GROUPE
AEROPLAN

# Consolidated Statements of Operations

| *(in thousands of dollars, except share and per share amounts)* | | Three months ended March 31 2009 (unaudited) | Three months ended March 31 2008 (unaudited) |
|---|---|---|---|
| **Revenue** | | $ 355,824 | $ 356,215 |
| **Cost of rewards** | Note 6 | 226,362 | 223,227 |
| **Gross margin** | | 129,462 | 132,988 |
| **Operating expenses** | | | |
| Selling, general and administrative | | 66,141 | 64,511 |
| Depreciation and amortization | | 4,937 | 4,672 |
| Amortization of accumulation partners' contracts and technology | | 19,715 | 22,678 |
| | | 90,793 | 91,861 |
| **Operating income** | | 38,669 | 41,127 |
| Interest on long-term debt | | (5,532) | (11,798) |
| Other interest expense | | (1,988) | (1,695) |
| Interest income | | 3,370 | 7,155 |
| Foreign exchange gain (loss) | | (6,968) | 4,313 |
| **Earnings before income taxes** | | 27,551 | 39,102 |
| **Income tax (expense) recovery** | | | |
| Current | | (10,060) | 2,930 |
| Future | | 5,737 | 100 |
| **Net earnings for the period** | | **$ 23,228** | **$ 42,132** |
| **Weighted average number of shares (units)** | | **199,383,818** | **199,402,619** |
| **Earnings per share (unit)** | | | |
| Basic and fully diluted | | **$ 0.12** | **$ 0.21** |

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

# Consolidated Balance Sheets

| *As at* *(in thousands of dollars, except share and per share amounts)* | | March 31 2009 (unaudited) | December 31 2008 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | Note 7 | $ 580,876 | $ 188,016 |
| Short-term investments | Note 7 | 36,100 | 477,341 |
| Accounts receivable | | 193,365 | 215,821 |
| Future income taxes | | 58,119 | 58,911 |
| | | 868,460 | 940,089 |
| **Cash held in escrow, related to the acquisition of LMG** | Note 3 | 48,826 | 48,485 |
| **Currency swap** | Note 4 | 58,069 | 68,526 |
| **Note receivable** | Note 5 | 60,327 | 59,007 |
| **Accumulation partners' contracts** | | 1,401,577 | 1,418,398 |
| **Property and equipment** | | 1,546 | 2,122 |
| **Software and technology** | | 98,612 | 100,946 |
| **Trade names** | | 405,055 | 404,145 |
| **Goodwill** | | 1,974,098 | 1,976,002 |
| | | **$ 4,916,570** | **$ 5,017,720** |
| **Liabilities and shareholders' equity** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | | $ 127,426 | $ 235,408 |
| Income taxes payable | | 41,450 | 33,774 |
| Deferred revenue | Note 9 | 1,268,654 | 1,171,438 |
| Current portion of long-term debt | Note 8 | - | 200,000 |
| | | 1,437,530 | 1,640,620 |
| **Long-term debt** | Note 8 | 698,037 | 496,969 |
| **Future income taxes** | | 188,500 | 193,500 |
| **Deferred revenue** | Note 9 | 642,056 | 738,034 |
| | | 2,966,123 | 3,069,123 |
| **Shareholders' / unitholders' equity** | | 1,950,447 | 1,948,597 |
| | | **$ 4,916,570** | **$ 5,017,720** |
| **Contingencies and commitments** | Notes 10 & 11 | | |

