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CINEPLEX GALAXY INCOME FUND 2005 FIRST QUARTER REPORT

Cineplex Galaxy LP is a leading Canadian exhibitor of motion pictures, operating 86 theatres with a total of 775 screens in 6 provinces as at March 31, 2005. Cineplex Odeon Cinemas, Galaxy Cinemas and the associated brands are owned and operated by Cineplex Galaxy LP.

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Letter to Unitholders:

I am pleased to present to you our results for the first quarter of 2005. Although the film product did not perform well at the beginning of the year we have a number of new developments and successes to share. Considering the tough comparison with the success of last year's *Passion of the Christ*, we performed better than expected, and better than overall Canadian box office results.

Our biggest success story for this quarter is the exceptional 28.6% increase in other revenues. We are extremely pleased with the results of our advertising sales this year, particularly in comparison with last year. This marks our third consecutive quarter in which other revenues have increased by more than 20% compared to the prior year. It is also important to note that there are no revenues from the digital advertising network that was launched on April 1st included in the first quarter results. Revenues from this activity will commence in the second quarter of 2005. Despite decreases in box office revenues and attendance this quarter, our concession revenue per patron hit an all time high of $3.07 per patron – an increase of 4.1% in comparison to the first quarter of last year. We will continue to review and expand our efforts in this very important area of our business to achieve maximum results.

New theatre projects announced this quarter include the Ontario communities of Barrhaven (just outside Ottawa), Aurora, Oakville and Milton; in addition to the projects previously announced in Brossard, Quebec and Brockville, Ontario. We will also continue to refurbish and rebrand existing theatres.

In February, we announced our Digital Advertising Pre-show Cinema Network. In April the first implementation phase of this network launched on 215 screens in 21 theatres in the extended Toronto market. This network enables theatres to show Reel Entertainment, a dynamic, interactive and engaging digital pre-show that is significantly better than any other existing digital pre-show anywhere in Canada. The new pre-show features high-quality, digital images that fill the entire screen and can be 100% full motion. It also enables us to expand our alternative programming such as sporting events, concerts and hosting pre-launch parties for music CDs and DVDs – as we did for Bruce Springsteen's latest recording, *Devil's and Dust*. The second implementation phase is expected to roll out in the latter part of this year and will extend across the country.

Total revenue for the three months ended March 31, 2005 was $78.3 million as compared to $79.0 million for the three months ended March 31, 2004, which represents a decrease of 1.0%. Box office revenue decreased 4.5%, which fared better than the overall Canadian box office decline of 5.6%.

We are very pleased with this quarter's growth in the controllable areas of our business. We are very optimistic about the prospects of our summer film slate including, *Star Wars:Episode III - Revenge of the Sith* and *Madagascar* in May, *Batman Returns* and *Mr. and Mrs. Smith* in June, *Charlie and the Chocolate Factory* and *War of the Worlds* in July and *The Dukes of Hazzard* in August.

On behalf of the Board of Directors,

Ellis Jacob

Ellis Jacob
President & Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS THREE MONTHS ENDED MARCH 31, 2005

Cineplex Galaxy Income Fund indirectly owns an approximate 42.4% interest in Cineplex Galaxy Limited Partnership. Cineplex Galaxy Income Fund does not consolidate the results and operations of Cineplex Galaxy Limited Partnership. For this reason we present unaudited interim financial statements with accompanying notes therein for both Cineplex Galaxy Income Fund and Cineplex Galaxy Limited Partnership. The following management's discussion and analysis of the Cineplex Galaxy Limited Partnership financial condition and results of operations should be read together with the financial statements and related notes. This discussion contains forward-looking statements. Forward looking statements are subject by their nature to risks and uncertainties, and actual results, actions or events could differ materially from those set forth in this discussion. The forward-looking information contained herein is current only as at the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise. Additional information, including Cineplex Galaxy Income Fund's Annual Information Form (AIF) can be found on SEDAR at www.sedar.com.

OVERVIEW

Cineplex Galaxy Limited Partnership (the "Partnership") is Canada's second largest film exhibition operator with theatres in six provinces. The Partnership's theatre circuit is concentrated in major metropolitan and mid-sized markets with principal geographic areas being Toronto, Montreal, Vancouver, Calgary, Edmonton, Ottawa and Quebec City. As of March 31, 2005, the Partnership owned, operated or had an interest in 775 screens in 86 theatres including 57 screens in 7 theatres held in joint ventures.

The Partnership was formed on November 26, 2003 to acquire substantially all of the business assets of Cineplex Odeon Corporation ("COC") and all of the shares of Galaxy Entertainment Inc. ("GEI"). The Partnership's investors include Cineplex Galaxy Trust (the "Trust"), Cineplex Galaxy General Partner Corporation (the "General Partner"), Cineplex Odeon Corporation, Cineplex Odeon (Quebec) Inc., and former investors in GEI. The Trust is wholly owned by Cineplex Galaxy Income Fund (the "Fund").

Under the provisions of an Exchange Agreement designed to facilitate the exchange of units of the Partnership ("Units") into Fund Units, the Fund issued 154,656 Fund Units during the three months ended March 31, 2005 in exchange for Notes and units from the Trust and, as a result, an indirect increase in its ownership in the Partnership. As a result of the issuance of Fund Units by the Fund during 2004 and 2005, in a one-for-one exchange of Units, as at March 31, 2005 the Fund indirectly owned approximately 42.4% of the Partnership.

REVENUE AND EXPENSES

Revenues

The Partnership generates revenues primarily from box office and concession sales. These revenues are affected primarily by attendance levels and by changes in the average per patron admission and average concession revenue per patron. The commercial appeal of the films released during the period and the success of marketing and promotion for those films by film studios and distributors drives attendance. Average admissions per patron are affected by the mix of film genres (*e.g.*, its appeal to certain audiences, such as children, teens or young adults) and established ticket prices. Average concession revenue per patron is affected by concession product mix, concession prices and type of film. In addition, the

Partnership generates other revenues from screen advertising sales, promotional activities, game rooms, screenings, private parties, corporate events and theatre management fees.

Expenses

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

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

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

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

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

Accounting for Joint Ventures

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

RESULTS OF OPERATIONS

The following table presents summarized financial data for the Partnership for three months ended March 31, 2005 and March 31, 2004 (expressed in thousands of dollars except per Unit and per patron data).

	For the three months ended March 31, 2005	2004
Total Revenue	$78,259	$79,039
Cost of Operations	66,291	63,966
Income from Operations	11,968	15,073
Amortization	6,524	5,435
Loss (Gain) on disposal of theatre assets	-	(6)
Interest on long-term debt	2,206	2,001
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest Income	(118)	(94)
Foreign exchange Gain/Loss	-	-
Income Taxes	55	36
Non-Controlling Interest	-	-
Net Income (Loss)	$ (199)	$ 4,201
Net income per Unit, basic and fully diluted	$ -	$0.0883
Distributable cash per Unit (fully diluted)	$0.1709	$0.2478
Cash distributions declared per Unit	$0.2874	$0.2874
Attendance	7,045	7,173
Average box office revenue per patron	$7.30	$7.51
Average concession revenue per patron	$3.07	$2.95
Film cost as a percentage of box office	50.4%	49.5%

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

	Three months ended March 31, 2005	Three months ended March 31, 2004
Cash used in operating activities	$ (1,070)	$ (6,295)
Less: Changes in operating assets and liabilities (i)	6,329	14,933
Total Capital expenditures	(5,141)	(2,072)
Add: Interest on loan from Cineplex Galaxy Trust (ii)	3,500	3,500
New theatre and Project capital expenditures (iii)	4,195	1,720
POS/Rebranding capital expenditures (iv)	316	-
Distributable	$ 8,129	$ 11,786
Number of Units outstanding (fully diluted)	47,566,974	47,566,974
Distributable cash per Unit (fully diluted)	$0.1709	$0.2478

(i) Changes in operating assets and liabilities are not considered a source of distributable cash
(ii) Subject to "Catch-up Payment" provision and is considered part of distributable cash
(iii) The total capital expenditures noted above includes new theatre and maintenance capital expenditures of which the new theatre capital expenditures are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities – Revolving Facilities) and therefore are added back to calculate distributable cash.
(iv) Point-of-Sale ("POS") and rebranding capital expenditures are funded out of a $5.5 million reserve fund established on November 26, 2003.

