CINEPLEX INC.

FIRST QUARTER 2011

DESTINATION CINEPLEX

CINEPLEX®
ENTERTAINMENT

As of March 31, 2011, Cineplex Inc. owns, operates or has an interest in 131 theatres with 1,360 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.

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Letter to shareholders:

Although the exhibition industry experienced a box office decline from the record results in the first quarter of 2010, our diversified business model and related revenue streams provided us growth over the prior year.

On January 1, 2011, we completed our planned conversion to a corporation and are now named Cineplex Inc. We were pleased to maintain our dividend and will continue with monthly payments. Eligible shareholders now benefit from the dividend tax credit, which will provide greater returns. Subsequent to the quarter end, we were pleased to announce a dividend increase to $1.29 per share annually.

We achieved strong results considering the difficult comparisons to the first quarter of 2010 that featured the records set by both *Avatar* and *Alice in Wonderland*. Cineplex's diversified business model helped cushion the impact of a difficult box office comparator to the first quarter of 2010. Key successes included concession per patron ("CPP") growth of 2.6% to $4.27; other revenues increased 19.0% primarily based on the success of our media business which grew 26.6% compared to the prior year; and strong cost controls, primarily in the areas of film costs. These successes resulted in an increase to adjusted EBITDA margin to 14.1% from 13.6% in the prior year period.

CPP grew to $4.27, the highest first quarter CPP Cineplex has ever reported. Concession revenues of $65.2 million decreased 12.3% when compared to the same period the prior year primarily as a result of the decreased attendance.

Other revenues continue to be a strong performer for Cineplex increasing 19.0% from the first quarter in 2010 as mentioned above. Cineplex Media revenue increased to $17.9 million, accounting for 89.9% of the total other revenue increase to $26.3 million versus the same period a year ago. This was primarily due to higher full motion and digital pre-show revenues resulting from increased spending by government and electronic/technology advertisers as well as higher Cineplex Digital Media revenues.

Cineplex also continued to install digital and 3D projection equipment in our theatres during the first quarter of 2011 as 51 digital projectors and 14 3D systems were added to our circuit. As of March 31, 2011, we had 466 digital projectors installed in 120 theatres across the country and 380 of these systems are 3D capable utilizing RealD 3D technology.

We continued to expand premium entertainment offerings for our guests as we increased both the number of UltraAVX™ auditoriums across our circuit and the number of theatres offering D-Box. Three auditoriums in Alberta and three in Ontario were converted, bringing our total to 17 UltraAVX auditoriums with additional UltraAVX auditoriums to open during the balance of 2011. D-Box MFX Seats were introduced in three auditoriums in Alberta and one in Quebec bringing our D-Box installations to date to seven with four more installations planned before year end.

Subsequent to the quarter end, we announced the formation of the Canadian Digital Cinema Partnership ("CDCP") to manage the conversion to digital cinema. The CDCP plan will oversee equipment procurement, financing arrangements and securing digital deployment agreements with the studios.

Our SCENE entertainment rewards loyalty program continues to grow as membership reached 2.9 million members in the quarter.

On behalf of the Board of Directors,

Ellis Jacob
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 11, 2011

Cineplex Inc. ("Cineplex") directly and indirectly owns 100% of Cineplex Entertainment Limited Partnership (the "Partnership"). The following management's discussion and analysis ("MD&A") of Cineplex's financial condition and results of operations should be read together with the consolidated financial statements and related notes of Cineplex (see Section 1, Overview of Cineplex). These financial statements, presented in Canadian dollars, were prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In 2010, the Canadian Institute of Chartered Accountants ("CICA") Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Cineplex has commenced reporting on this basis in its consolidated financial statements for both the current year period and the 2010 comparative period.

Unless otherwise specified, all information in this MD&A is as of March 31, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS CONTENTS

Non-GAAP Measures

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

Forward Looking Statements

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

1. OVERVIEW OF CINEPLEX

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

On January 1, 2011, the Fund effected a reorganization for tax and business purposes, converting to an Ontario corporation, Cineplex. The assets of the Trust and the Fund were transferred to Cineplex on a tax-deferred basis, and the Trust was wound up. Additionally, on January 1, 2011, Cineplex acquired the 0.3% of the Partnership units ("LP Units") it did not indirectly own, resulting in Cineplex directly or indirectly owning 100% of the Partnership.

Cineplex's theatre circuit is concentrated in major metropolitan and mid-sized markets, with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. The business of Cineplex is carried on through the Partnership and its subsidiaries. As of March 31, 2011, Cineplex owned, leased or had a joint venture interest in 1,360 screens in 131 theatres.

Cineplex Entertainment **Locations and Screens as at March 31, 2011** **Province**	**Locations**	**Screens**	**Digital Screens**	**Digtal 3D Screens**	**UltraAVX**	**IMAX Screens**
Ontario	62	639	235	184	10	4
Quebec	23	251	79	62	1	1
British Columbia	20	198	67	59	1	2
Alberta	15	171	63	53	5	2
Saskatchewan	6	51	13	13	-	-
Manitoba	5	50	9	9	-	-
TOTALS	**131**	**1,360**	**466**	**380**	**17**	**9**
Percentage of screens			34%	28%	1%	1%

Cineplex Entertainment - Locations and screens last eight quarters									
	2011		**2010**					**2009**	
	Q1		Q4	Q3	Q2	Q1		Q4	Q3	Q2
Theatres	131		131	129	131	130		129	129	129
Screens	1,360		1,362	1,342	1,353	1,347		1,329	1,328	1,328
Digital Screens	466		415	342	280	238		190	169	164
3D Screens	380		366	300	236	199		149	129	124
UltraAVX Screens	17		11	2	2	-		-	-	-
IMAX Screens	9		9	9	9	9		9	9	9
Percentage of 3D Screens	28%		27%	22%	17%	15%		11%	10%	9%

1.1 FIRST QUARTER 2011 FINANCIAL HIGHLIGHTS

Financial highlights (in thousands of dollars)	**First Quarter**		
	2011	**2010**	**Change**
Total revenues	$ 221,392	$ 255,214	-13.3%
Attendance	15,272	17,875	-14.6%
Other revenue	26,282	22,093	19.0%
Net (loss) income	(848)	3,792	NM
Adjusted EBITDA	31,238	34,662	-9.9%
Adjusted EBITDA margin	14.1%	13.6%	0.5%
Adjusted free cash flow/Distributable cash per common share /Fund unit	$ 0.392	$ 0.462	-15.2%

Total revenues for the first quarter of 2011 were down 13.3% compared to the prior year period, primarily due to lower theatre exhibition and concession revenues. These decreases were primarily due to a 14.6% decrease in attendance. The first quarter of 2010 was a record quarter for Cineplex, resulting in record quarterly box office revenues and record box office revenue per patron ("BPP"). These prior year record results were due to the success of *Avatar*, which became the highest grossing film of all-time during that period, and *Alice in Wonderland*, both of which were screened in 3D and IMAX. Box office revenues decreased due to the attendance decline as well as the 4.2% decrease in BPP, from $8.88 in the first quarter of 2010 to $8.51 in the same period in 2011. This decrease was due to a lower proportion of Cineplex's box office revenues being generated from premium priced 3D and IMAX screenings falling from 33.8% of total box office revenues in the first quarter of 2010 to 21.3% in the same period in 2011.

Concession revenues decreased due to the attendance decrease, partially offset by a 2.6% increase in concession revenue per patron ("CPP"), from $4.16 in the first quarter of 2010 to $4.27 in the same period in 2011. The CPP amount represents a first quarter record for Cineplex. A 19.0% increase in other revenue was due to a 26.6% increase in media revenue. The media revenue increase was due to increased full-motion and digital pre-show advertising, as well as the contribution from Cineplex's digital media ("CDM") business, which includes the former Digital Display and Communications Inc. ("DDC") acquired on July 2, 2010 and

therefore not included in the first quarter of 2010 comparative media amounts. Adjusted EBITDA decreased 9.9%, from $34.7 million to $31.2 million and adjusted free cash flow per common share of Cineplex ("Share") decreased 15.2%, from distributable cash of $0.462 per unit of the Fund ("Unit") in the first quarter of 2010 to adjusted free cash flow of $0.392 per Share in the same period in 2011.

1.2 KEY DEVELOPMENTS IN THE FIRST QUARTER OF 2011

The following describes certain key business initiatives undertaken during the first quarter of 2011 in each of Cineplex's core business areas:

THEATRE EXHIBITION

- Installed 51 digital projectors and 14 RealD 3D systems during the first quarter of 2011, bringing the circuit totals to 466 digital projectors and 380 RealD 3D systems in 120 theatres.
- Installed six additional UltraAVX auditoriums during the first quarter of 2011, bringing the circuit total at March 31, 2011 to 17 UltraAVX screens in 17 theatres.
- Expanded the number of theatres offering D-BOX MFX seats, with seven of Cineplex's theatres featuring D-BOX MFX seats at March 31, 2011. Cineplex has committed to adding D-BOX MFX seats to four additional theatres by the end of 2011.
- Announced plans to develop new theatres in Abbotsford, British Columbia, Edmonton, Alberta and Chatham, Ontario.

MERCHANDISING

- CPP of $4.27 during the first quarter of 2011 represents the highest first quarter CPP in the history of Cineplex.
- Opened Cineplex's third XSCAPE Entertainment Centre at the SilverCity Oakville and VIP Cinemas during the first quarter of 2011, bringing the total number of XSCAPE centres in the circuit to three.

MEDIA

- Media revenues during the first quarter of 2011 were a first quarter record for Cineplex, increasing 26.6% ($3.8 million) compared to the prior year period, primarily due to increased full-motion cinema advertising led by higher spending in the government and the electronics/technology sectors. As part of this increase, CDM contributed 31.7% ($1.2 million).
- Rebranded DDC as Cineplex Digital Solutions ("CDS"). CDS is an award-winning implementer of digital signage networks and associated products and services. CDS is included as part of Cineplex's CDM business.

ALTERNATIVE PROGRAMMING

- The highly successful Metropolitan Opera series continued its strong performance at Cineplex's theatres.
- During 2010, Cineplex launched its 'Classic Film Series', which runs through August 2011. During the first quarter of 2011, Cineplex screened '*Doctor Zhivago*' and '*The Wizard of Oz*' through this series.
- Other alternative programming during the first quarter of 2011 included concerts and live sporting events such as World Wrestling Entertainment, as well as live broadcasts of the Los Angeles Philharmonic and the Bolshoi Ballet Series live from Moscow.

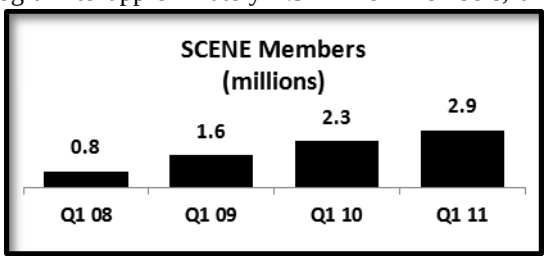
INTERACTIVE MEDIA

- New functionality added to all Cineplex mobile apps (iPhone, iPad, BlackBerry and Android) to include clickable ads and WiFi SCENE access.
- PayPal payment option added to www.cineplex.com, mobile and Cineplex Store sites.
- Enhanced Cineplex's social media presence with improvements to the Cineplex Facebook functionality, including a new Movie Planner.

- Added Twentieth Century Fox movies to the Download to Own ("DTO") and Video On Demand ("VoD") services, which already included film product from Universal Pictures, Sony Studios and Warner Brothers.

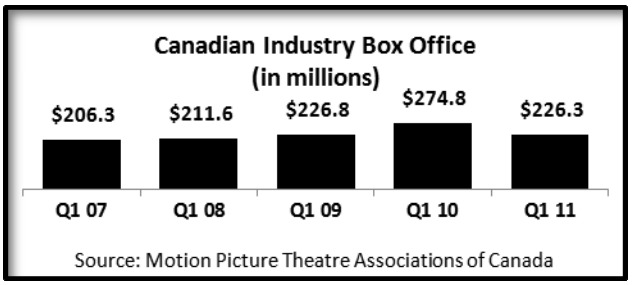
LOYALTY

- Increased membership in the SCENE loyalty program to approximately 2.9 million members, an increase of approximately 135,000 members during the first quarter of 2011.
- Expanded SCENE's program with Milestones Grill & Bar to locations in British Columbia and Alberta, in addition to those Ontario locations which participated in the program in 2010. SCENE members can earn and redeem SCENE points at these locations.
- SCENE members can now redeem points on SCENE.ca for Cara Foods 'Bon Appetit' gift cards, redeemable at all Harvey's, Swiss Chalet, Montana's, Kelsey's and Milestones Grill & Bar locations across Canada.



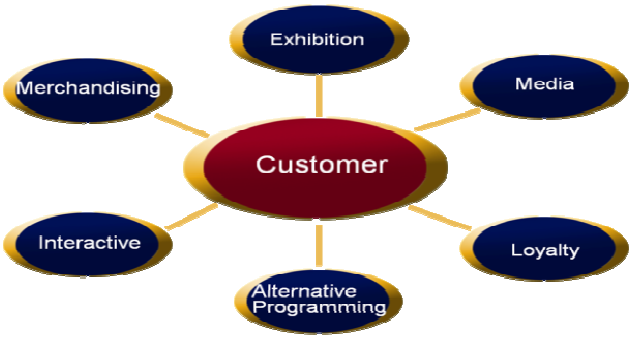
2. INDUSTRY OVERVIEW

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, 2010.



3. BUSINESS STRATEGY

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



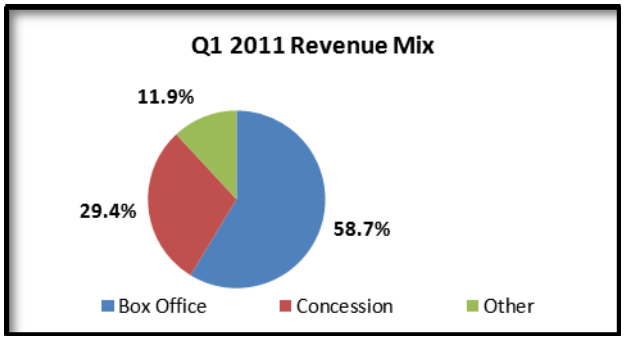
advertising sales through Cineplex Media, and providing in-home entertainment options through the Cineplex Store which sells DVDs, Blu-ray discs, DTO and VoD movies on-line.

A detailed discussion of Cineplex's business strategy can be found in the Fund's MD&A for the year ended December 31, 2010. That strategy has not changed materially during the first three months of 2011.

4. OVERVIEW OF OPERATIONS

Revenues

Cineplex generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in BPP and CPP. Box office revenue represented 58.7% of revenue in the first quarter of 2011 and continues to represent the largest component of revenue. As discussed earlier, Cineplex's business strategy is to position itself as the leading exhibitor in the Canadian market by focusing on providing customers with a premium entertainment experience. As a result of Cineplex's focus on diversifying the business beyond the traditional movie exhibition model, over the past five years the revenue mix has shifted from box office revenue to concession and other revenue sources. These revenue sources typically provide a higher incremental contribution margin than traditional exhibition revenues.



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

CPP is impacted by concession product mix, concession prices, film genre, the 10% SCENE discount and the reduced price Tuesdays program. Film product targeted to children tends to result in a higher CPP and more adult oriented product tends to result in a lower CPP. As a result, CPP tends to fluctuate from quarter to quarter based on the genre of film product playing. Both the 10% SCENE discount and the reduced price Tuesdays program, decrease concession revenue on individual purchases, however Cineplex believes these programs drive incremental attendance and purchase incidence, increasing overall revenues. Although pricing has an impact on CPP, Cineplex focuses on growing CPP by optimizing the product offerings and improving operational excellence.

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

Cost of Sales and Expenses

Film cost represents the film rental fees paid on films exhibited in Cineplex's theatres. Film costs are calculated as a percentage of box office revenue and are dependent on various factors including the

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

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

Depreciation and amortization represents the depreciation and amortization of Cineplex's property, equipment and leaseholds, as well as certain of its intangible assets. Depreciation and amortization are provided on the straight-line basis over the useful lives of the assets.

Loss on disposal of assets represents the loss recognized on assets or components of assets that were sold or otherwise disposed.

Other costs are comprised of theatre occupancy expenses, other operating expenses, and general and administrative expenses. These categories are described below.

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

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

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

Accounting for Joint Ventures

The financial statements incorporate the operating results of joint ventures in which Cineplex has an interest using the equity accounting method as required by GAAP. Through equity accounting, results of operations for entities held through joint ventures by Cineplex are reported as a single item in the statements

of operations, 'Share of (income) loss of joint ventures'. Theatre attendance for theatres held in joint ventures is not reported in Cineplex's consolidated attendance as the line-by-line results of the joint ventures are no longer included in the relevant lines in the statement of operations.

5. RESULTS OF OPERATIONS

5.1 SELECTED FINANCIAL DATA

The following table presents summarized financial data for Cineplex and the Fund for the first quarters of 2011 and 2010 (expressed in thousands of Canadian dollars except Shares and Units outstanding, per Share/Unit data, and per patron data, unless otherwise noted).

	Three months ended March 31, 2011	Three months ended March 31, 2010	Change (%)
Box office revenues	$ 129,956	$ 158,792	-18.2%
Concession revenues	65,154	74,329	-12.3%
Other revenues	26,282	22,093	19.0%
Total revenues	221,392	255,214	-13.3%
Film Cost	65,544	86,521	-24.2%
Cost of concessions	13,648	16,793	-18.7%
Depreciation and amortization	17,372	19,877	-12.6%
Loss on disposal of assets	537	764	-29.7%
Other costs (a)	113,476	116,511	-2.6%
Costs of operations	210,577	240,466	-12.4%
Income from operations	10,815	14,748	-26.7%
Net (loss) income	$ (848)	$ 3,792	NM
Adjusted EBITDA (i)	$ 31,238	$ 34,662	-9.9%
(a) Other costs include:			
Theatre occupancy expenses	41,541	40,618	2.3%
Other operating expenses	56,232	58,421	-3.7%
General and administrative expenses	15,703	17,472	-10.1%
Total other costs	$ 113,476	$ 116,511	-2.6%
Basic net (loss) income per Share (2010 - Unit)	$ (0.01)	$ 0.07	NM
Diluted net income per Share (2010 - Unit) (ii)	$ (0.01)	$ 0.07	NM
Total assets	$ 1,230,978	1,269,619	-3.0%
Total long-term financial liabilities (iii)	$ 332,867	$ 339,960	-2.1%
Shares/Units outstanding at March 31	57,530,827	56,902,923	1.1%
Cash dividends declared per Share/Cash distributions declared per Unit	$ 0.315	$ 0.315	0.0%
Adjusted free cash flow per Share/Distributable cash per Unit	$ 0.392	$ 0.462	-15.2%
Box office revenue per patron	$ 8.51	$ 8.88	-4.2%
Concession revenue per patron	$ 4.27	$ 4.16	2.6%
Film cost as a percentage of box office revenue	50.4%	54.5%	-7.5%
Attendance (in thousands of patrons)	15,272	17,875	-14.6%
Theatre locations (at period end)	131	130	0.8%
Theatre screens (at period end)	1,360	1,347	1.0%

(i) See Section 18, Non-GAAP Measures, for the definitions of adjusted EBITDA, adjusted free cash flow per Share and distributable cash per Unit.
(ii) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive.
(iii) Comprised of the principal components of long-term debt and the convertible debentures. Excludes unit or share-based compensation, fair value of interest rate swap agreements, capital lease obligations, post-employment benefit obligations, other liabilities, deficiency interest in joint venture, liability for exchangeable interests and deferred financing fees and transaction costs net against long-term debt and convertible debentures.