Approved by the Board of Directors

*(signed) Roman Doroniuk*
Roman Doroniuk
Director

*(signed) Joanne Ferstman*
Joanne Ferstman
Director

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

GROUPE AEROPLAN

# Consolidated Statements of Shareholders' Equity

**Three months ended March 31, 2009 and year ended December 31, 2008**

(unaudited)

| *(in thousands of dollars, except share and per share amounts)* | | Retained Earnings (Deficit) | | | | |
|---|---|---|---|---|---|---|
| | Share (Unit) capital | Net earnings (loss) and other | Distributions / Dividends | Accumulated Other Comprehensive Income | Contributed Surplus | Total |
| **Balance, December 31, 2007** | **$ 3,248,075** | | **$ (206,592)** | **$ -** | **$ 9,582** | **$ 3,051,065** |
| Net earnings for the period | | 42,132 | | | | 42,132 |
| Monthly distributions | | | (41,994) | | | (41,994) |
| Shares (Units) held by stock-based compensation plans | (3,751) | | | | | (3,751) |
| Accretion related to initial long-term incentive plan | | | | | 215 | 215 |
| Accretion related to other stock-based compensation plans | | | | | 857 | 857 |
| Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries | | | | 4,539 | | 4,539 |
| **Subtotal** | (3,751) | 42,132 | (41,994) | 4,539 | 1,072 | 1,998 |
| **Balance, March 31, 2008** | **$ 3,244,324** | | **$ (206,454)** | **$ 4,539** | **$ 10,654** | **$ 3,053,063** |
| Net loss for the period | | (1,007,342) | | | | (1,007,342) |
| Monthly distributions / quarterly dividends | | | (66,991) | | | (66,991) |
| Redemption of 169 units tendered by unitholders | (2) | | | | | (2) |
| Accretion related to initial long-term incentive plan | | | | | 215 | 215 |
| Accretion related to other stock-based compensation plans | | | | | 2,173 | 2,173 |
| Shares (Units) held by stock-based compensation plans | 2,556 | | | | (2,596) | (40) |
| Shares granted under various employment contracts | | | | | (2,951) | (2,951) |
| Capital reduction pursuant to the Arrangement | (1,500,000) | 216,994 | | | 1,283,006 | - |
| Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries | | | | (29,528) | | (29,528) |
| **Subtotal** | (1,497,446) | (790,348) | (66,991) | (29,528) | 1,279,847 | (1,104,466) |
| **Balance, December 31, 2008** | **$ 1,746,878** | | **$ (1,063,793)** | **$ (24,989)** | **$ 1,290,501** | **$ 1,948,597** |
| Net earnings for the period | | 23,228 | | | | 23,228 |
| Quarterly dividends | | | (24,997) | | | (24,997) |
| Shares (Units) held by stock-based compensation plans | (689) | | | | 913 | 224 |
| Accretion related to other stock-based compensation plans | | | | | 1,594 | 1,594 |
| Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries | | | | 1,801 | | 1,801 |
| **Subtotal** | (689) | 23,228 | (24,997) | 1,801 | 2,507 | 1,850 |
| | | | (1,065,562) | (23,188) | | |
| Retained earnings and Accumulation other comprehensive income (loss) | | | | (1,088,750) | | |
| **Balance, March 31, 2009** | **$ 1,746,189** | | | **$ (1,088,750)** | **$ 1,293,008** | **$ 1,950,447** |

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

# Consolidated Statements of Comprehensive Income

| (in thousands of dollars, except share and per share amounts) | Three months ended March 31 2009 | 2008 |
|---|---|---|
| | (unaudited) | (unaudited) |
| **Net earnings for the period** | **$ 23,228** | **$ 42,132** |
| **Other comprehensive income** | | |
| Cumulative translation adjustment on consolidation of self sustaining foreign subsidiaries | 1,801 | 4,539 |
| | 1,801 | 4,539 |
| **Comprehensive income for the period** | **$ 25,029** | **$ 46,671** |