Three months ended March 31, 2005 Compared to the Three months ended March 31, 2004 for the Partnership

Total revenues. Total revenues for the three months ended March 31, 2005 decreased $0.8 million, or 1.0%, to $78.3 million. A discussion of the factors affecting the changes in box office, concession and other revenues for this period in comparison to the same period in 2004 is provided below.

Box office revenues. Box office revenues for the three months ended March 31, 2005 decreased $2.4 million, or 4.5%, to $51.4 million. Canadian industry box office declined 5.6% for the first quarter of 2005 primarily due to the lack of successful film product during the quarter. This decrease in box office revenues was due to decreased same store attendance levels ($2.0 million) and average box office revenues per patron ($1.5 million) offset by the operation of new theatres ($1.1 million). The average box office revenue per patron decreased $0.21 or 2.8% from $7.51 for the three months ended March 31, 2004 to $7.30 for the three months ended March 31, 2005. The decrease in average box office revenue per patron was a result of shift in attendance mix to lower priced admission categories as a result of the more child friendly film product in 2005 versus 2004 and selected price reductions implemented since the first quarter in 2004.

Concession revenues. Concession revenues for the three months ended March 31, 2005 increased $0.5 million, or 2.3%, to $21.6 million. The increase in concession revenues was due to additional revenues from the operation of new theatres ($0.6 million), an improvement in average concession revenues per patron ($0.7 million) offset by lower same store attendance levels ($0.8 million). The average concession revenue per patron increased $0.12 or 4.2% from $2.95 for the three months ended March 31, 2004 to

$3.07 for the three months ended March 31, 2005, the highest quarterly average concession revenue per patron amount achieved to date.

Other revenues. Other revenues for the three months ended March 31, 2005 increased $1.2 million, or 28.6%, to $5.2 million mainly as a result of higher advertising revenues. Other revenue is a key area of focus for the Partnership and additional sales staff were added in 2004. It should be noted that the Partnership launched its digital advertising network in its 21 Toronto extended market area theatres on April 1, 2005 and accordingly, there is no revenue from this activity included in the first quarter results. Other revenues for 2005 and 2004 reflect the Partnership's retroactive adoption at December 31, 2004 of the provisions of EIC-144 (discussed in "Accounting Policies and Recent Developments – Recent Accounting Developments").

Film cost. Film cost for the three months ended March 31, 2005 decreased $0.7 million, or 2.8%, to $25.9 million due to a decrease in box office revenue. As a percentage of box office revenue, film cost increased to 50.4% for the three months ended March 31, 2005 from 49.5% for the three months ended March 31, 2004. This increase is due primarily to lower film rental terms paid in the three months ended March 31, 2004 on specific strong releases.

Cost of concessions. Cost of concessions for the three months ended March 31, 2005 increased $0.2 million, or 3.9%, to $4.4 million. This increase in cost of concessions was due primarily to the incremental costs associated with new theatres that were opened ($0.2 million), increased purchase incidence ($0.2 million) that was partially offset by decreased same store attendance ($0.2 million). As a percentage of concession revenues, cost of concessions increased from 20.3% in the three months ended March 31, 2004, to 20.6% in the three months ended March 31, 2005. Concession costs for 2005 and 2004 reflect the Partnership's retroactive adoption at December 31, 2004 of the provisions of EIC-144 (discussed in "Accounting Policies and Recent Developments – Recent Accounting Developments").

Occupancy. Occupancy expense for the three months ended March 31, 2005 increased $0.7 million, or 5.3%, to $13.9 million. The overall increase in occupancy expense was due to the incremental costs associated with new theatres that were opened ($0.5 million) and general increases over the prior year related to inflationary and lease specific increases ($0.2 million).

Other theatre operating expenses. Other theatre operating expenses for the three months ended March 31, 2005 increased $0.6 million, or 3.6%, to $17.0 million. The overall increase in other theatre operating expenses was due to the incremental impact of costs associated with new theatres that were opened ($0.5 million) and the impact of additional business activities and inflationary increases ($0.1 million). As a percentage of total revenues, other theatre operating expenses increased to 21.7% for the three months ended March 31, 2005 from 20.7% for the three months ended March 31, 2004.

General and administrative costs. General and administrative costs for the three months ended March 31, 2005 increased $1.6 million to $4.9 million. General and administrative costs for the first quarter of 2005 included $0.8 million in professional fees related to potential strategic acquisition opportunities, $0.2 million in recruitment and resource costs related to the establishment of an information technology department in the Canadian head office which will allow the Partnership to terminate the services agreement for management information systems support and eliminate the Loews Cineplex Theatres Inc. ("LCT") management fee and a charge of $0.3 million under the Partnership's Long Term Incentive Plan for which there was no corresponding charge during the first quarter of 2004. As a percentage of total revenues, general and administrative expenses increased to 6.3% for the three months ended March 31, 2005 from 4.1% for the three months ended March 31, 2004.

Management fee. The management fee payable to LCT for management information systems (MIS) support decreased a negligible amount from the three months ended March 31, 2004 to the three months ended March 31, 2005 due to fluctuations in exchange rates. Effective November 26, 2003, the Partnership entered into a services agreement with COC (since assumed by LCT) under which management information systems (MIS support) support is provided to the Partnership at a cost of US$500,000 per annum. The Partnership has given notice to terminate this services agreement effective in the second quarter of 2005. Accordingly, the Partnership has recruited additional staff and acquired additional hardware and software licenses to repatriate this MIS function. Included in the first quarter of 2005 are both the cost of these additional resources and the management fee. Upon termination of the services agreement, the management fee amount will reduce to nil.

Income before undernoted. The Partnership reported income before undernoted for the three months ended March 31, 2005 of $12.0 million as compared to income before undernoted of $15.1 million for the three months ended March 31, 2004. This change was due to the aggregate effect of the factors described above.

Amortization costs. For the three months ended March 31, 2005 amortization costs increased $1.1 million or 20.0% to $6.5 million. This increase was due primarily to the incremental impact of new theatres.

Gain on disposal of theatre assets. The gain on disposal of theatre assets represents the gains on theatre assets that were sold or otherwise disposed of. For the three months ended March 31, 2005 the Partnership recorded no gain or loss as compared to a gain of $6.0 thousand for the three months ended March 31, 2004.

Interest on long-term debt. Interest on long-term debt for the three months ended March 31, 2005 increased to $2.2 million from $2.0 million for the three months ended March 31, 2004. Interest expense is comprised of the amortization of $0.2 million of deferred financing fees and $2.0 million of interest on long-term debt for the three months ended March 31, 2005. For the three months ended March 31, 2004 interest expense includes $0.2 million for the amortization of deferred financing fees and $1.8 million of interest on long-term debt. The increase in interest expense was due primarily to a higher average outstanding debt balance during three months ended March 31, 2005 versus 2004 as a result of additional borrowings under the Partnership's Development Facility, discussed below (under "Liquidity and Capital Resources – Credit Facilities – Revolving Facilities), in order to fund new theatre build activity.