5.2 OPERATING RESULTS FOR THE FIRST QUARTER OF 2011

Note: For all charts included herein, the results for the first quarters of 2007, 2008 and 2009 are presented under Canadian GAAP that existed at that time, and as such include the results of Cineplex's joint ventures. The results for the first quarters of 2010 and 2011 are presented under Canadian GAAP following the conversion to IFRS, and exclude the joint venture results which are included in one line on the statements of operations (Share of profit (loss) of joint ventures).

Total revenues

Total revenues for the three months ended March 31, 2011 decreased $33.8 million (13.3%) to $221.4 million as compared to the prior year period. A discussion of the factors affecting the changes in box office, concession and other revenues for the periods is provided on the following pages.

Box office revenues

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

Box office revenues	First Quarter		
	2011	2010	Change
Box office revenues	$ 129,956	$ 158,792	-18.2%
Attendance	15,272	17,875	-14.6%
Box office revenue per patron	$ 8.51	$ 8.88	-4.2%
Canadian industry revenues (1)			-18.9%
Same store box office revenues	$ 125,621	$ 157,639	-20.3%
Same store attendance	14,798	17,722	-16.5%
% Total box from 3D &IMAX	21.3%	33.8%	-37.0%

(1) The Motion Picture Theatre Associations of Canada ("MPTAC") reported that the Canadian exhibition industry reported a box office decrease of 17.7% for the period from December 31, 2010 to March 31, 2011 as compared to the period from January 1, 2010 to April 1, 2010. On a basis consistent with Cineplex's calendar reporting period (January 1 to March 31), the Canadian industry box office decrease is estimated to be 18.9%.

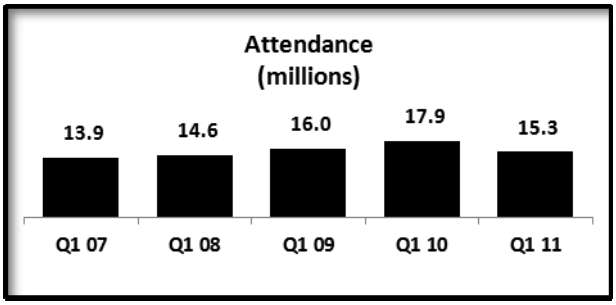
Box office continuity In thousands	First Quarter Box Office	 Attendance
2010 as reported	$ 158,792	17,875
Same store attendance change	(26,014)	(2,925)
Impact of same store BPP change	(6,004)	-
New and acquired theatres	3,537	387
Disposed and closed theatres	(355)	(65)
2011 as reported	$ 129,956	15,272

	Q1 2011 Top Cineplex Films	% Total Box		Q1 2010 Top Cineplex Films	% Total Box
1	The King's Speech	7.0%	1	Avatar (i)(ii)	25.8%
2	The Green Hornet (i)	5.1%	2	Alice in Wonderland (i)(ii)	12.5%
3	Just Go With It	4.8%	3	Shutter Island	4.8%
4	Gnomeo and Juliet (i)	4.2%	4	Sherlock Holmes	4.7%
5	Rango (i)	4.0%	5	Valentines' Day	3.3%

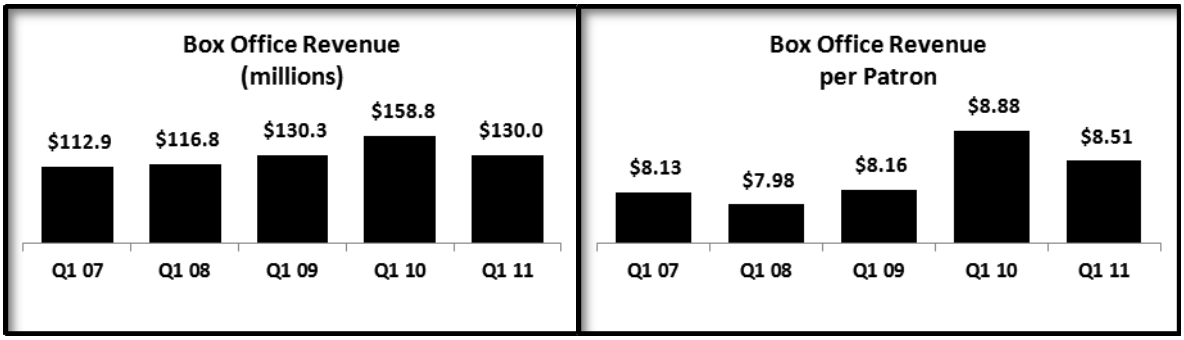
i = Film screened in 3D.
ii = Film screened in IMAX.

Box office revenues decreased $28.8 million, or 18.2%, to $130.0 million during the first quarter of 2011, compared to $158.8 million recorded in the same period in 2010. This decrease was due to a 14.6% decline in attendance as a result of the record-breaking first quarter in 2010. The 2010 period included *Avatar* which became the highest grossing film of all-time during that period, and accounted for 25.8%, or $41.0 million of the Fund's box office revenues during that period, compared to 7.0%, or $9.1 million, for Cineplex's top grossing film during the current period, *The King's Speech*. Revenues for the first quarter of 2011 are in line with revenues from the first quarter of 2009, a year which went on to record the highest North American box office revenues ever, exceeding the total for 2010 North American box office.

BPP decreased $0.37, from $8.88 in the first quarter of 2010 to $8.51 in the same period in 2011. This decrease was primarily due to the decrease in revenues from premium-priced 3D and IMAX film product. These premium-priced offerings accounted for 33.8% of the Fund's box office revenue in the first quarter of 2010, compared to 21.3% in the current period. Of the top five films Cineplex screened in the first quarter of 2011, the second, third and fifth films were screened in 3D and none were screened in IMAX. This compares unfavourably to the first quarter of 2010 in which both *Avatar* and *Alice in Wonderland* were screened in 3D and IMAX.



Cineplex's investment in digital and 3D technology over the last three years, resulting in the highest number of digital and 3D projection screens in Canada, has positioned it to take advantage of the price premiums offered on 3D product. Despite the 18.2% decrease in box office revenues, Cineplex outperformed the Canadian film exhibition industry during the first quarter of 2011.



Concession revenues

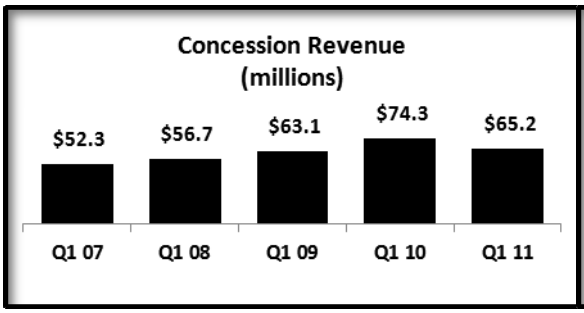
The following table highlights the movement in concession revenues, attendance and CPP for the quarter (in thousands of Canadian dollars, except attendance and same store attendance reported in thousands of patrons, and per patron amounts):

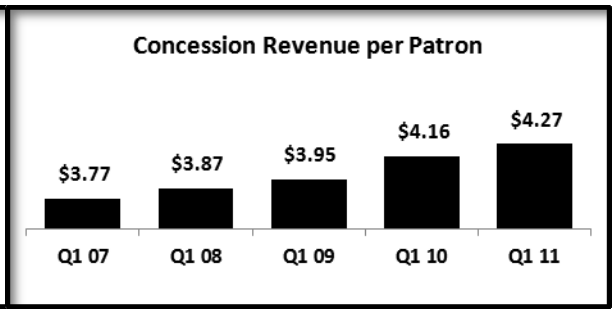
Concession revenues	First Quarter		
	2011	2010	Change
Concession revenues	$ 65,154	$ 74,329	-12.3%
Attendance	15,272	17,875	-14.6%
Concession revenue per patron	$ 4.27	$ 4.16	2.6%
Same store concession revenues	$ 63,212	$ 73,775	-14.3%
Same store attendance	14,798	17,722	-16.5%

Concession revenue continuity In thousands	First Quarter Concession	Attendance
2010 as reported	$ 74,329	17,875
Same store attendance change	(12,175)	(2,925)
Impact of same store CPP change	1,612	-
New and acquired theatres	1,632	387
Disposed and closed theatres	(244)	(65)
2011 as reported	$ 65,154	15,272

Concession revenues decreased 12.3% as compared to the prior year period, due to the 14.6% decrease in attendance, partially offset by the 2.6% increase in CPP. CPP increased from $4.16 in the first quarter of 2010 to $4.27 in the same period in 2011, and represents a first quarter record for Cineplex. Cineplex believes that revised concession offerings as well as process improvements designed to increase the speed of service that were implemented throughout 2010 contributed to this increased CPP period over period.

While the 10% SCENE discount has a negative impact on CPP, Cineplex believes that this program drives incremental visits and concession purchases, resulting in higher overall concession revenues.



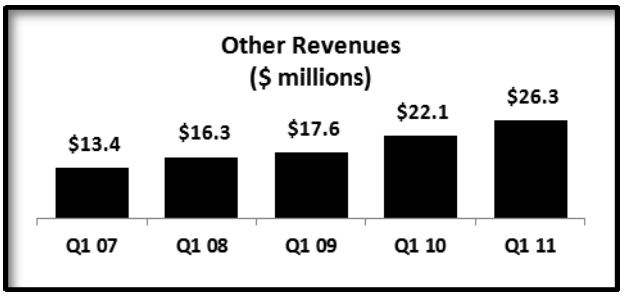


Other revenues

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

Other revenues	First Quarter 2011	2010	Change
Media	$ 17,939	$ 14,174	26.6%
Games	1,235	1,181	4.6%
Other	7,108	6,738	5.5%
Total	$ 26,282	$ 22,093	19.0%

Other revenues increased 19.0% from $22.1 million in the first quarter of 2010 to $26.3 million in the same period in 2011. Media revenues for the first quarter of 2011 were $17.9 million, up $3.8 million, or 26.6%, from the prior year period. The increase is primarily due to higher full motion and digital pre-show revenues ($3.5 million increase) as well as higher CDM revenues ($1.2 million). Full motion and preshow revenues were up due to increased spending in the government and electronics/technology



sectors, partially offset by a decrease in the telecommunications sector. Telecommunications spending was higher in the prior year period due to increased spending by both existing companies and new market entrants. During the first quarter of 2011, CDM includes the results of CDS which was acquired during the third quarter of 2010 and is not included in the prior period comparative. These increases were partially offset by lower non-cash barter revenues ($0.7 million) compared to the prior year period.

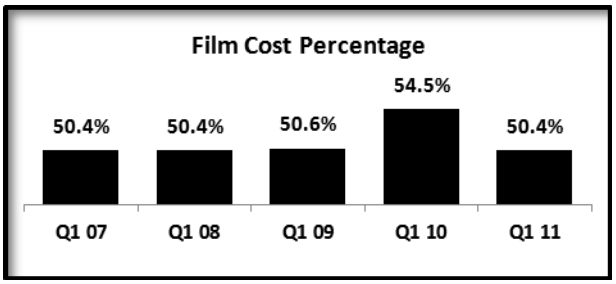
The games revenue increase is due in part to the addition of Cineplex's XSCAPE Entertainment Centre at SilverCity CrossIron Mills Cinemas in Calgary, Alberta, which opened on June 30, 2010. The increase in Other is primarily due to higher breakage revenues associated with increased sales of gift cards and coupons.

Film cost

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

Film cost	First Quarter		
	2011	2010	Change
Film cost	$ 65,544	$ 86,521	-24.2%
Film cost percentage	50.4%	54.5%	-7.5%

Film cost varies primarily with box office revenue, and can vary from quarter to quarter based on the relative strength of the titles exhibited during the period. The decrease in the first quarter of 2011 compared to the prior year period was due to the decrease in attendance and the impact of the 7.5% decrease in film cost percentage. The decrease in film cost percentage is primarily due to the settlement rate on certain strong performing titles during the first quarter of 2010 being higher than the average film settlement rate.



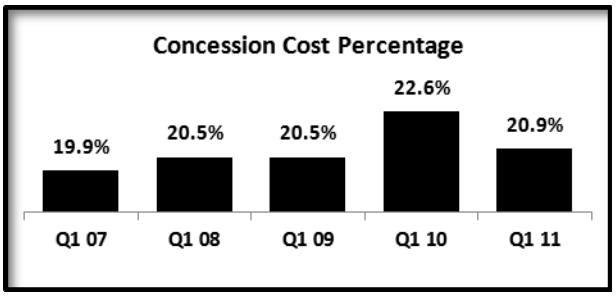
Cost of concessions

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

Cost of concessions	First Quarter		
	2011	2010	Change
Concession cost	$ 13,648	$ 16,793	-18.7%
Concession cost percentage	20.9%	22.6%	-7.5%
Concession margin per patron	$ 3.37	$ 3.22	4.7%

Cost of concessions varies primarily with theatre attendance as well as the quantity and mix of concession offerings sold. The decrease in concession cost as compared to the prior year period was due to

the 12.3% decrease in concession revenues, partially offset by the 7.5% decrease in concession cost percentage. The concession margin per patron increased from $3.22 in the first quarter of 2010 to $3.37 in the same period in 2011, reflecting the impact of the higher CPP during the period. The concession cost percentage during the first quarter of 2011 was reduced in part due to the changes in Cineplex's reduced price Tuesday program.



Depreciation and amortization

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

Depreciation and amortization expenses	First Quarter		
	2011	2010	Change
Amortization of property, equipment and leaseholds	$ 15,124	$ 16,402	-7.8%
Amortization of intangible assets and other	2,248	3,475	-35.3%
Amortization expenses as reported	$ 17,372	$ 19,877	-12.6%

The decrease in amortization of property, equipment and leaseholds of $1.3 million primarily relates to certain valuation adjustments that arose as part of Cineplex's acquisition of the Partnership becoming fully amortized subsequent to the first quarter of 2010. The $1.2 million decrease in amortization of intangible assets and other was due to certain intangible assets becoming fully amortized during the second quarter of 2010.

Loss on disposal of assets

The following table shows the movement in the loss on disposal of assets during the periods (in thousands of Canadian dollars):

Loss on disposal of assets	First Quarter		
	2011	2010	Change
Loss on disposal of assets	$ 537	$ 764	-29.7%

The $0.5 million loss on disposal of assets recorded by Cineplex in the first quarter of 2011 and the $0.8 million loss recorded in the first quarter of 2010 relates to assets that were sold or otherwise disposed. This includes the loss recognized on the write off of the net book value of the portion or component of existing equipment that is replaced or improved, with the replacement or improved asset being recorded as a new asset.

Other costs

Other costs include three main sub-categories of expenses, including theatre occupancy expenses, which capture the rent and associated occupancy costs for Cineplex's theatres; other operating expenses, which include the costs related to running Cineplex's theatres; and general and administrative expenses, which includes costs related to managing Cineplex's operations, including the head office expenses. Please see the discussions below for more details on these categories. The following table highlights the movement in other costs for the quarter (in thousands of Canadian dollars):

Other costs	First Quarter		
	2011	2010	Change
Theatre occupancy expenses	$ 41,541	$ 40,618	2.3%
Other operating expenses	56,232	58,421	-3.7%
General and administrative expenses	15,703	17,472	-10.1%
Total other costs	$ 113,476	$ 116,511	-2.6%

Theatre occupancy expenses

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

Theatre occupancy expenses	First Quarter		
	2011	2010	Change
Theatre rent	$ 27,576	$ 27,188	1.4%
Other theatre occupancy	14,399	13,818	4.2%
One-time items (i)	(434)	(388)	11.9%
Total	$ 41,541	$ 40,618	2.3%

(i) One-time items include amounts related to both theatre rent and other theatre occupancy costs. They are isolated here to illustrate Cineplex's theatre rent and other theatre occupancy costs net or these one-time, non-recurring items.

Theatre occupancy continuity In thousands	First Quarter Theatre Occupancy
2010 as reported	$ 40,618
Impact of new theatres	1,105
Impact of disposed theatres	(132)
Same store rent change	(223)
Non-recurring items	(16)
Other	189
2011 as reported	$ 41,541

Theatre occupancy expense increased $0.9 million during the first quarter of 2011 compared to the prior year period. This increase was primarily due to the impact of new theatres ($1.0 million) and higher other theatre occupancy expenses (primarily theatre insurance and common-area maintenance costs, $0.2 million). These increases were partially offset by lower same-store rent costs ($0.2 million), primarily due to lower percentage rent costs due to the lower box office revenues during the quarter, and lower non-cash occupancy costs at same-store locations.

Other operating expenses

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

Other operating expenses	First Quarter		
	2011	2010	Change
Other operating expenses	$ 56,232	$ 58,421	-3.7%

Other operating continuity In thousands	First Quarter Other Operating
2010 as reported	$ 58,421
Impact of new theatres	1,426
Impact of disposed theatres	(220)
Same store payroll change	(1,724)
Marketing change	(1,307)
Media	1,065
Other	(1,429)
2011 as reported	$ 56,232

Other operating expenses decreased $2.2 million during the first quarter of 2011 compared to the prior year period primarily as a result of lower business volumes in the 2011 period. The lower business volumes resulted in reduced payroll costs ($1.7 million) and lower theatre expenses ($1.2 million, included in other). Total theatre payroll accounted for 44.5% of the total expenses in other operating expenses during the first quarter of 2011, as compared to 44.7% for the same period one year earlier. Marketing expenses decreased $1.3 million period over period, due to lower non-cash barter expenses in the first quarter of 2011 compared to the prior year period. These decreases were partially offset by the net impact of new theatres ($1.2 million) and increased costs relating to Cineplex's media business ($1.1 million). The acquisition of CDS during July 2010 contributed to this increase, as CDS expenses are included in the first quarter of 2011 and not included in the comparative period.

General and administrative expenses

The following table highlights the movement in general and administrative ("G&A") expenses during the quarter, including share and unit based compensation costs, and G&A net of these costs (in thousands of Canadian dollars):

G&A expenses	First Quarter		
	2011	2010	Change
G&A excluding LTIP and Option Plan expense	$ 10,536	$ 10,326	2.0%
LTIP	2,578	4,575	-43.7%
Option plan	2,589	2,571	0.7%
G&A expenses as reported	$ 15,703	$ 17,472	-10.1%

G&A expenses decreased $1.8 million during the first quarter of 2011 compared to the same period in the prior year. This decrease was primarily due to a $2.0 million decrease in LTIP expense during the period. The LTIP plan prior to 2011 had one-third of the award vest in the first year, with an additional one-third vesting on the second and third anniversaries of the award. The related expense is recognized using a graded vesting method, whereby a higher proportion of the expense is recognized over the first year of the award. The 2011 LTIP plan vests over three years with the entire payout occurring at the end of the three-year

period, resulting in a lower proportion of vesting in the first and second years of the award resulting from a straight-line recognition of the overall expense. This difference in vesting has contributed to the lower cost in the first quarter of 2011 compared to the prior year period.

