





Interim Consolidated Financial Statements

**For the three and six months ended
June 30th 2009 and 2008**

UNAUDITED



Management's Report

The accompanying consolidated financial statements of Groupe Aeroplan Inc. are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgement.

In fulfilling its responsibilities, management of the corporation has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the financial statements. The Board of Directors reviews and approves the corporation's consolidated financial statements.

August 13th, 2009

(signed) "Rupert Duchesne"

RUPERT DUCHESNE

President and Chief Executive Officer

(signed) "David L. Adams"

DAVID L. ADAMS

Executive Vice President and Chief Financial Officer



Consolidated Statements of Operations

	Three months ended June 30		Six months ended June 30	
	2009	2008	2009	2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<i>(in thousands of dollars, except share and per share amounts)</i>				
Revenue	\$ 333,515	\$ 336,728	\$ 689,339	\$ 692,943
Cost of rewards	Note 6 201,728	192,593	428,090	415,820
Gross margin	131,787	144,135	261,249	277,123
Operating expenses				
Selling, general and administrative	68,626	69,627	134,767	134,138
Depreciation and amortization	5,127	4,998	10,064	9,670
Amortization of accumulation partners' contracts and technology	20,485	22,688	40,200	45,366
	94,238	97,313	185,031	189,174
Operating income	37,549	46,822	76,218	87,949
Interest on long-term debt	(9,125)	(10,952)	(14,657)	(22,750)
Other interest expense	(278)	(2,658)	(2,266)	(4,353)
Interest income	2,050	5,915	5,420	13,070
Foreign exchange gain (loss)	9,224	(4,529)	2,256	(216)
Earnings before income taxes	39,420	34,598	66,971	73,700
Income tax (expense) recovery				
Current	(14,261)	(796)	(24,321)	2,134
Future	1,587	(2,348)	7,324	(2,248)
Net earnings for the period	\$ 26,746	\$ 31,454	\$ 49,974	\$ 73,586
Weighted average number of shares	199,462,480	199,402,234	199,423,366	199,402,426
Earnings per share				
Basic and fully diluted	\$ 0.13	\$ 0.16	\$ 0.25	\$ 0.37

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



Consolidated Balance Sheets

<i>As at</i>		June 30	December 31
<i>(in thousands of dollars, except share and per share amounts)</i>		2009	2008
		<i>(unaudited)</i>	
Assets			
Current assets			
Cash and cash equivalents	Note 7	\$ 589,974	\$ 188,016
Short-term investments	Note 7	34,609	477,341
Accounts receivable		174,877	215,821
Loan receivable from Air Canada	Note 6	78,657	-
Future income taxes		64,730	58,911
		<u>942,847</u>	<u>940,089</u>
Cash held in escrow, related to the acquisition of LMG	Note 3	51,806	48,485
Currency swap	Note 4	32,094	68,526
Note receivable	Note 5	64,969	59,007
Accumulation partners' contracts		1,390,102	1,418,398
Property and equipment		1,596	2,122
Software and technology		98,354	100,946
Trade names		412,994	404,145
Goodwill		1,988,620	1,976,002
		<u>\$ 4,983,382</u>	<u>\$ 5,017,720</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		\$ 198,684	\$ 235,408
Income taxes payable		14,368	33,774
Deferred revenue	Note 9	1,284,577	1,171,438
Current portion of long-term debt	Note 8	100,000	200,000
		<u>1,597,629</u>	<u>1,640,620</u>
Long-term debt	Note 8	590,367	496,969
Future income taxes		189,050	193,500
Deferred revenue	Note 9	658,374	738,034
		<u>3,035,420</u>	<u>3,069,123</u>
Shareholders' equity		<u>1,947,962</u>	<u>1,948,597</u>
		<u>\$ 4,983,382</u>	<u>\$ 5,017,720</u>
Contingencies and commitments	Notes 10, 11 & 12		

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.