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

# Consolidated Statements of Cash Flows

| *(in thousands of dollars, except share and per share amounts)* | Three months ended March 31 2009 | 2008 |
|---|---|---|
| | (unaudited) | (unaudited) |
| **Cash flows from (used in)** | | |
| **Operating activities** | | |
| Net earnings for the period | $ 23,228 | $ 42,132 |
| Items not affecting cash | | |
| Depreciation and amortization | 24,652 | 28,169 |
| Stock-based compensation | 1,594 | 1,072 |
| Currency swap | 10,457 | 13,666 |
| Foreign exchange | (3,489) | (17,979) |
| Future income taxes | (5,737) | (100) |
| Accretion on note receivable | (1,320) | (1,205) |
| Changes in non-cash working capital items and deferred revenue | | |
| Income taxes | 7,676 | (4,014) |
| Accounts receivable | 15,166 | 45,621 |
| Accounts payable and accrued liabilities | (105,168) | (75,990) |
| Deferred revenue | (13,536) | (1,210) |
| Other | 31,154 | (2,008) |
| Funding of stock-based compensation plans | (689) | (3,751) |
| | (39,240) | (17,729) |
| | (16,012) | 24,403 |
| **Investing activities** | | |
| Acquisitions of LMG and RMMEL, net of cash acquired and transaction costs related to the LMG acquisition | - | (15,686) |
| Change in short-term investments | 441,241 | (247,878) |
| Additions to property, equipment, software and technology | (7,982) | (6,865) |
| | 433,259 | (270,429) |
| **Financing activities** | | |
| Monthly distributions and quarterly dividends | (24,997) | (41,994) |
| Repayment of long-term debt | - | (10,000) |
| | (24,997) | (51,994) |
| Net change in cash and cash equivalents | 392,250 | (298,020) |
| Translation adjustment related to cash | 610 | 1,924 |
| Cash and cash equivalents, beginning of period | 188,016 | 456,004 |
| **Cash and cash equivalents, end of period** | **$ 580,876** | **$ 159,908** |
| **Interest paid** | **$ 8,441** | **$ 21,921** |

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

*(Tables in thousands of dollars, except share and per share amounts)*

## 1. Structure of the Corporation

Groupe Aeroplan Inc. (together with its direct and indirect wholly-owned subsidiaries, where the context requires, "Groupe Aeroplan" or the "Company") was incorporated on May 5, 2008 under the laws of Canada as a wholly-owned subsidiary of Aeroplan Income Fund (the "Fund"). The Company entered into an arrangement agreement dated May 8, 2008 with, among other parties, the Fund, pursuant to which the parties proposed to implement an arrangement under the Canada Business Corporations Act (the "Arrangement"). The Arrangement involved the exchange, on a one-for-one basis of units of the Fund for common shares of Groupe Aeroplan. As a result of the Arrangement, the holders of units of the Fund became the shareholders of Groupe Aeroplan, which became the sole owner of all outstanding Fund units. The effective date of the Arrangement was June 25, 2008. On December 29 and 30, 2008, Groupe Aeroplan completed the reorganization of its corporate structure, which began with the closing of the Arrangement on June 25, 2008. As a result of this reorganization, Aeroplan Limited Partnership (the "Partnership") was liquidated and dissolved and the Fund and Aeroplan Trust were wound-up.

The principal and head office of Groupe Aeroplan is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2. Groupe Aeroplan earns income from its interest in Aeroplan Canada Inc. ("Aeroplan" or "Aeroplan Canada", the successor to the Partnership following the December 2008 reorganization), a Canadian customer loyalty marketing company, and from its other subsidiaries in Europe and the Middle East managed by Groupe Aeroplan Europe.

## 2. Summary of Significant Accounting Policies

### BASIS OF PRESENTATION

These unaudited consolidated interim financial statements have been prepared in accordance with the requirements of the Canadian Institute of Chartered Accountants (CICA) handbook section 1751, *Interim Financial Statements*. Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") have been omitted or condensed. These interim financial statements should be read in conjunction with the annual audited consolidated financial statements of the Company for the year ended December 31, 2008.

In the opinion of management, these interim financial statements include all adjustments considered necessary by management to present a fair statement of the results of operations, financial position and cash flows. Except as otherwise indicated hereunder, these interim financial statements have been prepared using the same policies and methods of computation as the annual consolidated financial statements of the Company for the year ended December 31, 2008.