Share of (income) loss of joint ventures

The following table highlights the movement in the share of (income) loss of joint ventures during the quarter, (in thousands of Canadian dollars):

Share of (income) loss of joint ventures	First Quarter		
	2011	2010	Change
Share of (income) loss of joint ventures	$ (2,473)	$ 793	NM

Cineplex's joint ventures in the first quarter of 2011 include its share of one theatre in Quebec, one IMAX screen in Ontario and its interest in SCENE LP. The Fund's joint ventures in the first quarter of 2010 include its share of four theatres in Quebec, one IMAX screen in Ontario and its interest in SCENE LP. The movement from a loss of $0.8 million in the first quarter of 2010 to a profit of $2.5 million in the current period is primarily due to breakage revenue recognized by SCENE LP. Based on an analysis of point issuance and redemption activity during the first three years of the program, SCENE established a breakage rate and recognized revenue relating to breakage for the first time during the first quarter of 2011. This change in its accounting estimate for breakage resulted in a program-to-date adjustment to its outstanding points liability.

Change in fair value of financial instruments

The following table highlights the change in fair value of financial instruments during the quarter (in thousands of Canadian dollars):

Change in fair value of financial instruments	First Quarter		
	2011	2010	Change
Change in fair value of financial instruments	$ -	$ 3,909	-100.0%

The change in fair value of financial instruments for the quarter ended March 31, 2010 includes the movement in the fair value of two items: the fair value of the conversion option relating to the Fund's convertible debentures, and the movement in the fair value of the liability for exchangeable interests at the balance sheet date. On January 1, 2011, the change in the nature of the underlying security to Shares from Units due to the Fund's conversion to a corporation resulted in the conversion option liability being classified as equity. At the same date, Cineplex acquired all of the Partnership units it did not previously own. As a result of these transactions, neither of these financial instruments will be subject to fair value following their classification as equity on January 1, 2011.

Interest expense

The following table highlights the movement in interest expense during the quarter (in thousands of Canadian dollars):

Interest expense	First Quarter		
	2011	2010	Change
Long-term debt interest expense	$ 3,193	$ 3,234	-1.3%
Convertible debenture interest expense	1,487	1,570	-5.3%
Capital lease interest expense	572	601	-4.8%
Sub-total - cash interest expense	5,252	5,405	-2.8%
Deferred financing fee amortization and other non-cash interest	233	188	23.9%
Convertible debenture accretion	310	312	-0.6%
Interest rate swap - non-cash	(96)	(226)	-57.5%
Sub-total - non-cash interest expense	447	274	63.1%
Total interest expense	**$ 5,699**	**$ 5,679**	**0.4%**

Interest increased $20 thousand period over period, due to a $0.2 million increase in non-cash interest expense, partially offset by a decrease in cash interest expense. The non-cash increase was primarily due to the impact of the non-cash interest expense relating to Cineplex's interest rate swap agreements. The decrease in the cash interest expense was primarily due to lower convertible debenture interest, due to the lower principal balance outstanding during the first quarter of 2011 compared to the prior year period. At March 31, 2011, the principal balance of convertible debentures outstanding is $97.9 million (2010 - $105.0 million). See Section 9, Shares Outstanding, for more details on the convertible debentures.

Interest income

The increase in interest income in the first quarter of 2011 as compared to the prior year period is due to higher interest rates, despite the overall lower cash balances in the 2011 period compared to the 2010 period (in thousands of Canadian dollars):

Interest income	First Quarter		
	2011	2010	Change
Interest income	$ 232	$ 84	176.2%

Income taxes

For the three months ended March 31, 2011, Cineplex recorded deferred income tax expense of $8.7 million (2010 - $0.7 million) (in thousands of Canadian dollars):

Income taxes	First Quarter		
	2011	2010	Change
Deferred income tax expense	$ 8,669	$ 659	1215.4%

The majority of the increase in deferred income taxes is due to the Fund's conversion to a corporation on January 1, 2011. As a corporation, Cineplex's tax rate decreased to 25.84% from a tax rate of 46.41% as a mutual fund trust, reducing the net deferred tax assets at December 31, 2010 by $7.8 million, which was

recorded as deferred income tax expense in the statements of operations of $6.0 million and $1.8 million in other comprehensive loss.

Net (loss) income

For the three months ended March 31, 2011, Cineplex reported a net loss of $0.8 million (2010 – net income of $3.8 million). This decrease was due to the net effect of all the other factors described previously (in thousands of Canadian dollars):

Net (loss) income	First Quarter		
	2011	2010	Change
Net (loss) income	$ (848)	$ 3,792	NM

5.3 EARNINGS BEFORE INTEREST, INCOME TAXES, DEPRECIATION AND AMORTIZATION ("EBITDA") (see Section 18, Non-GAAP Measures)

The following table represents EBITDA and adjusted EBITDA for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010 (expressed in thousands of Canadian Canadian dollars, except adjusted EBITDA margin):

EBITDA	First Quarter		
	2011	2010	Change
EBITDA	$ 30,701	$ 29,989	2.4%
Adjusted EBITDA	$ 31,238	$ 34,662	-9.9%
Adjusted EBITDA margin	14.1%	13.6%	0.5%

Adjusted EBITDA for the first quarter of 2011 decreased $3.4 million, or 9.9%, as compared to the prior year period. The decrease is primarily due to the lower box office and concession revenues due to the lower theatre attendance during the period. Adjusted EBITDA margin, calculated as adjusted EBITDA divided by total revenues, was 14.1%, up from 13.6% in the prior year period. The increase is due to the higher media revenues in the 2011 period, which generate higher margins than exhibition revenues.

6. BALANCE SHEETS

The following sets out significant changes to Cineplex's consolidated balance sheets during the three months ended March 31, 2011 (in thousands of Canadian dollars):

	March 31, 2011	December 31, 2010	Change ($)	Change (%)
Assets				
Current assets				
Cash and cash equivalents	$ 58,374	$ 85,343	$ (26,969)	-31.6%
Trade and other receivables	32,100	57,950	(25,850)	-44.6%
Inventories	3,821	3,767	54	1.4%
Prepaid expenses and other current assets	9,843	3,848	5,995	155.8%
	104,138	150,908	(46,770)	-31.0%
Non-current assets				
Property, equipment and leaseholds	411,669	413,755	(2,086)	-0.5%
Deferred income taxes	14,947	25,689	(10,742)	-41.8%
Interests in joint ventures	150	92	58	63.0%
Intangible assets	91,145	93,397	(2,252)	-2.4%
Goodwill	608,929	608,929	-	0.0%
	$ 1,230,978	$ 1,292,770	$ (61,792)	-4.8%
Liabilities				
Current liabilities				
Accounts payable and accrued expenses	$ 65,550	$ 83,700	$ (18,150)	-21.7%
Share or Unit-based compensation	3,281	14,307	(11,026)	-77.1%
Dividends payable	6,041	-	6,041	NM
Income taxes payable	50	87	(37)	-42.5%
Deferred revenue	63,640	82,027	(18,387)	-22.4%
Capital lease obligations	2,283	2,242	41	1.8%
Fair value of interest rate swap agreements	5,574	5,482	92	1.7%
	146,419	187,845	(41,426)	-22.1%
Non-current liabilities				
Share or Unit-based compensation	3,145	8,014	(4,869)	-60.8%
Long-term debt	233,809	233,588	221	0.1%
Fair value of interest rate swap agreements	2,104	3,298	(1,194)	-36.2%
Capital lease obligations	28,299	28,885	(586)	-2.0%
Post-employment benefit obligations	4,570	4,534	36	0.8%
Other liabilities	99,711	98,964	747	0.8%
Deficiency interest in joint venture	9,928	12,338	(2,410)	-19.5%
Convertible debentures	95,497	116,481	(20,984)	-18.0%
Liability for exchangeable interests	-	3,851	(3,851)	-100.0%
	623,482	697,798	(74,316)	-10.7%
Equity	607,496	594,972	12,524	2.1%
	$ 1,230,978	$ 1,292,770	$ (61,792)	-4.8%

Trade and other receivables. The decrease in accounts receivable is primarily due to the collection of receivables from the sale of gift cards and coupons from the 2010 holiday period. December represents the highest volume month for gift card and coupon 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.

Property, equipment and leaseholds. The decrease in property, equipment and leaseholds is due to amortization expenses ($15.1 million) and asset dispositions ($0.5 million) offset by new build and other capital expenditures ($11.2 million) and maintenance capital expenditures ($2.3 million).

Deferred income taxes. The decrease in deferred income taxes is primarily due to the change in income tax rate applicable to Cineplex following the conversion to a corporation. Upon conversion to a corporation, the deferred tax balance was reduced to a carrying value based on a corporate tax rate of 25.84% at January 1, 2011 compared to the pre-conversion carrying value which was based on an income tax rate of 46.41%. This change in rate resulted in a $7.8 million decrease in the deferred income tax assets.

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

Accounts payable and accrued expenses. The decrease in accounts payable and accrued expenses relates to the settlement of year-end liabilities relating to increased business volumes during the 2010 holiday period compared to the first quarter of 2011.

Share or Unit-based compensation. Share based compensation liabilities at March 31, 2011 decreased $15.9 million ($11.0 million current and $4.9 million non-current) compared to the Unit-based liabilities at December 31, 2010 due to stock option exercises and LTIP units that vested during the period and the reclassification of the LTIP obligation to equity at January 1, 2011 due to the conversion.

Dividends payable. The Fund had no distribution payable at December 31, 2010 as the December distribution was paid during December prior to the conversion to a corporation and related dissolution of the Fund, resulting in thirteen distributions paid in 2010 compared to twelve in 2009. The balance outstanding at March 31, 2011 represents Cineplex's March declared dividends.

Deferred revenue. Deferred revenue decreased primarily due to increased redemptions of gift cards and coupons sold during the 2010 holiday season.

Fair value of interest rate swap agreements. The decrease in the long-term portions of the fair value of interest rate swap agreements relates primarily to the swap settlement during the first quarter of 2011. The remaining liability reflects the fair value of the future settlements. The agreements expire in July 2012.

Deficiency interest in joint venture. The decrease in the deficiency interest in joint venture relates to breakage income recorded for SCENE LP, net of operating costs. During the period, SCENE revised its estimated breakage rate on points issued by the program, resulting in a life-to-date adjustment to its outstanding points liability balance.

Convertible debentures. The decrease in the convertible debentures balance is primarily due to the $19.5 million fair value of the conversion liability at December 31, 2010 reclassified to equity on January 1, 2011. The change in the nature of the underlying security to Shares from Units due to the Fund's conversion to a corporation resulted in this conversion option liability being classified as equity. The additional $1.5 million decrease in the liability relates to debenture conversions during the first quarter of 2011, partially offset by accretion expense. See Section 9, Shares Outstanding, for more information on the convertible debentures.

Liability for exchangeable interests. At December 31, 2010, LP Units that were not controlled by the Fund were recorded on the balance sheet at their fair value, measured at the market price of the Units at the balance sheet date multiplied by the number of LP Units not controlled by the Fund. Effective January 1, 2011, Cineplex acquired all of the LP Units the Fund did not previously control, resulting in Cineplex directly or indirectly owning 100% of the Partnership at January 1, 2011.

7. LIQUIDITY AND CAPITAL RESOURCES

7.1 OPERATING ACTIVITIES

Cash flow is generated primarily from the sale of admission tickets, concession sales and other revenues. Generally, this provides Cineplex with positive working capital, since cash revenues are normally collected in advance of the payment of certain expenses. Box office revenues are directly related to the success and appeal of the film product produced and distributed by the studios. The following table highlights the movements in cash from operating activities for the first quarter for both 2011 and 2010 (in thousands of Canadian dollars):

Cash provided by operating activities	**First Quarter**		
	2011	**2010**	**Change**
Net (loss) income	$ (848)	$ 3,792	$ (4,640)
Adjustments to reconcile net income to net cash provided by operating activities:			
Non-cash amortization amounts (i)	16,555	19,305	(2,750)
Loss on disposal of assets	537	764	(227)
Deferred income taxes	8,669	659	8,010
Cash flow hedges - non-cash interest	(96)	(226)	130
Non-cash Share or Unit-based compensation	218	1,411	(1,193)
Fair value of financial instruments	-	3,909	(3,909)
Accretion of convertible debentures	310	312	(2)
Share of (profit) loss of joint ventures	(2,468)	331	(2,799)
Tenant inducements	2,855	409	2,446
Changes in operating assets and liabilities	(17,879)	(9,661)	(8,218)
Cash provided by operating activities	**$ 7,853**	**$ 21,005**	**$ (13,152)**

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

The $13.2 million decrease in cash provided by operating activities in the first quarter of 2011 compared to the prior year period was primarily due to the $8.2 million decrease in changes in operating assets and liabilities in the period, as well as the $4.6 million decrease from net income of $3.8 million to a net loss of $0.8 million. This decrease from net income to a net loss was primarily due to the $8.0 million increase in the deferred income tax expense during the period, partially offset by the $3.9 million expense in the prior period relating to the fair value of financial instruments. The decrease in operating assets and liabilities were due to balance sheet decreases in accounts payable and accrued liabilities and deferred revenue, partially offset by a reduction in accounts receivable during the periods.

7.2 INVESTING ACTIVITIES

The following table highlights the movements in cash used in investing activities for the first quarter for both 2011 and 2010 (in thousands of Canadian dollars):

Cash used in investing activities	First Quarter		
	2011	2010	Change
Proceeds from sale of assets	$ 7	$ 1,350	$ (1,343)
Purchases of property, equipment and leaseholds	(12,421)	(10,192)	(2,229)
Cash used in investing activities	**$ (12,414)**	**$ (8,842)**	**$ (3,572)**

The decrease in cash used in investing activities during the first quarter of 2011 compared to the prior year period is due to a $2.2 million increase in capital expenditures and a $1.3 million decrease in proceeds received on the sale of asset. Capital expenditures during the first quarter of 2011 include $3.3 million relating to the purchase of digital projector equipment, compared to $3.1 million during the first quarter of 2010. As of March 31, 2011, Cineplex has spent $31.6 million on digital equipment. Subsequent to the quarter end, Cineplex and Empire Theatres announced the formation of the Canadian Digital Cinema Partnership ("CDCP"). Cineplex will contribute its digital projection assets into CDCP in return for an investment in CDCP (see Section 16, Subsequent Events, for more details on CDCP).

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

7.3 FINANCING ACTIVITIES

The following table highlights the movements in cash from financing activities for the first quarter for both 2011 and 2010 (in thousands of Canadian dollars):

Cash flows used in financing activities	First Quarter		
	2011	2010	Change
Dividends/Distributions paid	$ (12,070)	$ (17,924)	$ 5,854
Borrowings under credit facility	15,000	5,000	10,000
Repayment of credit facility	(15,000)	(5,000)	(10,000)
Payments under capital leases	(545)	(485)	(60)
Acquisition of LTIP shares/units	(9,793)	(9,620)	(173)
Cash used in financing activities	**$ (22,408)**	**$ (28,029)**	**$ 5,621**

The $5.6 million decreases in cash used in financing activities for the first quarter of 2011 compared to the prior year period was primarily due to the December 2010 distribution being paid during December prior to the dissolution of the Fund, resulting in only two months of dividend payments included in the first quarter of 2011, compared to three months of distribution payments in the first quarter of 2010.

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

7.4 CREDIT FACILITIES

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

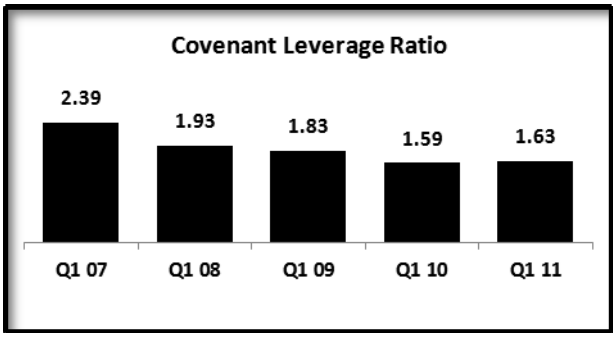
		Available	Drawn	Reserved (1)	Remaining
(i)	a five-year senior secured revolving credit facility ("Revolving Facility")	$ 130.0	$ -	$ 2.0	$ 128.0
(ii)	a five-year senior secured non-revolving term facility ("Term Facility")	$ 235.0	$ 235.0	$ -	$ -

(1) Letters of credit outstanding at March 31, 2011 of $2.0 million reserved against the Revolving Facility.

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

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

One of the key financial covenants in the Third Amended Credit Facilities is the leverage covenant. As at March 31, 2011, the Partnership's leverage ratio as calculated in accordance with the Third Amended Credit Facility definition was 1.63x, as compared to a covenant of 3.00x. The definition of debt as per the credit facility includes long-term debt (excluding any convertible debentures), capital leases and letters of credit but does not include a reduction for cash on hand. For the purposes of the credit facility definition, EBITDA is adjusted for certain non-cash, non-recurring items and the annualized impact of new theatres or acquisitions.



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

Cineplex believes that the Third Amended Credit Facilities, in place until 2012, and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for capital expenditures, investments in working capital and distributions. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

Interest rate swap agreements. Effective April 23, 2008, the Fund entered into three interest rate swap agreements. Under these interest rate swap agreements, Cineplex pays a fixed rate of 3.97% per annum, plus

an applicable margin, and receives a floating rate of interest equal to the three-month Canadian deposit offering rate set quarterly in advance, with gross settlements quarterly. These interest rate swap agreements have a term of three years that commenced in July 2009 and have an aggregate notional principal amount of $235.0 million. Based on the leverage ratio covenant at March 31, 2011, Cineplex's effective cost of borrowing on the $235.0 million is 5.3% (March 31, 2010 – 5.3%).

The purpose of the interest rate swap agreements was to act as a cash flow hedge of the floating interest rate payable under the Term Facility. Cineplex considered its hedging relationships and determined that the interest rate swap agreements on its Term Facility qualify for hedge accounting in accordance with International Accounting Standard ("IAS") 39, *Financial Instruments: Recognition and Measurement*. Under the provisions of IAS 39, 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, 2011, Cineplex had aggregate gross capital commitments of $75.4 million ($54.9 million net of tenant inducements) related to the completion of construction of eight theatre properties to include an aggregate of 82 screens (including 18 VIP screens) over the next three years. In addition, Cineplex has gross commitments over the next year of $12.6 million for other theatre projects.

