aeroplan

income fund

Management's Discussion & Analysis
of Financial Condition and Results of Operations

For the three months ended

March 31st

2008 and 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Aeroplan Income Fund (the "Fund") earns income from its interest in Aeroplan Limited Partnership (the "Partnership" or "Aeroplan") and its subsidiaries. On January 17, 2008, the Fund, through a wholly-owned subsidiary, increased its ownership interest in Rewards Management Middle East Free Zone LLC ("RMMEL") from 20% to 60% and, from that date, the accounts of RMMEL are consolidated with the Fund. The following management's discussion and analysis of financial condition and results of operations (the "MD&A") presents a discussion of the financial condition and results of operations for the Fund.

The following MD&A is prepared as at May 8, 2008 and should be read in conjunction with the accompanying interim consolidated financial statements of the Fund for the three months ended March 31, 2008, and the notes thereto, the audited consolidated financial statements of the Fund and the related notes thereto for the year ended December 31, 2007, the annual management discussion and analysis for the Fund (the "2007 MD&A") and the Fund's Annual Information Form dated March 28, 2008.

The Fund is entirely dependent upon the operations and financial condition of the Partnership and its subsidiaries. The earnings and cash flows of the Fund are affected by certain risks. For a description of those risks, please refer to the "Risks and Uncertainties Affecting the Business" section.

This MD&A is in all material respects in accordance with the recommendations provided in the Canadian Institute of Chartered Accountants' ("CICA") July 2007 publication, Standardized Distributable Cash in Income Trusts and Other Flow-Through Entities: Guidance on Preparation and Disclosure.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, dependency on top Accumulation Partners, Air Canada or travel industry disruptions, reduction in activity, usage and accumulation of Aeroplan Miles or Nectar Points, retail market or economic downturn, greater than expected redemptions for rewards, industry competition, supply and capacity costs, unfunded Future Redemption Costs, changes to the Aeroplan and Nectar Programs, seasonal nature of the business, regulatory matters, VAT appeal, appointment rights of ACE Aviation Holdings Inc. ("ACE"), foreign ownership limitations and impact on mutual fund trust status and value and liquidity of units, future sales or distributions of units by ACE, income tax matters, SIFT Rules, conversion to corporate structure, as well as the other factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent the Fund's expectations as of May 8, 2008, and are subject to change after such date. However, the Fund disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

This MD&A contains the following sections:

GLOSSARY

"Aeroplan Miles" - the miles, points or other loyalty program reward units issued by Aeroplan and its subsidiaries under the respective programs operated by each of the entities;

"Air Canada Miles" - the miles issued by Air Canada under the Aeroplan Program prior to January 1, 2002;

"Accumulation Partners" – means Commercial Partners that purchase loyalty marketing services, including Aeroplan Miles;

"Aeroplan Mile Revenue" – consists of Redemption of Aeroplan Miles and Breakage;

"Aeroplan Program" - the loyalty marketing program owned and operated by Aeroplan;

"Average Cost of Rewards per Mile" – For any reporting period, equals the cost of rewards for the period divided by the number of Aeroplan Miles redeemed for rewards during the period;

"Breakage" – Estimated Aeroplan Miles sold which are not expected to be redeemed. By its nature, Breakage is subject to estimates and judgement. Management's current best estimate of Breakage is 17% of Aeroplan Miles sold for the Aeroplan Program. The breakage rate associated with the Nectar Program is similar in magnitude to that of the Aeroplan Program. Breakage is recognized as revenue over the estimated life of a mile, currently 30 months for the Aeroplan Program, which represents the average period elapsed between the sale of a mile and its redemption for rewards. The estimated life of a point issued under the Nectar Program is 15 months;

"Broken Miles" – Miles issued, but not expired and not expected to be redeemed;

"Change in Future Redemption Costs" – Change in the estimated Future Redemption Cost liability for any quarter (for interim periods) or fiscal year (for annual reporting purposes). For purposes of this calculation, the opening balance of the Future Redemption Cost liability is revalued by retroactively applying to all prior periods the latest available Average Cost of Rewards per Mile, experienced during the most recent quarter (for interim periods) or fiscal year (for annual reporting purposes). It is calculated by multiplying the change in estimated unbroken Aeroplan Miles outstanding between periods by the Average Cost of Rewards per Mile for the period;

"Commercial Partners" – means Accumulation Partners and Redemption Partners;

"Expired Miles" – miles that have been removed from members' accounts and are no longer redeemable;

"Future Redemption Costs" – Total estimated liability of the future costs of rewards for Aeroplan Miles which have been sold and remain outstanding, net of Breakage and valued at the Average Cost of Rewards per Mile, experienced during the most recent quarter (for interim periods) or fiscal year (for annual reporting purposes);

"GAAP"- Generally accepted accounting principles in Canada;

"Gross Billings" – Gross proceeds for the sale of Aeroplan Miles;

"Maintenance Capital Expenditures" – represent expenditures incurred to sustain operations or Productive Capacity;

"miles" – the miles issued under the Aeroplan Program by either Aeroplan or Air Canada or the points or other loyalty program reward units issued by Aeroplan's subsidiaries under the respective programs operated by such entities;

"Mileage Expiry Policy" – means the rules and conditions under the Aeroplan Program pursuant to which: (i) starting January 1, 2007, miles that are unused after 7 years (84 months) in a member's account will expire, and will be deducted from the total balance in the member's account. All miles issued prior to January 1, 2007 are considered as having been accumulated on December 31, 2006 for the purpose of the 7 year period, resulting in an expiry date of December 31, 2013 and, (ii) from July 1, 2007, members must transact with the Aeroplan Program, through either one accumulation or one redemption, at least once in the prior consecutive 12-month period, failing which accumulated miles in the account will be expired. Expired miles may be reinstated for an administrative fee of $30 plus $0.01 per restored mile;

"Nectar Program" – the loyalty marketing program owned and operated by LMG;

"Productive Capacity" – Encompasses Aeroplan's and its subsidiaries' leading market positions and brands; strong base of members; relationship with Commercial Partners; and technology and employees;

"Redemption of Aeroplan Miles" – means the triggering event used to recognize revenue on the redemption of Aeroplan Miles by members based on the cumulative average selling price of the accumulated Aeroplan Miles issued since January 1, 2002;

"Redemption Partners" – means Commercial Partners that offer air travel and other rewards to members upon redemption of miles;

"SIFT" – means specified investment flow-through entity;

"SIFT Rules" – means legislation forming part of Bill-C-52, Budget Implementation Act, 2007, implementing certain proposals announced by the Minister of Finance (Canada) on October 31, 2006 to change the manner in which certain flow-through entities and the distributions from such entities are taxed;

"Tier Management Fee" – Fee charged to Air Canada to administer Air Canada's top tier (Super Elite, Elite or Prestige) membership program;

"**Total Miles**" – All redeemable miles (including Broken but not Expired Miles), whether issued by Aeroplan or by Air Canada (prior to January 1, 2002) under the Aeroplan Program, or by Aeroplan's subsidiaries under the respective programs operated by such entities.

OVERVIEW

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on May 12, 2005 pursuant to its Declaration of Trust. The Fund is the owner of Aeroplan, Canada's premier loyalty marketing company and operator of the Aeroplan Program, and LMG, operator of the Nectar Program, the United Kingdom's largest customer reward program.

Aeroplan provides its Commercial Partners with loyalty marketing services designed to attract and retain customers and stimulate demand for such partners' products and services. Aeroplan's objective is to offer its Commercial Partners superior value relative to other marketing alternatives through access to its base of members and the design and execution of marketing programs aimed at increasing revenue, market share, and customer loyalty.

The Aeroplan Program is one of Canada's longest standing loyalty programs. It was founded in 1984 by Air Canada, Canada's largest domestic and full-service international airline, to manage the airline's frequent flyer program. Aeroplan benefits from its unique strategic relationship with Air Canada in addition to its contractual arrangements with leading Commercial Partners including AMEX, CIBC, Home Hardware, Imperial Oil (Esso), Star Alliance member airlines and numerous hotel chains and car rental companies.

Aeroplan offers its over four million active members the ability to accumulate Aeroplan Miles throughout its Accumulation Partner network through purchases of products and services. Aeroplan sells loyalty marketing services to its extensive network of Accumulation Partners, representing brands in credit and charge card, airline, and other industries. Today, credit and charge card partners generate the majority of Aeroplan's Gross Billings. Once members have accumulated a sufficient number of Aeroplan Miles, they can redeem through Aeroplan such Aeroplan Miles for air travel and other attractive rewards offered by Redemption Partners. Upon the redemption of Aeroplan Miles by its members, Aeroplan incurs the cost to acquire the desired rewards.

Historically, Aeroplan has experienced higher reward redemption activity in the first six months and greater mile accumulation in the last six months of the year.

January 1, 2007 marked the implementation of the first of the program changes announced in October 2006. These changes are principally related to mileage expiry and mileage accumulation. The changes have been designed to encourage members' active participation in the Aeroplan Program through accumulation and redemption.

Starting January 1, 2007, miles that are unused after 7 years (84-months) in a member's account will expire, and will be deducted from the total balance in the member's account. All miles issued prior to January 1, 2007 are considered as having been accumulated on December 31, 2006 for the purpose of the 7 year period, resulting in a potential expiry date of December 31, 2013.

From July 1, 2007, pursuant to the terms of the Mileage Expiry Policy, as announced in October 2006, members must transact with the Aeroplan Program, through either one accumulation or one redemption, at least once in the prior consecutive 12-month period, failing which, accumulated miles in the account will be expired. Prior to July 1, 2007, miles expired in those accounts that had no activity (accumulation or redemption) for the prior 36-months.

Expired miles may be reinstated for an administrative fee of $30 plus $0.01 per restored mile.

In December 2007, the Fund announced that it had acquired LMG, a leading loyalty marketing and consumer-driven insight and analysis company that owns and operates the Nectar Program in the United Kingdom. LMG is primarily engaged in the operation of multi-partner coalition loyalty programs and the provision of related analytical services to retailers and their suppliers. LMG currently operates in the following principal areas:

- the Nectar Program;
- Insight & Communication; and
- RMMEL

LMG also owns the worldwide rights, trademarks and other intellectual property of the Air Miles brand and receives royalty income from these assets.