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

Interest income. Interest income was $0.1 million for each of the three months ended March 31, 2005 and 2004.

Net income. Net income for the three months ended March 31, 2005 decreased to $ (0.2) million from $4.2 million for the three months ended March 31, 2004, primarily due to the net effect of all of the other factors described above.

EBITDA

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

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

	Three months ended March 31	
	2005	**2004**
Net income	**$ (199)**	**$4,201**
Amortization	6,524	5,435
Interest on long-term debt	2,206	2,001
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(118)	(94)
Income tax expense	55	36
EBITDA	**11,968**	**15,079**
(Gain)/loss on disposal of theatre assets	-	(6)
Adjusted EBITDA	**$11,968**	**$15,073**

SEASONALITY AND QUARTERLY RESULTS

Historically, the Partnership's revenues have been seasonal, coinciding with the timing of major film releases by the major distributors. The most marketable motion pictures are generally released during the summer and the late-November through December holiday season. This may cause changes, from quarter to quarter, in attendance levels, theatre staffing levels and reported results. More recently, the seasonality of film exhibition 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.

Summary of Quarterly Results (expressed in thousands of dollars except per LP Unit data)

	2005	2004				2003		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Total Revenue	$78,259	$85,643	$95,613	$93,443	$79,039	$91,897	$90,195	$78,323
Cost of Operations	66,291	67,908	73,642	73,691	63,966	72,964	72,433	66,281
Income from Operations	11,968	17,735	21,971	19,752	15,073	18,933	17,762	12,042
Amortization	6,524	6,535	6,159	5,607	5,435	6,496	4,755	4,548
Loss (Gain) on disposal of theatre assets	-	3	(72)	(36)	(6)	(176)	69	2
Interest on long-term debt	2,206	2,307	2,068	1,904	2,001	1,177	1,054	894
Interest on loan from Cineplex Galaxy Trust	3,500	3,500	3,500	3,500	3,500	1,381	-	-
Interest Income	(118)	(118)	(200)	(61)	(94)	(17)	(408)	(166)
Foreign exchange Gain/Loss	-	-	-	-	-	83	10	(1,594)
Income Taxes	55	(1,320)	74	61	36	(1,109)	630	340
Non-Controlling Interest	-	-	-	-	-	(418)	506	68
Net Income	$ (199)	$ 6,828	$ 10,442	$ 8,777	$ 4,201	$ 11,516	$ 11,146	$ 7,950
Net income per Unit, basic and fully diluted	-	$0.1436	$0.2195	$0.1845	$0.0883	n/a	n/a	n/a
Cash flows from Operations	$ (1,070)	$24,361	$12,573	$9,471	$ (6,295)	$47,793	$15,450	$9,796
Cash flows from investing activities	2,471	(10,661)	(10,760)	(5,417)	(3,449)	(27,985)	(9,452)	(49,214)
Cash flows used in financing activities	(15,921)	(877)	(2,301)	(6,509)	(5,000)	(10,174)	4,101	10,793
Net change in cash	$ (14,520)	$12,823	$ (488)	$ (2,455)	$ (14,744)	$9,634	$10,099	$ (28,625)

Distributable Cash

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

	Three months ended March 31, 2005	Three months ended March 31, 2004
Cash used in operating activities	$ (1,070)	$ (6,295)
Less: Changes in operating assets and liabilities (i)	6,329	14,933
Total Capital expenditures	(5,141)	(2,072)
Add: Interest on loan from Cineplex Galaxy Trust (ii)	3,500	3,500
New theatre and Project capital expenditures (iii)	4,195	1,720
POS/Rebranding capital expenditures (iv)	316	-
Distributable	$ 8,129	$ 11,786
Number of Units outstanding (fully diluted)	47,566,974	47,566,974
Distributable cash per Unit (fully diluted)	$0.1709	$0.2478

(i) Changes in operating assets and liabilities are not considered a source of distributable cash
(ii) Subject to "Catch-up Payment" provision and is considered part of distributable cash
(iii) The total capital expenditures noted above includes new theatre and maintenance capital expenditures of which the new theatre capital expenditures are funded out of the Partnership's Development Facility (discussed below under "Liquidity and Capital Resources – Credit Facilities – Revolving Facilities) and therefore are added back to calculate distributable cash.
(iv) Point-of-Sale ("POS") and rebranding capital expenditures are funded out of a $5.5 million reserve fund established on November 26, 2003.

Balance Sheet

Assets

Assets decreased $26.8 million to $298.7 million as at March 31, 2005. This decrease is due primarily to a decrease in cash ($14.5 million), accounts receivable ($3.5 million), fixed assets ($1.3 million) and restricted distributions on Support Theatre Units ($7.6 million) (discussed in "Liquidity and Capital Resources -Distributions" below).

Accounts Receivable. Accounts receivable decreased $3.5 million to $7.4 million as at March 31, 2005 from $10.9 million as at December 31, 2004. This decrease is due to collection of accounts receivable arising during the fourth quarter of 2004 from the increased ancillary revenue activities and quarterly volume rebates on strong concession sales for the year.

Fixed Assets. The decrease in fixed assets from $234.9 million at December 31, 2004 to $233.5 million at March 31, 2005 is due to quarterly amortization net of expenditures on the digital advertising network and new theatre construction.

Liabilities

Liabilities decreased $16.1 million from $368.7 million as at December 31, 2004 to $352.4 million as at March 31, 2005. This decrease is mainly due to an decrease in distributions payable relating to the restricted distributions on the Support Theatre Units (discussed in "Liquidity and Capital Resources -

Distributions" below) ($7.6 million), deferred revenue ($4.9 million), and accounts payable and accrued expenses ($3.4 million) offset by an increase in the long-term debt ($1.0 million) (discussed in "Liquidity and Capital Resources – Financing Activities").

Accounts Payable and Accrued Expense. Accounts payable and accrued expenses decreased from $27.7 million as at December 31, 2004 to $24.3 million as at March 31, 2005. The decrease is due to the settlement of amounts accrued at December 31, 2004 with respect to theatres that had recently opened and of year-end liabilities that were higher due to increased activity during the fourth quarter of 2004.

Deferred Revenue. Deferred revenues decreased $4.9 million to $8.7 million as at March 31, 2005 from $13.6 million as at December 31, 2004. This was due primarily to the redemption of gift certificates that were sold during the holiday season in December 2004 and a traditional slow period in new gift certificate sales in the first quarter of 2005.

Outstanding Fund Units

The Fund had the following units issued for the years ended March 31 (expressed in thousands of dollars):

	2005		2004	
	Number of Fund Units	Amount	Number of Fund Units	Amount
Fund Units beginning of period	20,023,689	$ 201,477	19,400,000	$194,000
Issuance of Fund Units under Exchange agreement	154,656	2,355	-	-
	20,178,345	$203,832	19,400,000	$194,000

Subject to certain restrictions, Class B LP Units of the Partnership may be exchanged for Fund Units. As at March 31, the following Class B LP Units had not been exchanged for Fund units:

	Number of Units 2005	2004
Class B Series 1	20,321,237	20,949,582
Class B Series 2-C	2,086,957	2,086,957
Class B Series 2-G	4,980,435	5,130,435
	27,388,629	28,166,974

LIQUIDITY AND CAPITAL RESOURCES

Operating Activities

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

Cash used by operating activities was $1.1 million for the three months ended March 31, 2005 as compared to $6.3 million for the three months ended March 31, 2004. The primary reason for the difference was due to changes in operating assets and liabilities, which was a use of $6.3 million in 2005 versus a use of $14.9 million in 2004. The reason for this variation is that the Partnership was formed in November 2003 and under normal supplier credit terms made minimal payments in the month of December 2003.