At March 31, 2011, Cineplex had $97.9 million principal amount of convertible debentures outstanding that have a maturity date of December 31, 2012. At March 31, 2011, the convertible debentures were recorded on the Cineplex's balance sheet at $95.5 million. The convertible debentures are being accreted to their maturity value using the effective interest method as prescribed by IAS 39, *Financial Instruments: Recognition and Measurement*. On redemption or at the December 31, 2012 maturity date, Cineplex may, at its option, on not more than 60 days' and not less than 30 days' prior notice and subject to regulatory approval, elect to satisfy its obligation to pay the applicable redemption price or the principal amount of the convertible debentures by issuing and delivering Shares. During the three months ended March 31, 2011, debentures with a face value of $1.9 million were converted at the option of the holders for Shares (see Section 9, Shares Outstanding, for details).

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

Cineplex is guarantor under the leases for the remainder of the lease term for certain theatres that it has sold, in the event that the purchaser of each theatre does not fulfill its obligations under the respective lease. Should the purchasers of the theatres fail to fulfill their lease commitment obligations, Cineplex could face a substantial financial burden. Cineplex guarantees certain advertising revenues based on attendance levels for a majority of the theatres disposed to third parties. No amounts have been provided in the consolidated financial statements for guarantees for which Cineplex has not been notified of triggering events.

8. ADJUSTED FREE CASH FLOW AND DIVIDENDS (see Section 18, Non-GAAP Measures)

Following completion of the conversion, the board of directors of Cineplex (the "Board") adopted a monthly dividend policy of $0.105 per common share, commencing on February 28, 2011 for shareholders of record on January 31, 2011. Cineplex's dividend policy is subject to the discretion of the Board and may vary depending on, among other things, Cineplex's results of operations, cash requirements, financial condition, contractual restrictions, business opportunities, provisions of applicable law and other factors that the Board may deem relevant. Cineplex hereby currently designates all dividends paid or deemed to be paid as "eligible dividends" for purposes of subsection 89(14) of the Income Tax Act (Canada), and similar

provincial and territorial legislation, unless indicated otherwise. It is anticipated that Cineplex will pay a monthly dividend, subject to the discretion of the Board, at an annualized rate in the range between 60% and 85% of adjusted free cash flow per Share.

8.1 ADJUSTED FREE CASH FLOW

Cineplex distributes cash to its shareholders on a monthly basis. The following table illustrates adjusted free cash flow per Share, dividends paid per Share, and the payout ratio of dividends relative to adjusted free cash flow for the first quarter of 2011 (first quarter of 2010: distributable cash per Unit, distributions paid per Unit, and the payout ratio of distributions relative to distributable cash):

Adjusted free cash flow/Distributable cash	**First Quarter**		
	2011	**2010**	**Change**
Adjusted free cash flow per Share (2010 - Distributable cash per Unit)	$ 0.392	$ 0.462	-15.2%
Dividends declared per Share (2010 – Distributions declared per Unit)	$ 0.315	$ 0.315	0.0%
Payout ratio	80.4%	68.2%	17.9%

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

	For the three months ended March 31,	
	2011	**2010**
Cash flows from operations	$ 7,853	$ 21,005
Net (loss) income	$ (848)	$ 3,792
Standardized free cash flow/Standardized distributable cash	$ (4,561)	$ 10,813
Adjusted free cash flow/Distributable cash	$ 22,517	$ 26,391
Adjusted free cash flow/Distributable cash available to Shareholders/Unitholders (i)	$ 22,517	$ 26,276
Cash dividends/distributions declared	$ 18,111	$ 17,924
Average number of Shares/Units outstanding	57,468,588	56,901,546

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

For the first quarter of 2011, Cineplex's standardized free cash flow was $15.4 million lower than the Fund's standardized distributable cash for the first quarter of 2010, due to a $13.2 million decrease in cash provided by operating activities and a $2.2 million increase in capital expenditures. The decrease in the cash flows from operating activities is described in Section 7.1, Operating Activities. The increase in capital expenditures was due to a $2.8 million increase in new build and other activity, as well as $0.2 million higher spending on digital projectors, partially offset by $0.8 million lower maintenance capital expenditures.

Adjusted free cash flow was $22.5 million for the first quarter of 2011, compared to distributable cash of $26.4 million during the same period during the prior year. This $3.9 million decrease was mainly due to the lower cash flows from operations generated due to the lower business volumes in the first quarter of 2011 compared to the prior year period.

New build capital expenditures and other capital expenditures are financed using either cash generated from operations or the Revolving Facility. As at March 31, 2011, Cineplex had spent $31.6 million ($3.3 during the first three months of 2011, and $28.3 as of December 31, 2010) on digital projection equipment.

These amounts were not included in maintenance capital expenditures as these assets will be contributed into CDCP in return for an investment in CDCP (see Section 16, Subsequent Events, for more details on CDCP).

8.2 DIVIDENDS

Cineplex dividends are made on a monthly basis to common shareholders of record on the last business day of each month. For the three months ended March 31, 2011, Cineplex declared dividends of $0.315 per Share. For the three months ended March 31, 2010, the Fund declared distributions totaling $0.315 per Unit.

9. SHARES OUTSTANDING

Cineplex had the following Shares outstanding for the three months ended March 31, 2011 (for the three month ended March 31, 2010, the Fund had the following Units outstanding) (expressed in thousands of Canadian dollars, except for numbers of Shares and Units):

	2011		2010	
	Number of Shares	**Amount**	**Number of Units**	**Amount**
Opening balance – Beginning of period				
Shares/Units	57,258,999	$ 717,990	56,901,057	$ 712,111
LTIP Shares/Units	(540,023)	(9,468)	(559,145)	(8,405)
	56,718,976	$ 708,522	56,341,912	$ 703,706
Transactions during the period				
Reclassification of exchangeable interests	171,835	3,851	-	-
Reclassification of equity component of convertible debentures	-	19,470	-	-
LTIP obligation reclassified	-	9,911	-	-
Reclassification of contributed surplus	-	1,407	-	-
Decrease of equity component of convertible debentures for conversions in the period	-	(366)	-	-
Increase of share capital for conversions in the period	-	366	-	-
Issuance of Shares/Units on conversion of debentures	99,993	1,823	1,866	38
LTIP obligation, net of vested award	-	(4,306)	-	-
Fair value of vested LTIP Shares in excess of cost	-	2,155	-	-
Purchase of LTIP Shares/Units	(419,178)	(9,793)	(493,410)	(9,620)
Settlement of LTIP obligation through transfer of Shares/Units to LTIP participants	515,285	9,526	512,532	8,557
	367,935	34,044	20,988	(1,025)
Closing balance – End of period				
Shares/Units	57,530,827	727,592	56,902,923	712,149
Equity component of convertible debentures	-	19,104	-	-
LTIP Shares/Units	(443,916)	(9,735)	(540,023)	(9,468)
LTIP obligation	-	5,605	-	-
	57,086,911	$ 742,566	56,362,900	$ 702,681

Prior to January 1, 2011, under the provisions of an exchange agreement (as amended or restated from time to time, the "Exchange Agreement") entered into at the time of the Fund's initial public offering designed to facilitate the exchange of LP Units into Units (now Shares), 6,890 Class B, Series 1 LP Units and 164,945 Class B, Series 2-G LP Units were exchanged for 171,835 Shares on a one-for-one basis. As a result of these transactions, Cineplex increased its ownership in the Partnership to 100%.

During the three months ended March 31, 2011, convertible debentures issued by Cineplex with a principal amount of $1.9 million were converted into 99,993 Shares. 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 Shares at $18.75 per Share.

During the three months ended March 31, 2010, convertible debentures issued by the Fund with a principal amount of $35 thousand were converted into 1,866 Units.

Officers and key employees of the Partnership are eligible to participate in the LTIP. For awards prior to the service period beginning January 1, 2011, pursuant to the LTIP, the Fund set aside a pool of funds based on the amount, if any, by which the Fund's distributable cash per Unit, for the entire fiscal year, exceeded certain defined distributable cash threshold amounts. This pool of funds was transferred to a trustee, who used the entire amount to purchase Units (prior to 2011) or Shares (in 2011) on the open market and holds the Units, and following the completion of the conversion, Shares, until such time as ownership vests to each participant. Generally, one-third of these Units or Shares vest 30 days after the consolidated financial statements for the corresponding year were approved by its Board, with an additional one-third vesting on the first and second anniversaries of that date. LTIP participants are entitled to receive dividends on all Shares held for their accounts prior to the applicable vesting date. Unvested Shares 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 Shares will be sold and the proceeds returned to Cineplex and excluded from future LTIP calculations. On January 1, 2011, all Units held pursuant to the LTIP were converted to Shares, all entitlements to Units became entitlements to Shares and all entitlements to receive distributions on Units became entitlements to dividends on Shares.

For the three-year service period beginning January 1, 2011, the LTIP award consists of a "phantom" stock plan, awarding 227,649 Share equivalents, which subject to certain performance and market conditions may decrease to 75,883 or increase to 455,298 Share equivalents. The award will be settled in cash at the end of the service period, within 30 days of the approval of the consolidated financial statements by the Board.

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 as forfeitures have not historically been significant.

Cineplex has an incentive option plan (the "Option Plan") for certain employees of the Partnership. The aggregate number of Shares that may be issued under the Option Plan is limited to 5.3 million. Options issued under the Option Plan vest at the rate of one-third on each of the three subsequent anniversaries of the grant date. All of the options must be exercised over specified periods not to exceed five years from the date granted (ten years for options issued after December 31, 2010).

On February 12, 2008, 1,250,000 options with an exercise price equal to the market price of $17.03 per Unit were granted to 21 employees. On February 18, 2009, 1,250,000 options with an exercise price equal to the market price of $14.00 per Unit were granted to 21 employees. The options vest one third on each of the successive anniversaries of the grant date and expire five years after the grant date if unexercised. Following the completion of the conversion on January 1, 2011, all options to acquire Units became options to acquire Shares. On February 15, 2011, 1,029,774 Share options with an exercise price equal to the market price of $23.12 were granted to 41 employees. The options vest as follows: 529,774 options vest one-third on each of the successive anniversaries of the grant date; 500,000 options vest one-quarter on each of the successive anniversaries of the grant date. All of the options issued in 2011 expire ten years after the grant date if unexercised.

Cineplex anticipates that optionholders will exercise, and that the administrators of the option plan will settle the options for cash. Cineplex, therefore, accounts for options issued under the plan as cash-settled liabilities. The options are recorded at fair value at each balance sheet date, taking into account the options vested on a graded schedule. Forfeitures are estimated at 0.5% per year.

A summary of option activities for the three months ended March 31, 2011 and 2010 is as follows:

	2011			2010	
	Weighted average remaining contractual life (years)	**Number of underlying Shares**	**Weighted average exercise price**	**Number of underlying Units**	**Weighted average exercise price**
Options outstanding - January 1	2.75	1,520,944	$ 15.15	2,475,001	$ 15.50
Granted		1,029,774	23.12	-	-
Cancelled		-	-	(16,666)	15.21
Exercised for cash		(597,770)	15.92	(397,392)	15.41
Options outstanding – March 31	6.47	1,952,948	$ 19.12	2,060,943	$ 15.52

10. SEASONALITY AND QUARTERLY RESULTS

Historically, Cineplex's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures were historically released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter in attendance levels, theatre staffing levels and reported results. More recently, the seasonality of motion picture exhibition attendance has become less pronounced as film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods. To meet working capital requirements during the traditionally lower-revenue quarters, Cineplex has available for its use the Revolving Facility. As of March 31, 2011, there were no amounts drawn on the Revolving Facility.

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

	2011	**2010**				**2009(i)**		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues								
Box office revenues	$129,956	$138,097	$157,330	$143,608	$158,792	$143,570	$155,884	$151,383
Concession revenues	65,154	68,292	79,870	72,236	74,329	72,909	77,995	74,225
Other revenues	26,282	34,159	31,061	26,559	22,093	30,691	23,661	23,009
	221,392	240,548	268,261	242,403	255,214	247,170	257,540	248,617
Expenses								
Film cost	65,544	71,254	81,038	77,909	86,521	75,759	82,024	81,372
Cost of concessions	13,648	14,101	16,368	14,985	16,793	14,654	16,517	15,172
Depreciation and amortization	17,372	19,012	23,754	19,716	19,877	20,067	19,739	19,733
Loss (gain) on disposal of assets	537	990	(95)	745	764	2,758	(13)	(174)
Other costs	113,476	117,233	115,115	107,285	116,511	118,656	111,760	107,400
	210,577	222,590	236,180	220,640	240,466	231,894	230,027	223,503
Income before undernoted	10,815	17,958	32,081	21,763	14,748	15,276	27,513	25,114
Adjusted EBITDA	31,238	36,718	55,070	41,404	34,662	38,101	47,239	44,673
Net (loss) income	$ (848)	$ 4,395	$ 20,070	$ 23,765	$ 3,792	$ 9,450	$ 20,401	$ 19,892
Basic (loss) earnings per Share/Unit	$ (0.01)	$ 0.08	$ 0.36	$ 0.42	$ 0.07	$ 0.17	$ 0.36	$ 0.35
Diluted (loss) earnings per Share/Unit (ii)	$ (0.01)	$ 0.08	$ 0.35	$ 0.31	$ 0.07	$ 0.17	$ 0.36	$ 0.35
Cash provided by operating activities	7,853	59,723	36,169	25,879	21,005	88,706	28,611	42,989
Cash used in investing activities	(12,414)	(24,877)	(10,513)	(18,370)	(8,842)	(10,314)	(10,476)	(11,845)
Cash used in financing activities	(22,408)	(24,536)	(18,477)	(18,435)	(28,029)	(18,439)	(18,431)	(18,424)
Net change in cash	$(26,969)	$ 10,310	$ 7,179	$(10,926)	$(15,866)	$ 59,953	$ (296)	$ 12,720
Box office revenue per patron	$ 8.51	$ 8.79	$ 8.35	$ 8.68	$ 8.88	$ 8.40	$ 8.30	$ 8.34
Concession revenue per patron	$ 4.27	$ 4.34	$ 4.24	$ 4.36	$ 4.16	$ 4.26	$ 4.15	$ 4.09
Attendance (in thousands of patrons)	15,272	15,718	18,847	16,549	17,875	17,096	18,779	18,156
Theatre locations (at period end)	131	131	129	131	130	129	129	129
Theatre screens (at period end)	1,360	1,362	1,342	1,353	1,347	1,329	1,328	1,328

(i) The 2009 quarterly results are presented under Canadian GAAP that existed at that time.
(ii) Excludes the conversion of the convertible debentures as such conversion would be anti-dilutive for all quarters with the exception of the second quarter of 2010 where conversion was dilutive.

Summary of adjusted free cash flow (prior to 2011 - distributable cash) by quarter

Management calculates adjusted free cash flow per Share as follows (prior to the January 1, 2011 conversion to a corporation, the Fund calculated distributable cash per Unit as follows) (see Section 18, Non-GAAP Measures, for a discussion of adjusted free cash flow and distributable cash) (expressed in thousands of Canadian dollars except per Share/Unit data and number of Shares/Units outstanding):

	2011	2010				2009(i)		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cash provided by operating activities	$ 7,853	$ 59,723	$ 36,169	$ 25,879	$ 21,005	$ 88,706	$ 28,611	$ 42,989
Less: Total capital expenditures	(12,414)	(18,457)	(14,839)	(13,378)	(10,192)	(10,353)	(10,534)	(10,581)
Standardized free cash flow/standardized distributable cash	(4,561)	41,266	21,330	12,501	10,813	78,353	18,077	32,408
Less:								
Changes in operating assets and liabilities	17,879	(26,357)	15,908	11,235	9,661	(53,602)	12,767	(1,114)
Changes in operating assets and liabilities of joint ventures	(5)	(475)	(834)	(690)	462			
Tenant inducements	(2,855)	(262)	(1,221)	(598)	(409)	(2,938)	-	(2,492)
Principal component of capital lease obligations	(545)	(520)	(504)	(495)	(485)	(437)	(428)	(422)
Add:								
New build capital expenditures and other	10,090	14,379	10,210	9,970	7,076	5,220	8,037	7,697
Share of profit (loss) of joint ventures, net of non-cash depreciation	2,514	(1,220)	(660)	(809)	(727)	(180)	(180)	(172)
Adjusted free cash flow/distributable cash	$ 22,517	$ 26,811	$ 44,229	$ 31,114	$ 26,391	$ 26,416	$ 38,273	$ 35,905
Less: exchangeable interests share	-	(80)	(133)	(126)	(115)	(115)	(167)	(381)
Adjusted free cash flow/distributable cash available to Shareholders/Unitholders	$ 22,517	$ 26,731	$ 44,096	$ 30,988	$ 26,276	$ 26,301	$ 38,106	$ 35,524
Average number of Shares/Units outstanding	57,468,588	57,182,396	57,060,387	56,974,020	56,901,546	56,901,057	56,900,680	56,544,125
Adjusted free cash flow/distributable cash per Share/Unit	$ 0.392	$ 0.467	$ 0.773	$ 0.544	$ 0.462	$ 0.462	$ 0.670	$ 0.628

(i) The 2009 quarterly results are presented under Canadian GAAP that existed at that time.

11. RELATED PARTY TRANSACTIONS

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

A member of the Board is the President and Chief Executive Officer of Riocan. During the three months ended March 31, 2011, Cineplex incurred theatre occupancy expenses for theatres under lease commitments with Riocan in the amount of $12.2 million (2010 - $11.6 million).

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 estimated useful lives of property, equipment and leaseholds, fair value calculations of Cineplex's interest rate swap agreements, the value of unredeemed gift cards and gift certificates that remain unutilized and in circulation for revenue recognition purposes, and the calculation of Cineplex's deferred income taxes.

The discussion on the methodology and assumptions underlying these critical accounting estimates, their effect on Cineplex's results of operations and financial position for the years ended December 31, 2010 and 2009 can be found in the Fund's MD&A for the year ended December 31, 2010. These estimates have not changed materially during the first quarter of 2011, with the exception of the change in the estimated breakage rate on SCENE's unredeemed loyalty points during the first quarter of 2011 (discussed in Section 5.2, Operating Results for the First Quarter of 2011). There were no events that occurred during the three months ended March 31, 2011 that would indicate Cineplex'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 Cineplex reviews all changes to the IFRS standards when issued. The following is a discussion of relevant items that were released, revised or will become effective after March 31, 2011:

IFRS 9, Financial Instruments

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income ("OCI"), dividends are recognized in profit or loss to the extent not clearly representing a return on investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income ("AOCI") indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk in liabilities designed at fair value through profit and loss would generally be recorded in OCI.

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. Cineplex has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

14. RISK MANAGEMENT

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

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

Industry Risk

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

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

Cineplex competes with other film delivery methods, including cable and satellite television and DVDs, as well as pay-per-view services and downloads via the Internet. The release date of a film in other channels of distribution such as pay television or DVD is at the discretion of each distributor and earlier release windows for these or new alternative channels could have a negative impact on Cineplex's business. Subsequent to the period end, it was announced that certain films will be released as premium VOD offerings 60 days after their theatrical debut. This premium VOD offering is a test available only in the United States to DirecTV customers with a high-definition personal video recorders. Only select studios are participating in this test, with a select number of films. No determination can be made on what the impact would be on Cineplex's revenue of this premium VOD window, were it to be expanded into Canada.