Consolidated Statements of Shareholders' Equity

Six months ended June 30, 2009 and year ended December 31, 2008

(unaudited)

<i>(in thousands of dollars, except share and per share amounts)</i>		Retained Earnings (Deficit)				
	Share capital	Net earnings (loss) and other	Distributions / Dividends	Accumulated Other Comprehensive Income (loss)	Contributed Surplus	Total
Balance, December 31, 2007	\$ 3,248,075		\$ (206,592)	\$ -	\$ 9,582	\$ 3,051,065
Net earnings for the period		73,586				73,586
Monthly distributions			(83,988)			(83,988)
Redemption of 169 units tendered by unitholders	(2)					(2)
Shares held by stock-based compensation plans	(1,195)				(2,596)	(3,791)
Accretion related to initial long-term incentive plan					430	430
Accretion related to other stock-based compensation plans					1,656	1,656
Capital reduction pursuant to the Arrangement	(1,500,000)	216,994			1,283,006	-
Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries				2,457		2,457
Subtotal	(1,501,197)	290,580	(83,988)	2,457	1,282,496	(9,652)
Balance, June 30, 2008	\$ 1,746,878		\$ -	\$ 2,457	\$ 1,292,078	\$ 3,041,413
Net loss for the period		(1,038,796)				(1,038,796)
Quarterly dividends			(24,997)			(24,997)
Accretion related to other stock-based compensation plans					1,374	1,374
Shares granted under various employment contracts					(2,951)	(2,951)
Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries				(27,446)		(27,446)
Subtotal	-	(1,038,796)	(24,997)	(27,446)	(1,577)	(1,092,816)
Balance, December 31, 2008	\$ 1,746,878		\$ (1,063,793)	\$ (24,989)	\$ 1,290,501	\$ 1,948,597
Net earnings for the period		49,974				49,974
Quarterly dividends			(49,994)			(49,994)
EIC-173 adjustment to currency swap		(4,675)				(4,675)
Shares held by stock-based compensation plans	570				(320)	250
Accretion related to other stock-based compensation plans					1,938	1,938
Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries				1,872		1,872
Subtotal	570	45,299	(49,994)	1,872	1,618	(635)
Retained earnings and Accumulated other comprehensive income (loss)			(1,068,488)	(23,117)		
Balance, June 30, 2009	\$ 1,747,448		\$ (1,091,605)	\$ (1,091,605)	\$ 1,292,119	\$ 1,947,962

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



Consolidated Statements of Comprehensive Income

	Three months ended June 30		Six months ended June 30	
<i>(in thousands of dollars, except share and per share amounts)</i>	2009 <i>(unaudited)</i>	2008 <i>(unaudited)</i>	2009 <i>(unaudited)</i>	2008 <i>(unaudited)</i>
Net earnings for the period	\$ 26,746	\$ 31,454	\$ 49,974	\$ 73,586
Other comprehensive income				
Cumulative translation adjustment on consolidation of self sustaining foreign subsidiaries	71	(2,082)	1,872	2,457
	71	(2,082)	1,872	2,457
Comprehensive income for the period	\$ 26,817	\$ 29,372	\$ 51,846	\$ 76,043