### PRINCIPLES OF CONSOLIDATION

These unaudited interim consolidated financial statements include the accounts of the Company and the accounts of its subsidiaries. All inter-company balances and transactions have been eliminated.

**CHANGES IN ACCOUNTING POLICIES**

***Goodwill and intangible assets***

On January 1, 2009, Groupe Aeroplan adopted CICA accounting handbook section 3064, *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. The adoption of this new section did not have an impact on Groupe Aeroplan's financial statements.

**FUTURE ACCOUNTING CHANGES**

***Business Combinations, Consolidated Financial Statements and Non-controlling Interests***

In January 2009, the CICA issued three new accounting standards: section 1582, *Business Combinations,* section 1601, *Consolidated Financial Statements,* and section 1602, *Non-controlling Interests.* These new standards will be effective for fiscal years beginning on or after January 1, 2011. Groupe Aeroplan is in the process of evaluating the requirements of the new standards.

Section 1582 replaced section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS 3 – *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after January 1, 2011.

Sections 1601 and 1602, combined, replace section 1600 – *Consolidated Financial Statements.* Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements, subsequent to a business combination. It is equivalent to the corresponding provision of International Financial Reporting Standard IAS 27 – *Consolidated and Separate Financial Statements* and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

## 3. Cash Held in Escrow

Cash held in escrow, in the amount of $48.8 million (£27.1 million), represents contingent consideration related to the December 2007 acquisition of Loyalty Management Group Limited ("LMG"). In the event that the VAT litigation is decided in favour of Groupe Aeroplan, this contingent consideration will be distributed to the former shareholders of LMG, with a corresponding amount to be recorded as an increase to goodwill *(Note 10).*

*(Tables in thousands of dollars, except share and per share amounts)*

## 4. Currency Swap

In connection with the December 2007 acquisition of LMG, Aeroplan 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, 2009, the currency swap had a fair value of $58.1 million (December 31, 2008 – $68.5 million).

## 5. Note Receivable

This unsecured, non-interest bearing loan, in the principal amount of £40.0 million, which has been discounted using an effective interest rate of 6%, is due from a major Accumulation Partner and is repayable on July 1, 2012.

## 6. Major Accumulation Partners and Significant Redemption Partner

Air Canada and three other major Accumulation Partners account for a significant percentage of Gross Billings. Since Groupe Aeroplan's revenues are recognized based on redemptions by members as opposed to the issuance of Aeroplan Miles to members by the Accumulation Partners, the information on major customers is based on the Gross Billings of Aeroplan Miles issued through each Accumulation Partner to members. Gross Billings for each Accumulation Partner represent the contracted amounts received or receivable from Accumulation Partners during each period. Air Canada and the other Accumulation Partners accounted for significant issuance of Aeroplan Miles as follows:

| | **Three months ended March 31,** | |
|---|---|---|
| | **2009** | **2008** |
| | **%** | **%** |
| Air Canada | 20 | 19 |
| Accumulation Partner A | 36 | 35 |
| Accumulation Partner B | 10 | 10 |
| Accumulation Partner C | 17 | 17 |

*(Tables in thousands of dollars, except share and per share amounts)*

**CONTRACTUAL AND COMMERCIAL PRACTICES WITH AIR CANADA**

Air Canada is Groupe Aeroplan's largest Redemption Partner. The cost of rewards provided by Air Canada (and other Star Alliance Partners) as a percentage of total rewards is as follows:

| | Three months ended March 31, | |
|---|---|---|
| | **2009** | **2008** |
| | **%** | **%** |
| Air Canada | 67 | 65 |

Air Canada acts as a clearing house for substantially all Gross Billings and reward purchase transactions between Aeroplan and airlines other than Air Canada (Star Alliance Partners). Aeroplan has entered into various agreements with Air Canada governing the commercial relationship between Aeroplan and Air Canada. The following is a summary of the relevant financial terms of the most significant agreement.