Competition Risk

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

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

Technology Risk

The film exhibition industry is in the process of conversion from a physical film-based medium to a digital medium of film exhibition. Digital technology poses additional risks including increased capital costs and changing requirements for digital hardware. Financial costs of the conversion to digital projection equipment will be funded through a virtual print fee model to be paid by distributors. Subsequent to the period end, Cineplex announced its joint venture interest in CDCP, created to plan and implement the deployment of digital projection equipment in its theatres (see Section 16, Subsequent Events).

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

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

Customer Risk

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

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

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

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

Human Resources Risk

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

Cineplex employs approximately 10,000 people, of whom approximately 91% are hourly workers whose compensation is based on the prevailing provincial minimum wages with incremental adjustments as required to match market conditions. Any increase in these minimum wages will increase employee related costs. Approximately 4% of Cineplex's employees are represented by unions, which are almost exclusively in Quebec. Because of the small percentage of employees represented by unions, the risk of labour disruption is low.

Real Estate Risk

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

The majority of Cineplex's theatres are subject to long-term leases. In accordance with the terms of these leases, Cineplex is responsible for costs associated with utilities consumed at the theatre and property

taxes associated with the theatre. Cineplex has no control over these costs and these costs have been increasing over the last number of years.

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

Financial Markets Risk

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

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

Sourcing Risk

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

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

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

Health and Safety Risk

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

Business Continuity Risk

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

Legal, Taxation, and Accounting Risk

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

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

Environment/Sustainability Risk

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

Information Management Risk

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

15. CONTROLS AND PROCEDURES

15.1 DISCLOSURE CONTROLS AND PROCEDURES

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

15.2 INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

There has been no change in Cineplex'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, Cineplex's internal control over financial reporting.

16. SUBSEQUENT EVENTS

CANADIAN DIGITAL CINEMA PARTNERSHIP ("CDCP")

Subsequent to the period end, Cineplex and Empire Theatres Limited jointly announced the formation of CDCP to plan and implement the deployment of digital projection equipment in the two partners' theatres. The plan includes procuring equipment, arranging financing and securing digital deployment agreements with studios and other content providers.

Cineplex will contribute its existing digital projections systems into CDCP in return for an equity interest in CDCP. Any additional cash contribution requirements are expected to be immaterial on closing.

NEW WAY SALES GAMES LTD. ("NWS")

Subsequent to the period end, Cineplex announced it will acquire NWS, one of the largest distributors and suppliers of arcade games to the amusement industry in Canada, for approximately $3.3 million. NWS currently provides games for all Cineplex Odeon and Galaxy Cinemas, representing over half of the locations within the Cineplex circuit. The acquisition is expected to close in late May 2011.

17. OUTLOOK

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

THEATRE EXHIBITION

Despite the decline in box office revenues and attendance during the first quarter of 2011 compared to the prior year period, the first quarter 2011 results were in line with those reported in the first quarter of 2009, which ended the year with the highest North American box office revenues in history. Cineplex continued its expansion of digital and 3D technology during the first quarter of 2011, and offers the most digital and 3D projection screens in Canada. Highly anticipated 3D films to be released over the balance of 2011 include *'Pirates of the Caribbean: On Stranger Tides'*, *'Cars 2'*, *'Transformers: Dark of the Moon'* and *'Harry Potter and the Deathly Hallows: Part 2'*. Cineplex believes that 3D technology will provide an enhanced guest experience and will continue to charge a ticket price premium for 3D films and events.

Cineplex continued its expansion of its UltraAVX screens, the next evolution of the audio visual entertainment experience in Canada, during the first quarter of 2011. This new innovation has provided further differentiation to Cineplex's entertainment options at select theatres. At March 31, 2011, Cineplex's circuit features 17 UltraAVX auditoriums in 17 locations.

Subsequent to the period end, Cineplex announced the formation of CDCP, to plan and implement the deployment of digital projection equipment in its theatres. The plan includes procuring equipment, arranging financing and securing digital deployment agreements with studios and other content providers.

MERCHANDISING

Cineplex has continued to show growth in CPP over the past five years. CPP in the first quarter of 2011 was $4.27, a record first quarter amount for Cineplex, and $0.11 higher than the previous record, achieved in

2010. Although pricing does impact CPP, Cineplex's core focus is on operational execution and providing the optimal product mix to provide further growth in this area.

MEDIA

Cineplex believes that cinema advertising is a compelling media offering which is supported by a significant amount of third party evidence and research. Cinema advertising provides an effective medium to reach the 17-25 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 26.6% in the first quarter of 2011 compared to the prior year period. Higher full motion advertising contributed to these increases, as well as the contribution from CDM and specifically CDS, which was acquired during the third quarter of 2011 and not included in the comparative results.

Cineplex continues to enhance its media offerings; including enhanced website opportunities, the DLN, and increasing its offerings in the digital out-of-theatre signage business through CDS. During the first quarter of 2011, CDM contributed 31.7% of the media growth during the period.

ALTERNATIVE PROGRAMMING

During the first quarter of 2011, Cineplex offered a wide variety of alternative programming, including the popular Metropolitan Opera live in HD series, performances from the National Theatre in London, a classic film series and various concert performances by popular recording artists.

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

INTERACTIVE MEDIA

Cineplex continues to enhance and simplify the Cineplex interactive experience through its website www.cineplex.com, its mobile apps, and through the Cineplex Store. Clickable ads and WiFi SCENE access was added to the mobile apps for the iPhone, iPad, BlackBerry and Android devices during the first quarter of 2011, in addition to allowing guests access to movie showtimes and the ability to purchase tickets using their mobile devices.

Cineplex also expanded its DTO and VoD download services at the Cineplex Store, providing a wider range of in-home entertainment offerings to complement its offerings of DVDs, Blu-ray discs and Cineplex gift cards for sale. Subsequent to the period end, Cineplex added competitor show time information to its website, consistent with its goal of making www.cineplex.com a one-stop site for Canadians seeking entertainment content.

LOYALTY

The SCENE loyalty program continues to grow its membership base, with approximately 2.9 million members at March 31, 2011. SCENE's pilot program with the Milestones Grill & Bar locations in Ontario continued through the end of 2010 and has been expanded in 2011 to include locations in Alberta and British Columbia, as well as offering Cara Bon Appetit gift cards as a redemption option through the www.scene.ca website. SCENE continues to evaluate potential program partners to provide value to program members.

Cineplex continues to integrate SCENE elements into various film promotion campaigns, applying the data accumulated in the SCENE database to provide members targeted offers. Cineplex expects these programs to encourage increased frequency of visitation by SCENE members and additional revenue opportunities through the use of the database and additional partnership agreements.

FINANCIAL OUTLOOK

The record-breaking performance of *'Avatar'* in the first quarter of 2010 made for a challenging comparator in the first quarter of 2011. Despite the decrease in attendance and box office revenue compared to the prior year, box office revenues were comparable to the first quarter of 2009.

During the first quarter of 2011, Cineplex generated adjusted free cash flow of $0.392, compared to the Fund generating distributable cash of $0.462 in the prior year period. Cineplex and the Fund declared dividends and distributions, respectively, of $0.315 in each period. The payout ratios for these periods were approximately 80% and 68%, respectively.

The formation of CDCP will assist with the planning and implementation of the conversion of the majority of Cineplex's remaining 35mm projectors to digital projectors over the course of approximately the next 18 months. This conversion to digital cinema will allow clearer picture quality, improved image consistency and increased programming flexibility.

Effective with its conversion to a corporation on January 1, 2011 Cineplex became subject to income tax on its income. As a result of this, prior year results cannot be used as an indicator of income tax expense in the future.

The Third Amended Credit Facilities mature in 2012. Cineplex has a $130.0 million revolving credit facility which is available to finance acquisitions, new theatre construction, working capital and distributions. As defined under its credit facility, as at March 31, 2011, Cineplex reported a leverage ratio of 1.63x as compared to a covenant of 3.00x. Given this wide spread, Cineplex believes that its covenant compliance risk is minimal. Between the free cash flow generated in excess of the dividends paid and amounts available under the Third Amended Credit Facilities, Cineplex believes that it has sufficient financial resources to meet its ongoing requirements for capital expenditures, investments in working capital and dividends. However, Cineplex's needs may change and in such event Cineplex's ability to satisfy its obligations will be dependent upon future financial performance, which in turn will be subject to financial, tax, business and other factors, including elements beyond Cineplex's control.

18. NON-GAAP MEASURES

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

18.1 EBITDA AND ADJUSTED EBITDA

Management defines EBITDA as earnings before interest income and expense, income taxes and amortization expense. Adjusted EBITDA excludes the loss on disposal of assets and the change in fair value of financial instruments. Cineplex's management uses adjusted EBITDA to evaluate performance primarily because of the significant effect certain unusual or non-recurring charges and other items have on EBITDA from period to period. EBITDA adjusted for various unusual items is also used to define certain financial covenants in the Third Amended 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. Cineplex's EBITDA and adjusted EBITDA may differ from similar calculations as reported by other entities and accordingly may not be comparable to EBITDA or adjusted EBITDA as reported by other entities.

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

	Three months ended March 31,	
	2011	**2010**
Net (loss) income	$ (848)	$ 3,792
Depreciation and amortization (i)	17,413	19,943
Interest expense	5,699	5,679
Interest income	(232)	(84)
Deferred income tax expense	8,669	659
EBITDA	30,701	29,989
Change in fair value of financial instruments	-	3,909
Loss on disposal of assets	537	764
Adjusted EBITDA	$ 31,238	$ 34,662

(i) Includes the depreciation and amortization incurred by the joint ventures (2011 - $41 thousand, 2010 - $66 thousand).

18.2 ADJUSTED FREE CASH FLOW AND DISTRIBUTABLE CASH

Free cash flow measures the amount of cash from operating activities net of capital expenditures available for activities such as repayment of debt, distributions to owners, and investments in future growth through acquisitions. Free cash flow is a non-GAAP measure generally used by Canadian corporations 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 free cash flow is a non-GAAP measure recommended by the CICA in its 2008 interpretive release, *Improved Communication with Non-GAAP Financial Measures: General Principles and Guidance for Reporting EBITDA and Free Cash Flow*, and is designed to enhance comparability.

Cineplex presents standardized free cash flow and adjusted free cash flow per Share because they are key measures used by investors to value and assess Cineplex. Management of Cineplex defines adjusted free cash flow as standardized free cash flow adjusted for certain items, and considers adjusted free cash flow the amount available for distribution to Shareholders. Standardized free cash flow is defined by the CICA as cash from operating activities as reported in the GAAP financial statements, less total capital expenditures minus proceeds from the disposition of capital assets other than those of discontinued operations, as reported in the GAAP financial statements; and dividends, when stipulated, unless deducted in arriving at cash flows from operating activities. The standardized free cash flow calculation excludes common dividends and others that are declared at the Board's discretion.

Distributable cash was 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 CICA in its July 2007 interpretive release, *Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities*, and is designed to enhance comparability.

Management presents standardized distributable cash and distributable cash per 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 adjusted free cash flow per Share and distributable cash per Unit as follows (expressed in thousands of Canadian dollars except Share and Units outstanding, and per Share and per Unit data):

	For the three months ended March 31,	
	2011	**2010**
Cash provided by operating activities	$ 7,853	$ 21,005
Less: Total capital expenditures (i)	(12,414)	(10,192)
Standardized free cash flow/Standardized distributable cash	(4,561)	10,813
Add/(Less):		
Changes in operating assets and liabilities (ii)	17,879	9,661
Changes in operating assets and liabilities of joint ventures (ii)	(5)	462
Tenant inducements (iii)	(2,855)	(409)
Principal component of capital lease obligations	(545)	(485)
New build capital expenditures and other (iv)	10,090	7,076
Share of profit (loss) of joint ventures, net of non-cash depreciation	2,514	(727)
Adjusted free cash flow/Distributable cash	**$ 22,517**	**$ 26,391**
Less: Exchangeable interests share of distributable cash	-	(115)
Adjusted free cash flow/Distributable cash available to Shareholders/Unitholders	**$ 22,517**	**$ 26,276**
Average number of Shares/Units outstanding	57,468,588	56,901,546
Adjusted free cash flow per Share/Distributable cash per Unit	**$ 0.392**	**$ 0.462**

(i) For the 2011 adjusted free cash flow calculations, total capital expenditures are shown net of proceeds received on the sale of assets.
(ii) Changes in operating assets and liabilities are not considered a source or use of adjusted free cash flow or distributable cash.
(iii) Tenant inducements received are for the purpose of funding new theatre capital expenditures and are not considered a source of adjusted free cash flow or distributable cash.
(iv) New build capital expenditures and other represent expenditures on Board approved projects as well as any expenditures for digital equipment that will be incorporated into CDCP, and exclude maintenance capital expenditures. The 2011 figures are net of proceeds on asset sales. The Revolving Facility (discussed above in Section 7.4, Credit facilities) was available to the Fund and is available to Cineplex to fund Board approved projects.

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

	For the three months ended March 31,	
	2011	**2010**
Income before undernoted	$ 10,815	$ 14,748
Adjust for:		
Depreciation and amortization	17,372	19,877
Loss on disposal of assets	537	764
Interest expense, net of non-cash items (i)	(5,252)	(5,405)
Interest income	232	84
Share of profit (loss) of joint ventures, net of non-cash depreciation	2,514	(727)
Maintenance capital expenditures	(2,324)	(3,116)
Principal component of capital lease obligations	(545)	(485)
Non-cash items:		
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract assets	(1,050)	(760)
Non-cash Share or Unit-based compensation	218	1,411
Adjusted free cash flow/Distributable cash	**$ 22,517**	**$ 26,391**

(i) Non-cash interest expense includes accretion expense on the convertible debentures, deferred financing costs on the long-term debt, and other non-cash interest expense items.

18.3 OTHER NON-GAAP MEASUREMENTS MONITORED BY MANAGEMENT

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

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 Cineplex's theatres during the period.
Payout ratio: Dividends paid per Share divided by adjusted free cash flow per Share (2010 - distributions paid per Unit divided by distributable cash per Unit).

Cineplex Inc.

Interim Consolidated Balance Sheets
(Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Assets			
Current assets			
Cash and cash equivalents	$ 58,374	$ 85,343	$ 94,646
Trade and other receivables	32,100	57,950	53,057
Inventories	3,821	3,767	4,240
Prepaid expenses and other current assets	9,843	3,848	4,244
	104,138	150,908	156,187
Non-current assets			
Property, equipment and leaseholds (note 4(iv)(b))	411,669	413,755	428,571
Deferred income taxes (note 1)	14,947	25,689	24,054
Interests in joint ventures	150	92	1,256
Intangible assets	91,145	93,397	104,540
Goodwill	608,929	608,929	600,564
	$ 1,230,978	$ 1,292,770	$ 1,315,172

Financial figures presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc. (note 1).

A reconciliation of amounts and classifications from previously reported financial figures is included in note 4(ii) to these interim consolidated financial statements.

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

Cineplex Inc.

Interim Consolidated Balance Sheets …*continued*
(Unaudited)

(expressed in thousands of Canadian dollars)

	March 31, 2011	December 31, 2010	January 1, 2010
Liabilities			
Current liabilities			
Accounts payable and accrued expenses	$ 65,550	$ 83,700	$ 96,208
Share or unit-based compensation (notes 1 and 5)	3,281	14,307	11,684
Dividends or distributions payable (note 7)	6,041	-	6,001
Income taxes payable	50	87	11
Deferred revenue	63,640	82,027	76,250
Capital lease obligations	2,283	2,242	2,004
Fair value of interest rate swap agreements	5,574	5,482	6,881
	146,419	187,845	199,039
Non-current liabilities			
Share or unit-based compensation (note 5)	3,145	8,014	5,959
Long-term debt	233,809	233,588	233,129
Fair value of interest rate swap agreements	2,104	3,298	5,382
Capital lease obligations	28,299	28,885	31,127
Post-employment benefit obligations	4,570	4,534	3,370
Other liabilities	99,711	98,964	107,437
Deficiency interest in joint venture	9,928	12,338	8,306
Convertible debentures (note 1)	95,497	116,481	112,038
Liability for exchangeable interests (note 1)	-	3,851	4,576
	477,063	509,953	511,324
Total liabilities	623,482	697,798	710,363
Equity			
Share capital (note 6)	742,566	-	-
Unit capital (note 6)	-	708,522	703,706
Deficit	(130,382)	(111,423)	(91,396)
Accumulated other comprehensive loss	(4,688)	(3,534)	(7,501)
Contributed surplus (note 1)	-	1,407	-
	607,496	594,972	604,809
	$ 1,230,978	$ 1,292,770	$ 1,315,172

Financial figures presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc. (note 1).

A reconciliation of amounts and classifications from previously reported financial figures is included in note 4(ii) to these interim consolidated financial statements.

Approved by the Board of Directors

"Phyllis Yaffe"
Director

"Robert Steacy"
Director

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

Cineplex Inc.

Interim Consolidated Statements of Operations
(Unaudited)
For the three months ended March 31, 2011 and 2010

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

	2011	2010
Revenues		
Box office	$ 129,956	$ 158,792
Concessions	65,154	74,329
Other	26,282	22,093
	221,392	255,214
Expenses		
Film cost	65,544	86,521
Cost of concessions	13,648	16,793
Depreciation and amortization	17,372	19,877
Loss on disposal of assets	537	764
Other costs (note 11)	113,476	116,511
	210,577	240,466
Income before undernoted	10,815	14,748
Share of (income) loss of joint ventures	(2,473)	793
Change in fair value of financial instruments (note 4(ii)(i, j))	-	3,909
Interest expense	5,699	5,679
Interest income	(232)	(84)
Income before income taxes	7,821	4,451
Provision for income taxes		
Current	-	-
Deferred (note 1)	8,669	659
	8,669	659
Net (loss) income	$ (848)	$ 3,792
Basic net (loss) income per share or Fund unit	$ (0.01)	$ 0.07
Diluted net (loss) income per share or Fund unit	$ (0.01)	$ 0.07

Financial figures presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc. (note 1).

A reconciliation of amounts and classifications from previously reported financial figures is included in note 4(ii) to these interim consolidated financial statements.

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

Cineplex Inc.

Interim Consolidated Statements of Comprehensive (Loss) Income
(Unaudited)

For the three months ended March 31, 2011 and 2010

(expressed in thousands of Canadian dollars)

	2011	2010
Net (loss) income	$ (848)	$ 3,792
Other comprehensive (loss) income		
Changes in fair value of interest rate contracts, net of $2,073 deferred income taxes (2010 - $73 deferred income tax recovery) (note 1)	(1,154)	1,307
Other comprehensive (loss) income	(1,154)	1,307
Comprehensive (loss) income	$ (2,002)	$ 5,099

Financial figures presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc. (note 1).

A reconciliation of amounts and classifications from previously reported financial figures is included in note 4(ii) to these interim consolidated financial statements.

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

Cineplex Inc.