The Nectar Program is the United Kingdom's largest loyalty program and only significant coalition loyalty program. It was launched in September 2002 and enables its over 10 million active members to earn points for making everyday household purchases at leading retailers and service providers. Current Accumulation Partners include household names such as Sainsbury's, BP, American Express, EDF and Ford. Members can then redeem these points with Redemption Partners for rewards ranging from merchandise and shopping discounts to free flights and admissions to leisure attractions. The Nectar Program enables Accumulation Partners to improve customer loyalty, influence customer buying behaviour, improve marketing effectiveness and obtain customer data and analytics. Redemption Partners are able to access a discrete distribution channel and a large pool of customers.

The Insight & Communication business was established in 2007 to provide analytical services to retailers and their suppliers. The business combines customer data, usually, but not exclusively, generated through a loyalty card program, and electronic point of sale data generated when specific goods and services are purchased including their price, location and time of purchase at retailers purchase points. This data is then analysed and the insight generated used to enhance decision making in the pricing, ranging, assortment, supply and promotion of products for resale by large retail companies.

RMMEL manages loyalty programmes under the Air Miles Trademark. RMMEL operates in Middle Eastern markets, principally the United Arab Emirates, Bahrain and Qatar. The RMMEL business model is very similar to that of the Nectar Program. Sponsors in the program include domestic businesses such as Damas and the grocery retailer, Spinney's, as well as international companies such as HSBC, Bridgestone, Adidas and Hertz. On January 17, 2008 LMG increased its interest in RMMEL from the 20% held as at December 31, 2007 to 60%.

On May 8, 2008, the Fund received board approval to reorganize its income trust structure into a growth oriented, dividend paying global loyalty management public corporation. The proposed reorganization is subject to unitholder and other approvals and will be undertaken pursuant to a statutory plan of arrangement under the *Canada Business Corporations Act* (the "Arrangement").

Upon completion of the reorganization, it is anticipated that the dividend policy will initially be set at $0.125 per common share per quarter, with the first dividend to be declared payable in respect of the quarter ended September 30, 2008.

STRATEGY

Please refer to the corresponding section of the 2007 MD&A to review the Fund's strategy.

PERFORMANCE INDICATORS

Operating income

Revenue

The Fund derives its Gross Billings primarily from the sale of Aeroplan Miles to Accumulation Partners. A key characteristic of the business is that the gross proceeds received for the sale of Aeroplan Miles to partners, known as "Gross Billings", are deferred and recognized as revenue for GAAP purposes upon the redemption of Aeroplan Miles by the members. Based upon past experience, management anticipates that a number of Aeroplan Miles sold will never be redeemed by members. This is known as "Breakage". For those Aeroplan Miles that the Fund does not expect will be redeemed by members, Aeroplan recognizes revenue on a straight-line basis over the average estimated life of an Aeroplan Mile, currently estimated at 30 months for the Aeroplan Program and 15 months for the Nectar Program.

In addition, Aeroplan derives service fees for managing Air Canada's tier membership program for its most frequent flyers. Other revenue, consisting primarily of charges to members for various services and royalties with respect to the Air Miles trade name, is recognized when the services are performed or the royalties are earned.

Cost of Rewards and Operating Expenses

Cost of rewards consists of the cost to purchase airline seats or other products or services from Redemption Partners in order to deliver rewards chosen by members upon redemption of their Aeroplan Miles. At that time, the costs of the chosen rewards are incurred and recognized. The total cost of rewards varies with the number of Aeroplan Miles redeemed and the cost of the individual rewards purchased in connection with such redeemed Aeroplan Miles.

The Average Cost of Rewards per Mile redeemed is an important measurement metric since a small fluctuation may have a significant impact on overall costs due to the high volume of miles redeemed.

Operating expenses incurred include contact centre operations, consisting primarily of salaries and wages, as well as advertising and promotion, information technology and systems and other general corporate expenses.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA adjusted for certain factors particular to the business, such as changes in deferred revenue and Future Redemption Costs ("Adjusted EBITDA"), is used by management to evaluate performance, to measure compliance with debt covenants and to make decisions relating to distributions to unitholders. Management believes Adjusted EBITDA assists investors in comparing the Fund's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost.

Change in deferred revenue is calculated as the difference between Gross Billings less Aeroplan Miles revenue recognized as a result of reward redemption activity and recognition of Breakage.

Future Redemption Costs represent management's estimated future cost of rewards in respect of Aeroplan Miles sold which remain outstanding and unbroken at the end of any given period. Future Redemption Costs are revalued at the end of any given period by taking into account the most recently determined average unit cost per Aeroplan Mile redeemed for that period (cost of rewards / Aeroplan Miles redeemed) and applying it to the total unbroken Aeroplan Miles outstanding at the end of that period. As a result, Future Redemption Costs and the Change in Future Redemption Costs must be calculated at the end of any given period and for that period. The simple addition of sequential inter-period changes to arrive at a cumulative change for a particular period may result in inaccurate results depending on the fluctuation in the Average Cost of Rewards per Mile redeemed for the period in question.

Adjusted EBITDA is not a measurement based on GAAP, is not considered an alternative to operating income or net income in measuring performance, and is not comparable to similar measures used by other issuers. For a reconciliation to GAAP, please refer to the *SUMMARY OF OPERATING RESULTS AND RECONCILIATION OF ADJUSTED EBITDA AND DISTRIBUTABLE CASH* included in the *Operating and Financial Results* section. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows.

Standardized Distributable Cash

Standardized Distributable Cash is a non-GAAP measure recommended by the CICA in order to provide a consistent and comparable measurement of distributable cash across entities.

Standardized Distributable Cash is defined as cash flows from operating activities, as reported in accordance with GAAP, less adjustments for:

(a) total capital expenditures as reported in accordance with GAAP; and
(b) restrictions on distributions arising from compliance with financial covenants restrictive at the date of the calculation of Standardized distributable cash.

For a reconciliation to cash flows from operations please refer to the *RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO STANDARDIZED DISTRIBUTABLE CASH AND DISTRIBUTABLE CASH* included in the *Operating and Financial Results* section.

Distributable Cash

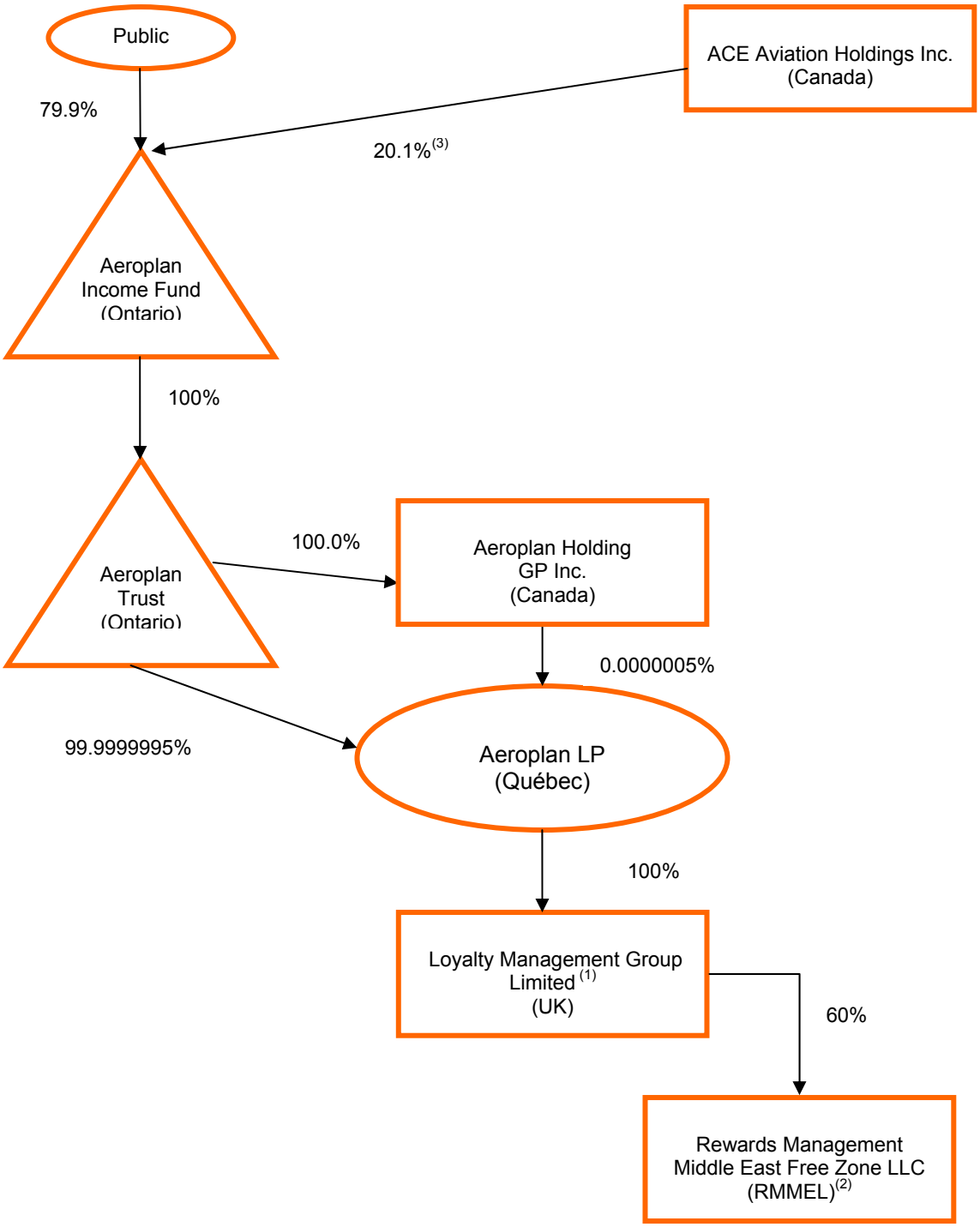
Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. For reconciliation to cash flows from operations please refer to the *RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO STANDARDIZED DISTRIBUTABLE CASH AND DISTRIBUTABLE CASH* included in the Operating and Financial Results section. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

CAPABILITY TO DELIVER RESULTS

For a review of these factors, please refer to the 2007 MD&A.

