
	<u>21,601</u>	<u>18,557</u>
Investing activities		
Proceeds from sale of assets	1,350	-
Purchases of property, equipment and leaseholds	(10,411)	(12,557)
Cash acquired in exchanges of LP units	-	639
Acquisition of businesses	-	(231)
	<u>(9,061)</u>	<u>(12,149)</u>
Financing activities		
Distributions paid	(17,924)	(16,193)
Distributions paid by the Partnership to non-controlling interests	(79)	(1,810)
Borrowings under credit facility	5,000	18,000
Repayment of credit facility	(5,000)	(18,000)
Payments under capital leases	(485)	(413)
Acquisition of long-term incentive plan Fund units	(9,620)	(9,163)
	<u>(28,108)</u>	<u>(27,579)</u>
Decrease in cash and cash equivalents during the period	(15,568)	(21,171)
Cash and cash equivalents - Beginning of period	95,791	44,585
Cash and cash equivalents - End of period	\$ 80,223	\$ 23,414
Supplemental information		
Cash paid for interest	\$ 3,766	\$ 2,777
Cash paid for income taxes - net	\$ 8	\$ 5
Cash received for interest	\$ 83	\$ 119

Certain non-cash transactions occurred relating to exchanges of the non-controlling interests' Partnership units for Fund units (note 3).

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

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

(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, a newly constituted wholly owned trust, in Partnership units of Cineplex Entertainment Limited Partnership (the “Partnership”) and shares of Cineplex Entertainment Corporation, the general partner 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 and all of the shares of Galaxy Entertainment Inc. In 2005, the Partnership acquired 100% of Famous Players Limited Partnership and its general partner, Famous Players Co. As at March 31, 2010, the Fund indirectly owns approximately 99.6% of the Partnership. The Fund is currently Canada’s largest film exhibition organization, with theatres in six provinces.

2 Summary of significant accounting policies

Basis of presentation

The Fund prepares its 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 contain all requirements of GAAP for annual consolidated financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009.

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, 2009, except as described in the remainder of this note.

Future changes in accounting standards

The Fund reviews all changes to The Canadian Institute of Chartered Accountants (“CICA”) Handbook when issued. The following will become effective after March 31, 2010:

Multiple deliverable revenue arrangements

In December 2009, the CICA issued Emerging Issues Committee Abstract 175, *Multiple Deliverable Revenue Arrangements*, which discusses the determination of whether multiple elements of revenue exist in an arrangement, and the measurement of those elements. The abstract is effective no later than January 1, 2011. The Fund is analyzing the impact of the abstract on its consolidated financial statements.

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

Financial instruments

In June 2009, the CICA issued amendments to Handbook Section 3855, *Financial Instruments - Recognition and Measurement*, clarifying the application of the effective interest method after a debt instrument has been impaired, effective immediately, and clarifying when an embedded prepayment option is separated from its host debt instrument for accounting purposes, effective no later than January 1, 2011. The Fund is analyzing the impact of the amendments on its consolidated financial statements.

International Financial Reporting Standards

In February 2008, the CICA confirmed that International Financial Reporting Standards (“IFRS”) will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. Management continues to analyze the impact of the new standards.

Business combinations

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

Consolidated financial statements and minority interests

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-controlling Interests*, which together replace CICA Handbook Section 1600, *Consolidated Financial Statements*. The new standards, which are substantially the same as the corresponding IFRS standards, must be adopted on or before January 1, 2011. The Fund is analyzing the impact on its consolidated financial statements.

3 Presentation of non-controlling interests - exchangeable units

In the three months ended March 31, 2009, under the provisions of the Exchange Agreement, Onex Corporation (“Onex”) and certain members of Onex’s management exchanged their indirect interests in the Partnership for 11,985,818 Fund units. As a result of the exchange, the Fund increased its indirect ownership of the Partnership to approximately 97% and recorded additional unitholders’ capital of \$134,403, comprised of \$130,948 reclassified from non-controlling interests and accounts payable and accrued liabilities and the recognition of \$3,455 additional future income tax assets.

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

4 Distributions payable

The Fund has declared the following distributions during the three months ended March 31, 2010 and 2009:

Record date	2010		2009	
	Amount	Amount per unit	Amount	Amount per unit
January	\$ 5,975	\$ 0.1050	\$ 5,817	\$ 0.1050
February	5,975	0.1050	5,817	0.1050
March	5,975	0.1050	5,817	0.1050

The distributions are paid within 30 days following the end of each month. Distributions paid are at the discretion of the Board of Trustees of the Fund. In addition to the above, the Partnership has amounts payable as at March 31, 2010 to the non-controlling interests of \$26 (2009 - \$184).