Interim Consolidated Statements of Changes in Equity
(Unaudited)
For the three months ended March 31, 2011 and 2010

(expressed in thousands of Canadian dollars)

	Unit capital (note 6)	Share capital (note 6)	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance - January 1, 2011	$ 708,522	$ -	**$** 1,407	$ (3,534)	$ (111,423)	**$ 594,972**
Effect of corporate conversion (note 1)	(708,522)	743,161	(1,407)	-	-	**33,232**
Net loss	-	-	-	-	(848)	**(848)**
Other comprehensive loss	-	-	-	(1,154)	-	**(1,154)**
Dividends declared	-	-	-	-	(18,111)	**(18,111)**
Long-term incentive plan obligation	-	(4,306)	-	-	-	**(4,306)**
Long-term incentive plan shares	-	1,888	-	-	-	**1,888**
Issuance of shares on conversion of debentures	-	1,823	-	-	-	**1,823**
Balance - March 31, 2011	$ -	$ 742,566	**$** -	$ (4,688)	$ (130,382)	$ **607,496**
Balance - January 1, 2010	$ 703,706	$ -	**$** -	$ (7,501)	$ (91,396)	**$** 604,809
Net income	-	-	-	-	3,792	3,792
Other comprehensive income	-	-	-	1,307	-	1,307
Distributions declared	-	-	-	-	(17,924)	(17,924)
Long-term incentive plan units	(1,063)	-	1,407	-	-	344
Issuance of units on conversion of debentures	38	-	-	-	-	38
Balance - March 31, 2010	$ 702,681	$ -	$ 1,407	$ (6,194)	$ (105,528)	$ 592,366

Financial figures presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc. (note 1).

A reconciliation of amounts and classifications from previously reported financial figures is included in note 4(ii) to these interim consolidated financial statements.
The accompanying notes are an integral part of these interim consolidated financial statements.

Cineplex Inc.

Interim Consolidated Statements of Cash Flows
(Unaudited)
For the three months ended March 31, 2011 and 2010

(expressed in thousands of Canadian dollars)

	2011	2010
Cash provided by (used in)		
Operating activities		
Net (loss) income	$ (848)	$ 3,792
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation and amortization of property, equipment and leaseholds, deferred charges and intangible assets	17,372	19,877
Amortization of tenant inducements, rent averaging liabilities and fair value lease contract liabilities	(1,050)	(760)
Amortization of debt issuance costs	233	188
Loss on disposal of assets	537	764
Deferred income taxes	8,669	659
Interest rate swap agreements - non-cash interest	(96)	(226)
Non-cash share or unit-based compensation	218	1,411
Change in fair value of financial instruments	-	3,909
Accretion of convertible debentures	310	312
Net change in interests in joint ventures	(2,468)	331
Tenant inducements	2,855	409
Changes in operating assets and liabilities (note 8)	(17,879)	(9,661)
Net cash provided by operating activities	7,853	21,005
Investing activities		
Proceeds from sale of assets	7	1,350
Purchases of property, equipment and leaseholds	(12,421)	(10,192)
Net cash used in investing activities	(12,414)	(8,842)
Financing activities		
Dividends or distributions paid	(12,070)	(17,924)
Borrowings under credit facility	15,000	5,000
Repayment of credit facility	(15,000)	(5,000)
Payments under capital leases	(545)	(485)
Acquisition of long-term incentive plan shares or units	(9,793)	(9,620)
Net cash used in financing activities	(22,408)	(28,029)
Decrease in cash and cash equivalents during the period	(26,969)	(15,866)
Cash and cash equivalents - Beginning of period	85,343	94,646
Cash and cash equivalents - End of period	$ 58,374	$ 78,780
Supplemental information		
Cash paid for interest	$ 3,764	$ 3,766
Cash paid for income taxes - net	-	-

Financial figures presented prior to January 1, 2011 are those of Cineplex Galaxy Income Fund, predecessor to Cineplex Inc. (note 1).

Certain non-cash transactions occurred relating to exchanges of the non-controlling interests' Partnership units for Fund units or Cineplex shares (note 1).

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

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

1 General information

Until December 31, 2010, Cineplex Galaxy Income Fund (the "Fund") was an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on October 2, 2003 pursuant to the Fund Declaration of Trust. The Fund was established to invest, through Cineplex Galaxy Trust (the "Trust"), a newly constituted wholly owned trust, in Partnership units of Cineplex Entertainment Limited Partnership (the "Partnership") and shares of Cineplex Entertainment Corporation, the general partner 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. ("GEI"). In 2005, the Partnership acquired 100% of Famous Players Limited Partnership ("Famous Players") and its general partner, Famous Players Co. The Partnership is currently Canada's largest film exhibition organization, with theatres in six provinces.

On January 1, 2011, the Fund effected a reorganization for tax and business purposes, converting to an Ontario corporation, Cineplex Inc. ("Cineplex"). The assets of the Trust and the Fund were transferred to Cineplex on a tax-deferred basis, and the Trust was wound up. Additionally, on January 1, 2011, Cineplex acquired the 0.3% of the Partnership units it did not indirectly own.

As of March 31, 2011, Cineplex directly or indirectly owned 100% of the Partnership.

Financial effects of reorganization

As a result of the reorganization, unit capital of $708,522 and contributed surplus of $1,407 were reclassified to share capital on the interim consolidated balance sheet. In addition, the fair value of the conversion derivative associated with the convertible debentures of $19,470, the long-term incentive plan ("LTIP") obligation recorded as share or unit-based compensation of $9,911 and the fair value of exchangeable interests of $3,851 were all reclassified to share capital on the interim consolidated balance sheet.

As a corporation, Cineplex's tax rate decreased to 25.84% from a tax rate of 46.41% as a mutual fund trust, reducing the net deferred income tax assets at December 31, 2010 by $7,777, which was recorded as deferred income tax expense on the interim consolidated statement of operations of $5,979 and $1,798 in other comprehensive loss.

In addition, $28 of additional deferred income tax assets was recorded as a recovery of deferred income taxes on the interim consolidated statement of operations, representing the portion relating to the former exchangeable interests.

Prior to the reorganization, holders of exchangeable Class B LP units of the Partnership received common shares in exchange for their Class B LP units, on a one-for-one basis. Additionally, pursuant to the reorganization, holders of Fund units received common shares in exchange for their Fund units, on a one-for-one basis, making the Partnership a wholly owned subsidiary of Cineplex. Cineplex also assumed all of the covenants and obligations of the Fund under its outstanding convertible debentures and entered into a

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

supplemental trust indenture. The common shares are listed on the Toronto Stock Exchange ("TSX") under the symbol "CGX".

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

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

2 Basis of preparation and adoption of IFRS

Cineplex prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"), as set out in the Handbook of The Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS"), and require publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Cineplex has commenced reporting on this basis in these interim consolidated financial statements. In the interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These unaudited interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34 and IFRS 1. Subject to certain transition elections disclosed in note 4, Cineplex has consistently applied the same accounting policies in its opening IFRS interim consolidated balance sheet at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 4 discloses the impact of the transition to IFRS on Cineplex's reported interim consolidated balance sheets, interim consolidated statements of operations and cash flows, including the nature and effect of significant changes in accounting policies from those used in the consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed unaudited interim consolidated financial statements are based on IFRS issued and outstanding as of May 11, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in Cineplex's annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these unaudited interim consolidated financial statements, including the transition adjustments recognized on changeover to IFRS.

The condensed unaudited interim consolidated financial statements should be read in conjunction with the Fund's Canadian GAAP annual audited consolidated financial statements for the year ended December 31, 2010. Note 4 discloses IFRS information for the year ended December 31, 2010 that was not provided in the 2010 annual consolidated financial statements.

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

3 Significant accounting policies, judgments and estimation uncertainty

Significant accounting policies

The significant accounting policies used in the preparation of these interim consolidated financial statements are described below.

Basis of measurement

These interim consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial assets and financial liabilities to fair value, including derivative instruments and available-for-sale investments.

Consolidation

These financial statements consolidate the accounts of Cineplex and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are those entities (including special purpose entities) that Cineplex controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Cineplex controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Cineplex and are deconsolidated from the date that control ceases.

Cineplex also consolidates a trust administered by a third party that acts as trustee for the LTIP. When required under the terms of the LTIP, the Partnership funds the LTIP trust, subsequent to which, the trustee acquires shares or units on the open market. The unvested shares or units, recorded at their carrying amount, are held in the LTIP trust to be distributed under the terms of the LTIP. The LTIP trust is considered a special purpose entity, as the total investment at risk is not sufficient to permit the LTIP trust to finance its activities without additional support. Cineplex holds a variable interest in the LTIP trust and has determined that it is the primary beneficiary of the LTIP trust and, therefore, has consolidated the LTIP trust. Cineplex has not guaranteed the value of the units held by the LTIP trust should the fair value of the units decrease from the value at which the LTIP trust acquired the units. At December 31, 2010, consolidating the LTIP trust resulted in a $9,468 decrease in assets and unitholders' capital and had no impact on the net income of Cineplex.

Exchangeable interests

Exchangeable interests represent equity interests in the Partnership owned by outside parties until January 1, 2011. The units of the Partnership not owned by Cineplex are considered liabilities, presented at fair value on the interim consolidated balance sheets. On January 1, 2011, Cineplex acquired the remaining exchangeable interests, and the balance was reclassified to share capital. Until January 1, 2011, the change in the fair value of the exchangeable interests was reflected in net income, as change in fair value of financial instruments.

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

Investments in joint ventures

Joint ventures are entities over which Cineplex has significant influence, but not control. The financial results of Cineplex's investments in its joint ventures are included in Cineplex's results according to the equity method. Cineplex's share of profits or losses of joint ventures is recognized in the interim consolidated statements of operations and its share of other comprehensive income (loss) ("OCI" or "OCL") of joint ventures is included in OCL.

To the extent Cineplex's share or losses of a joint venture exceed Cineplex's net investment in the joint venture, and Cineplex has a legal or constructive obligation to continue to support the operations of the joint venture, a deficiency interest in joint ventures is recognized as a liability on the interim consolidated balance sheets.

Cineplex assesses at each year-end whether there is any objective evidence that its interests in joint ventures are impaired. If impaired, the carrying amount of Cineplex's share of the underlying assets of joint ventures is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the interim consolidated statements of operations.

Foreign currency translation

Functional and presentation currency

Items included in the interim consolidated financial statements of each consolidated entity in the Cineplex group are measured using Canadian dollars, the currency of the primary economic environment in which each entity operates (the "functional currency"). The interim consolidated financial statements are presented in Canadian dollars.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Generally, foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at fiscal year-end exchange rates of monetary assets and liabilities denominated in currencies other than an operation's functional currency are recognized in the statements of operations.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

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

Financial instruments

Financial assets and financial liabilities are recognized when Cineplex becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Cineplex has transferred substantially all risks and rewards of ownership.

Financial assets and financial liabilities are offset and the net amount is reported in the interim consolidated balance sheets when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the financial asset and settle the liability simultaneously.

At initial recognition, Cineplex classifies its financial instruments in the following categories depending on the purpose for which the financial instruments were acquired:

i) Financial assets and financial liabilities at fair value through profit or loss: The only instruments held by Cineplex classified in this category were the conversion option associated with convertible debentures, the exchangeable interests in the Partnership and the LTIP obligation. Until January 1, 2011, the conversion options and the LTIP obligation were accounted for as financial liabilities because the underlying components were Fund units, which are not inherently equity instruments. On reorganization to a corporation, the conversion option applied to shares, the conversion component and the LTIP obligation are presented as equity. Derivatives are included in this category unless they are designated as hedges.

   Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the interim consolidated statements of operations. Gains and losses arising from changes in fair value are presented in the interim consolidated statements of operations as changes in fair value of financial instruments in the period in which they arise. Financial assets and financial liabilities at fair value through profit or loss are classified as current, except for the portion expected to be realized or paid beyond 12 months of the balance sheet date, which is classified as non-current.

ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Cineplex has no available-for-sale investments.

iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cineplex's loans and receivables comprise trade receivables and cash and cash equivalents, and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method, less a provision for impairment.

iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables, dividends and distributions payable, bank indebtedness and long-term debt and the non-derivative component of convertible debentures. Trade payables are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are

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

measured at amortized cost using the effective interest method. Bank indebtedness and long-term debt, and the non-derivative component of convertible debentures are recognized initially at fair value, net of any transaction costs incurred and, subsequently, at amortized cost using the effective interest method. The non-derivative component of convertible debentures and the conversion derivative were presented as a single liability until the conversion component was reclassified to equity on January 1, 2011.

Financial liabilities are classified as current liabilities if payment is due within 12 months. Otherwise, they are presented as non-current liabilities.

v) Derivative financial instruments: In addition to the conversion derivative discussed in (i), Cineplex uses derivatives in the form of interest rate swap agreements, which are designated as cash flow hedges to manage risks related to its variable rate debt. The effective portion of the change in fair value of the interest rate swap agreements is recognized in OCI or OCL until the hedged interest payment is recorded, while the ineffective portion is recognized as interest expense when incurred.

Impairment of financial assets

At each reporting date, Cineplex assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Cineplex recognizes an impairment loss, as follows:

i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the financial instrument's original effective interest rate. The carrying value of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

ii) Available-for-sale financial assets: The impairment loss is the difference between the cost of the financial asset and its fair value at the measurement date.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. Net realizable value is the estimated selling price less applicable selling expenses.

Property, equipment and leaseholds

Property, equipment and leaseholds are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying value or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Cineplex and the cost can be measured reliably. The carrying value of a replaced asset is derecognized when replaced. Repairs

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

and maintenance costs are charged to the interim consolidated statements of operations during the period in which they are incurred.

The major categories of property, equipment and leaseholds are depreciated on a straight-line basis as follows:

Buildings	30 - 40 years
Equipment	3 - 10 years
Leasehold improvements	term of lease but not in excess of the useful lives

For owned buildings constructed on leased property, the useful lives do not exceed the terms of the land leases.

Cineplex allocates the amount initially recognized in respect of an item of property, equipment and leaseholds to its significant parts and depreciates separately each such part. Residual values, method of depreciation and useful lives of the assets are reviewed annually and adjusted if appropriate. Construction-in-progress is amortized from the date the asset is ready for productive use.

Gains and losses on disposals of property, equipment and leaseholds are determined by comparing the proceeds with the carrying value of the asset and are included as part of other gain or loss on the sale of assets in the interim consolidated statements of operations.

Goodwill

Cineplex tests at least annually whether goodwill suffered any impairment. Management makes key assumptions and estimates in determining the recoverable amount of regions' goodwill, including future cash flows based on historical and budgeted operating results, growth rates, and appropriate after-tax discount rates.

Identifiable intangible assets

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

Disposal of long-lived assets and discontinued operations

A long-lived asset must be classified as an asset held for sale in the period during which all required criteria have been met. A long-lived asset to be disposed of by sale must be measured at the lower of its carrying value or fair value less selling costs and should not be amortized as long as it is classified as an asset to be disposed of by sale. Financial assets and financial liabilities classified as held for sale are recorded in the consolidated balance sheets as financial assets held for sale and as financial liabilities related to property held for sale. A long-lived asset to be disposed of other than by sale continues to be classified as held and used until it is disposed. The operating results and cash flows of a major line of business or geographical area classified as a discontinued operation are presented separately in the interim consolidated financial statements.

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

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

Impairment of non-financial assets

Property, equipment and leaseholds and intangible assets subject to amortization are tested for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Long-lived assets that are not amortized are subject to an annual impairment test. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows relating to the relevant intangible asset ("cash-generating units" or "CGUs"). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset or CGU). An impairment loss is recognized for the amount by which the asset's carrying value exceeds its recoverable amount.

Goodwill is reviewed for impairment annually or at any time if an indicator of impairment exists.

Goodwill acquired through a business combination is allocated to each CGU or group of CGUs that are expected to benefit from the related business combination. A group of CGUs represents the lowest level within the entity at which the goodwill is monitored for internal management purposes, which is not higher than an operating segment.

Cineplex evaluates impairment losses, other than goodwill impairment, for potential reversals when events or circumstances warrant such consideration.

Leases

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

Borrowing costs

Borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognized as interest expense in the interim consolidated statements of operations in the period in which they are incurred.

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

Employee benefits

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

i) Post-employment benefit obligations

For defined benefit plans, the level of benefit provided is based on the length of service and annual earnings of the person entitled.

The cost of defined contribution pension plan is charged to expense as the contributions become payable.

The cost of defined benefit plans is determined using the projected unit credit method. The related benefit liability recognized in the interim consolidated balance sheets is the present value of the defined benefit obligation at the balance sheet dates less the fair value of plan assets.

Actuarial valuations for defined benefit plans are carried out periodically and considered at each annual balance sheet date. The discount rate applied in arriving at the present value of the benefit liability represents yields on high-quality corporate bonds that are denominated in Canadian dollars, the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related benefit liability.

Actuarial gains and losses are recognized in full in the period in which they occur, in OCI or OCL and deficit without recycling to the interim consolidated statements of operations in subsequent periods. Current service cost, the recognized element of any past service cost, the expected return on plan assets and the interest arising on the benefit liability are included in employee benefits in other costs on the interim consolidated statements of operations.

Past service costs are recognized immediately to the extent the benefits are vested, and otherwise are amortized straight-line over the average period until the benefits become vested.

ii) Share and unit-based compensation - options

Cineplex grants stock options to certain employees. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model and subsequently remeasured at each balance sheet date on the same basis. Compensation expense is recognized over the tranche's vesting period as employee benefits expense in other costs based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

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

iii) Share and unit-based compensation - other plans

Cineplex has a number of other cash-settled share and unit-based compensation plans. The obligation for these plans is recorded at fair value on a percentage vested basis. Changes in the obligation are reflected in employee benefits in other costs on the interim consolidated statements of operations.

Provisions

Provisions for asset retirement obligations, theatre shutdowns and legal claims, where applicable, are recognized when Cineplex has a present legal or constructive obligation as a result of past events. It is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material. The discount rate applied in arriving at the present value of a provision represents the yields on high-quality corporate bonds denominated in Canadian dollars having terms to maturity approximating the estimated term to settlement of the provisions. Cineplex performs evaluations to identify onerous contracts and, where applicable, records provisions for such contracts.

Provisions are presented as other liabilities on the balance sheets.

Income taxes

Income tax comprises current and deferred taxes. Income taxes are recognized in the interim consolidated statement of operations, except to the extent that they relate to items recognized directly in equity, in which case, the income taxes are also recognized directly in equity.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years.

In general, deferred income taxes are recognized in respect of temporary differences arising between the income tax bases of assets and liabilities and their carrying values in the consolidated financial statements. Deferred income taxes are determined on a non-discounted basis using income tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred income tax asset or liability is settled. Deferred income tax assets are recognized to the extent that it is probable that the assets can be recovered.

Until December 31, 2010, the Fund was a mutual fund trust for income tax purposes. As such, the Fund was only taxable on any amount not allocated to unitholders. Under IFRS, the deferred income tax assets or liabilities associated with timing differences expected to exist or actually existing at December 31, 2010 were reflected at the highest federal and Ontario personal income tax rates effective at December 31, 2010.

Deferred income taxes are provided on temporary differences arising on investments in subsidiaries and joint ventures, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is

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

controlled by Cineplex and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

Taxes on income in interim periods are accrued using the income tax rate that would be applicable to expected total annual income.