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



Consolidated Statements of Cash Flows

	Three months ended June 30		Six months ended June 30	
	2009 <i>(unaudited)</i>	2008 <i>(unaudited)</i>	2009 <i>(unaudited)</i>	2008 <i>(unaudited)</i>
<i>(in thousands of dollars, except share and per share amounts)</i>				
Cash flows from (used in)				
Operating activities				
Net earnings for the period	\$ 26,746	\$ 31,454	\$ 49,974	\$ 73,586
Items not affecting cash				
Depreciation and amortization	25,612	26,867	50,264	55,036
Stock-based compensation	344	1,014	1,938	2,086
Currency swap	19,470	1,884	29,927	15,550
Foreign exchange	(28,694)	2,645	(32,183)	(15,334)
Future income taxes	(1,587)	2,348	(7,324)	2,248
Accretion on note receivable	(4,642)	(2,555)	(5,962)	(3,760)
Changes in non-cash working capital items and deferred revenue				
Income taxes	(27,082)	4,014	(19,406)	-
Accounts receivable	22,015	(14,571)	37,181	31,050
Accounts payable and accrued liabilities	48,128	(18,761)	(57,040)	(94,751)
Deferred revenue	29,472	55,881	15,936	54,671
Other	12,035	2,008	43,189	-
Funding of stock-based compensation plans	26	(40)	(663)	(3,791)
	<u>95,097</u>	<u>60,734</u>	<u>55,857</u>	<u>43,005</u>
	<u>121,843</u>	<u>92,188</u>	<u>105,831</u>	<u>116,591</u>
Investing activities				
Acquisitions of LMG and RMMEL, net of cash acquired and transaction costs related to the LMG acquisition	-	(22,320)	-	(38,006)
Change in short-term investments	(727)	(84,618)	440,514	(332,496)
Loan to Air Canada	(78,657)	-	(78,657)	-
Additions to property, equipment, software and technology	(6,005)	(6,558)	(13,987)	(13,423)
	<u>(85,389)</u>	<u>(113,496)</u>	<u>347,870</u>	<u>(383,925)</u>
Financing activities				
Monthly distributions and quarterly dividends	(24,997)	(41,994)	(49,994)	(83,988)
Redemption of units	-	(2)	-	(2)
Refinancing costs	(8,990)	-	(8,990)	-
Refinancing of long-term debt	700,000	-	700,000	-
Repayment of long-term debt	(700,000)	(10,000)	(700,000)	(20,000)
	<u>(33,987)</u>	<u>(51,996)</u>	<u>(58,984)</u>	<u>(103,990)</u>
Net change in cash and cash equivalents	2,467	(73,304)	394,717	(371,324)
Translation adjustment related to cash	6,631	549	7,241	2,473
Cash and cash equivalents, beginning of period	580,876	159,908	188,016	456,004
Cash and cash equivalents, end of period	<u>\$ 589,974</u>	<u>\$ 87,153</u>	<u>\$ 589,974</u>	<u>\$ 87,153</u>
Interest paid	<u>\$ 6,013</u>	<u>\$ 16,841</u>	<u>\$ 14,454</u>	<u>\$ 38,762</u>

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

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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.

Emerging Issues Committee Abstract 173 "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities" ("EIC – 173")

On January 1, 2009, Groupe Aeroplan adopted EIC 173, which requires the Company to consider its own credit risk and the credit risk of the counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC 173, which has been applied on a retrospective basis without restatement of prior periods on the adoption date and has affected the fair value determination of the currency swap (*Note 4*), has resulted in a \$4.7 million charge to retained earnings, net of a \$1.8 million tax effect.

Contact Centre Employee Future Benefits

The cost of pension benefits earned by contact centre employees under the defined benefit pension plan is actuarially determined using the projected benefit method prorated on service, market interest rates, and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and expected health care costs. Obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.

The cost of the other future employee benefits consisting of post-employment, life insurance, health and dental care, offered to disabled employees and post-retirement life insurance and health benefits, is actuarially determined using the projected benefit method prorated on service (where applicable), market interest rates, and management's best estimate of retirement ages of employees, health care cost inflation, salary escalation and general inflation.

The expected return on plan assets is based on the long-term expected rate of return on plan assets and the fair value of the plan assets. It is reasonably possible that management's estimate of the long-term rate of return may change as management continues to assess future investments and strategies and as a result of changes in financial markets.

Past service costs arising from the initiation of the plan and plan amendments of the defined benefit pension plan, as well as those arising from other employee future benefits, are amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment.

Cumulative unrecognized net actuarial gains and losses of the defined benefit pension plan and other employee future benefits in excess of 10% of the greater of the accrued benefit obligation and the market value of plan assets at the beginning of the year are amortized over the average remaining service periods of active members expected to receive benefits under the plan.

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

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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 \$51.8 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 11*).

4. CURRENCY SWAP

In connection with the December 2007 acquisition of LMG, a subsidiary of 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 June 30, 2009, the currency swap had a fair value of \$32.1 million (December 31, 2008 – \$68.5 million) (*Note 14*).

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:

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

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	%	%	%	%
Air Canada	19	18	19	19
Accumulation Partner A	37	37	37	36
Accumulation Partner B	10	10	10	10
Accumulation Partner C	17	17	17	17

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 June 30,		Six months ended June 30,	
	2009	2008	2009	2008
	%	%	%	%
Air Canada (and other Star Alliance Partners)	63	62	65	64

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

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

Canada for the period from October 2008 to May 2009. On June 29, 2009, Aeroplan and Air Canada terminated the acceleration of payment terms agreement and Air Canada remitted to Aeroplan approximately \$40.0 million to reverse amounts remaining on that date, related to accelerated payments previously disbursed.