**CPSA**

The amended and restated commercial participation services agreement dated June 9, 2004 between Air Canada and Aeroplan, as amended (the "CPSA"), which expires on June 29, 2020, covers the terms and conditions of the purchase of air travel rewards by Aeroplan from Air Canada and its affiliates, the purchase of Aeroplan Miles under the Aeroplan Program by Air Canada and its affiliates for issuance to members and the management of the tier membership program for certain Air Canada customers. Pursuant to the CPSA, Aeroplan is required to purchase annually a minimum number of reward travel seats on Air Canada and its affiliates, which number is based on a function of the number of seats utilized in the three preceding calendar years. Based on the three years ended December 31, 2008, Aeroplan is required to purchase reward travel seats with an exchange amount of approximately $391.9 million each year. While Air Canada can change the number of Aeroplan Miles under the Aeroplan Program awarded to members per flight without Aeroplan's consent, Air Canada is required to purchase, on an annual basis, a pre-established number of Aeroplan Miles under the Aeroplan Program at a specified rate. Aeroplan is required to perform certain marketing and promotion services for Air Canada, including contact centre services for the management of the frequent flyer tier membership program, for a fee based on actual costs, on a fully allocated basis, plus an administrative fee. Aeroplan's ability to respond to members' requests for future rewards will depend on Air Canada's ability to provide the requested number of seats.

On November 27, 2008, Aeroplan entered into an agreement with Air Canada to temporarily accelerate the contractual payment terms under the CPSA for air travel rewards purchased from Air Canada for the period from October 2008 to May 2009. The payments by Air Canada to Aeroplan for the purchase of Aeroplan Miles are based on the original terms of settlement. At March 31, 2009, approximately $43.4 million or 22.4% (December 31, 2008 – $45.7 million or 21.2%) of accounts receivable are with Air Canada, and accordingly, Groupe Aeroplan is directly affected by the financial and operational strength of Air Canada.

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.

(Tables in thousands of dollars, except share and per share amounts)

## 7. Aeroplan Canada Miles Redemption Reserve

Groupe Aeroplan maintains the Aeroplan Canada Miles redemption reserve (the "Reserve") 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. As at March 31, 2009 and December 31, 2008, the Reserve amounted to $400.0 million and is included in cash and cash equivalents and short-term investments.

The amount of the Reserve, as well as the types of securities it may be invested in, are based on policies established by management which may be reviewed periodically.

Any deposits of funds in non-Canadian dollar denominated investments are required to be hedged. At March 31, 2009, all the investments held as part of the reserve were denominated in Canadian dollars.

## 8. Long-Term Debt

The following is a summary of Groupe Aeroplan's authorized and outstanding credit facilities:

| | Authorized | Drawn at March 31, 2009 | Drawn at December 31, 2008 |
|---|---|---|---|
| | $ | $ | $ |
| Revolving term facility [(a)] | 150,000 | - | - |
| Term facility [(a)] | 300,000 | 300,000 | 300,000 |
| Acquisition facility [(a)] | 100,000 | 100,000 | 100,000 |
| Bridge facility [(b)] *(Note 13)* | 300,000 | 300,000 | 300,000 |
| Prepaid interest [(c)] | - | (1,240) | (1,479) |
| Unamortized transaction costs [(c)] | - | (723) | (1,552) |
| | **850,000** | **698,037** | **696,969** |
| **Less: current portion** | | **-** | **200,000** |
| **Total** | **850,000** | **698,037** | **496,969** |

*(a) The revolving term, term, and acquisition facilities mature on December 19, 2010, or earlier at the option of Groupe Aeroplan, 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 1.25% and the Bankers' Acceptance rate and LIBOR plus 1.25% to 2.25%.*

*At March 31, 2009, amounts borrowed under the term, and acquisition facilities, were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 2.95%.*

*Letters of credit: Groupe Aeroplan has issued irrevocable letters of credit in the aggregate amount of $720,000. This amount reduces the available credit under the revolving term facility.*

*(b) The bridge facility, which was entered into on December 19, 2007, matures on June 19, 2009, or earlier at the option of Groupe Aeroplan, without penalty, and bears interest at rates ranging from Canadian prime rate plus 0.25% to 1.25% and the Bankers'*