Share and unit capital

Common shares and units are classified as equity. Incremental costs directly attributable to the issuance of common shares or units are recognized as a deduction from equity. Shares or units held by the LTIP trust for the benefit of LTIP participants are considered treasury stock and presented at cost as a reduction of common share or unit capital.

Dividends or distributions

Dividends on common shares are recognized in the interim consolidated financial statements in the period in which the dividends are approved by the Board of Directors of Cineplex. In 2010, distributions were recognized in the interim consolidated financial statements in the period in which the distributions were approved by the Board of Trustees of the Fund.

Income (loss) per share and unit

Basic income (loss) per share ("EPS") and unit ("EPU") is calculated by dividing the net income (loss) for the period attributable to equity owners of Cineplex by the weighted average number of common shares or units outstanding during the period.

Diluted EPS and EPU is calculated by adjusting the weighted average number of common shares or units outstanding for dilutive instruments. The number of shares or units included with respect to options and similar instruments is computed using the treasury stock method. Cineplex's potentially dilutive common shares or units comprise stock options granted to employees, the right to exchange Partnership units for Fund units (prior to January 1, 2011), and the conversion feature of the convertible debentures.

Revenues

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

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

Gift certificates and gift cards

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

Multiple deliverable arrangements

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

Film rental costs

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

Consideration received from vendors

Cineplex receives rebates from certain vendors with respect to the purchase of concession goods. In addition, Cineplex receives payments from vendors for advertising undertaken by the theatres on behalf of the vendors. Cineplex recognizes rebates earned for purchases of each vendor's product as a reduction of concession costs and recognizes payments received for services delivered to the vendor as other revenue.

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

Significant accounting judgments and estimation uncertainties

Critical accounting estimates and judgments

Cineplex makes estimates and assumptions concerning the future that may not equal actual impact results. The following are the estimates and judgments applied by management that most significantly impact Cineplex's interim consolidated financial statements. These estimates and judgments have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

a) Property, equipment and leaseholds

Estimated useful lives

Management estimates the useful lives of property, equipment and leasehold improvements based on the period during which the assets are expected to be available for use. The amounts and timing of recorded expenses for depreciation of property, equipment and leasehold improvements for any period are affected by these estimated useful lives. The estimates are reviewed at least annually and are updated if expectations change as a result of physical wear and tear, technical or commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of Cineplex's property, equipment and leaseholds in the future.

b) Financial instruments

Fair value of over-the-counter derivatives

Cineplex's over-the-counter derivatives include interest rate swaps used to economically hedge exposure to variable cash flows associated with interest payments on Cineplex's borrowings. Management estimates the fair values of these derivatives as the present value of expected future cash flows to be received or paid, based on available market data, which includes market yields and counterparty credit spreads.

Classification of Fund units

Management has determined that the issued and outstanding units of the Fund were equity, not liabilities, taking into account all of the attributes of the Fund units. Financial instruments based on the Fund units, including options granted to employees, commitments to transfer units to LTIP participants, and the conversion rights associated with the convertible debentures were all considered liabilities, as they do not share all of the attributes of the underlying Fund units.

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

c) Revenue recognition

Gift cards and gift certificates

Management estimates the value of gift cards and gift certificates that are not expected to be redeemed by customers, based on the terms of the gift cards and historical redemption patterns, including industry data. The estimates are reviewed annually, or when evidence indicates the existing estimate is not valid.

d) Deferred income taxes

The timing of reversal of timing differences and the expected income allocation to various tax jurisdictions within Canada affect the effective income tax rate used to compute the deferred income tax asset. Management estimates the reversals and income allocation based on historical and budgeted operating results and income tax laws existing at the balance sheet date. In addition, management occasionally estimates the current or future deductibility of certain expenditures, affecting current or deferred income tax balances and expenses.

e) Purchase price allocations

Management allocates the purchase price of business acquisitions to the assets and liabilities of the acquired businesses. Significant judgment is required in the identifying tangible and intangible assets and liabilities of the acquired businesses, as well as determining their fair values.

Accounting standards issued but not yet applied

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through OCI. Where such equity instruments are measured at fair value through OCI or OCL, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in AOCI indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in OCI.

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

This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. Cineplex has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

4 Transition to IFRS

The effect of Cineplex's transition to IFRS, described in note 2, is summarized as follows:

i) Transition elections
ii) Reconciliation of equity and comprehensive income, as previously reported under Canadian GAAP to IFRS
iii) Adjustments to the interim consolidated statement of cash flows
iv) Additional IFRS information for the year ended December 31, 2010.

i) Transition elections

Cineplex has applied the following transition exceptions and exemptions to full retrospective application of IFRS:

	As described in note
Deemed cost of property, equipment and leaseholds	4(ii)(b)
Employee benefits - treatment of actuarial gains and losses	4(ii)(e)
Business combinations	4(ii)(n)

ii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

		December 31, 2010			March 31, 2010			January 1, 2010		
	Note 4(ii)	Canadian GAAP	Adjust-ment	IFRS	Canadian GAAP	Adjust-ment	IFRS	Canadian GAAP	Adjust-ment	IFRS
Assets										
Current assets										
Cash and cash equivalents	a	$ 87,111	$ (1,768)	$ 85,343	$ 80,223	$ (1,443)	$ 78,780	$ 95,791	$ (1,145)	$ 94,646
Trade and other receivables	a,q	59,111	(1,161)	57,950	33,951	(1,251)	32,700	54,892	(1,835)	53,057
Inventories	a	3,778	(11)	3,767	3,613	(25)	3,588	4,260	(20)	4,240
Prepaid expenses and other current assets	a,q	3,854	(6)	3,848	9,117	(51)	9,066	4,310	(66)	4,244
		153,854	(2,946)	150,908	126,904	(2,770)	124,134	159,253	(3,066)	156,187
Non-current assets										
Property, equipment and leaseholds	a,b	415,951	(2,196)	413,755	419,754	(1,007)	418,747	428,253	318	428,571
Deferred income taxes	l	19,435	6,254	25,689	19,568	3,901	23,469	20,221	3,833	24,054
Interests in joint ventures	a	-	92	92	-	1,651	1,651	-	1,256	1,256
Intangible assets	q	93,393	4	93,397	101,019	35	101,054	104,494	46	104,540
Goodwill	n	609,035	(106)	608,929	600,564	-	600,564	600,564	-	600,564
		$ 1,291,668	$ 1,102	$ 1,292,770	$ 1,267,809	$ 1,810	$ 1,269,619	$ 1,312,785	$ 2,387	$ 1,315,172

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

		December 31, 2010			March 31, 2010			January 1, 2010		
	Note 4(ii)	Canadian GAAP	Adjust-ment	IFRS	Canadian GAAP	Adjust-ment	IFRS	Canadian GAAP	Adjust-ment	IFRS
Liabilities										
Current liabilities										
Accounts payable and accrued expenses	a,d,f,g, k,q	$ 101,454	$ (17,754)	$ 83,700	$ 93,511	$ (10,445)	$ 83,066	$ 109,900	$ (13,692)	$ 96,208
Share or unit-based compensation	f,g	-	14,307	14,307	-	9,030	9,030	-	11,684	11,684
Dividends or distributions payable		-	-	-	6,001	-	6,001	6,001	-	6,001
Income taxes payable	a	50	37	87	30	(19)	11	34	(23)	11
Deferred revenue	a	95,571	(13,544)	82,027	68,904	(10,288)	58,616	85,501	(9,251)	76,250
Capital lease obligations - current portion		2,242	-	2,242	2,064	-	2,064	2,004	-	2,004
Fair value of interest rate swap agreements		5,482	-	5,482	6,578	-	6,578	6,881	-	6,881
		204,799	(16,954)	187,845	177,088	(11,722)	165,366	210,321	(11,282)	199,039
Non-current liabilities										
Share or unit-based compensation	f,g	-	8,014	8,014	-	3,959	3,959	-	5,959	5,959
Long-term debt	h	233,875	(287)	233,588	233,606	(298)	233,308	233,459	(330)	233,129
Fair value of interest rate swap agreements		3,298	-	3,298	4,290	-	4,290	5,382	-	5,382
Capital lease obligations - long-term portion		28,885	-	28,885	30,582	-	30,582	31,127	-	31,127
Post-employment benefit obligations	e	2,452	2,082	4,534	2,123	1,318	3,441	2,012	1,358	3,370
Other liabilities	a,c,k	107,350	(8,386)	98,964	114,093	(7,618)	106,475	114,941	(7,504)	107,437
Deficiency interest in joint venture	a	-	12,338	12,338	-	9,035	9,035	-	8,306	8,306
Convertible debentures	h,i	96,953	19,528	116,481	101,228	14,501	115,729	100,982	11,056	112,038
Liability for exchangeable interests	j	-	3,851	3,851	-	5,068	5,068	-	4,576	4,576
		677,612	20,186	697,798	663,010	14,243	677,253	698,224	12,139	710,363
Non-controlling interests	j	1,790	(1,790)	-	2,624	(2,624)	-	2,669	(2,669)	-
Equity										
Unit capital	f,m,i	728,815	(20,293)	708,522	720,242	(17,561)	702,681	722,857	(19,151)	703,706
Deficit	p	(115,035)	3,612	(111,423)	(114,494)	8,966	(105,528)	(106,113)	14,717	(91,396)
Accumulated other comprehensive loss	o,p	(1,514)	(2,020)	(3,534)	(3,573)	(2,621)	(6,194)	(4,852)	(2,649)	(7,501)
Contributed surplus	f	-	1,407	1,407	-	1,407	1,407	-	-	-
Total equity		612,266	(17,294)	594,972	602,175	(9,809)	592,366	611,892	(7,083)	604,809
		$ 1,291,668	$ 1,102	$ 1,292,770	$ 1,267,809	$ 1,810	$ 1,269,619	$ 1,312,785	$ 2,387	$ 1,315,172

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

		Year ended December 31, 2010			Three months ended March 31, 2010		
	Note 4(ii)	Canadian GAAP	Adjustment	IFRS	Canadian GAAP	Adjustment	IFRS
Revenues							
Box office	a	$ 601,097	$ (3,269)	$ 597,828	$ 160,327	$ (1,535)	$ 158,792
Concessions	a	295,961	(1,234)	294,727	74,898	(569)	74,329
Other	a,q	113,724	147	113,871	22,000	93	22,093
		1,010,782	(4,356)	1,006,426	257,225	(2,011)	255,214
Expenses							
Film cost	a	318,495	(1,773)	316,722	87,376	(855)	86,521
Cost of concessions	a	62,504	(257)	62,247	16,918	(125)	16,793
Depreciation and amortization	a,b	-	82,359	82,359	-	19,877	19,877
Loss on disposal of assets	a,b	-	2,404	2,404	-	764	764
Other costs	a,c,d,e,f,g,h,q	460,506	(4,362)	456,144	117,600	(1,089)	116,511
		841,505	78,371	919,876	221,894	18,572	240,466
Income before undernoted		169,277	(82,727)	86,550	35,331	(20,583)	14,748
Depreciation and amortization	a,b	81,996	(81,996)	-	19,369	(19,369)	-
Loss on disposal of assets	a,b	268	(268)	-	165	(165)	-
Share of loss of joint ventures	a	-	3,656	3,656	-	793	793
Interest expense	h,i,q	22,769	397	23,166	5,601	78	5,679
Interest income	a	(534)	8	(526)	(84)	-	(84)
Change in fair value of financial instruments	i,j	-	8,183	8,183	-	3,909	3,909
Income before income tax		64,778	(12,707)	52,071	10,280	(5,829)	4,451
Provision for income taxes							
Current	a	32	(2)	30	4	(4)	-
Deferred	a,l	1,611	(1,592)	19	704	(45)	659
		1,643	(1,594)	49	708	(49)	659
Income before non-controlling interests		63,135	(11,113)	52,022	9,572	(5,780)	3,792
Non-controlling interests	j	179	(179)	-	29	(29)	-
Net income for the period		$ 62,956	$ (10,934)	$ 52,022	$ 9,543	$ (5,751)	$ 3,792

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

a) Under IFRS, Cineplex accounts for its investments in joint ventures using the equity method. Under Canadian GAAP, the investments were proportionately consolidated. The effect on the comparative interim consolidated balance sheets is as follows:

	December 31, 2010	March 31, 2010	January 1, 2010
Balance sheet item			
Cash and cash equivalents	$ (1,768)	$ (1,443)	$ (1,145)
Trade and other receivables	(1,187)	(1,251)	(1,835)
Inventories	(11)	(25)	(20)
Prepaid expenses and other current assets	(3)	(16)	(20)
Property, equipment and leaseholds	(268)	(1,169)	(1,092)
Interests in joint ventures	92	1,651	1,256
Accounts payable and accrued expenses	(1,976)	(937)	(1,844)
Income taxes payable	37	(19)	(23)
Deferred revenue	(13,544)	(10,288)	(9,251)
Other liabilities		(44)	(44)
Deficiency interest in joint venture	12,338	9,035	8,306
Total equity	-	-	-

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

The effect on the interim consolidated statements of operations is as follows:

	Year ended December 31, 2010	Three months ended March 31, 2010
Revenue		
Box office	$ (3,269)	$ (1,535)
Concessions	(1,234)	(569)
Other	(131)	53
	(4,634)	(2,051)
Expenses		
Film cost	(1,773)	(855)
Cost of concessions	(257)	(125)
Depreciation and amortization	(201)	(66)
Other costs	(6,105)	(1,794)
Interest income	8	-
Gain on disposal of assets	40	-
Provision for income taxes	(2)	(4)
Share of loss of joint ventures	3,656	793
	(4,634)	(2,051)
Net income	$ -	$ -

b) In accordance with IFRS transitional provisions, Cineplex elected to revalue by $1,411 certain property, equipment and leaseholds to their fair value at January 1, 2010, with a corresponding reduction of deficit. Depreciation expense increased by an immaterial amount for the three months ended March 31, 2010 and for the year ended December 31, 2010, as a result of the revaluation.

Under IFRS, certain costs eligible for capitalization under Canadian GAAP are expensed as other expenses, reducing property, equipment and leaseholds. This change resulted in higher other expenses and lower property, equipment and leasehold additions of $78 and $842 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. Under IFRS, interest is required to be capitalized based on expenditures as a ratio of the bank debt; under Canadian GAAP, Cineplex capitalized interest as property, equipment and leaseholds only when funds were borrowed specifically to fund constructed assets. This change resulted in lower interest expense and higher property, equipment and leasehold additions of $4 and $63 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. There was no net effect on the carrying value at January 1, 2010.

Under IFRS, when a portion or component of existing equipment is replaced or improved, the carrying value of that portion is disposed. This change resulted in a higher loss on the disposal of

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

assets of $599 and $2,136 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. There was no net effect on the carrying value at January 1, 2010.

c) Under IFRS, gains on sale/leaseback transactions are recognized in income immediately; under Canadian GAAP gains were deferred and amortized to reduce rent expense on a straight-line basis over the term of the lease. The change resulted in a reduction of other liabilities and deficit of $8,997 on January 1, 2010, and higher rent expense reported in other expenses of $76 and $304 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively.

d) Under IFRS, annual bonuses are expensed rateably over the vesting period, generally, 14 months for Cineplex. Under Canadian GAAP, annual bonuses were expensed over the service period, the fiscal period of 12 months. As a result of this change, on January 1, 2010, accounts payable and accrued liabilities and deficit were reduced $908. The change resulted in higher employee benefits reported in other expenses of $716 and $132 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively.

e) Under IFRS, Cineplex recognizes actuarial gains and losses arising from the remeasurement of employee future benefit obligations in other comprehensive income as they arise. Under Canadian GAAP, Cineplex applied the corridor method of accounting for such gains and losses. Under this method, gains and losses are recognized only if they exceed specified thresholds. The carrying value of the net liability for employee future benefit obligations has been increased by $1,358 to recognize cumulative net actuarial gains and losses at January 1, 2010, which increased at December 31, 2010 to recognize the actuarial loss of $504 for the year. Actuarial gains and losses were recognized under Canadian GAAP using the corridor approach totalled $45.

   Under IFRS, Cineplex expenses the cost of past service benefits awarded to employees under post-employment benefit plans over the periods in which the benefits vest, which usually corresponds to the period in which the benefits are granted. Under Canadian GAAP, Cineplex expensed past service costs over the weighted average service life of active employees remaining in the plans. The 2010 amendment, combined with the recognition of actuarial losses at January 1, 2010, decreased employee benefits reported in other expenses by $42 and increased employee benefits cost by $216 for the three months ended March 31, 2010 and the year ended December 31, 2010, respectively.

f) Under IFRS, the obligation under the LTIP to deliver units is recorded at fair value and presented as a liability. Under Canadian GAAP, the obligation was recorded at cost, and presented as a component of equity. The liability increased $1,310 on January 1, 2010, reflecting the adjustment. The change resulted in higher employee benefits reported in other expenses of $1,073 and $2,364 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. Additionally, the LTIP obligation has been reclassified from unit capital to current and non-current share or unit-based compensation on the interim consolidated balance sheets, based on settlement date of the award.

   Under IFRS, the excess, if any, of the fair value of vested LTIP units transferred to participants over the treasury stock cost is allocated to contributed surplus.

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

g) Under IFRS, the options issued to employees are accounted for at fair value using a Black-Scholes valuation model; under Canadian GAAP, they were accounted for at fair value using the market price of the underlying units at the reporting date, as they are expected to settle in cash. The liability increased $243 on January 1, 2010, reflecting the adjustment. The change resulted in lower employee benefits reported in other costs of $1,316 and $2,529 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. Additionally, the option obligation has been reclassified from accounts payable and accrued expenses to current and non-current share or unit-based compensation, based on vesting.

h) Under IFRS, all costs associated with debt negotiation and arrangements are recorded as reductions of the related debt, and amortized to income using the effective interest method; under Canadian GAAP, certain costs were expensed as incurred. The change resulted in a decrease to long-term debt of $330 and convertible debentures of $306 at January 1, 2010, with a corresponding decrease in deficit. Interest expense increased $62 and $319 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. In the fourth quarter of 2010, an additional $85 of costs were recorded, which had previously been expensed.

i) Under Canadian GAAP, the conversion right of the debentureholders was reported as equity. Under IFRS, the conversion right was considered a derivative liability due to the nature of the underlying security, being Fund units. The change in fair value was reported as a change in the fair value of the financial instruments. On January 1, 2010, the change resulted in an increase to the convertible debenture liability of $11,362, a reduction of unit capital of $8,546 and an increase in deficit of $2,816. The change resulted in a higher change in fair value of financial instruments of $3,417 and $8,907 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively.

j) Under IFRS, the exchangeable interests represented by the units of the Partnership not owned by Cineplex are presented at fair value on the interim consolidated balance sheets, with changes reflected in change in fair value of financial instruments on the interim consolidated statements of operations. Under Canadian GAAP, the exchangeable interests were presented at the carrying value of the owners of the exchangeable interests on the interim consolidated balance sheets. On January 1, 2010, the change resulted in an increase to the exchangeable interest liability of $1,907 and a corresponding increase in deficit. The change resulted in a higher change in fair value of financial instruments of $493, and a recovery of $722 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively. In addition, distributions paid to the exchangeable interests are reported as interest expense under IFRS, resulting in an increase of $79 and $257 for the three months ended March 31, 2010 and year ended December 31, 2010, respectively.