Investing Activities

Cash provided by investing activities for the three months ended March 31, 2005 of $2.5 million primarily related to capital expenditures on new theatre builds and the introduction of the Partnership's digital advertising network offset by the removal of the restrictions on distributions on the Support Theatre Units (discussed in "Liquidity and Capital Resources -Distributions" below).

Cash used in investing activities for the three months ended March 31, 2004 was primarily related to capital expenditures on new theatre builds. In addition the Partnership transferred $1.4 million to a segregated account representing distributions on certain Class B Series 2 LP Units (discussed in "Liquidity and Capital Resources -Distributions" below) during this period.

The Partnership funds maintenance capital expenditures through internally generated cash flow and cash on hand. The Partnership funds new theatre capital expenditures through the Development Facility discussed below under "Liquidity and Capital Resources – Credit Facilities – Revolving Facilities.

Financing Activities

Cash used by financing activities for the three months ended March 31, 2005 of $15.9 million was due primarily to distribution payments of $17.8 million offset by borrowings of $1.0 million under new credit facilities and tenant inducements received of $1.3 million. Distribution payments included payment of distributions of $8.3 million on the Support Theatre Units (discussed in "Liquidity and Capital Resources - Distributions" below). For the three months ended March 31, 2004 cash used by financing activities ($5.0 million) was due primarily to distribution payments of $9.3 million offset by borrowings under new credit facilities of $4.0 million.

The Partnership believes that it will be able to meet its future cash obligations with its cash and cash equivalents, cash flows from operations and funds available under existing credit facilities.

Distributions

Partnership distributions are made on a monthly basis to holders of record of Class A LP Units and Class B LP Units on the last business day of each month. For the three months ended March 31, 2005, Partnership distributable cash flow per Unit was $0.1709. For the three months ended March 31, 2004, the Partnership distributable cash flow per Unit was $0.2478. The declared distributions per Unit and interest on the Galaxy Note (discussed in "Liquidity and Capital Resources – Credit Facilities" below) per Unit for the three months ended March 31 for each of 2005 and 2004 totaled $0.2874 per Unit. Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts, as an indicator of financial performance and it should not be seen as a measure of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. The Partnership's distributable cash may differ from similar calculations as reported by other similar entities and accordingly may not be comparable to distributable cash as reported by such entities.

As part of the Partnership's support arrangements with certain limited partners, the amount of the distributions paid in respect of Class B Series 2 LP Units ("Support Units") was dependent on the annual cash flows from 7 prescribed new theatres. Amounts totaling $2.1 million are included in the distribution amounts above for the three months ended March 31, 2004. During the year ended December 31, 2004 the performance targets were met for the 7 Support Theatres and, as a result, the Partnership paid the full amount of the withheld distributions of $8.3 million to the holders of the Support Units during the three months ended March 31, 2005. The support arrangements were terminated effective December 31, 2004, and the holders of the Support Units were thereafter fully entitled to receive cash distributions in a manner consistent with the Class B Series 1 LP Units.

For the three months ended March 31, 2005, the Fund declared distributions totaling $0.2874 per Fund Unit. The Fund is entirely dependent on distributions from the Partnership and interest payments from GEI to make its own distributions.

Credit Facilities

Revolving Facilities. On November 26, 2003, the Partnership entered into two senior secured revolving credit facilities, one in the principal amount of $20 million (the "Working Capital Facility") and the other in the principal amount of $40 million (the "Development Facility"). The Working Capital Facility is for general corporate purposes, including up to $10 million to stabilize monthly cash distributions to be paid by the Partnership throughout the year. The Development Facility is to be used for the development or acquisition of theatre projects approved by the Trustees of the Fund. Both facilities have a term of three years and are repayable in full at maturity. These revolving credit facilities bear interest at a floating rate based on the Canadian dollar prime rate or on the bankers acceptance rates plus, in each case, an applicable margin to those rates. As at March 31, 2005 the Partnership has borrowed $16.5 million under the Development Facility. No amounts were drawn under the Working Capital Facility as at March 31, 2005.

Term Facility. On November 26, 2003, the Partnership entered into a senior secured term facility in the amount of $110 million (the "Term Facility"). The Term Facility matures on November 25, 2006 with no scheduled repayments of principal required prior to maturity. The Term Facility bears interest at a floating rate based on the Canadian dollar prime rate or on the bankers acceptance rates plus, in each case, an applicable margin to those rates. The Term Facility was fully drawn as at March 31, 2005.

The above credit facilities are secured by all of the Partnership's assets and are guaranteed by the Trust.

Interest Rate Swap. As of March 31, 2005, the Partnership had an interest rate swap agreement in place whereby the Partnership pays an interest rate of 4.29% and receives a floating rate. The swap is for a term of three years, expiring November 26, 2006 and the initial principal outstanding was $44 million. The principal outstanding under the swap increased to $77 million on August 26, 2004 and increases to $110 million on May 26, 2005. The estimated fair market value of the swap is an unrealized loss of $1.8 million (loss of $3.3 million as at March 31, 2004) that is not recognized on the balance sheet or statement of income in accordance with GAAP.

Due to Cineplex Galaxy Trust. On November 26, 2003, the Trust entered into an agreement with GEI, a wholly-owned subsidiary of the Partnership, whereby it loaned to GEI $100 million (the "Galaxy Notes"). The Galaxy Notes bear interest at a rate of 14% per annum and have no scheduled repayments prior to maturity. The Galaxy Notes mature on November 26, 2028 at which time they are payable in full. The Galaxy Notes are subordinated to the bank credit facilities discussed above.

Future Obligations

As of March 31, 2005, the Partnership has aggregate capital commitments of $26.8 related to the completion of construction of 6 theatre properties to comprise of 59 screens. The Partnership expects to complete construction and to open these theatres throughout 2005 and 2006.

As of March 31, 2005, approximately $3.5 million in cash remains of the $5.5 million reserve fund that is to be used for point-of-sale upgrades and rebranding. As at March 31, 2005 the Partnership had commitments of approximately $3.8 million related to point-of-sale upgrades and rebranding of which it had spent $2.0 million.

During 2004, the Partnership announced its plans to move forward with the launch of a digital advertising network in its 21 Toronto extended market area theatres. Digital projectors were installed in 215 theatre auditoriums and the digital advertising network was launched on April 1, 2005. If the program is expanded outside of the Toronto extended market area, the total expected cost is in the range of $7 million to $9 million over the next two years. During the three months ended March 31, 2005, the Partnership entered into commitments of $3.6 million for the digital advertising network of which it has spent $2.7 million. This project is being funded through the Development Facility discussed above.

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

RELATED PARTY TRANSACTIONS

The Fund has entered into transactions with parties to which it is related. During the three months ended March 31, 2005 and 2004, distributions in the amount of $2.3 million and $2.1 million respectively were received from the Partnership and the Fund had distributions receivable from the Partnership at March 31, 2005 in the amount of $0.8 million.

The Fund earned interest income in the amount of $3.5 million for the three months ended March 31, 2005 with respect to the Galaxy Notes (2004 - $3.5 million).

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

COC and LCT provided the Partnership with management information systems support pursuant to a service agreement. For the three months ended March 31, 2004, the Partnership was charged $165 thousand for these services. As a result of the sale of LCT by Onex on July 30, 2004, LCT, which is no longer a related party, provides these services to the Partnership. The Partnership has given notice to terminate this service agreement effective in the second quarter of 2005.

COC charged the Partnership $130 thousand for the three months ended March 31, 2005 for rent for the Partnership's head office (2004 - $130 thousand). The Partnership charged COC $20 thousand for certain theatre management services during the three months ended March 31, 2004, (2005 - $nil).