*(Tables in thousands of dollars, except share and per share amounts)*

*Acceptance rate plus 1.25% to 2.25%. The total amount borrowed under this facility may, under certain conditions, at the option of Groupe Aeroplan, be extended to December 19, 2009 and an amount of $100 million may be further extended to June 19, 2010. At March 31, 2009, borrowings under the bridge facility were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 2.94%. On April 23, 2009, and April 30, 2009, the Company repaid $175 million and $25 million, respectively, of the amounts borrowed under the bridge facility (Note 13). On May 6, 2009, Groupe Aeroplan exercised its option in connection with the first available maturity extension of the remaining outstanding balance of $100 million under this facility.*

*(c) Long term debt is presented net of prepaid interest and unamortized transaction costs.*

Borrowings under the credit facilities are secured by substantially all the present and future assets of Groupe Aeroplan and certain of its subsidiaries.

The continued availability of the credit facilities is subject to Groupe Aeroplan's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants, including the limitation of distribution payments in any given fiscal year to 50% of adjusted free cash flow, as defined in the credit agreements.

At March 31, 2009, Groupe Aeroplan was in compliance with its financial covenants, as follows:

| Ratio | Result | Test |
|---|---|---|
| Leverage | **1.96** | ≤ 2.75 |
| Debt service [(a)] | **0.29** | ≤ 2.75 |
| Interest coverage | **15.7** | ≥ 3.0 |

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

## 9. Deferred Revenue

A reconciliation of deferred revenue, including deferred breakage, is as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | $ | $ |
| **Opening balance** | 1,909,472 | 1,820,280 |
| Aeroplan Miles issued – Gross billings | 326,248 | 1,420,548 |
| Deferred revenue assumed on acquisition of RMMEL | - | 78,649 |
| Revenue recognized for Aeroplan Miles redeemed and Breakage | (335,744) | (1,377,736) |
| Other foreign currency adjustments | 10,734 | (32,269) |
| **Ending balance** | **1,910,710** | **1,909,472** |
| **Represented by:** | | |
| **Current portion** [(a)] | **1,268,654** | **1,171,438** |
| **Long-term** | **642,056** | **738,034** |

*(a) The current portion is management's best estimate of the amount to be realized in the next twelve months, based on historical trends.*

## 10. Contingent Liabilities

**AIR CANADA MILES ISSUED PRIOR TO JANUARY 1, 2002**

In accordance with 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, 2009, 110.1 billion of those Air Canada Miles had been redeemed.

In the event that Air Canada is unable to meet its obligation, Aeroplan may be required to honour 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, reflecting 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, such obligation would amount to approximately $21.7 million at March 31, 2009.

Also under the CPSA, Aeroplan is responsible for any redemption 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 12.0 billion estimated broken but unexpired Air Canada Miles were to be redeemed, amounts to $114.0 million at March 31, 2009.

As a result, the total maximum potential redemption cost of meeting this obligation, which would be charged to costs of rewards as the Air Canada Miles are redeemed, for the total outstanding and unbroken Air Canada Miles issued prior to January 1, 2002 is estimated to be $135.7 million at March 31, 2009.

In accordance with Aeroplan's mileage expiry policy, any unredeemed Air Canada Miles will automatically expire on December 31, 2013.

**AEROPLAN MILES ISSUED AFTER JANUARY 1, 2002**

In addition, Groupe 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 $912.9 million at March 31, 2009. The potential redemption costs, noted above, have been calculated on the basis of the current average redemption cost, reflecting 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.

On a consolidated basis, management estimates that a 1% change in Breakage would have a total impact on revenue and earnings before income taxes of $65.6 million for the period in which the change occurred, with $62.3 million relating to prior years and $3.3 million relating to the current three month period.