Under IFRS, the OCL attributable to the exchangeable interests is reflected in Cineplex's OCL. This change increased OCL and reduced the deficit by $3,653 at January 1, 2010 and had an immaterial effect for the three months ended March 31, 2010 and year ended December 31, 2010.

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

k) Obligations for theatre shut-downs and legal claims against Cineplex have been reclassified from accounts payable and accrued expenses to other liabilities.

l) Under IFRS, the deferred income tax balances were reported using the income tax rates applicable to the trust prior to conversion to a corporation on January 1, 2011 (46.41%). Under Canadian GAAP, deferred income tax balances were reported using the income tax rates expected to apply to corporations at January 1, 2011 (25.84%). The change in income tax rate and other balance sheet adjustments had the following effect on the deferred income tax asset balance:

	Reference note 4(ii)	December 31, 2010	March 31, 2010	January 1, 2010
Deferred income tax assets, as reported under Canadian GAAP		$ 19,435	$ 19,568	$ 20,221
Property, equipment and leaseholds	a,b	23,213	20,628	20,542
Accounting provisions not currently deductible	c	845	(804)	(1,053)
Rent averaging liabilities		5,163	6,359	6,241
Deferred revenue		78	78	78
Interest rate swap agreements		1,628	1,028	1,004
Total gross deferred income tax assets		30,927	27,289	26,812
Intangible assets		(12,129)	(12,233)	(12,319)
Goodwill		(12,247)	(10,505)	(10,010)
Other	h,i	(297)	(650)	(650)
Total deferred income tax liabilities		(24,673)	(23,388)	(22,979)
		6,254	3,901	3,833
Deferred income tax assets, as reported under IFRS		$ 25,689	$ 23,469	$ 24,054

The above adjustments decreased the deferred income tax expense recognized in the interim consolidated statements of operations by $45 for the three months ended March 31, 2010 and $978 for the year ended December 31, 2010, The adjustments increased the deferred income tax recovery

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

recognized in (OCL) OCI by $24 for the three months ended March 31, 2010 and $858 for the year ended December 31, 2010.

m) As a result of the Partnership units' being considered liabilities under IFRS, exchanges of Partnership units for Fund units or Cineplex shares result in tax effects being reflected in income; under Canadian GAAP, the effects were reflected in unit capital. As a result of the change, unit capital was reduced and deficit decreased by $3,920 at January 1, 2010.

n) In accordance with IFRS transitional provisions, Cineplex elected to apply IFRS relating to business combinations prospectively from January 1, 2010. Canadian GAAP balances relating to business combinations entered into before that date, including goodwill, have been carried forward without adjustment. Other expenses increased $106 for transaction costs for the year ended December 31, 2010, with a corresponding reduction of goodwill.

o) The following is a summary of transition adjustments to Cineplex's accumulated other comprehensive loss from Canadian GAAP to IFRS:

	Reference note 4(ii)	December 31, 2010	March 31, 2010	January 1, 2010
Accumulated other comprehensive loss as reported under Canadian GAAP		$ (1,514)	$ (3,573)	$ (4,852)
IFRS adjustments				
Deferred income taxes	l	1,628	1,028	1,004
Interest rate swap agreements	j	(3,653)	(3,653)	(3,653)
Other		5	4	-
		(2,020)	(2,621)	(2,649)
Accumulated other comprehensive loss as reported under IFRS		$ (3,534)	$ (6,194)	$ (7,501)

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

p) The following is a summary of transition adjustments to Cineplex's deficit from Canadian GAAP to IFRS:

	Reference note 4(ii)	December 31, 2010	March 31, 2010	January 1, 2010
Deficit, as reported under Canadian GAAP		$ (115,035)	$ (114,494)	$ (106,113)
IFRS adjustments				
Rent - realized gain on sale/leaseback	c	8,693	8,921	8,997
Employee benefits - vesting of annual bonuses	d	776	192	908
Employee future benefits	e	(2,079)	(1,317)	(1,358)
Depreciation and amortization	a,b	(634)	(574)	-
Loss on disposal of assets	b	(2,136)	(599)	-
Employee benefits - LTIP obligation, at fair value	f	(3,674)	(2,383)	(1,310)
Employee benefits - options, at fair value	g	2,286	1,073	(243)
Property, equipment and leaseholds - revaluation	b	1,411	1,411	1,411
Deferred income taxes	l	4,654	2,874	2,829
Interest capitalized	b	63	4	-
Property, equipment and leaseholds - costs expensed	b	(842)	(78)	-
Convertible debentures - costs previously expensed	h	306	306	306
Interest expense - accretion of convertible debenture costs	h	(191)	(31)	-
Long-term debt - costs previously expensed	h	415	330	330
Long-term debt - accretion of costs	h	(128)	(31)	-
Convertible debentures - conversion derivative at fair value	i	(11,723)	(6,233)	(2,816)
Exchangeable interests - at fair value	j	(1,185)	(2,400)	(1,907)
Interest rate swap agreements	j	3,653	3,653	3,653
Goodwill - transaction costs	n	(106)	-	-
Unit capital - deferred income taxes recorded on previous unit conversions	m	3,920	3,920	3,920
Other costs or balances		133	(72)	(3)
		3,612	8,966	14,717
Deficit, as reported under IFRS		$ (111,423)	$ (105,528)	$ (91,396)

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

q) Certain immaterial items have been reclassified from Canadian GAAP reported figures to IFRS.

iii) Adjustments to the interim consolidated statements of cash flows

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by Cineplex, except that, under IFRS, cash flows relating to interest are classified in a consistent manner as operating, investing or financing activities in each period. Under Canadian GAAP, cash flows relating to interest payments were classified as operating activities.

iv) Additional IFRS information for the year ended December 31, 2010

a) Compensation of key management

Compensation recognized in employee benefits for key management included:

		Year ended December 31, 2010
Salaries and short-term employee benefits	$	4,040
Post-employment benefits		878
Share-based payments		4,645
	$	9,563

b) Income per unit

Basic

Basic income per unit is calculated by dividing the net income by the weighted average number of units outstanding during the year.

		Year ended December 31, 2010
Net income	$	52,022
Weighted average number of units outstanding		56,478,226
Basic income per unit	$	0.92

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

Diluted

Diluted income per unit is calculated by adjusting the weighted average number of units or units outstanding to assume conversion of all dilutive potential units. Cineplex has several categories of dilutive potential units. A calculation is done to determine the number of units that could have been acquired at fair value (determined as the average market share price of the outstanding units for the period), based on the monetary value of the rights attached to the potentially dilutive units. The number of units calculated above is compared with the number of units that would have been issued assuming exercise of conversions, exchanges or options.

	Year ended December 31, 2010
Net income	$ 52,022
Adjustments for exchangeable interests	(468)
Net income - adjusted	51,554
Weighted average number of units outstanding	56,478,226
Adjustments for exchangeable interests	171,835
Adjustments for stock options	378,050
Weighted average number of units for diluted income per unit	57,028,111
Diluted income per unit	$ 0.90

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

c) Property, equipment and leaseholds

	Land	Buildings and leasehold improvements	Buildings and leasehold improvements under capital lease	Equipment	Equipment under capital lease	Construction-in-progress	Total
At January 1, 2010							
Cost	$ 17,038	$ 377,861	$ 26,976	$ 286,145	$ 17,103	$ 1,931	$ 727,054
Accumulated depreciation	-	(101,534)	(4,920)	(180,690)	(11,339)	-	(298,483)
Net book value	$ 17,038	$ 276,327	$ 22,056	$ 105,455	$ 5,764	$ 1,931	$ 428,571
Year ended December 31, 2010							
Opening net book value	$ 17,038	$ 276,327	$ 22,056	$ 105,455	$ 5,764	$ 1,931	$ 428,571
Additions	656	18,572	-	45,936	-	(182)	64,982
Disposals	(1,350)	(1,379)	-	(1,865)	-	(7)	(4,601)
Depreciation for the year	-	(27,555)	(2,038)	(39,128)	(2,613)	-	(71,334)
Impairment	-	(3,193)	-	(670)	-	-	(3,863)
Closing net book value	$ 16,344	$ 262,772	$ 20,018	$ 109,728	$ 3,151	$ 1,742	$ 413,755
At January 1, 2011							
Cost	$ 16,344	$ 391,574	$ 26,975	$ 326,344	$ 17,103	$ 1,742	$ 780,082
Accumulated depreciation	-	(128,802)	(6,957)	(216,616)	(13,952)	-	(366,327)
Net book value	$ 16,344	$ 262,772	$ 20,018	$ 109,728	$ 3,151	$ 1,742	$ 413,755
Period ended March 31, 2011							
Opening net book value	$ 16,344	$ 262,772	$ 20,018	$ 109,728	$ 3,151	$ 1,742	$ 413,755
Additions	-	3,588	-	6,331	-	3,611	13,530
Disposals	-	(296)	-	(195)	-	-	(491)
Depreciation for the period	-	(6,302)	(510)	(7,659)	(654)	-	(15,125)
Closing net book value	$ 16,344	$ 259,762	$ 19,508	$ 108,205	$ 2,497	$ 5,353	$ 411,669
At March 31, 2011							
Cost	$ 16,344	$ 394,784	$ 26,975	$ 331,876	$ 17,103	$ 5,353	$ 792,435
Accumulated depreciation	-	(135,022)	(7,467)	(223,671)	(14,606)	-	(380,766)
	$ 16,344	$ 259,762	$ 19,508	$ 108,205	$ 2,497	$ 5,353	$ 411,669

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

5 Share or unit-based compensation

Option plan

Cineplex has an incentive share or unit option plan (the "Plan") for certain employees of the Partnership. The aggregate number of shares or units that may be issued under the Plan is limited to 5,250,000. All of the options must be exercised over specified periods not to exceed five years from the date granted (ten years for options granted after December 31, 2010).

On February 12, 2008, 1,250,000 unit options with an exercise price equal to the market price of $17.03 per 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.

On February 18, 2009, 1,250,000 unit options with an exercise price equal to the market price of $14.00 per 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.

On February 15, 2011, 1,029,774 share options with an exercise price equal to the market price of $23.12 were granted to 41 employees. The options vest as follows: 529,774 options vest one third on each of the successive anniversaries of the grant date; 500,000 options vest one quarter on each of the successive anniversaries of the grant date. All of the options expire ten years after the grant date if unexercised.

Cineplex anticipates that optionholders will exercise, and that the administrators of the Plan will settle, the options for cash. Cineplex, therefore, accounts for options issued under the Plan as cash-settled liabilities. The options are recorded at fair value at each balance sheet date, taking into the account the options vested on a graded schedule. Forfeitures are estimated at 0.5%.

Cineplex recorded $2,589 of general and administrative expenses with respect to the share options during the three months ended March 31, 2011 (2010 - $2,571). At March 31, 2011, $5,236 is accrued on the interim consolidated balance sheet in current and non-current share or unit-based compensation (2010 - $5,560).

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

A summary of option activities in 2011 and 2010 is as follows:

		2011		2010	
	Weighted average remaining contractual life (years)	**Number of underlying shares**	**Weighted average exercise price**	**Number of underlying units**	**Weighted average exercise price**
Options outstanding, January 1	2.75	1,520,944	$ 15.15	2,475,001	$ 15.50
Granted		1,029,774	23.12	-	-
Cancelled		-	-	(16,666)	15.21
Exercised for cash		(597,770)	15.92	(397,392)	15.41
Options outstanding, March 31	6.47	1,952,948	19.12	2,060,943	15.52

As at March 31, 2011 and 2010, options are vested and exercisable as follows:

	2011	2010
Options exercisable at $17.03	198,335	621,739
Options exercisable at $14.00	311,506	200,871
	509,841	822,610

Long-term incentive plan

Officers and key employees of the Partnership are eligible to participate in the LTIP. For awards prior to the service period beginning January 1, 2011, pursuant to the LTIP, Cineplex set aside a pool of funds based on the amount, if any, by which the Cineplex's distributable cash per share, for the entire fiscal year, exceeded certain defined distributable cash threshold amounts. This pool of funds was transferred to a trustee, who purchased shares or units on the open market and holds the shares or units until such time as ownership vests to each participant. Generally, one third of these shares or units vests 30 days after the consolidated financial statements for the corresponding fiscal year are approved by the Board of Directors, with an additional one third vesting on the first and second anniversaries of that date. LTIP participants are entitled to receive dividends or distributions on all shares or units held for their accounts prior to the applicable vesting date. Unvested shares or 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 shares or units will be sold and the proceeds returned to Cineplex and excluded from future LTIP calculations.

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

From January 1, 2007 through December 31, 2009, awards were earned based on the amount by which the Fund's distributable cash per Fund unit exceeded a base distribution threshold of $1.20 per Fund unit per annum. The base distribution threshold is subject to adjustment at a minimum every three years. It was adjusted to $1.26 per Fund unit effective January 1, 2010. The percentage amount of that excess, which forms the LTIP incentive pool, will be determined as follows, subject to a $10,000 maximum in any fiscal year:

Percentage by which Fund distributions per Fund unit exceed base distribution threshold	Maximum proportion of excess Fund distributions available for LTIP payments
20% or less	15%
greater than 20%	30% of any excess over 20%

For the three-year service period beginning on January 1, 2011, the LTIP award consists of a "phantom" stock plan, awarding 227,649 share equivalents, which, subject to certain performance and market conditions, may decrease to 75,883 or increase to 455,298 share equivalents. The award will be settled in cash at the end of service period, within 30 days of the approval of the consolidated financial statements by the Board of Directors.

LTIP costs are estimated at the grant date based on expected performance results then accrued and recognized on a graded basis over the vesting period. The effects of changes in estimates of performance results are recognized in the period of change. Forfeitures are estimated at $nil. For the three months ended March 31, 2011, Cineplex recognized $2,574 (2010 - $4,575) of compensation costs under the LTIP.

6 Shareholders' and unitholders' capital

Cineplex is authorized to issue an unlimited number of common shares.

Cineplex is authorized to issue 10,000,000 preferred shares, none of which are outstanding.

Shareholders' and unitholders' capital at March 31, 2011 and 2010 and transactions during the periods are as follows:

	Three months ended March 31, 2011		Three months ended March 31, 2010	
	Number of common shares or units	Amount	Number of units	Amount
Opening balance - January 1				
Units	57,258,999	$ 717,990	56,901,057	$ 712,111
LTIP Fund units	(540,023)	(9,468)	(559,145)	(8,405)
	56,718,976	708,522	56,341,912	703,706

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

	Three months ended March 31, 2011		Three months ended March 31, 2010	
	Number of common shares or units	**Amount**	**Number of units**	**Amount**
Transactions during the period				
Reclassification of exchangeable interests	171,835	$ 3,851	-	$ -
Reclassification of equity component of convertible debentures	-	19,470	-	-
Reclassification of LTIP obligation	-	9,911	-	-
Reclassification of contributed surplus	-	1,407	-	-
Decrease of equity component of convertible debentures for conversions in the period	-	(366)	-	-
Increase of share capital for conversions in the period	-	366	-	-
Issuance of common shares or units on conversion of debentures	99,993	1,823	1,866	38
LTIP obligation, net of vested award	-	(4,306)	-	-
Fair value of vested LTIP shares in excess of cost	-	2,155	-	-
Purchase of LTIP common shares or units	(419,178)	(9,793)	(493,410)	(9,620)
Settlement of LTIP obligation through transfer of common shares or units to LTIP participants	515,285	9,526	512,532	8,557
	367,935	34,044	20,988	(1,025)
Closing balance - End of period				
Common shares or units	57,530,827	727,592	56,902,923	712,149
Equity component of convertible debentures	-	19,104	-	-
LTIP common shares or units	(443,916)	(9,735)	(540,023)	(9,468)
LTIP obligation	-	5,605	-	-
	57,086,911	$ 742,566	56,362,900	$ 702,681

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

7 Dividends or distributions payable

Cineplex has declared the following dividends or distributions during the three months ended March 31, 2011 and 2010:

	Dividends 2011		Distributions 2010	
Record date	**Amount**	**Amount per share**	**Amount**	**Amount per unit**
January	$ 6,033	$ 0.1050	$ 5,975	$ 0.1050
February	6,037	0.1050	5,975	0.1050
March	6,041	0.1050	5,975	0.1050

The dividends are paid within 30 days following the end of each month. Dividends paid are at the discretion of the Board of Directors of Cineplex.

8 Changes in operating assets and liabilities

The following summarizes the changes in operating assets and liabilities:

	Three months ended March 31,	
	2011	**2010**
Accounts receivable	$ 24,558	$ 20,207
Inventories	(54)	652
Prepaid expenses and other current assets	(5,995)	(4,821)
Accounts payable and accrued expenses	(18,592)	(11,573)
Income taxes payable	(37)	-
Deferred revenue	(18,387)	(17,634)
Post-employment benefit obligations	36	70
Other liabilities	113	(461)
Share or unit-based compensation	479	3,899
	$ (17,879)	$ (9,661)
Non-cash investing activities		
Property, equipment and leasehold purchases financed through accrued liabilities	$ 8,825	$ 4,442

9 Seasonal fluctuations

Cineplex'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

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

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, Cineplex's results of operations may vary significantly from quarter to quarter.

10 Segment information

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

11 Other costs

	Three months ended March 31,	
	2011	**2010**
Employee benefits	$ 40,479	$ 43,089
Rent	27,935	27,147
Realty and occupancy taxes and maintenance fees	13,398	13,138
Utilities	5,947	5,497
Purchased services	7,121	8,240
Other inventories consumed	1,933	1,521
Repairs and maintenance	3,963	4,006
Office and operating supplies	2,417	2,642
Licences and franchise fees	2,218	2,149
Insurance	634	639
Advertising and promotion	3,916	4,576
Professional and consulting fees	902	957
Telecommunications and data	877	808
Bad debts (recovery)	160	(40)
Equipment rental	185	539
Other costs	1,391	1,603
	$ 113,476	$ 116,511

12 Subsequent events

Canadian Digital Cinema Partnership ("CDCP")

Subsequent to the period end, Cineplex and Empire Theatres Limited ("Empire") jointly announced the formation of CDCP to plan and implement the deployment of digital projection equipment in Cineplex and Empire theatres. The plan includes procuring equipment, arranging financing and securing digital deployment agreements with studios and other content providers.

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

Cineplex will contribute its existing digital projection systems into CDCP in return for an equity interest in CDCP. Any additional cash contribution requirements are expected to be immaterial on closing.

New Way Sales Games Ltd. ("NWS")

Subsequent to the period-end, Cineplex announced it will acquire NWS, one of the largest distributors and suppliers of arcade games to the amusement industry in Canada, for approximately $3,300. NWS currently provides games for all Cineplex Odeon and Galaxy Cinemas, representing over half of the locations within the Cineplex circuit. The acquisition is expected to close at the end of May 2011.