ORGANIZATIONAL STRUCTURE

The following chart illustrates the simplified legal structure of the Fund as at March 31, 2008 (including jurisdiction of establishment / incorporation of the various entities):



(1) For simplicity purposes, this diagram includes the consolidated group at the LMG level.

(2) In January 2008, an additional 40% interest in RMMEL was purchased by LMG, bringing the total ownership interest to 60%.

(3) On April 21, 2008, pursuant to a secondary offering, ACE disposed of 20,400,000 units of the Fund, reducing its ownership interest to 19,892,088 Fund units or 9.9% of the issued and outstanding Fund units.

ACQUISITION OF RMMEL

At December 31, 2007, the Fund, through an indirect wholly-owned subsidiary, held a 20% interest in RMMEL, a loyalty management company that operates the Air Miles programs in the United Arab Emirates, Qatar, and Bahrain. The Fund accounted for its investment in this company subject to significant influence, under the equity method of accounting.

On January 17, 2008, LMG acquired an additional 40% participation in RMMEL for a consideration of AED 40.7 million ($11.4 million). The acquisition of RMMEL was financed with cash on hand. As a result of this transaction, the Fund holds 60% of RMMEL and accordingly, as of January 17, 2008, has changed its basis of accounting for its investment from the equity method to consolidation.

The Fund has performed a preliminary estimate of the purchase price allocation and, as permitted under Canadian accounting standards, the final valuation will be completed during 2008. Due to the fact that the purchase price allocation has not been finalized, the fair value of assets acquired and liabilities assumed could differ materially from the amounts presented in the consolidated financial statements.

The Fund has accounted for the acquisition under the purchase method of accounting on January 17, 2008, as follows:

(in thousands)	AED	$	Estimated useful life
Purchase price			
Cash	40,000	11,200	
Transaction costs	714	200	
	40,714	11,400	
Carrying amount of original 20% interest		5,393	
Total amount to be allocated		16,793	
Net identifiable assets acquired:			
Current assets and liabilities			
Cash and cash equivalents		7,710	
Accounts receivable		8,292	
Accounts payable and accrued liabilities		(7,089)	
Income taxes payable		(11)	
Deferred revenue		(17,958)	
Property and equipment		417	
Intangible assets			
Finite life			
Accumulation Partners' contracts		20,570	10 to 25 years
Indefinite life			
Goodwill		4,862	Indefinite
Total allocated		16,793	

CURRENCY SWAP

In connection with the December 2007 acquisition of LMG, the Fund entered into a currency swap arrangement to mitigate its exposure to currency rate fluctuations arising on the subsidiary's future profits. The currency swap is for a 5 year term to December 19, 2012, swapping floating interest on £240.0 million at the 3-month sterling LIBOR rate, for floating interest on $500.0 million at the 3-month CDOR rate. The currency swap does not meet the criteria for hedge accounting treatment, and accordingly, changes in the fair value of the currency swap are recognized in non-operating income as foreign exchange. At March 31, 2008, the swap had a fair value of $8.1 million compared to a fair value of $21.7 million at December 31, 2007.

QUARTER HIGHLIGHTS

- Gross Billings of $342.7 million for the quarter;
- Operating income of $41.1 million;
- Net earnings of $42.1 million;
- Earnings per unit of $0.2113;
- Adjusted EBITDA of $77.6 million;
- Distributable Cash of $64.0 million.

OPERATING AND FINANCIAL RESULTS

Certain of the following financial information of the Fund has been derived from, and should be read in conjunction with, the interim financial statements for the three months ended March 31, 2008 and the related notes.

As a result of the different ownership percentages of the Partnership held by the Fund throughout the periods presented, which have resulted in different bases of accounting (from cost to consolidation), figures presented for the Fund are not comparative. Since the underlying operating entity is the Partnership and its subsidiaries, and the Fund is completely dependent upon their results, in order to provide a meaningful analysis, the Fund's year to date operating income, net earnings, and earnings per unit have been adjusted to remove the effect of certain consolidation amounts (i.e. by adding back amortization of Accumulated Partners' contracts and technology and future income taxes), to arrive at comparable results to those previously reported for the Partnership.

SUMMARY OF CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF ADJUSTED EBITDA AND DISTRIBUTABLE CASH

(in thousands, except miles, unit and per unit information)	Three months ended March 31,		
	2008	2007[1]	% Δ
Gross Billings from the sale of Aeroplan Miles	**$342,650**	**$227,977**	**50.3**
Aeroplan Miles revenue	337,286	228,561	47.6
Tier management, contact centre management and marketing fees from Air Canada	2,824	3,701	(23.7)
Other revenue	16,105	13,052	23.4
Total revenue	356,215	245,314	45.2
Cost of rewards	(223,227)	(155,134)	43.9
Gross margin	132,988	90,180	47.5
Selling, general and administrative	(64,511)	(39,403)	63.7
Depreciation and amortization	(4,672)	(2,704)	72.8
Operating income before amortization of Accumulation Partners' contracts and technology	**$63,805**	**$48,073**	**32.7**
Depreciation and amortization	4,672	2,704	
Change in deferred revenue			
Gross Billings from the sale of Aeroplan Miles	342,650	227,977	
Aeroplan Miles revenue	(337,286)	(228,561)	
Change in Future Redemption Costs[2]			
(Change in Net Aeroplan Miles outstanding x Average cost of rewards per Mile for the period)	(574)	9,787	(105.9)
Foreign exchange gain	4,313	-	
Adjusted EBITDA	**$77,580**	**$59,980**	**29.3**
Net Interest Income (Expense)	(6,725)	2,513	(367.6)
Maintenance Capital Expenditures	(6,865)	(2,373)	189.3
Distributable Cash	**$63,990**	**$60,120**	**6.4**
Standardized Distributable Cash	**$17,538**	**$70,856**	**(75.2)**
Weighted average number of units	199,402,619	199,539,544	
Distributable Cash per unit	$0.32	$0.30	6.7
Standardized Distributable Cash per unit	$0.09	$0.36	(75.0)
Adjusted net earnings[3] = Net earnings, in accordance with GAAP + amortization of Accumulation Partners' contracts and technology + income taxes	$61,780	$50,116	23.3
Earnings per unit, in accordance with GAAP, adjusted for amortization of Accumulation Partners' contracts and technology and income taxes	$0.31	$0.25	24.0
Total monthly distributions declared	$41,994	$42,000	-
Total monthly distributions declared per unit	$0.21	$0.21	-

(1) 2007 results presented for comparative purposes are those of the Partnership;

(2) The per unit cost derived from this calculation is retroactively applied to all prior periods with the effect of revaluing the liability on the basis of the latest available average unit cost;

(3) Adjusted net earnings is a non-GAAP measurement.

SEGMENTED INFORMATION

At March 31, 2008, the Fund has two business segments: Aeroplan, a Canadian customer loyalty marketing company, and LMG, operating loyalty programs in the United Kingdom and the Middle East.

The table below summarizes the relevant financial information by segment:

Geographic segmentation	**Canada**		**Europe and Middle East**	**Consolidated**
(in thousands, except miles, unit and per unit information)	**Three months ended March 31**			
	2008	**2007**	**2008**	**2008**
Number of Aeroplan Miles issued (in billions)	***19.8***	***18.4***		
Number of Total Miles redeemed (in billions)	***19.2***	***18.6***		
Number of Aeroplan Miles redeemed (in billions)	***17.8***	***16.3***		
	$		**$**	**$**
Gross billings	242,366		100,284	342,650
Revenue	266,957		89,258	356,215
Cost of rewards	163,584		59,643	223,227
Gross margin	103,373		29,615	132,988
Selling, general and administration expenses	41,249		23,262	64,511
Depreciation and amortization	21,129		6,221	27,350
Adjusted EBITDA	69,174		8,406	77,580
Earnings before income taxes	36,420		2,682	39,102
Additions to capital assets	5,041		1,824	6,865
Goodwill	2,517,237		492,065	3,009,302
Deferred revenue	1,560,529		285,829	1,846,358
Total assets	5,556,784		501,836	6,058,620

RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO STANDARDIZED DISTRIBUTABLE CASH AND DISTRIBUTABLE CASH

	Three months ended March 31,	
(in thousands)	2008	2007[3]
Cash flows from operations	**$24,403**	**$73,229**
Maintenance Capital Expenditures	(6,865)	(2,373)
Standardized Distributable Cash	**17,538**	**70,856**
Changes in non-cash working capital, foreign exchange, and other items[1]	44,347	(21,235)
Stock Based compensation[1]	(1,072)	(817)
Funding of stock-based compensation plans[1]	3,751	1,529
Change in future redemption costs[2]	(574)	9,787
Distributable Cash	**$63,990**	**$60,120**
Distributions declared	**$41,994**	**$42,000**
Payout ratio – *Distributions declared / Standardized Distributable Cash*	**239%**	**59%**
Payout ratio – *Distributions declared / Distributable Cash*	**66%**	**70%**
Standardized Cumulative Distributable Cash since IPO (June 29, 2005)	**$786,116**	
Cumulative distributions declared since IPO	**$427,194**	
Cumulative payout ratio since inception	**54%**	

(1) The impact of the respective items is considered in the calculation of Standardized Distributable Cash but they are not part of the Distributable Cash definition in accordance with the Limited Partnership Agreement. This eliminates the potential impact of timing distortions relating to the respective items;
(2) Changes in future redemption costs are included to reflect the expected change in the future redemption liability on the basis of the most recently experienced redemption costs;
(3) 2007 results presented for comparative purposes are those of the Partnership.

Cash flows generated from operations for the period were impacted by the high level of seasonality attributable to the LMG business and the settlement during the quarter of accounts payable incurred in the last quarter of 2007 consistent with LMG's peak period of redemption activity.