Concurrent with the repayment by Air Canada of all remaining amounts previously accelerated, on June 29, 2009, Aeroplan entered into a revolving loan and security agreement with Air Canada under which Aeroplan agreed to make available to Air Canada, on a secured basis, a revolving loan in an amount equal to the aggregate of the previous 60 days of accumulated purchases by Aeroplan of reward seats from Air Canada (the "Borrowing Entitlement"), up to a maximum of \$100 million. Subject to compliance with applicable covenants, the loan is available for monthly draw-downs through to June 2010, bears interest at 12% per annum, and is secured by Air Canada's interest in Air Canada Vacations. As long as any amount is outstanding under this loan, the Air Canada Vacation shares will also secure all of Air Canada's obligations to Aeroplan under the CPSA. If the amount outstanding on a draw-down date exceeds the Borrowing Entitlement, Aeroplan will set off such amount against any obligations owing by Aeroplan to Air Canada. The initial draw-down made by Air Canada under the loan was \$78.7 million which was paid in full on July 30, 2009, and the agreement was terminated on that date (*Note 14*).

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.

7. AEROPLAN CANADA MILES REDEMPTION RESERVE

Aeroplan maintains the Aeroplan Canada Miles redemption reserve (the "Reserve"), which subject to compliance with the provisions of the June 12, 2009 credit facilities (*Note 8*), 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. In the event that the Reserve is accessed, Aeroplan has agreed to replenish it as soon as practicable, with available cash generated from operations. As at June 30, 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 June 30, 2009, all the investments held as part of the Reserve were denominated in Canadian dollars.

8. LONG-TERM DEBT

On June 12, 2009, Groupe Aeroplan concluded a refinancing of its \$650 million credit facilities with its lending syndicate, resulting in the settlement of the old credit facilities and new borrowings under the new credit facilities. At June 30, 2009, \$500 million had been drawn and \$150 million remained committed and available.

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

The following is a summary of Groupe Aeroplan's authorized and outstanding credit facilities and Senior Secured Notes Series 1:

	Authorized	Drawn at June 30, 2009	Drawn at December 31, 2008
	\$	\$	\$
Revolving facility ^(a)	250,000	100,000	-
Term facility ^(a)	300,000	300,000	300,000
Bridge facility ^{(b) (c)}	100,000	100,000	300,000
Acquisition facility	N/A	N/A	100,000
Senior Secured Notes Series 1 ^(c)	N/A	200,000	N/A
Prepaid interest ^(d)	-	(815)	(1,479)
Unamortized refinancing costs ^(d)	-	(8,818)	(1,552)
	650,000	690,367	696,969
Less: current portion	-	100,000	200,000
Total	650,000	590,367	496,969

(a) The revolving and term facilities mature on April 23, 2012, or earlier at the option of Groupe Aeroplan, without penalty, and depending on the Company's credit ratings, bear interest at rates ranging between Canadian prime rate plus 1.75% to 4.00% and the Bankers' Acceptance and LIBOR rates plus 2.75% to 5.00%.

At June 30, 2009, amounts borrowed under the term and revolving facilities, were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 3.93%.

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 facility.

(b) The bridge facility, matures on December 19, 2009, or earlier at the option of Groupe Aeroplan, without penalty, and depending on the Company's credit rating, bears interest at rates ranging from Canadian prime rate plus 2.00% to 4.25% and the Bankers' Acceptance and LIBOR rates plus 3.00% to 5.25%. The total amount borrowed under this facility may, under certain conditions, at the option of Groupe Aeroplan, be extended to June 19, 2010.

At June 30, 2009, borrowings under the bridge facility were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 4.19%.

(c) 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% per annum, payable semi-annually in arrears on April 23 and October 23 of each year, commencing October 23, 2009, and mature on April 23, 2012. The proceeds from the notes issued were used to repay \$200.0 million of the bridge facility.

The notes are secured by certain present and future undertakings, property and assets of the Company and certain of its subsidiaries and rank equally and *pari passu*, including with respect to security interest, with all other present and future unsubordinated debt of the Company, and are subject to compliance with certain affirmative and negative covenants.

(d) Long-term debt is presented net of prepaid interest and unamortized refinancing costs.

Borrowings under the credit facilities and the Senior Secured Notes Series 1 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 certain limitations of distributions in the form of dividends or equity repayments in any given fiscal year, as set out in the credit agreement.