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

5 Unitholders' capital

Unitholders' capital as at March 31, 2010 and 2009 and transactions during the periods are as follows:

	Three months ended March 31, 2010		Three months ended March 31, 2009	
	Number of units	Amount	Number of units	Amount
Opening balance - January 1				
Fund units	56,901,057	\$ 716,034	43,414,217	\$ 565,099
Convertible debentures - equity component	-	8,546	-	8,546
LTIP compensation obligation	-	6,682	-	3,249
LTIP Fund units	(559,145)	(8,405)	(332,426)	(5,493)
	<u>56,341,912</u>	<u>722,857</u>	<u>43,081,791</u>	<u>571,401</u>
Transactions during the period				
Issuance of Fund units under the Exchange Agreement (note 3)	-	-	11,985,818	134,403
Issuance of Fund units on conversion of debentures	1,866	35	-	-
LTIP compensation obligation, net of vested Fund units	-	(1,587)	-	1,068
Purchase of LTIP Fund units	(493,410)	(9,620)	(633,228)	(9,163)
Settlement of LTIP obligation through transfer of Fund units to LTIP participants	512,532	8,557	406,509	6,251
	<u>20,988</u>	<u>(2,615)</u>	<u>11,759,099</u>	<u>132,559</u>
Closing balance - End of period				
Fund units	56,902,923	716,069	55,400,035	699,502
Convertible debentures - equity component	-	8,546	-	8,546
LTIP compensation obligation	-	5,095	-	4,317
LTIP Fund units	(540,023)	(9,468)	(559,145)	(8,405)
	<u>56,362,900</u>	<u>\$ 720,242</u>	<u>54,840,890</u>	<u>\$ 703,960</u>

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

Long-term incentive plan

Long-term incentive plan (“LTIP”) costs are estimated at the grant date based on expected performance results, and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are recognized as they occur as a reduction to compensation expense. For the three months ended March 31, 2010, the Fund recognized \$3,502 (2009 - \$2,679) of compensation costs under the LTIP.

The LTIP compensation is recorded as an accrued liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point, the liability is reclassified to unitholders’ capital, as the Fund is obligated to deliver a fixed number of Fund units, the value of which will vary with the fair value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized. The Fund accounts for its investment in Fund units relating to the LTIP as treasury stock, reducing unitholders’ capital.

Fund unit option plan

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

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

The Fund recorded \$3,887 general and administrative expense with respect to the Fund unit options during the three months ended March 31, 2010 (2009 - \$11). An amount of \$6,633 is included in accounts payable and accrued expenses with respect to the Fund unit options as at March 31, 2010 (2009 - \$11).

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

A summary of Fund unit option activities for the three months ended March 31, 2010 and 2009 is as follows:

	2010		2009		
	Weighted average remaining contractual life (years)	Number of underlying Fund units	Weighted average exercise price	Number of underlying Fund units	Weighted average exercise price
Fund unit options outstanding - January 1	3.63	2,475,001	\$ 15.50	1,250,000	\$ 17.03
Granted		-		1,250,000	
Cancelled/forfeited		(16,666)		(5,000)	
Exercised		<u>(397,392)</u>		<u>-</u>	
Fund unit options outstanding - End of period	3.38	<u>2,060,943</u>	15.52	<u>2,495,000</u>	15.51

As at March 31, 2010 and 2009, the number of Fund unit options vested and exercisable are as follows:

	2010	2009
Fund unit options exercisable at \$17.03	621,739	415,000
Fund unit options exercisable at \$14.00	200,871	-
	<u>822,610</u>	<u>415,000</u>

6 Diluted net income per Fund unit

The weighted average number of Fund units outstanding used in computing the diluted net income per unit includes the dilutive effect of the full exercise of the non-controlling interest unitholders' right to exchange their Partnership units for Fund units. Convertible debentures in the amount of \$104,960 were excluded from the computation of diluted net income per Fund unit, as their effect would have been anti-dilutive. The \$104,960 of convertible debentures can be converted into 5,597,866 Fund units at the option of the holders. If converted, the weighted average number of Fund units outstanding used in computing diluted net income per Fund unit would be 5,597,866 units higher (2009 - 5,599,734). The Fund unit options outstanding were excluded from the computation of diluted net income per Fund unit, as their effect would have been anti-dilutive. LTIP units held by the Fund decrease the weighted average number of Fund units outstanding for both the basic and diluted net income per Fund unit.

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

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

	Number of Partnership units	
	2010	2009
Class B, Series 1	6,890	16,890
Class B, Series 2-G	242,740	1,733,762
	249,630	1,750,652

7 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	Three months ended March 31, 2010	Three months ended March 31, 2009
Accounts receivable	\$ 20,791	\$ 20,575
Inventories	647	1,148
Prepaid expenses and other current assets	(4,807)	(3,010)
Accounts payable and accrued expenses	(7,854)	(13,088)
Income taxes payable	(4)	2
Deferred revenue	(16,597)	(15,483)
Accrued pension benefit liability	111	142
Other liabilities	(496)	(667)
	\$ (8,209)	\$ (10,381)
Non-cash investing activities		
Property, equipment and leasehold purchases financed through accrued liabilities	\$ 4,442	\$ 6,120

8 Seasonal fluctuations

The Fund's revenues are primarily dependent on the timing of film releases by distributors. The most marketable films are usually released during the summer and year-end holiday seasons. Consequently, the results of operations and cash flows for interim periods are not necessarily indicative of the results to be expected for the full year. Although film studios and distributors have expanded the historical summer and year-end holiday release windows and increased the number of heavily marketed films released during traditionally lower-attendance periods, the Fund's results of operations may vary significantly from quarter to quarter.

Cineplex Galaxy Income Fund

Notes to Interim Consolidated Financial Statements

(Unaudited)

March 31, 2010

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

9 Segment information

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

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