For the three months ended March 31, 2005 and 2004 the Partnership incurred expenses for film rental totaling $3.2 million and $8.3 million, respectively, to Alliance Atlantis Communications Inc. ("Alliance") and Motion Picture Distribution Limited Partnership ("Motion Picture"). Alliance is a former shareholder of GEI and Ellis Jacob, Chief Executive Officer of the Partnership, is a member of the Board of Directors and Audit Committee of Alliance. On March 24, 2005, Mr. Jacob resigned from the Board of Directors of Motion Picture.

The Partnership performs certain management and film booking services for the joint ventures in which it is a partner. During the three months ended March 31, 2005, the Partnership earned revenue in the amount of $115 thousand with respect to these services (2004 - $142 thousand).

A trustee of the Fund is the President and Chief Executive Officer of Riocan Real Estate Investment Trust ("Riocan"). The Partnership incurred rental costs for theatres under lease commitments with Riocan in the amount of $2.8 million and $1.8 million for the quarters ended March 31, 2005 and 2004 respectively.

Future minimum rental commitments at March 31, 2005 under the Riocan operating leases are set forth as follows (expressed in millions of dollars):

2005	$	5.6
2006		7.5
2007		7.6
2008		7.4
2009		7.2
Thereafter		58.3
	$	93.6

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

	Three months ended March 31,	
	2005	2004
Fund	$ 2,270	$ 2,172
Onex and its subsidiaries	13,033	6,747
Alliance	911	153
Other related parties	531	140

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

	As at March 31,	
	2005	2004
Fund	$ 766	$ 692
Onex and its subsidiaries	2,456	3,486
Alliance	65	220
Other related parties	38	200

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

ACCOUNTING POLICIES AND RECENT DEVELOPMENTS

Critical Accounting Policies

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

Revenues

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

Film Rental Costs

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

Leases

Tenant inducements received are amortized into occupancy expenses over the term of the related lease agreement. Lease payments are recorded in occupancy expenses on a straight-line basis over the term of the related lease. The unamortized portion of tenant inducements and the difference between the straight-line rent expense and the payments, as stipulated under the lease agreement, are included in other liabilities. Certain of the leases to which the Partnership is party require a portion of rent to be determined with respect to the volume of activity at the specific theatre. An estimate of the expected expense is determined by management and recorded throughout the lease year.

Income Taxes

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

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

Long-Lived Assets

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

Recent Accounting Developments

In September 2003, the CICA issued Accounting Guideline 15, "Consolidation of Variable Interest Entities" (the "Guideline"). In September 2003 the CICA amended the Guideline to make it effective for annual and interim periods beginning on or after November 1, 2004. The Guideline addresses the application of consolidation principles to entities that are subject to control on a basis other than ownership of voting interests. The Fund and the Partnership adopted the Guideline during the first quarter of 2005. As a result of the adoption of the Guideline, the Partnership was required to consolidate the trust that was formed to act as Trustee of the Partnership's Long-Term Incentive Plan. Details of the impact of the application of the Guideline are discussed in Note 2 to the Fund's and Partnership's Consolidated Financial Statements.

In 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3110, "Asset Retirement Obligations", effective for annual and interim periods beginning on or after January 1, 2004. This standard requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The implementation of Section 3110, requiring retroactive restatement of the financial statements, has had no material impact on the Partnership's financial position or results of operations.

Effective January 1, 2004, the Partnership adopted CICA Accounting Guideline 13 ("AcG 13") "Hedging Relationships". AcG 13 addresses the identification, designation, documentation and effectiveness of hedging transactions for the purpose of applying hedge accounting. It also establishes conditions for applying, and the discontinuance of, hedge accounting and hedge effectiveness testing requirements. Under the new guideline, the Partnership is required to document its hedging transactions and explicitly demonstrate that hedges are effective in order to continue hedge accounting for positions hedged with derivatives. Any derivative financial instruments that fail to meet the hedging criteria will be accounted for in accordance with EIC-128, "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments". These instruments will be recorded on the balance sheet at fair value, and changes in fair value will be recognized in income in the period in which the change occurs.

In connection with the implementation of AcG 13, the Partnership considered its hedging relationships as at January 1, 2005 and for the remainder of the period ending March 31, 2005, and determined that its interest rate swap agreement on its Term Facility qualified for hedge accounting for Canadian GAAP purposes and, therefore, the estimated fair value of the swap is not recognized in the balance sheet.

The Partnership receives rebates from certain vendors with respect to the purchase of concession goods. Payments received from vendors are composed of amounts for purchases made by the Partnership from the vendor in addition to amounts paid in return for advertising undertaken by the theatres on behalf of the vendor. The Partnership previously recorded all rebates received as a reduction of concession costs. Under Emerging Issues ("EIC") Abstract 144, Accounting By A Customer (Including a Reseller) For Certain Consideration Received From a Vendor, the Partnership continues to recognize rebates earned for purchases of a vendor's product as a reduction of concession costs; however, it is required to recognize rebates received for services delivered to the vendor as revenue. As a result, the Partnership has recorded rebates received with respect to advertising services performed for the vendor as other revenue. As required by EIC-144, the Partnership has applied this change retroactively resulting in an increase in other revenue and concession costs for the three months ended March 31, 2005 of $0.5 million (2004 - $0.5 million).

The Fund implemented, on a retroactive basis with prior periods restated, the new EIC Abstract 151, Exchangeable Securities Issued by Subsidiaries of Income Trusts, which is effective for financial statements issued subsequent to January 19, 2005. The standard addresses whether or not the exchangeable Units should be recorded as equity in the Fund's balance sheet. In addition, it provides guidance on the accounting treatment for the conversion of exchangeable securities that are not presented as part of the Fund's unitholders' equity and it addresses how earnings per Fund Unit should be calculated in the Fund's financial statements.

Class B LP Units are exchangeable for Fund Units. The Class B LP Units are not shown as part of the Fund's unitholders' equity in the balance sheet until they have been exchanged for Fund Units as there are no requirements for the Class B LP Units to be exchanged into Fund Units. As such, the Class B LP Units are considered as part of the calculation of diluted earnings per Fund Unit using the if-converted method.

When Class B LP Units are converted into Fund Units, the Fund accounts for the exchange of Units at fair market value at the date of the exchange. The impact to the Fund's share of the Partnership's income as a result of the retroactive implementation of this new standard is immaterial.

RISKS AND UNCERTAINTIES

Investment in the Fund Units is subject to a number of risk factors. Cash distributions to unitholders are dependent upon the ability of the Partnership to generate income. The ability of the Partnership to generate income is susceptible to a number of risk factors which include: (i) the reliance on film production and film performance; (ii) alternative film delivery methods and other forms of entertainment; (iii) increased capital expenditures resulting from the development of digital technologies for film exhibition; (iv) reliance on key personnel; (v) the acquisition and development of new theatre sites; (vi) impact of new theatres; (vii) unauthorized copying of films; (viii) rising insurance and labour costs; and (ix) the ability to generate additional ancillary revenue. See "Risk Factors" detailed in the Fund's Annual Information Form dated March 31, 2005 for a more detailed description of risks facing the Partnership.

Market Risk

The Partnership is exposed to financial market risks, including changes in interest rates and other relevant market prices. As discussed in "Liquidity and Capital Resources – Credit Facilities" the Partnership has entered into various interest rate swaps agreements. The estimated fair market value of the swap is an unrealized loss of $1.8 million (loss of $3.3 million as at March 31, 2004) that is not recognized on the balance sheet or statement of income in accordance with GAAP.