The Fund's distributions are determined by Aeroplan Holding GP Inc.'s board of directors (the "Board of Directors") as general partner of the Partnership and by the trustees of the Fund (the "Trustees") on the basis of performance, taking into account anticipated future cash requirements. Monthly distributions have remained unchanged during the quarter at $0.0700 per unit. In order to ensure the Partnership's continued financial strength, and providing a reasonable return to its partners and unitholders, the Board of Directors and the Trustees of the Fund have considered it financially prudent not to distribute 100% of Distributable Cash in order to provide for periods of unusually high redemption activity and unforeseen events, should they occur.

If the Arrangement is approved and the reorganization to a corporate structure is completed, the dividend policy will be subject to the discretion of the board of directors of the new corporation and may vary depending on, among other things, earnings, financial requirements, the

satisfaction of solvency tests imposed under the *Canada Business Corporations Act* for the declaration of dividends and other conditions existing at such future time.

HISTORICAL DISTRIBUTION ANALYSIS

(in thousands)	Three months ended March 31, 2008	Years ended December 31, 2007[2]	2006[2]	2005[2]
				(post IPO)
Cash flows from operations	**$24,403**	**$308,245**	**$320,977**	**$185,181**
Adjusted net earnings	**61,780**	**196,279**	**143,529**	**49,160**
Distributions declared, post IPO (June 29, 2005)	**41,994**	**168,000**	**146,460**	**70,740**
Excess (shortfall) of cash flows from operations over distributions declared	**(17,591)[1]**	**140,245**	**174,517**	**114,441**
Excess (shortfall) of adjusted net earnings over distributions declared	**19,786**	**28,279**	**(2,931) [1]**	**(21,580)[1]**
Payout ratio – Distributions declared / Cash flow from operations	**172%**	**55%**	**46%**	**38%**
Payout ratio – Distributions declared / Adjusted net earnings	**68%**	**86%**	**102%**	**144%**

(1) Distributions in excess of cash flows from operations net earnings did not represent an economic return of capital due to the fact that cash flows for the quarter were impacted by seasonality attributable to LMG and the earnings cycle for accounting purposes does not match the liquidity cycle of the business. Distributions were funded from Gross Billings received. These shortfalls had no impact on the covenants under the credit facilities;

(2) Results presented for comparative purposes are those of the Partnership;

OPERATING RESULTS AND PERFORMANCE INDICATORS IN % TERMS

(as a % of total revenue)	Three months ended March 31,	
	2008	2007[1]
Aeroplan Miles revenue	94.7	93.2
Tier management, contact centre management and marketing fees from Air Canada	0.8	1.5
Other revenue	4.5	5.3
Total revenue	**100.0**	**100.0**
Cost of rewards	(62.7)	(63.2)
Gross margin	37.3	36.8
Selling, general and administrative expenses	(18.1)	(16.1)
Depreciation and amortization	(1.4)	(1.1)
Operating income before amortization of Accumulation Partners' contracts and technology	17.9	19.6

(1) 2007 results presented for comparative purposes are those of the Partnership.

(as a % of Gross Billings)	Three months ended March 31,	
	2008	2007[1]
Gross Billings from the sale of Aeroplan Miles	**100.0**	**100.0**
Aeroplan Miles revenue	98.4	100.3
Cost of rewards	(65.1)	(68.0)
Selling, general and administrative expenses	(18.8)	(17.3)
Operating income before amortization of Accumulation Partners' contracts and technology	18.6	21.1
Adjusted EBITDA	22.6	26.3
Standardized Distributable Cash	5.1	31.1
Distributable Cash	18.7	26.4

(1) 2007 results presented for comparative purposes are those of the Partnership.

QUARTER ENDED MARCH 31, 2008 COMPARED TO QUARTER ENDED MARCH 31, 2007

Gross Billings from the sale of Aeroplan Miles for the three months ended March 31, 2008 amounted to $342.7 million compared to $228.0 million for the three months ended March 31, 2007, representing an increase of $114.7 million or 50.3%. While the majority of this increase is attributable to the inclusion of the consolidated LMG results, Aeroplan Miles issued under the

Aeroplan Program during the current quarter increased 7.6% over the comparable period of the prior year, this increase driven by growth in consumer spending through credit and charge cards issued by Aeroplan's Accumulation Partners, and strength in the travel segment, slightly offset by lower activity from retail partners.

Gross Billings from the sale of Aeroplan Miles are accounted for as deferred revenue until such Aeroplan Miles are redeemed. Aeroplan Miles redeemed are recognized as revenue at the cumulative average selling price of the accumulated Aeroplan Miles issued since January 1, 2002.

Redemption activity

Total Miles redeemed under the Aeroplan Program during the quarter amounted to 19.2 billion compared to 18.6 billion for the quarter ended March 31, 2007, representing an increase of 0.6 billion or 3.2%. Of those 19.2 billion Total miles (calculated on a first-in, first-out basis on a member account basis for air redemptions) redeemed under the Aeroplan Program during the quarter ended March 31, 2008, 92.7% or 17.8 billion represented Aeroplan Miles issued under the Aeroplan Program with the balance being Air Canada Miles.

Given the large volume of miles issued and redeemed, slight fluctuations in the average unit redemption cost or selling price of a mile will have a significant impact on results.

Revenue recognized from the redemption and sale of Aeroplan Miles, including Breakage, amounted to $337.3 million for the quarter ended March 31, 2008 compared to $228.6 million for the quarter ended March 31, 2007, representing an increase of $108.7 million or 47.6%. This increase is mainly attributable to:

- the inclusion of the consolidated LMG results, accounting for $69.7 million of the total increase in revenue from Aeroplan Miles redeemed;
- Aeroplan Program growth, combined with a higher proportion of Aeroplan Miles redeemed during the quarter, representing an increase of $17.6 million;
- a higher cumulative average revenue recognized per Aeroplan Mile redeemed under the Aeroplan Program, representing $1.6 million, primarily attributable to an increase in the cumulative average selling price of an Aeroplan Mile as a result of higher contracted rates; and
- revenue recognized from Breakage amounted to $53.3 million for the quarter ended March 31, 2008 compared to $33.5 million for the quarter ended March 31, 2007, representing an increase of $19.8 million or 59.1%. The increase in revenue recognized from Breakage is attributable to the inclusion of the consolidated LMG results and the increase in Aeroplan Miles outstanding under the Aeroplan program as a result of growth in Gross Billings over the last 30 months compared to the 30 months period ended March 31, 2007.

Revenue from tier management, contact centre management and marketing fees from Air Canada decreased to $2.8 million from $3.7 million or 24%. This fee is billed on the basis of actual costs incurred plus a profit margin.

Other revenue consisting primarily of member based revenues (charges to members for services rendered including the mileage transfer program, booking, change and cancellation fees), marketing fees, and other miscellaneous amounts, amounted to $16.1 million for the quarter ended March 31, 2008 compared to $13.1 million for the quarter ended March 31, 2007, representing a increase of $3.0 million or 23.4%. The inclusion of the consolidated LMG results

accounts for the majority of the increase, being comprised primarily of royalties earned with respect to the Air Miles trade name.

Cost of rewards amounted to $223.2 million for the quarter ended March 31, 2008 compared to $155.1 million for the quarter ended March 31, 2007, representing an increase of $68.1 million or 43.9%. This increase is mainly attributable to the following factors:

- the inclusion of the consolidated LMG results for the quarter ended March 31, 2008, accounting for $59.6 million of the increase;
- increases in redemption activity and the proportionate allocation of total redemptions of Aeroplan Miles issued under the Aeroplan Program, representing a total increase of $13.7 million;
- partially offset by a lower redemption cost per Aeroplan Mile redeemed under the Aeroplan Program, primarily related to air travel rewards, representing $5.2 million.

Gross margin increased by 0.5% compared to the comparable period of the previous year and represented 37.3% of total revenue.

Selling, general and administrative amounted to $64.5 million for the quarter ended March 31, 2008 compared to $39.4 million in 2007, representing an increase of $25.1 million or 63.7%. This increase is primarily due to the inclusion of the consolidated LMG results, accounting for $23.3 million of the increase. The Aeroplan Program incurred increased compensation and corporate costs of $2.5 million partially offset by lower technology and other costs of $0.7 million.

Depreciation and amortization amounted to $4.7 million for the quarter ended March 31, 2008 compared to $2.7 million in the same period in 2007.

Amortization of Accumulation Partners' contracts and technology amounted to $22.7 million for the quarter ended March 31, 2008 and is primarily related to amortization recorded against the finite life intangibles at the consolidated Fund level. As explained previously, in order to enable a meaningful performance comparison, these charges have not been considered in the analysis.

Operating income, after adding back the amortization of Accumulation Partners' contracts and technology referred to above, amounted to $63.8 million for the quarter ended March 31, 2008 compared to $48.1 million for the quarter ended March 31, 2007, representing an increase of $15.7 million or 32.7%. This increase is mainly attributable to higher reward redemption activity, including a higher proportion of Aeroplan Miles redeemed, higher gross margins and the inclusion of the consolidated LMG results.

Net interest income for the quarter ended March 31, 2008, consists of interest revenue of $7.2 million earned on cash and cash equivalents and short-term investments on deposit; offset by interest on long-term debt of $11.8 million on the borrowings described under *Credit Facilities* and net interest on the currency swap of $1.7 million described under *Currency Swap.*

Foreign exchange represents currency fluctuations associated with the financing structure for the LMG investment, and are primarily attributable to gains or losses on internal debt financing offset by fluctuations in the value of the currency swap.

Adjusted EBITDA for the quarter amounted to $77.6 million or 22.6% (as a % of Gross Billings) and ***Distributable Cash*** generated amounted to $64.0 million or 18.7% (as a % of Gross Billings), compared to $60.0 million or 26.3% (as a % of Gross Billings) and $60.1 million or

26.4% (as a % of Gross Billings), respectively for the first quarter of 2007. Although Distributable Cash was negatively affected by the $25.1 million increase in selling, general and administrative expenses it was positively impacted by the increase in Gross Billings. Adjusted EBITDA and Distributable Cash are non-GAAP measures, for additional information on these measures, please refer to the *Performance Indicators* section.

SUMMARY OF QUARTERLY RESULTS

This section includes sequential quarterly data for the eight quarters ended March 31, 2008.