**VAT APPEAL *(Note 3)***

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 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 appealed the Court of Appeal's decision to the House of Lords which granted leave to appeal in order to facilitate a reference to the European Court of Justice. The case will be heard at a future date to be set. Until the outcome is known and a decision is rendered, 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, together with interest thereon. At March 31, 2009, LMG has recorded in its accounts the net benefit of VAT input tax credits in the aggregate amount of £29.6 million ($53.3 million), which is accounted for as a reduction of goodwill or cost of rewards and operating expenses, as appropriate.

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, Groupe Aeroplan becomes involved in various claims and litigation as part of its normal course of 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 Groupe Aeroplan's financial position and results of operations.

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

*(Tables in thousands of dollars, except share and per share amounts)*

## 11. Commitments

The minimum lease payments under various operating leases and payments under contracts for technology infrastructure and other and marketing support, are as follows:

| Year ending December 31, | Operating leases | Technology infrastructure and other | Marketing support [(a)] | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| 2009 | 3,427 | 18,695 | 10,511 | 32,633 |
| 2010 | 4,181 | 22,326 | 15,517 | 42,024 |
| 2011 | 4,149 | 14,020 | 15,517 | 33,686 |
| 2012 | 2,331 | 6,540 | 11,011 | 19,882 |
| 2013 | 2,326 | 4,715 | 2,000 | 9,041 |
| Thereafter | 4,251 | 522 | 2,000 | 6,773 |
| **Total** | **20,665** | **66,818** | **56,556** | **144,039** |

*(a) Marketing support amounts represent maximum obligations in connection with the Company's undertakings to promote the loyalty programs it operates.*

Under the terms of certain contractual obligations with a major Accumulation Partner, Groupe Aeroplan is required to maintain certain minimum working capital amounts in accordance with pre-established formulae. At March 31, 2009, Groupe Aeroplan complied with all such covenants.

Pursuant to the terms of various employment contracts with certain management employees, Groupe Aeroplan has committed to annual grants, under certain conditions, of common shares under the "Stock-based Compensation Plans" as follows:

| Year ending December 31, | Shares |
|---|---|
| 2009 | 21,500 |
| 2010 | 80,000 |
| 2011 | 80,000 |
| 2012 | 30,000 |
| 2013 | 30,000 |
| Thereafter | 40,000 |
| **Total shares to be granted** | **281,500** |

As a result of the adoption of the Air Canada Pension Plan Solvency Deficiency Funding Regulations on August 9, 2004, Air Canada was required to make certain special payments related to funding deficiencies of its registered pension plans. These special payments may be made over a ten-year period and are based on certain actuarial calculations to be prepared on a periodic basis. Under a commercial agreement signed with Air Canada, which provides Aeroplan with the services of certain unionized employees of Air Canada, Aeroplan is required to reimburse Air Canada for all salary and benefit costs incurred in connection with the assigned employees, including annual special payments detailed below to compensate Air Canada for the share of the unfunded pension deficiencies related to the assigned employees described below.

(Tables in thousands of dollars, except share and per share amounts)

Aeroplan has agreed to pay a portion of the special payments related to plans, in which the assigned employees participate, based on an estimate of the portion of the solvency deficiencies of Air Canada's pension plans attributable to the assigned employees at January 1, 2005.

Remaining maximum payments in respect of the special payments should not exceed $8.9 million over the period ending December 31, 2013. The obligation in respect of special payments does not survive early termination. In the event that all the assigned employees become Aeroplan employees, Aeroplan may be required to assume certain liabilities with respect to the assigned employees as of the transfer date.

The following table sets out the remaining maximum payments for the corresponding period:

| **Year** | **Amount** |
|---|---:|
| 2009 | 1,412 |
| 2010 | 1,883 |
| 2011 | 1,883 |
| 2012 | 1,883 |
| 2013 | 1,883 |
| **Total** | **8,944** |

These commitments have not been presented in the statement of financial position, as they represent contributions for future services of the respective employees.