Interest Rate Risk

As of March 31, 2005, the Partnership had long-term debt and amounts due to the Trust (including current maturities) of $226.6 million. Approximately $126.6 million of this debt is variable rate debt. An increase or decrease in interest rates would affect interest costs relating to this debt. For comparative purposes, for every change of 0.125% in interest rates, the Partnership's interest costs would change by approximately $158 thousand per year. Offsetting this risk is the impact of the interest rate swap referred to above.

Other

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

OUTLOOK

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

April 22, 2005

Cineplex Galaxy Income Fund

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	$ 1,183	$ 1,179
Distributions receivable	766	752
	1,949	1,931
Due from Galaxy Entertainment Inc.	100,000	100,000
Investment in Cineplex Galaxy Limited Partnership	95,763	98,046
Investment in Cineplex Galaxy General Partner Corporation	2	2
	$ 197,714	$ 199,979
Liabilities		
Current liabilities		
Distributions payable (note 4)	$ 1,933	$ 1,918
Due to Cineplex Galaxy Limited Partnership	4	4
	1,937	1,922
Unitholders' Equity	195,777	198,057
	$ 197,714	$ 199,979

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

Approved by the Board of Trustees

"BRUCE BIRMINGHAM"
Bruce Birmingham
Trustee

"EDWARD SONSHINE"
Edward Sonshine
Trustee

Cineplex Galaxy Income Fund

Consolidated Statements of Earnings
(Unaudited)

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

	Three months ended March 31, 2005	Three months ended March 31, 2004
Share of loss of Cineplex Galaxy Limited Partnership (note 3)	$ (2,354)	$ (606)
Interest income	3,504	3,500
Net earnings	$ 1,150	$ 2,894
Basic earnings per unit	$ 0.06	$ 0.15
Weighted average number of units outstanding used in computing basic earnings per unit	20,085,282	19,400,000
Diluted earnings per unit	$ 0.06	$ 0.15
Weighted average number of units outstanding used in computing diluted earnings per unit	47,566,974	47,566,974

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

Cineplex Galaxy Income Fund

Consolidated Statements of Unitholders' Equity
(Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2005

	Unitholders' capital (note 5)	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2005	$ 201,477	$ 21,313	$ (24,733)	$ 198,057
Issuance of units under Exchange Agreement (note 5)	2,355	-	-	2,355
Distributions declared (note 4)	-	-	(5,785)	(5,785)
Net earnings for the period	-	1,150	-	1,150
Balance - March 31, 2005	$ 203,832	$ 22,463	$ (30,518)	$ 195,777

For the three months ended March 31, 2004

	Unitholders' capital (note 5)	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2004	$ 194,000	$ 4,046	$ (2,169)	$ 195,877
Distributions declared (note 4)	-	-	(5,576)	(5,576)
Net earnings for the period	-	2,894	-	2,894
Balance - March 31, 2004	$ 194,000	$ 6,940	$ (7,745)	$ 193,195

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

Cineplex Galaxy Income Fund

Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2005	Three months ended March 31, 2004
Cash provided by (used in)		
Operating activities		
Net earnings for the period	$ 1,150	$ 2,894
Item not affecting cash and cash equivalents		
Share of loss from equity investee (note 3)	2,354	606
Change in operating assets and liabilities		
Interest receivable from Galaxy Entertainment Inc.	-	259
	3,504	3,759
Investing activities		
Distributions received from Cineplex Galaxy Limited Partnership	2,270	2,127
Financing activities		
Distributions paid	(5,770)	(5,886)
Due to Cineplex Galaxy Limited Partnership	-	(15)
	(5,770)	(5,901)
Increase (decrease) in cash and cash equivalents during the period	4	(15)
Cash and cash equivalents - Beginning of period	1,179	460
Cash and cash equivalents - End of period	$ 1,183	445
Supplemental information		
Cash received for interest	$ 3,504	$ 3,759

Certain non-cash transactions occurred relating to exchanges of Class B LP units for Fund units (note 5).

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

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

1 Description of the Fund

Cineplex Galaxy Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on October 2, 2003 pursuant to the Fund Declaration of Trust. The Fund was established to invest, through Cineplex Galaxy Trust (the “Trust”), a newly constituted wholly owned trust, in partnership units of Cineplex Galaxy Limited Partnership (the “Partnership”) and shares of Cineplex Galaxy General Partner Corporation (the “General Partner”), the general partner of the Partnership. The Partnership is Canada’s second largest film exhibition organization with theatres in six provinces and commenced operations on November 26, 2003.

The Fund prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles. The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2004.

Due to the limited amount of information that these unaudited interim consolidated financial statements provide on the underlying operations of the Partnership, these unaudited interim consolidated financial statements should be read in conjunction with the unaudited interim consolidated financial statements of the Partnership for the three months ended March 31, 2005.

Results for the three months ended March 31, 2005 are not necessarily indicative of results expected for the full fiscal year or any other future period due to business seasonality of the Partnership. As the Fund has significant influence over the Partnership, its investment is accounted for using the equity method.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2004 except as disclosed herein.

2 Summary of significant accounting policies

Variable interest entities

In June 2003, The Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline 15, “Consolidation of variable interest entities” (“AcG 15”). In November 2004, the CICA amended AcG 15 to make it effective for annual and interim periods beginning on or after November 1, 2004. AcG 15 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company’s exposure (variable interest) to the economic risks and potential rewards from the variable interest entity’s (“VIE’s”) assets and activities is the best evidence of control. If an enterprise holds a majority of the variable interests of an entity by either absorbing the majority of the VIE’s expected losses or receiving the majority of the VIE’s expected residual returns, or both, it would be considered the primary beneficiary. Upon consolidation, the primary beneficiary is generally required to include assets,

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

liabilities and non-controlling interests at fair value and subsequently account for the variable interest as if it were consolidated based on the majority voting interest.

The Fund holds a significant variable interest in the Partnership through its investment in units of the Partnership. This variable interest originated on November 26, 2003 upon the formation of the Partnership and the Fund's investment therein. The Fund's maximum exposure to loss as a result of its involvement with the Partnership is its $95,763 equity investment in the Partnership as at March 31, 2005. In addition, the Trust has guaranteed the New Credit Facilities undertaken by the Partnership and has granted a security interest over its assets, including a pledge of its Class A LP Units, shares of the General Partner and the Galaxy Notes. Total debt outstanding under the New Credit Facilities as at March 31, 2005 is $126,500.

The Fund also holds a significant variable interest in Galaxy Entertainment Inc. ("GEI") through the Galaxy Note. This variable interest originated on November 26, 2003 upon the formation of the Partnership. The Galaxy Note is subordinated to the Partnership's New Credit Facilities and has been pledged by the Trust against the New Credit Facilities. The Fund's maximum exposure to loss as a result of its involvement with GEI is its $100,000 investment in the Galaxy Note and any unpaid accrued interest thereon. The Galaxy Note bears interest at the rate of 14% per annum, and the balance of accrued unpaid interest as at March 31, 2005 is $nil.

However, based on an evaluation of the risks held by the Fund through its variable interests in the Partnership and GEI, respectively, it has been determined that it is not the primary beneficiary of the Partnership or GEI. The Fund, therefore, continues to account for its interest in the Partnership under the equity method of accounting, and the Partnership continues to consolidate GEI.