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

At June 30, 2009, Groupe Aeroplan was in compliance with its financial covenants, as follows:

Ratio	Result	Test
Leverage	2.3	≤ 2.75
Debt service ^(a)	0.3	≤ 2.0
Interest coverage	13.4	≥ 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.

9. DEFERRED REVENUE

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

	June 30, 2009	December 31, 2008
	\$	\$
Opening balance	1,909,472	1,820,280
Aeroplan Miles issued – Gross billings	664,080	1,420,548
Deferred revenue assumed on acquisition of RM MEL	-	78,649
Revenue recognized for Aeroplan Miles redeemed and Breakage	(648,144)	(1,377,736)
Other foreign currency adjustments	17,543	(32,269)
Ending balance	1,942,951	1,909,472
Represented by:		
Current portion ^(a)	1,284,577	1,171,438
Long-term	658,374	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. EMPLOYEE BENEFITS

On May 22, 2009 Groupe Aeroplan announced that following the outcome of a mediation at the Canada Industrial Relations Board, Aeroplan, Air Canada and the CAW Local 2002 reached an agreement on the transition of contact centre agents to Aeroplan. This included confirmation of Aeroplan as the employer of its contact centre agents as of June 1, 2009 and CAW Local 2002 as their bargaining agent. The transfer of the 805 contact centre employees was fully effected on June 14, 2009.

As a result of the termination of the General Services Agreement dated May 13, 2005, effective January 1, 2005 between Air Canada and Aeroplan (the "GSA"), all obligations under the GSA, including the special payments in respect of pension plans in which the assigned employees under the GSA participated, as described in the December 31, 2008 financial statements, have ceased.

In addition to the employee benefits described in the December 31, 2008 annual financial statements, as a result of the termination of the GSA and the transfer of the contact centre agents, the following table summarizes the information related to the defined benefit pension plan, which provides benefits upon retirement, termination or death based on the member's years of service and final average earnings for a specified period, and other employee benefits consisting of post-employment life insurance, health and dental care, offered to disabled employees and post-retirement life insurance and health benefits, established for the contact centre employees.

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

As part of the transfer of the employees, Aeroplan agreed to recognize the transferred employees' seniority and assume any excess pension obligation arising from the accumulation of service years post termination with Air Canada until retirement from Aeroplan. This past service cost obligation and the past service cost obligation related to the other employee future benefits have been estimated at \$13.4 million and \$7.4 million, respectively based on an actuarial valuation dated August 7, 2009, and are amortized over the expected average remaining service of active employees covered by the pension plan of 16.2 years.

	Pension Benefits	Other Employee Future Benefits
	2009 ^(a)	2009
	\$	\$
Change in benefit obligation		
Accrued benefit obligation resulting from plan initiation and amendment – June 14, 2009	(13,413)	(7,406)
Current service cost	(64)	(25)
Interest cost	(45)	(21)
Plan participants' contributions	(80)	-
Benefits paid	-	-
Actuarial (gain) loss	-	-
Benefit obligation, end of period	(13,602)	(7,452)
Change in plan assets		
Fair market value of plan assets, June 14, 2009	-	-
Actual return on plan assets	-	-
Employer contribution	-	-
Plan participants' contributions	80	-
Benefits paid	-	-
Fair market value of plan assets, end of period	80	-
Funded status, end of period	(13,522)	(7,452)
Employer contributions after measurement date	-	-
Unamortized past service costs	13,383	7,379
Accrued benefit asset (liability)	(139)	(73)

(a) Based on a measurement date of June 14, 2009

The accrued benefit liability is included in accounts payable and accrued liabilities.

At June 30, 2009, no employer contributions to the pension plan had been made.

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

The weighted average assumptions used to determine the accrued benefit liability are as follows:

	Pension	Other Employee Future Benefits
	2009	2009
	%	%
Discount rate to determine accrued benefit obligations	7%	3.75% - 7%
Discount rate to determine the pension and benefit cost	7%	3.75% - 7%
Rate of compensation increase	1.75% until 2011; 2.5% thereafter	-
Expected return on plan assets	6%	N/A
Health care inflation – Selected to determine accrued benefit obligation ⁽¹⁾	N/A	4.5% & 8.5%
Health care inflation – Selected to determine pension and benefit cost ⁽¹⁾	N/A	4.5% & 8.5%

(1) The health care inflation assumption was graded down, in and after 2010, to 5% per annum.