(in thousands, except per unit amounts)	2008	2007				2006		
(unaudited)	Q1	Q4	Q3	Q2[2]	Q1[2]	Q4[2]	Q3[2]	Q2[2]
	$	$	$	$	$	$	$	$
Gross Billings	**342,650**	**248,380**	**236,877**	**238,931**	**227,977**	**226,728**	**211,245**	**212,376**
Total revenue	**356,215**	**221,578**	**219,239**	**220,284**	**245,314**	**208,404**	**178,391**	**182,534**
Cost of rewards	223,227	129,181	127,205	128,541	155,134	120,160	107,741	112,470
Gross margin	132,988	92,397	92,034	91,743	90,180	88,244	70,650	70,064
Selling, general and administrative expenses	64,511	43,017	40,713	41,707	39,403	47,451	34,464	34,948
Depreciation and amortization	4,672	3,059	3,230	2,811	2,704	3,479	3,155	3,884
Operating income before amortization of Accumulation Partners' contracts and technology	63,805	46,321	48,091	47,225	48,073	37,314	33,031	31,232
Amortization of Accumulation Partners' contracts and technology	22,678	18,112	18,112					
Operating income	41,127	28,209	29,979	47,225	48,073	37,314	33,031	31,232
Adjusted net earnings[3] = Net earnings, in accordance with GAAP + amortization of Accumulation Partners' contracts and technology + income taxes	61,780	44,809	51,371	49,450	50,116	38,469	34,320	31,755
Net earnings	**42,132**	**51,697**	**32,259**	**49,450**	**50,116**	**38,469**	**34,320**	**31,755**
Adjusted EBITDA	77,580	64,131	64,519	65,171	59,980	56,975	53,359	51,470
Standardized Distributable Cash	17,538	47,894	89,667	68,163	70,856	94,769	100,969	63,441[1]
Standardized Distributable Cash per unit	0.09	0.24	0.45	0.34	0.36	0.47	0.50	0.32
Distributable Cash	63,990	59,380	63,015	64,886	60,120	52,996	50,664	47,073[1]
Distributable Cash per unit	0.32	0.30	0.32	0.33	0.30	0.27	0.25	0.24
Earnings per unit, in accordance with GAAP - Fund	0.21	0.26	0.16	(0.68)	0.16	0.13	0.07	0.11
Earnings per unit, in accordance with GAAP - Partnership	n/a	0.24	0.26	0.25	0.25	0.19	0.17	0.16

(1) Maintenance capital expenditures included in Distributable Cash for Q2 2006 have been restated to reflect the actual amount of maintenance capital expenditures incurred in that period. The amount previously reported was based upon a pro-ration of the estimated yearly spend.
(2) Results presented for comparative purposes are those of the Partnership.
(3) Adjusted net earnings is a non-GAAP measurement.

FINANCING STRATEGY

The Fund generates sufficient cash flow internally to fund cash distributions, capital expenditures and to service its debt obligations. Management believes that the Fund's internally generated cash flows, combined with its ability to access external capital, provide sufficient resources to finance its cash requirements in the foreseeable future and to maintain available liquidity, as discussed in the *Liquidity and Capital Resources* section. Distributions are expected to continue to be funded from internally generated cash flows.

LIQUIDITY AND CAPITAL RESOURCES

Since January 1, 2002, the Fund has consistently generated positive cash flows from operations. At March 31, 2008, the Fund had $159.9 million of cash and cash equivalents and $373.5 million of short-term investments (consisting of commercial paper maturing on various dates during the period April to September 2008) on hand, for a total of $533.4 million. The Aeroplan Miles redemption reserve described under *Aeroplan Miles Redemption Reserve* of $400.0 million is included in this amount. The Fund's cash and cash equivalents and short-term investments do not include any asset-backed commercial paper.

The following table provides an overview of the Fund's cash flows for the periods indicated:

	Three months ended March 31	
	2008	**2007**[1]
(in thousands of dollars)	**$**	**$**
Cash from operating activities	24,403	73,229
Cash from (used in) investing activities	(270,429)	47,960
Cash from (used in) financing activities	(51,994)	(47,000)
Cash and cash equivalents, end of period	**159,908**	**241,128**

(1) 2007 results presented for comparative purposes are those of the Partnership.

Operating Activities

Cash from operations is generated primarily from the collection of Gross Billings of Aeroplan Miles and is reduced by the cash required to provide the rewards when Aeroplan Miles are redeemed and by operating and interest expenses.

Cash flows from operating activities amounted to $24.4 million for the quarter ended March 31, 2008 compared to $73.2 million for the quarter ended March 31, 2007. Fluctuations are primarily attributable to the inclusion of the consolidated LMG results, which were impacted by the seasonality effect and the settlement, during the period, of accounts payable incurred during the last quarter of 2007, consistent with LMG's peak period of redemption activity.

Investing Activities

The Fund's investment activities for the three months ended March 31, 2008 were primarily attributable to the acquisition of RMMEL which was funded with cash on hand, and the payment of accrued expenses related to the December 2007 acquisition of LMG.

Anticipated capital expenditures, which are primarily related to Maintenance Capital Expenditures associated with software development initiatives for fiscal 2008, are expected to approximate $30.0 million.

Financing Activities

Cash flows used in financing activities related to the payment of distributions, and the repayment of long-term debt.

Liquidity

The Fund anticipates that total capital requirements for the next twelve months of $198.0 million, including $168.0 million in respect of anticipated cash distributions, based on the current distribution rates, and approximately $30.0 million of Maintenance Capital Expenditures, will be funded from operations, available cash on deposit and, to the extent required, from the *Aeroplan Miles Redemption Reserve* where applicable (i.e. in periods of unusually high redemption activity) and bank borrowings, if necessary.

If the Arrangement is approved and the reorganization to a corporate structure is completed, the anticipated amount of cash distributions will be reduced as a result of the implementation of the dividend policy.

Aeroplan Miles Redemption Reserve

In conjunction with the issuance of units to the Fund and the credit facilities concluded on June 29, 2005, and December 19, 2007, Aeroplan established the Aeroplan Miles redemption reserve (the “Reserve”). As at March 31, 2008, the Reserve amounted to $400.0 million and was included in cash and cash equivalents and short-term investments.

The amount held in the Reserve, as well as the types of securities in which it may be invested (high quality commercial paper), are based on policies established by management, which are reviewed periodically.

The Reserve may be used to supplement cash flows generated from operations in order to pay for rewards during periods of unusually high redemption activity associated with Aeroplan Miles under the Aeroplan Program.

Management is of the opinion that the Reserve is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of business.

To date, Aeroplan has not had to use the funds held in the Reserve.

At March 31, 2008, the Reserve represented 33.6% of the Future Redemption Cost liability.

The deferred revenue presented in the balance sheet represents accumulated unredeemed Aeroplan Miles valued at their weighted average selling price and unamortized Breakage. The estimated Future Redemption Cost liability of those Aeroplan Miles, calculated at the current Average Cost of Rewards per Mile redeemed, is approximately $1,192 million.

Credit Facilities

The following is a summary of the Fund's authorized and outstanding credit facilities:

In thousands	Authorized $	Drawn at March 31, 2008 $
Revolving term facility	150,000	30,000
Term facility	300,000	300,000
Acquisition facility	100,000	100,000
Bridge Facility	300,000	300,000
Less: Unamortized portion of discount	-	(2,465)
Less: Unamortized portion of financing charges	-	(4,038)
Total	**850,000**	**723,497**

As at March 31, 2008, the Fund had authorized credit facilities of $850.0 million and borrowings of $723.5 million. Borrowings are recorded net of prepaid interest in the amount of $2.5 million and unamortized financing charges in the amount of $4.0 million.

The revolving term, term, and acquisition facilities mature on December 19, 2010, or earlier at the option of the Fund, without penalty, and bear interest at rates ranging from Canadian prime rate and U.S. base rate plus 0.25% to Canadian prime rate and U.S. base rate plus 1.125% and the Bankers' Acceptance rate and LIBOR plus 1.25% to 2.125%. The revolving term facility was amended on December 19, 2007 to increase the maximum authorized borrowings under this facility from $75 million to $150 million.

The bridge facility, which was entered into on December 19, 2007, matures on June 19, 2009, or earlier at the option of the Fund, without penalty, and bears interest at rates ranging from Canadian prime rate plus 0.25% to Canadian prime rate plus 1.125% and the Bankers' Acceptance rate plus 1.25% to 2.125%. It may, under certain conditions, be extended first to December 19, 2009 and then, partially, to June 19, 2010.

At March 31, 2008, borrowings under the revolving term, acquisition, and bridge facilities were in the form of Bankers' Acceptances with a 30 day term and effective interest rates ranging from 5.6% to 5.77%

The outstanding credit facilities are secured by substantially all the present and future assets of the Fund.

The credit facilities are subject to the Fund's ability to maintain financial covenants related to leverage and debt service ratios of ≤ 3.0 and interest coverage of ≥ 3.0, as well as other

affirmative and negative covenants as defined in the credit agreements.

At March 31, 2008, the Fund was in compliance with its financial covenants, as follows:

Ratio	Result	Test
Leverage	2.40	≤ 3.0
Debt service [(a)]	0.75	≤ 3.0
Interest coverage	98.0	≥ 3.0

(a) this ratio takes into account the Fund's net debt, calculated as long-term debt less cash and short-term investments on hand. The result reflects the Fund's high liquidity position.

In view of the Fund's cash generation capacity and overall financial position, while there can be no assurance in this regard, management believes that the Fund will be able to pay or refinance the debt when it comes due.

GUARANTEES (OFF-BALANCE SHEET ARRANGEMENTS) AND CONTINGENT LIABILITIES

Air Canada Miles

In accordance with the Commercial Participation and Services Agreement dated June 9, 2004 between Air Canada and Aeroplan, as amended, (the "CPSA"), Air Canada is responsible for the cost of the redemption for air rewards of up to a maximum of 112.4 billion Air Canada Miles accumulated by members prior to January 1, 2002. As of March 31, 2008, 106.5 billion of those Air Canada miles had been redeemed.