3 Share of Partnership loss

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

		Three months ended March 31, 2005		Three months ended March 31, 2004
Consolidated Partnership net (loss) income for the period from January 1 to March 31	$	(199)	$	4,201
Adjustment for Catch-up Payment from Partnership to Class B LP unitholders		(4,791)		(5,082)
Remaining loss to be distributed pro rata to Class A LP and Class B LP unitholders	$	(4,990)	$	(881)
Fund's proportionate % share (a)	$	(2,107)	$	(359)
Adjustments for excess of purchase price over net assets acquired		(247)		(247)
Share of Partnership's loss	$	(2,354)	$	(606)

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

a) During the period, the Fund's indirect ownership of the Partnership, held through the Trust, increased from approximately 42.1% as at December 31, 2004 to approximately 42.4% (note 5) as at March 31, 2005. The Fund's proportionate share of the loss available to be distributed to the Class A LP and Class B LP unitholders has been adjusted to reflect its increased ownership.

4 Distributions payable

The Fund has declared the following distributions during the three-month periods ended March 31, 2005 and 2004:

	2005		2004	
Record date	**Amount**	**Amount per unit**	**Amount**	**Amount per unit**
January 2005	$ 1,918.7	$ 0.0958	$ 1,858.5	$ 0.0958
February 2005	$ 1,933.1	$ 0.0958	$ 1,858.5	$ 0.0958
March 2005	$ 1,933.1	$ 0.0958	$ 1,858.5	$ 0.0958

The distributions will be paid within 30 days following the end of each month.

5 Unitholders' capital

During the period, under the provisions of the Exchange Agreement, investors in the Partnership exchanged 154,656 Class B, Series 1 Partnership units for 154,656 Fund units. The Fund recorded the Partnership units it acquired at the fair market value of the Fund units on the date of the transaction. The difference between the fair market value and the value at which the Fund units were issued in the amount of $48 has been credited to unitholders' equity resulting in a net increase in unitholders' capital of $2,355.

There are 20,178,345 (March 31, 2004 - 19,400,000) Fund units issued as at March 31, 2005 for $203,832 (March 31, 2004 - $194,000).

	2005		2004	
	Number of units	**Amount**	**Number of units**	**Amount**
Units - Beginning of period	20,023,689	$ 201,477	19,400,000	$ 194,000
Issuance of units under Exchange Agreement	154,656	2,355	-	-
Units - End of period	20,178,345	$ 203,832	19,400,000	$ 194,000

Cineplex Galaxy Limited Partnership

Consolidated Balance Sheets

(expressed in thousands of Canadian dollars)

	March 31, 2005 (Unaudited)	December 31, 2004
Assets		
Current assets		
Cash and cash equivalents	$ 24,143	$ 38,663
Restricted cash (note 2)	-	7,637
Accounts receivable	7,439	10,937
Inventories	1,870	2,123
Prepaid expenses and other current assets	3,437	2,680
Due from related parties	10	4
	36,899	62,044
Property, equipment and leaseholds	233,539	234,854
Goodwill	22,942	22,942
Future income taxes	1,615	1,615
Deferred charges and other intangibles	3,668	3,975
	$ 298,663	$ 325,430
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	$ 24,280	$ 27,654
Distributions payable	3,390	10,996
Due to related parties	-	373
Income taxes payable	119	153
Deferred revenue	8,721	13,580
Current portion of long-term debt (note 3)	51	52
	36,561	52,808
Long-term debt (note 3)	126,500	125,512
Due to Cineplex Galaxy Trust	100,000	100,000
Accrued pension liability	559	589
Other liabilities	88,824	89,784
	352,444	368,693
Partners' Deficiency		
Partners' deficit	(53,781)	(43,263)
	$ 298,663	$ 325,430

Commitments and contingencies (note 5)

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

Approved by the Board of Directors

"ELLIS JACOB"
Ellis Jacob
Director

"ANTHONY MUNK"
Anthony Munk
Director

Cineplex Galaxy Limited Partnership
Consolidated Statements of Operations
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2005	Three months ended March 31, 2004
Revenue		
Box office	$ 51,398	$ 53,835
Concessions	21,626	21,131
Other	5,235	4,073
	78,259	79,039
Expenses		
Film cost	25,897	26,640
Cost of concessions	4,445	4,280
Occupancy	13,933	13,237
Other theatre operating expenses	16,969	16,377
General and administrative	4,894	3,267
Management fee	153	165
	66,291	63,966
Income before undernoted	11,968	15,073
Amortization	6,524	5,435
Gain on disposal of theatre assets	-	(6)
Interest on long-term debt	2,206	2,001
Interest on loan from Cineplex Galaxy Trust	3,500	3,500
Interest income	(118)	(94)
(Loss) income before income taxes	(144)	4,237
Current income tax	55	36
Net (loss) income for the period	$ (199)	$ 4,201

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

Cineplex Galaxy Limited Partnership

Consolidated Statements of Partners' Deficiency
(Unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31, 2005

	Partners' capital (note 6)	Deficit	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2005	$ 110,203	$ (147,795)	$ 38,949	$ (44,620)	$ (43,263)
Distributions declared	-	-	-	(10,170)	(10,170)
Investment in Cineplex Galaxy Income Fund units (notes 2 and 6)	(282)	-	-	-	(282)
LTIP compensation obligation (notes 2 and 6)	133	-	-	-	133
Net loss for the period	-	-	(199)	-	(199)
Balance - March 31, 2005	$ 110,054	$ (147,795)	$ 38,750	$ (54,790)	$ (53,781)

For the three months ended March 31, 2004

	Partners' capital (note 6)	Deficit	Accumulated earnings	Accumulated distributions	Total
Balance - January 1, 2004, as previously reported	$ 110,425	$ (147,698)	$ 8,707	$ (3,937)	$ (32,503)
Adoption of asset retirement obligation standard	-	(121)	(6)	-	(127)
Balance - January 1, 2004, as restated	110,425	(147,819)	8,701	(3,937)	(32,630)
Distributions declared	-	-	-	(10,104)	(10,104)
Net income for the period	-	-	4,201	-	4,201
Balance - March 31, 2004	$ 110,425	$ (147,819)	$ 12,902	$ (14,041)	$ (38,533)

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

Cineplex Galaxy Limited Partnership

Consolidated Statements of Cash Flows
(Unaudited)

(expressed in thousands of Canadian dollars)

	Three months ended March 31, 2005	Three months ended March 31, 2004
Cash provided by (used in)		
Operating activities		
Net (loss) income for the period	$ (199)	$ 4,201
Adjustments to reconcile net income to net cash used in operating activities		
Amortization of property, equipment and leaseholds	6,524	5,435
Amortization of tenant inducements and rent averaging liabilities	(1,301)	(1,196)
Amortization of debt issuance costs	235	204
Gain on disposal of theatre assets	-	(6)
Changes in operating assets and liabilities (note 4)	(6,329)	(14,933)
	(1,070)	(6,295)
Investing activities		
Proceeds from sale of theatre assets	6	6
Capital expenditures	(5,141)	(2,072)
Cash transferred to segregated account for future distributions (note 2)	(691)	(1,383)
Cash received from segregated account for distribution (note 2)	8,297	-
	2,471	(3,449)
Financing activities		
Borrowings under credit facility (note 3)	1,000	4,000
Distributions paid (note 2)	(17,776)	(9,290)
Tenant inducements	1,291	300
Repayment of long-term debt	(13)	(10)
Investment in Cineplex Galaxy Income Fund units (note 2)	(423)	-
	(15,921)	(5,000)
Decrease in cash and cash equivalents during the period	(14,520)	(14,744)
Cash and cash equivalents - Beginning of period	38,663	43,527
Cash and cash equivalents - End of period	$ 24,143	$ 28,783
Supplemental information		
Cash paid for interest	$ 5,394	$ 4,902
Cash paid for income taxes - net	$ 64	$ 60

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

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

1 Description of business

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

2 Summary of significant accounting policies

Basis of presentation

The Partnership prepares its unaudited interim consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures contained in these unaudited interim consolidated financial statements do not include all requirements of generally accepted accounting principles for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2004.