The components of Aeroplan's net defined benefit pension plan and other future employee benefits expense are itemized as follows:

	Pension	Other Employee Future Benefits
	2009	2009
	\$	\$
Components of expense		
Current service cost (including provision for plan expenses)	64	25
Interest cost	45	21
Actual return on plan assets	-	-
Past service costs	30	27
Actuarial (gain) loss	-	-
Pension costs for the period	139	73
Differences between costs arising in the period and costs recognized in the period in respect of:		
Return on plan assets	-	-
Actuarial (gain) loss	-	-
Net periodic pension and benefit expense recognized	139	73

Aeroplan has determined, supported by independent legal counsel, that it does not have to assume Air Canada's existing pension liability to the transferred employees, and that it remains for the account of Air Canada. Air Canada has notified Aeroplan that it disagrees with Aeroplan's position. The outcome of the resolution of this disagreement is unknown at this time and no amount has been quantified. Accordingly, no provision for a liability has been included in these financial statements.

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

11. 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 June 30, 2009, 110.9 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 \$14.3 million at June 30, 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 11.4 billion estimated broken but unexpired Air Canada Miles were to be redeemed, amounts to \$106.8 million at June 30, 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 \$121.1 million at June 30, 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 \$975.1 million at June 30, 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 \$70.9 million for the period in which the change occurred, with \$64.4 million relating to prior years and \$6.5 million relating to the current six 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

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

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 June 30, 2009, LMG has recorded in its accounts the net benefit of VAT input tax credits in the aggregate amount of £29.0 million (\$55.4 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.

In limited circumstances, Groupe Aeroplan may provide guarantees to third parties to support the performance obligations of certain of its subsidiaries under commercial contracts. At June 30, 2009, Groupe Aeroplan's maximum exposure under such guarantees was estimated to amount to £50.0 million (\$95.6 million).

No amount has been recorded in these financial statements with respect to the indemnification and guarantee agreements.

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

12. COMMITMENTS

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

Year ending December 31,	Operating leases	Technology infrastructure and other	Marketing support and other ^(a)	Total
	\$	\$	\$	\$
2009	2,762	15,483	4,541	22,786
2010	5,151	26,765	36,405	68,321
2011	5,117	18,452	37,663	61,232
2012	5,473	6,800	22,969	35,242
2013	5,097	4,737	13,408	23,242
Thereafter	18,370	544	16,260	35,174
Total	41,970	72,781	131,246	245,997

(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 June 30, 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	12,500
2010	80,000
2011	80,000
2012	30,000
2013	30,000
Thereafter	40,000
Total shares to be granted	272,500

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

13. SEGMENTED INFORMATION

At June 30, 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:

Geographic segmentation	Three months ended June 30,							
	2009		2008		2009		2008	
	Canada		Europe and Middle East		Consolidated			
	\$	\$	\$	\$	\$	\$	\$	
Gross billings	246,401	258,762	91,431	99,096	337,832	357,858		
Revenue	255,147	240,336	78,368	96,392	333,515	336,728		
Cost of rewards	149,916	139,228	51,812	53,365	201,728	192,593		
Gross margin	105,231	101,108	26,556	43,027	131,787	144,135		
Selling, general and administrative expenses	42,285	45,274	26,341	24,353	68,626	69,627		
Depreciation and amortization	21,531	21,169	4,081	6,517	25,612	27,686		
Earnings (loss) before income taxes	41,728	19,679	(2,308)	14,919	39,420	34,598		
Additions to capital assets	4,985	5,811	1,020	747	6,005	6,558		
Additions to goodwill	-	-	-	8,110	-	8,110		
Goodwill	1,675,842	2,517,237	312,778	510,646	1,988,620	3,027,883		
Deferred revenue	1,624,180	1,592,897	318,771	300,012	1,942,951	1,892,909		
Total assets	4,780,610	5,535,689	202,772	534,961	4,983,382	6,070,650		