In the unlikely event that Air Canada is unable to meet its obligation, Aeroplan may be required to honor Air Canada's redemption obligation. Based on Aeroplan's current average redemption cost per mile, as calculated on the basis of the current average redemption cost, calculated as a function of actual prices with Redemption Partners, including Air Canada, and the experienced mix of various types of rewards that members have selected, based on past experience, such obligation would amount to approximately $54.4 million at March 31, 2008.

Also under the CPSA, Aeroplan is responsible for any redemptions for air rewards of Air Canada Miles issued prior to January 1, 2002, in excess of the 112.4 billion Air Canada Miles. While on the basis of current estimates, Aeroplan does not expect such redemptions to exceed 112.4 billion Air Canada Miles, the maximum potential redemption cost of meeting this obligation if all 14.6 billion estimated Broken but unexpired Air Canada Miles were to be redeemed, amounts to $134.5 million at March 31, 2008.

As a result, the total maximum potential redemption cost to Aeroplan for the total outstanding and unbroken Air Canada Miles is estimated to be $188.9 million at March 31, 2008.

Management estimates that a 1% decrease in Breakage related to the Air Canada Miles would have an impact on cost of rewards and net earnings of approximately $23.7 million for the period in which the change occurred.

Aeroplan has also agreed to indemnify Air Canada, its affiliates and representatives from any

claims arising out of any changes made at any time by Aeroplan to the Aeroplan Program to the extent such changes are implemented to address fluctuations in Breakage related to the liability attached to miles issued prior to January 1, 2002.

Aeroplan Miles

In addition, Aeroplan may be required to provide rewards to members for unexpired Aeroplan Miles accounted for as Breakage on the Aeroplan Miles issued after December 31, 2001 for which the Breakage revenue has been recognized or deferred and for which no liability has been recorded. The maximum potential redemption cost for such Aeroplan Miles is estimated to be $818.2 million at March 31, 2008. The potential redemption costs noted above have been calculated on the basis of the current average redemption cost calculated as a function of actual prices with Redemption Partners, including Air Canada, and the experienced mix of the various types of rewards that members have selected, based on past experience.

Management estimates that a 1% change in breakage related to the Aeroplan Miles issued after January 1, 2002, would have a total impact on revenue and net earnings of $55.9 million for the period in which the change occurred, with $53.8 million relating to prior years and $2.1 million relating to the current three month period.

VAT Appeal

LMG has been in litigation with Her Majesty's Revenue & Customs ("HMRC") since 2003 relating to the VAT treatment of the Nectar Program as it applies to the deductibility of input tax credits in the remittance of VAT owed, and has paid an assessed amount of £13.8 million ($27.1 million).

LMG appealed to the VAT and Duties Tribunal and was successful. HMRC then appealed to the High Court which found in favour of HMRC. LMG, in turn, appealed to the Court of Appeal, who issued a judgement in favour of LMG on October 5, 2007 requiring the refund of the assessed amount and confirming LMG's eligibility to deduct input tax credits in the future. As a result of this event, an amount receivable of £13.8 million ($27.1 million) was recorded in the accounts at December 31, 2007 and subsequently collected in January 2008.

HMRC has sought leave to appeal the Court of Appeal's decision to the House of Lords. The hearing on whether to grant leave to appeal was held on April 3, 2008. The House of Lords granted the leave to appeal and the case has been referred to the European Court of Justice. The case will be heard at a future date to be set. Until the outcome is known, it is unclear whether LMG will have to repay amounts awarded under the October 5, 2007 judgement, as well as any VAT recovered as a deduction in calculating input tax credits until such time as a decision is rendered, together with interest thereon. At March 31, 2008, LMG has recorded in its accounts the benefit of VAT input tax credits in the aggregate amount of £14.8 million ($29.6 million).

At this time, the outcome of this contingency is not determinable and no provision for a liability has been included in these financial statements.

Other

From time to time, the Fund becomes involved in various claims and litigation as part of its business. While the final outcome thereof cannot be predicted, based on the information currently available, management believes the resolution of current pending claims and litigation will not have a material impact on the Fund's financial position and results of operations.

The Fund has agreed to indemnify its Trustees, directors, and officers, to the extent permitted under corporate law, against costs and damages incurred by the Trustees, directors and officers as a result of lawsuits or any other judicial, administrative or investigative proceedings in which the Trustees, directors and officers are sued as a result of their services. The Fund's Trustees, directors and officers are covered by Trustees', directors' and officers' liability insurance. No amount has been recorded in these financial statements with respect to the indemnification agreements.

TRANSACTIONS WITH RELATED PARTIES

ACE, Air Canada's parent company, through its rights under the terms of a Securityholders' Agreement, has the ability for as long as it owns more than a 20% interest in the Fund, to nominate a majority of the Board of Directors and legally control the Fund. At March 31, 2008, ACE directly held a 20.1% interest in the Fund. Pursuant to a secondary offering which closed on April 21, 2008, ACE reduced its holdings to 9.9% and from that date no longer has the ability to nominate a majority of the Board of Directors. ACE retains the right to nominate two directors for as long as one of its subsidiaries is a party to the CPSA.

Air Canada is one of the Fund's largest Accumulation Partners, representing 19% and 28% of Gross Billings for the quarters ended March 31, 2008 and 2007 respectively. Air Canada, including other Star Alliance partners, is the Fund's largest Redemption Partner. For the quarter ended March 31, 2008, 65% of total reported cost of rewards was paid to Air Canada, compared to 91% for the quarter ended March 31, 2007. Selling, general and administrative expenses where Air Canada was the supplier of services represented 28% of total selling, general and administrative expenses for the quarter ended March 31, 2008 compared to and 46% for the comparable period in 2007.

The dilution of the above percentages is primarily attributable to the inclusion of the consolidated results of LMG for the quarter, as well as the continued increasing trend in redemption of non-air rewards by members in the case of cost of rewards, and reduced dependence over time on Air Canada as a service provider in the case of operating expenses.

The commercial relationship between the Fund and Air Canada is governed by several arrangements and agreements which are described in the Fund's Annual Information Form dated March 28, 2008.

On August 8, 2007, as provided for in the existing CPSA between the parties, Aeroplan and Air Canada reached agreement relating to fixed capacity redemption rates, to be paid by Aeroplan and Air Canada in connection with airline seat redemptions, for the period beginning January 1, 2008 through to December 31, 2010. The outcome falls within the pre-established contractual parameters and is in line with Aeroplan's business expectations.

SUMMARY OF CONTRACTUAL OBLIGATIONS

As at March 31, 2008, estimated future minimum payments under the Fund's contractual obligations are as follows:

(in millions)	Total	2008	2009	2010	2011	2012	thereafter
	$	$	$	$	$	$	$
Operating leases	21.3	3.6	2.8	2.7	2.6	2.6	7.0
Special payments under GSA	10.9	1.4	1.9	1.9	1.9	1.9	1.9
Long term debt	730.0	-	300.0	430.0	-	-	-
Purchase obligation under the CPSA	4,815.6	251.2	396.9	396.9	396.9	396.9	2,976.8
Total	**5,577.8**	**256.2**	**701.6**	**831.5**	**401.4**	**401.4**	**2,985.7**

Under the terms of certain contractual obligations with a major Accumulation Partner, The Fund is required to maintain certain minimum working capital amounts in accordance with pre-established formulas. As at March 31, 2008, the Fund complied with all such covenants.

DISTRIBUTIONS

The Fund intends to make monthly distributions to its unitholders within 15 days of the end of each month, as approved by the Trustees. Distributions declared to the unitholders of record on the last business day of the month during the three months March 31. 2008 and 2007 amounted to $42.0 million and $36.3 million, respectively, as follows:

Record date	2008		2007	
	Amount	Amount per Unit	Amount	Amount per Unit
	$	$	$	$
January	13,997,815	0.0700	11,161,792	0.0700
February	13,997,815	0.0700	11,161,792	0.0700
March	13,997,815	0.0700	14,000,000	0.0700
	41,993,445	0.2100	36,323,584	0.2100

As part of a tax planning strategy to increase future tax deductions, the Fund did not use the full available discretionary deductions to reduce taxable income and as a result, for the year ended December 31, 2007, 100% of amounts distributed represented taxable income generated from operations.

It is expected that 100% of distributions paid in 2008 will also be taxable.

Distributions payable by the Fund to its unitholders are recorded when declared.

If the Arrangement is approved and the reorganization to a corporate structure is completed, the dividend policy will be subject to the discretion of the board of directors of the new corporation and may vary depending on, among other things, earnings, financial requirements, the satisfaction of solvency tests imposed under the *Canada Business Corporations Act* for the declaration of dividends and other conditions existing at such future time.

UNITS

As at March 31, 2008, the Fund had 199,968,791 units issued and outstanding for an aggregate amount of $3,258.2 million.

EARNINGS PER UNIT

The Fund's earnings per unit amounted to $0.21 and $0.16 for the three months ended March 31, 2008 and 2007 respectively.

CRITICAL ACCOUNTING ESTIMATES

Please refer to note 2 to the December 31, 2007 audited consolidated financial statements and the corresponding section of the 2007 MD&A to review the Fund's critical accounting estimates.

CHANGES IN ACCOUNTING POLICIES

Capital Disclosures and Financial Instruments – Disclosure and Presentation

On January 1, 2008, the Fund adopted accounting handbook section 1535, *Capital Disclosures*, section 3862, *Financial Instruments – Disclosures*, and section 3863, *Financial Instruments – Presentation*. These sections relate to disclosure and presentation only and did not have an impact on the Fund's financial results.

Section 1535, *Capital Disclosures*, establishes disclosure requirements about the Fund's capital and how it is managed. The purpose is to enable users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital. Disclosures recommended by the new handbook section have been included in note 17 of the interim consolidated financial statements.

Section 3862, *Financial Instruments – Disclosures*, modifies the disclosure requirements for financial instruments that were included in Section 3861, *Financial Instruments – Disclosure and Presentation*. Section 3863, *Financial Instruments – Presentation*, carries forward unchanged the presentation requirements of the previous Section 3861, *Financial Instruments – Disclosure and Presentation.* These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

These new standards require disclosures related to the significance of financial instruments on the Fund's financial position and performance and the nature and extent of risk arising from financial instruments in which the Fund is exposed and how the Fund manages the risks. Disclosures recommended by the new handbook sections have been included in note 18 of the interim consolidated financial statements.