In accordance with the termination provisions of the General Services Agreement dated May 13, 2005, effective January 1, 2005 between Air Canada and Aeroplan (the "GSA"), Aeroplan notified Air Canada of its plans to terminate the GSA, effective June 1, 2009. On November 27, 2008 Aeroplan delivered to Air Canada its formal six-month notice of termination of the GSA and subsequently offered all agents continued employment as of June 1, 2009, in the same positions, unless, if eligible, they elect to return to Air Canada. On January 14, 2009 Aeroplan announced that it had come to a tentative three-year agreement with the CAW and Air Canada with respect to the transition of the contact centre employees from Air Canada to Aeroplan employment. The agreement included a detailed transition plan for affected employees, in addition to a new labour contract. On January 28, 2009 Aeroplan announced that the tentative labour agreement had not been ratified and that all agents working in Aeroplan's contact centres in Vancouver and Montreal are being offered continued employment effective June 1, 2009 as per the original offer. On March 4, 2009, the CAW filed an application before the Canada Industrial Relations Board, related to the transition of contact centre agents from Air Canada to Aeroplan, to clarify certain issues relating to the transition. Given that the outcome of future negotiations with the CAW and Air Canada, related to the collective agreement with contact centre agents and the potential transfer of the pension liability, respectively, is unclear at this time, it is difficult to determine, with any degree of certainty, the impact, if any, of their result on selling, general and administrative expenses.

*(Tables in thousands of dollars, except share and per share amounts)*

Groupe Aeroplan has indemnified Air Canada and its directors, officers, employees and agents against potential claims and grievances arising from the assignment to Aeroplan of the employees.

## 12. Segmented Information

At March 31, 2009, the Company has two business segments: Canada which includes the operations of Aeroplan, and Europe and Middle East which includes Groupe Aeroplan Europe's operations in Europe and the Middle East.

The table below summarizes the relevant financial information by segment:

| | Three months ended March 31, 2009 | | | Three months ended March 31, 2008 | | |
|---|---|---|---|---|---|---|
| **Geographic segmentation** | **Canada** | **Europe and Middle East** | **Consolidated** | **Canada** | **Europe and Middle East** | **Consolidated** |
| | **$** | **$** | **$** | **$** | **$** | **$** |
| Gross billings | 240,184 | 86,064 | 326,248 | 242,336 | 100,284 | 342,650 |
| Revenue | 277,837 | 77,987 | 355,824 | 266,957 | 89,258 | 356,215 |
| Cost of rewards | 173,046 | 53,316 | 226,362 | 163,584 | 59,643 | 223,227 |
| Gross margin | 104,791 | 24,671 | 129,462 | 103,373 | 29,615 | 132,988 |
| Selling, general and administrative expenses | 44,739 | 21,402 | 66,141 | 41,249 | 23,262 | 64,511 |
| Depreciation and amortization | 21,493 | 3,159 | 24,652 | 21,129 | 6,221 | 27,350 |
| Earnings before income taxes | 25,571 | 1,980 | 27,551 | 36,420 | 2,682 | 39,102 |
| Additions to capital assets | 6,607 | 1,375 | 7,982 | 5,041 | 1,824 | 6,865 |
| Additions to goodwill | - | - | - | - | 4,862 | 4,862 |
| Goodwill | 1,676,108 | 297,990 | 1,974,098 | 2,517,237 | 492,065 | 3,009,302 |
| Deferred revenue | 1,618,515 | 292,195 | 1,910,710 | 1,560,529 | 285,829 | 1,846,358 |
| Total assets | 4,794,070 | 122,500 | 4,916,570 | 5,556,784 | 501,836 | 6,058,620 |

## 13. Subsequent Events

On April 23, 2009 and April 30, 2009, Groupe Aeroplan issued Senior Secured Notes Series 1 in the principal amount of $175 million and $25 million, respectively. These notes bear interest at 9%, payable semi-annually in arrears, mature on April 23, 2012, and are secured by substantially all the present and future assets of Groupe Aeroplan and certain of its subsidiaries. The net proceeds from the notes issued were used to repay a portion of the bridge facility.