The unaudited interim consolidated financial statements follow the same accounting policies and methods of application as the audited consolidated financial statements for the year ended December 31, 2004, except as disclosed herein.

Restricted cash

Restricted cash represents year to date distributions accrued and maintained in a segregated Partnership bank account for Class B, Series 2 Limited Partnership units (the "Support Units"). The actual distributable amount to the Support Units is dependent on the performance of seven new theatres that, as at November 26, 2003, had either not yet been opened or had been open for less than one year. For periods commencing January 2004, distributions on the Support Units will be held in a segregated account until the end of the fiscal year when a determination is made regarding the actual cash flows of the new theatres. A shortfall in the performance of the new theatres will result in a reduction in the distributions to the holders of the Support Units. At the end of each year, any remaining segregated cash amount not distributed to the holders of the Support Units due to the shortfall in performance of the seven new theatres will be returned to the Partnership to be paid as distributions to the other unitholders of the Partnership. The Support Arrangements may continue in effect until December 31, 2006 or may terminate as early as December 31, 2004 dependent on the performance of the new theatres.

For the year ended December 31, 2004, the performance targets established in connection with Cineplex Galaxy Income Fund's (the "Fund") initial public offering were met for the seven new theatres and, as a result, the Partnership released the full amount of the escrowed distributions of $8,297 to the holders of the Class B, Series 2 LP Units of the Partnership on February 25, 2005. Additionally, the Support Arrangements were terminated effective December 31, 2004, and the holders of the Class B, Series 2 LP Units are hereafter fully entitled to receive cash distributions in a manner consistent with the Class B, Series 1 LP Units.

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

Variable interest entities

In June 2003, The Canadian Institute of Chartered Accountants (“CICA”) issued Accounting Guideline 15, “Consolidation of variable interest entities” (“AcG 15”). In November 2004, the CICA amended AcG 15 to make it effective for annual and interim periods beginning on or after November 1, 2004. AcG 15 addresses the consolidation of business enterprises to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. It concludes that in the absence of clear control through voting interests, a company’s exposure (variable interest) to the economic risks and potential rewards from the variable interest entity’s (“VIE’s”) assets and activities is the best evidence of control. If an enterprise holds a majority of the variable interests of an entity by either absorbing the majority of the VIE’s expected losses or receiving the majority of the VIE’s expected residual returns, or both, it would be considered the primary beneficiary. Upon consolidation, the primary beneficiary is generally required to include assets, liabilities and non-controlling interests at fair value and subsequently account for the variable interest as if it were consolidated based on the majority voting interest.

The Partnership holds a variable interest in GEI through its investment in 100% of the outstanding equity of GEI, which it acquired on November 26, 2003. GEI is considered a VIE as the total investment at risk is not sufficient to permit GEI to finance its activities without additional support. The Partnership is the primary beneficiary of GEI and, therefore, under AcG 15, is required to consolidate GEI. Prior to the application of AcG 15, the Partnership consolidated its interest in GEI; therefore, implementation of AcG 15 has not resulted in a change in the accounting for its investment. Holders of GEI’s liabilities have no recourse to the Partnership in the event of default by GEI on its debt or interest payments. Interest payments on the GEI debt are included in the calculation of the Class B LP Catch-up Payments.

On March 15, 2005, the Partnership created a trust, administered by a third party, to act as trustee for the Partnership’s Long-Term Incentive Plan (“LTIP”). On March 16, 2005, the Partnership funded $423 to the trust for exceeding certain 2004 defined distributable cash threshold amounts, subsequent to which the trustee acquired 27,527 units of the Fund on the open market. One-third of these units vested prior to March 31, 2005 and were distributed to the plan members. The remaining units recorded at their carrying value of $282 are held in the trust to be distributed under the terms of the LTIP. The trust is considered a VIE as the total investment at risk is not sufficient to permit the trust to finance its activities without additional support. The Partnership holds a variable interest in the trust and has determined that it is the primary beneficiary of the trust and, therefore, consolidated the trust. The Partnership has not guaranteed the value of the units held by the trust should the market value of the Fund’s units decrease from the value at which the trust acquired the units. Consolidating the trust resulted in a $282 decrease in assets, a $282 increase in partners’ capital and had no impact on the net income of the Partnership.

The Partnership has an interest in five joint ventures through which it holds investments in seven theatres. The joint ventures were determined not to be VIEs and, accordingly, they continue to be accounted for using proportionate consolidation.

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

3 Long-term debt

During the three months ended March 31, 2005, the Partnership drew $1,000 under its $40,000 Development Facility. These funds are being used to finance the ongoing development of theatre projects (note 5).

4 Cash flow statement

The following summarizes the change in operating assets and liabilities:

		Three months ended March 31, 2005		Three months ended March 31, 2004
Accounts receivable	$	2,484	$	(1,555)
Inventories		253		354
Prepaid expenses and other current assets		(757)		25
Due from related parties		(6)		259
Deferred charges and intangibles		-		(16)
Accounts payable and accrued expenses		(3,100)		(8,697)
Due to related parties		(373)		(1,145)
Income taxes payable		(34)		(29)
Deferred revenue		(4,859)		(4,261)
Accrued pension liability		(30)		75
Other liabilities		62		57
Restricted cash		31		-
	$	(6,329)	$	(14,933)

5 Commitments and contingencies

Commitments

As of March 31, 2005, the Partnership has aggregate capital commitments of $26,809 primarily related to the completion of construction of six theatre properties (comprising 59 screens). The Partnership expects to complete construction and to open these theatres during 2005 and 2006.

As of March 31, 2005, the Partnership has commitments of approximately $2,802 related to point-of-sale equipment, rebranding upgrades and digital equipment.

Other

The Partnership is a defendant in various claims and lawsuits arising in the ordinary course of business and is involved in certain environmental matters. From time to time, the Partnership is involved in disputes with landlords, contractors and other third parties. It is the opinion of management that any liability to the

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Partnership, which may arise as a result of these matters, will not have a material adverse effect on the Partnership's operating results, financial position or cash flows.

6 Partners' capital

There have been no Partnership units issued or repurchased and cancelled during the three months ended March 31, 2005 and 2004. Partnership units issued as at March 31, 2005 are as follows:

	Units		Amount
Class A Partnership units	19,400,000	$	79,480
Class B, Series 1 Partnership units	20,949,582		16,860
Class B, Series 2-C Partnership units	2,086,957		-
Class B, Series 2-G Partnership units	5,130,435		14,085
	47,566,974		110,425
Formation of Partnership issuance costs	-		(222)
Investment in Fund units (note 2)	-		(282)
LTIP compensation obligation (note 2)	-		133
Outstanding at March 31, 2005	47,566,974	$	110,054

As the Fund's only investment is in the Partnership, the Partnership treats its $282 investment in Fund units relating to the LTIP plan as treasury stock and nets this investment against partners' capital. The LTIP compensation obligation is recorded as a liability until the corresponding LTIP pool of funds is utilized to acquire Fund units, at which point in time it is reclassified as partners' capital as the Partnership is now obligated to deliver a fixed number of Fund units, the value of which will vary with the market value of the Fund units. Subsequent changes in the fair value of the Fund units are not recognized.

7 Segment information

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

8 Seasonal fluctuations

The Partnership's business is seasonal. Consequently, the results of operations and cash flows for the three-month periods ended March 31, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year, although film studios have expanded the historical summer and holiday release windows and increased the number of heavily marketed films released during traditionally weaker periods.

9 Comparative amounts

Certain comparative amounts in these consolidated financial statements have been reclassified to conform with the current period's financial statement presentation.

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