FUTURE ACCOUNTING CHANGES

Goodwill and intangible assets and Convergence with International Financial Reporting Standards ("IFRS")

Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The provisions relating to the definition and initial recognition of intangible assets are equivalent to the corresponding provisions of International Financial Reporting Standard IAS 38, "Intangible Assets." The new standard also provides guidance for the recognition of internally developed intangible assets, including assets developed from research and development activities, ensuring consistent treatment of all intangible assets, whether separately acquired or internally developed. The section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008 with earlier adoption encouraged. The Fund is currently evaluating the impact of this standard on its financial statements.

Convergence with International Financial Reporting Standards ("IFRS")

On February 13, 2008, the Canadian Accounting Standards Board (AcSB) confirmed the mandatory changeover date to IFRS for all Canadian profit-oriented publicly accountable entities. This means that the Fund will be required to prepare IFRS financial statements for interim periods and fiscal years beginning in 2011. Work is currently underway to evaluate the impact this will have on the Fund's financial statements.

CAPITAL DISCLOSURES

The Fund's capital consists of cash and cash equivalents, short-term investments, long-term debt and unitholders' equity (excluding accumulated other comprehensive income).

The Fund's objectives when managing capital are:

- to provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations;
- to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions; and
- to provide a rewarding return on investment to unitholders by delivering monthly cash distributions.

In managing its capital structure, the Fund monitors performance throughout the year to ensure anticipated cash distributions, working capital requirements and maintenance capital expenditures are funded from operations, available cash on deposit and, where applicable, bank borrowings. The Fund manages its capital structure and may make adjustments to it in order to support the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust its capital structure, the Fund may adjust the amount of distributions paid to unitholders, purchase units for cancellation pursuant to normal course issuer bids, issue new units, issue new debt, issue new debt to replace existing debt (with different characteristics), or reduce the amount of existing debt.

The Fund monitors capital using a number of financial metrics, including but not limited to:

- the leverage ratio, defined as debt to adjusted earnings before interest, taxes, depreciation and amortization, adjusted for changes in deferred revenue and future redemption costs (adjusted EBITDA);
- the debt service ratio, defined as debt to operating cash flows;
- the interest coverage ratio, defined as adjusted EBITDA to net interest expense (interest expense incurred net of interest income earned); and
- the distribution payout ratio, defined as distributions declared to cash flows from operations and distributions declared to net earnings.

The Fund uses adjusted EBITDA as a measurement to monitor operating performance. Distributable cash is used as an indicator of financial performance. Both measures, as presented, are not recognized for financial statement presentation purposes under Canadian GAAP, and do not have a standardized meaning. Therefore, they are not likely to be comparable to similar measures presented by other public entities.

The Fund is subject to financial covenants pursuant to the credit facility agreements, which are measured on a quarterly basis. These include the leverage, debt service and interest coverage ratios presented above. In addition, under the terms of certain contractual obligations with a major Accumulation Partner, the Fund is required to maintain certain minimum working capital amounts in accordance with pre-established formulae. The Fund is in compliance with all such covenants.

The Fund has also established the Reserve, which at March 31, 2008 amounted to $400 million and is included in cash and cash equivalents and short-term investments. The amount held in the Reserve, as well as the types of securities in which it may be invested (high quality commercial paper), are based upon policies established by management. This internally imposed reserve, which was established as a matter of prudence, may be used to supplement cash flows generated from operations in order to pay for rewards during periods of unusually high redemption activity. To date, the Fund has not had to use the funds held in the Reserve. Management is of the opinion that the Reserve is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of operations.

For the current fiscal year, the Fund expects to invest approximately $30 million in maintenance capital expenditures. Like past investments, these investments in productive capacity provide

for the stability of the Fund's operations and the realization of cost efficiencies through new technology or process improvements.

As a result of the Canadian income trust taxation legislation passed in June 2007 and effective January 1, 2011, the Fund is subject to certain capital growth restrictions referred to as "normal growth" equity rules. These rules limit the amount of unitholders' capital that can be issued by the Fund in each of the next three years, based upon the Fund's market capitalization on October 31, 2006, as follows:

	Annual	Cumulative
Normal growth capital allowed in :	$	$
	(unaudited)	(unaudited)
2008[1]	158,400	475,200
2009	158,400	633,600
2010	158,400	792,000

[1] The Fund's allowed growth capital prior to 2008 was approximately $316.8 million

If the maximum equity growth allowed is exceeded, the Fund may be subject to taxation prior to 2011.

In addition to growth capital restrictions, the Fund also monitors its foreign ownership levels to the extent possible, given the practical limitations involved in ascertaining beneficial ownership information. The Trust indenture, under which the Fund was created, provides that no more than 49.9% of the units of the Fund can be held by non-Canadian residents. The potential impact of breaching this threshold may be the loss of mutual fund status, and in that event, the Fund would be subject to taxation from the beginning of the fiscal year in which the breach occurs. On the basis of information supplied by the transfer agent, as at March 31, 2008, the Fund's best estimate of the foreign ownership level is 41%.

If the Arrangement is approved and the reorganization to a corporate structure is completed, the resulting corporation will become subject to Canadian federal and provincial corporate income tax on its taxable income for the period beginning on the date of closing of the reorganization. The new corporation should be able to utilize the Fund's current tax attributes to partially offset its taxable income post-conversion and anticipates that it will become entitled to scientific research and experimental development tax incentives relating to qualifying expenditures incurred in connections with information technologies going forward, which should reduce the impact of the corporate income tax exposure. It is anticipated that the new corporation would pay cash taxes at an effective cash tax rate of approximately 16-19% on its consolidated earnings before tax for its 2008 taxation year, which reflects the impact from the date of closing of the reorganization, and 22-26% for the 2009 taxation year. In addition, the Fund will also become liable for capital tax in Quebec which is expected to range between $1.5 million – $2.5 million per year until 2011 when Quebec's capital tax rate will be eliminated.

FINANCIAL INSTRUMENTS

The Fund's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, note receivable, accounts payable and accrued liabilities, distributions payable, and long-term debt.

The Fund, through its financial assets and liabilities, has exposure to the following risks from its use of financial instruments: interest rate risk, credit risk, liquidity risk and currency risk. Senior management is responsible for setting acceptable levels of risk and reviewing risk management activities as necessary.

Interest rate risk

The Fund is exposed to fluctuations in interest rates with respect to cash and cash equivalents, short-term investments, and borrowings under the terms of the outstanding credit facilities, all of which bear interest at variable rates and are held or borrowed in the form of short-term deposits or Bankers' Acceptances.

The Fund invests the Reserve and excess cash on hand in instruments with similar terms to maturity as the underlying Bankers' Acceptances related to the credit facilities with an objective to mitigate the interest rate exposure.

At March 31, 2008, the interest rate profile of the Fund's interest bearing financial instruments was as follows:

	March 31, 2008
(in thousands of dollars)	**$**
Variable rate instruments	
Cash and short-term investments	533,409
Long-term debt	(730,000)
Currency swap	8,061

For the three-month period ended March 31, 2008, management has determined that a 1% variance in the interest rates on the cash and short-term investments and long-term debt would result in a variance in earnings before tax of $1.3 million and $1.8 million respectively. Similarly, management has determined that a 1% variance in either the LIBOR or CDOR rates would have a $1.1 million impact on the fair value of the swap.

Credit risk

The Fund's maximum exposure to credit risk on its financial assets is limited to their respective carrying amounts.

In accordance with its investment policy, the Fund invests the Reserve and excess cash, included in short-term investments and cash and cash equivalents in commercial paper or corporate bonds with a minimum rating of R-1 (high) or AA (low) and term deposits, subject to certain thresholds to reduce undue exposure to any one issuer.

The Fund has concentration of credit risk on the Accumulation Partners identified in note 8 of the interim consolidated financial statements. However, any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. Historically, bad debts experienced by the Fund have been negligible.

Liquidity risk

The Fund's objective is to have sufficient liquidity to meet its financial liabilities as they come due. The Fund manages liquidity risk through financial leverage which includes monitoring of its cash balances and uses cash flows generated from operations to meet financial liability requirements. It is the Fund's intention to renew or replace credit facilities as they come due.

Currency risk

The Fund is exposed to currency risk on its foreign operations which are denominated in a currency other than the CAD dollar, mainly the pound sterling.

At March 31, 2008, the Fund held net financial assets denominated in £ sterling of approximately £82 million. A 1% variance in the £ sterling foreign exchange rate would result in a $1.7 million variance in the net assets of the Fund.

In addition, management has determined that 1% variance in the £ sterling exchange rate attributable to the currency swap would result in a $4.9 million variance in the fair value of the swap.

Financial instruments – carrying amounts and fair values

The fair values of financial assets and liabilities, together with the carrying amounts included in the consolidated statement of financial position, are as follows:

	March 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$	$	$	$
Financial assets				
Held to maturity:				
Cash and cash equivalents and short-term investments held in the Reserve	400,000	400,000	400,000	400,000
Held for trading:				
Cash and cash equivalents and short-term investments	133,409	133,409	179,365	179,365
Loans and receivables:				
Accounts receivable	183,062	183,062	216,324	216,324
Note receivable	63,723	63,723	60,482	60,482
Financial liabilities				
Other financial liabilities:				
Accounts payable and accrued liabilities	200,035	200,035	276,490	276,490
Distributions payable	13,998	13,998	13,998	13,998
Long-term debt	723,497	727,535	734,686	739,543
Derivatives				
Currency swap	8,061	8,061	21,727	21,727

Fair value

The fair value of the financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties. The Fund uses the following methods and assumptions to estimate fair value of each class of financial instruments for which carrying amounts are included in the consolidated statement of financial position as follows:

Held to maturity

Cash and cash equivalents and short-term investments held in the Aeroplan Miles redemption reserve – The carrying amounts, included in the consolidated statement of financial position, approximate fair value as a result of the short-term maturity of the underlying instruments. Cash and cash equivalents and short-term investments are presented with accrued interest thereon.