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

<i>(in thousands, except miles information)</i>		Six months ended June 30,					
	2009	2008	2009	2008	2009	2008	
Geographic segmentation	Canada		Europe and Middle East		Consolidated		
	\$	\$	\$	\$	\$	\$	
Gross billings	486,585	501,129	177,495	199,379	664,080	700,508	
Revenue	532,984	507,293	156,355	185,650	689,339	692,943	
Cost of rewards	322,962	302,812	105,128	113,008	428,090	415,820	
Gross margin	210,022	204,481	51,227	72,642	261,249	277,123	
Selling, general and administrative expenses	87,024	86,523	47,743	47,615	134,767	134,138	
Depreciation and amortization	43,024	42,298	7,240	12,738	50,264	55,036	
Earnings (loss) before income taxes	67,299	56,099	(328)	17,601	66,971	73,700	
Additions to capital assets	11,592	11,265	2,395	2,158	13,987	13,423	
Additions to goodwill	-	-	-	12,972	-	12,972	
Goodwill	1,675,842	2,517,237	312,778	510,646	1,988,620	3,027,883	
Deferred revenue	1,624,180	1,592,897	318,771	300,012	1,942,951	1,892,909	
Total assets	4,780,610	5,535,689	202,772	534,961	4,983,382	6,070,650	

14. SUBSEQUENT EVENTS

- A) On July 2, 2009 Groupe Aeroplan was served with a motion for authorization to institute a class action and to obtain the status of representative in the Superior Court of Quebec. No class action has yet been filed. This motion is the first procedural step before any such action can be instituted. Petitioners seek court permission to sue Aeroplan on behalf of program members in Canada to obtain reinstatement of expired miles, reimbursement of any amounts already expended by Aeroplan members to reinstate their expired miles, \$50 in compensatory damages and an undetermined amount in exemplary damages on behalf of each class member, all in relation to changes made to the Aeroplan program concerning accumulation and expiry of Aeroplan Miles as announced October 16, 2006.

Groupe Aeroplan is of the view that there are good grounds for opposing the motion for authorization and will vigorously defend any class action, should one be authorized by the court.

At this time, given that the petitioners have not yet obtained the court's permission to file the class action suit, and that the outcome of such class action suit, if permission to file were to be granted by the court, is not determinable, no provision for a liability has been included in these financial statements.

- B) On July 22, 2009 Aeroplan's subsidiary disposed of its currency swap described in Note 4, for net proceeds of \$52.7 million, with the resulting gain being recognized as foreign exchange in the statement of operations.
- C) On July 29, 2009 Aeroplan with a syndicate of other lenders entered into an agreement to provide financing to Air Canada ("Air Canada Club Loan"), pursuant to which Aeroplan committed to advance \$150 million to the airline upon satisfaction of certain conditions, including the

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

repayment in full and termination of the revolving loan and security agreement entered into by Aeroplan and Air Canada on June 29, 2009, (see Note 6).

GE Canada Finance Holding Company, Export Development Canada and ACE Aviation Holdings Inc. are also part of the syndicate of lenders. An aggregate of \$600 million was made available to Air Canada on July 30, 2009. The credit facility may be increased by \$100 million at Air Canada's request subject to certain conditions. Aeroplan's maximum commitment is, however, limited to \$150 million, which was advanced to Air Canada on July 30, 2009. Aeroplan's portion of the Air Canada Club Loan is repayable in 16 consecutive quarterly instalments of \$7.5 million commencing in August 2010 with the balance of \$30 million due in July 2014. The Air Canada Club Loan bears interest at the greater of the bankers' acceptance rate plus 9.75% or 12.75%.

The Air Canada Club Loan is secured by a security interest and hypothec over substantially all of the present and after-acquired property of Air Canada and its subsidiaries, subject to certain exclusions and permitted liens. The Air Canada Club Loan is subject to customary commercial terms and conditions, including certain financial covenants requiring Air Canada to maintain minimum liquidity, earnings before interest, income taxes, depreciation, amortization, aircraft rents, certain other items and a fixed charge coverage test.

Under the financing arrangement, Air Canada issued the lenders warrants to purchase Air Canada Class A or Class B variable voting shares. Aeroplan received 1,250,000 warrants with an exercise price of \$1.51 each, exercisable at any time and expiring in four years. In addition, Aeroplan will be entitled to its pro rata share of additional warrants, representing up to an aggregate five percent of the total issued common stock of Air Canada, in the event that Air Canada does not grant additional security over certain assets within 90 days of closing.

In consideration of the foregoing, Aeroplan and Air Canada agreed to certain mutually beneficial commercial arrangements, none of which relate to the pricing of Aeroplan Miles or the cost of reward travel seats.