Held for trading

Other cash and cash equivalents and short-term investments – The carrying amounts, included in the consolidated statement of financial position, approximate fair value, which is estimated to approximate amortized cost.

Loans and receivables

Accounts receivable – The carrying amount included in the consolidated statement of financial position approximates fair value because of the short-term maturity of these instruments.

Note receivable - The carrying amount included in the consolidated statement of financial position approximates fair value, as determined by applying risk adjusted market rates.

Financial liabilities

Accounts payable and accrued liabilities and distributions payable – The carrying amounts, included in the consolidated statement of financial position, approximate fair value because of the short-term maturity of these instruments.

Long-term debt – The fair value of the borrowings under the term facilities of approximately $727.5 million is estimated as carrying value adjusted to remove unamortized deferred financing costs, since they bear interest at floating rates, and are typically drawn in the form of Bankers' Acceptances with a short-term maturity.

Derivatives

Currency swap - The carrying amount of the currency swap is fair value, estimated on the amounts at which it could be settled, based on current market rates.

DISCLOSURE CONTROLS AND PROCEDURES

The Fund's disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to its Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for designing such internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made in the Fund's internal control over financial reporting during the three month period ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Fund's internal control over financial reporting.

CEO AND CFO CERTIFICATIONS

The Fund files certifications relating to its annual filings, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of the Fund's Annual Information Form. In these filings, the CEO and CFO certify, as required by Multilateral Instrument 52-109, the appropriateness of the financial disclosure, the effectiveness of the Fund's disclosure controls and procedures, and the design of internal control over financial reporting to provide reasonable assurance as to its reliability and the preparation of financial statements for external purposes in accordance with GAAP. The Fund's CEO and CFO also certify the appropriateness of the financial disclosures in its interim filings, and that they have caused disclosure controls and procedures and internal control over financial reporting to be designed.

The Audit, Finance and Risk Committee reviewed this MD&A, and the unaudited interim consolidated financial statements, and the Board of Directors and the Trustees approved these documents prior to their release.

OUTLOOK

Management is committed to deliver its 2008 business plan including continued expansion of Commercial Partners, available rewards and operating efficiency through investments in technological solutions.

On May 8, 2008, the Fund received board approval to reorganize its income trust structure into a growth oriented, dividend paying global loyalty management public corporation. The proposed reorganization is subject to unitholder and other approvals and will be undertaken pursuant to a statutory plan of arrangement under the *Canada Business Corporations Act* (the "Arrangement").

Upon completion of the reorganization, it is anticipated that the dividend policy will initially be set at $0.125 per common share per quarter, with the first dividend to be declared payable in respect of the quarter ended September 30, 2008.

It was determined that the arguments in favour of moving to a corporate structure were very compelling as the reorganization:

- Resolves uncertainty related to the foreign ownership issue;
- Supports the Fund's growth strategy through better access to global capital markets, providing access to financing on a more timely and cost efficient basis;
- Optimizes leverage in order to maximize returns to shareholders and enhances our ability to maintain an adequate investment-grade capital structure;
- Provides an acceptable currency to be used in the context of an international acquisition, should the opportunity arise; and
- Allows Aeroplan to benefit from Federal and Provincial tax credits on qualifying eligible Research and Development expenditures.

RISKS AND UNCERTAINTIES

Other than those described below, the Fund's risks and uncertainties have not changed since the release of the 2007 MD&A. For more information, and for a complete description of risk factors that could materially affect the business, please refer to the corresponding sections in the 2007 MD&A and in the Fund's Annual Information Form dated March 28, 2008.

VAT Appeal

LMG has been in litigation with HMRC since 2003 relating to the VAT treatment of the Nectar Program as it applies to the deductibility of input tax credits in the remittance of VAT owed, and has paid an assessed amount of £13.8 million.

LMG appealed to the VAT and Duties Tribunal and won. HMRC then appealed to the High Court which found in favour of HMRC. LMG, in turn, appealed to the Court of Appeal, who issued a judgement in favour of LMG on October 5, 2007 requiring the refund of the assessed amount and confirming LMG's eligibility to deduct input tax credits in the future. As a result of this event, an amount receivable of £13.8 million ($27.1 million) was recorded in the accounts at December 31, 2007, and subsequently collected in January 2008.

HMRC has sought leave to appeal the Court of Appeal's decision to the House of Lords. The hearing on whether to grant leave to appeal was held on April 3, 2008. The House of Lords granted the leave to appeal and the case has been referred to the European Court of Justice. The case will be heard at a future date to be set. Until the outcome is known, it is unclear whether LMG will have to repay amounts awarded under the October 5, 2007 judgment, as well as any VAT recovered as a deduction in calculating input tax credits until such time as a decision is rendered, together with interest thereon. At March 31, 2008, LMG has recorded in its accounts the benefit of VAT input tax credits in the aggregate amount of £14.8 million ($29.6 million)

At this time, the outcome of this contingency is not determinable and no provision for a liability has been included in the financial statements. An unfavourable judgment would impact LMG's profitability and accordingly the value of the LMG business.

Foreign Ownership Limitations and Impact on Mutual Fund Trust Status and Value and Liquidity of Units

As indicated in the Fund Declaration of Trust, in order for the Fund to maintain its status as a mutual fund trust under the Income Tax Act (Canada) (the "Tax Act"), the Fund must not be established or maintained primarily for the benefit of non-residents. Accordingly, for so long as is required by the Tax Act to meet such test, the Fund Declaration of Trust provides that at no time may non-residents be the beneficial owners of more than 49.9% of the units.

If at any time, the trustees of the Fund (the "Trustees), in their sole discretion, determine that it is advisable and in the best interests of the Fund to act so that the Fund continues to qualify as a mutual fund trust for purposes of the Tax Act, the Trustees may take such actions as are required to ensure that the non-resident ownership limitation is not contravened, including the following: (i) requiring residency declarations from unitholders, (ii) refusing to accept a subscription for units from or issue or register a transfer of units to a non-resident, (iii) imposing other limits on unit ownership by non-residents and (iv) requiring non-resident unitholders to dispose of all or a portion of their unit holdings. In any situation where it is unclear whether Units

are held for the benefit of non-resident beneficial unitholders, the Trustees may exercise their discretion in determining whether such units are or are not so held. In the absence of such measures, the Fund may no longer comply with non-resident ownership limitations and lose its status as a mutual fund trust should non-residents become the beneficial owners of more than 49.9% of the units. There can be no assurance that any measure described above and implemented by the Trustees would prevent the Fund from losing its mutual fund trust status.

These restrictions may limit (or inhibit the exercise of) the rights of non-residents to acquire units, to exercise their rights as unitholders and to initiate and complete take-over bids in respect of the units. As a result, these restrictions may limit the demand for units from certain investors and thereby adversely affect the liquidity and market value of the units held by the public.

Management regularly monitors the level of non-resident ownership of the Fund through declarations obtained from market intermediaries. Given the limitations in the securities registration system and the lack of any process for real-time residency information to flow to the transfer agent of the Fund, the Fund is of the view that the periodic declarations received from various market intermediaries are currently the most appropriate method of determining the residency status of its unitholders. Since the initial public offering, the number of units held by non-residents has grown significantly to levels which may eventually jeopardize the Fund's compliance with non-resident ownership limitations. Based on information obtained from market intermediaries, the Fund estimates that as of March 31, 2008, approximately 41% of its outstanding units were held by non-residents. Included in the remaining 59% held by residents are the 19,892,088 units held by ACE representing 9.9% of the issued and outstanding Units as of May 8, 2008.

As part of its strategy to maximize shareholder value, ACE has publicly stated its intent to divest its units. In line with such strategy, ACE completed a secondary offering of 20,400,000 units on April 21, 2008 which reduced its holdings in the Fund to 9.9% of the issued and outstanding units. Should an important number of ACE units sold pursuant to the recently completed secondary offering or its remaining units be ultimately held by non-residents, the risk that the measures described above would have to be implemented by the Trustees significantly increases and it is possible that the Fund would no longer comply with non-resident ownership limitations and would therefore lose the benefits of its current tax status.

Should the Fund lose its status as a mutual fund trust, it would have negative consequences for the Fund and unitholders, including:

- the imposition of entity level taxation at a rate of 36% on certain types of income starting at the beginning of the fiscal year in which the Fund is deemed to have lost its mutual fund trust status;

- the units becoming "taxable Canadian property" and, consequently, non-resident unitholders being taxable in Canada upon the sale of their units unless the gain was exempted from tax under the terms of an applicable income tax treaty; and

- non-resident unitholders being required to obtain clearance certificates under section 116 of the Tax Act in connection with any sale of units and purchasers of units being potentially liable for taxes if they acquired the units from non-resident unitholders without effecting applicable withholding and remittance to the Canada Revenue Agency.

Conversion to Corporate Structure

Given the risk that the level of non-resident ownership in the Fund may ultimately reach or exceed 49.9% as a result of additional units being purchased on the public markets or otherwise by non residents, and in order to ensure that the Fund's capital structure is efficient and that unitholder value is being maximized, the Fund retained RBC Dominion Securities Inc. and TD Securities Inc. as financial advisors and conducted an in-depth analysis with respect to a potential reorganization of the Fund's income trust structure to a corporate structure.

As a result of the analysis, on May 8, 2008, the Fund received board approval to reorganize its income trust structure into a growth oriented, dividend paying, global loyalty management public corporation. The proposed reorganization is subject to unitholder and other approvals and will be undertaken pursuant to the Arrangement.

In connection with the reorganization, the current distribution policies of the Fund, the Trust and Aeroplan will be replaced by the dividend policy of the successor corporation. This new dividend policy of the successor corporation will result in a decrease in the cash amount distributed compared with the current distributions of the Fund.

If approved, the reorganization would result in the conversion of the Fund into an entity that would be subject to Canadian federal and provincial income tax, including provincial tax on capital.

The reorganization may have an adverse impact on the market price of the Units.

ADDITIONAL INFORMATION

Additional information relating to the Fund and to the Partnership, including the Fund's Annual Information Form, is available on SEDAR at www.sedar.com or on Aeroplan's website at www.aeroplan.com under *About Aeroplan - Investor Relations*.