



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

**For the three and nine months ended
September 30, 2010 and 2009**

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

Groupe Aeroplan Inc. was incorporated on May 5, 2008 under the laws of Canada as a wholly-owned subsidiary of Aeroplan Income Fund (the "Fund"). It is the successor to Aeroplan Income Fund following the completion of the reorganization of the Fund from an income trust structure to a corporate structure by way of a court-approved plan of arrangement on June 25, 2008.

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 Groupe Aeroplan Inc. (together with its direct and indirect subsidiaries, where the context requires, "Groupe Aeroplan" or the "Corporation").

The MD&A is prepared as at November 10, 2010 and should be read in conjunction with the accompanying interim consolidated financial statements of Groupe Aeroplan for the nine months ended September 30, 2010, and the notes thereto, the audited consolidated financial statements of Groupe Aeroplan for the years ended December 31, 2009 and 2008 and the related notes thereto, the annual management discussion and analysis for Groupe Aeroplan (the "2009 MD&A"), and Groupe Aeroplan's Annual Information Form and Management Information Circular, respectively dated March 22 and March 15, 2010.

The earnings and cash flows of Groupe Aeroplan are affected by certain risks. For a description of those risks, please refer to the "Risks and Uncertainties" section.

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, predictions or forward-looking statements cannot be relied upon due to, among 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, risks related to the business and the industry, Air Canada liquidity issues, dependency on top accumulation partners and clients, conflicts of interest, Air Canada or travel industry disruptions, airlines industry changes and increased airline costs, retail market/economic downturn, greater than expected redemptions for rewards, industry competition, integration of Carlson Marketing, supply and capacity costs, unfunded future redemption costs, failure to safeguard databases and consumer privacy, consumer privacy legislation, changes to loyalty programs, seasonal nature of the business, other factors and prior performance, regulatory matters, legal proceedings, reliance on key personnel, labour relations, pension liability, technological disruptions and inability to use third party software, failure to protect intellectual property rights, interest rate and currency fluctuations, leverage and restrictive covenants in current and future indebtedness, dilution of shareholders, uncertainty of dividend payments, level of indebtedness-refinancing risk, managing growth, credit ratings, as well as the other factors identified throughout this MD&A. The forward-looking statements contained herein represent Groupe Aeroplan's expectations as of November 10, 2010, and are subject to change after such date. However, Groupe Aeroplan 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.

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GLOSSARY

"Aeroplan" or **"Aeroplan Canada"** – means Aeroplan Canada Inc.;

"Aeroplan Miles" – means the miles issued by Aeroplan Canada under the Aeroplan Program;

"Air Canada Miles" – means 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 GA Loyalty Units;

"Aeroplan Program" – means the loyalty marketing program owned and operated by Aeroplan Canada;

"Average Cost of Rewards per GALU" – means for any reporting period, equals the cost of rewards for the period divided by the number of GALU redeemed for rewards during the period;

"Breakage" – means the estimated GA Loyalty Units sold which are not expected to be redeemed. By its nature, Breakage is subject to estimates and judgement. Management's current best estimate of the consolidated weighted average estimated breakage factor is approximately 20% (2009 - 17%). Breakage is recognized as revenue over the estimated life of a GA Loyalty Unit, 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 currently 15 months;

"Broken GALUs" – means GA Loyalty Units issued, but not expired and not expected to be redeemed;

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

"Carlson Marketing" – means the division of Groupe Aeroplan that operates the Carlson Marketing business;

"Change in Future Redemption Costs" – means the 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 GALU, 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 GA Loyalty Units outstanding between periods by the Average Cost of Rewards per GALU for the period;

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

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

"ECJ VAT Judgment" – means the ruling issued by the European Court of Justice on October 7, 2010;

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

"GA" – means Groupe Aeroplan;

"GAAP" – means generally accepted accounting principles in Canada;

"GA Loyalty Units" or "GALUs" – means the miles, points or other loyalty program units issued by Groupe Aeroplan's subsidiaries under the respective programs owned and operated by each of the entities;

"Gross Billings" – means gross proceeds from the sale of GA Loyalty Units and services rendered or to be rendered;

"Gross Billings from the sale of GALUs" – means gross proceeds from the sale of GA Loyalty Units;

"Groupe Aeroplan Europe" – means the division of Groupe Aeroplan that operates the Nectar, Air Miles Middle East, I&C and Nectar Italia businesses;

"LMG" – means Loyalty Management Group Limited, a corporation incorporated under the laws of England and Wales;

"miles" – means the miles issued under the Aeroplan Program by either Aeroplan or Air Canada;

"Nectar", "Nectar UK" or the "Nectar Program" – means the loyalty marketing program operated by Groupe Aeroplan Europe in the United Kingdom;

"Nectar Italia" or the "Nectar Italia Program" – means the loyalty marketing program operated by Groupe Aeroplan Europe in Italy;

"Nectar Points" – means the points accumulated by members under the Nectar Program;

"Nectar Italia Points" – means the points accumulated by members under the Nectar Italia Program;

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

"Redemption Partners" – means Commercial Partners that offer air travel, shopping discounts or other rewards to members upon redemption of GA Loyalty Units;

"Total Miles" – means all redeemable miles (including Broken Miles but not Expired Miles), whether issued by Aeroplan or by Air Canada (prior to January 1, 2002) under the Aeroplan Program.

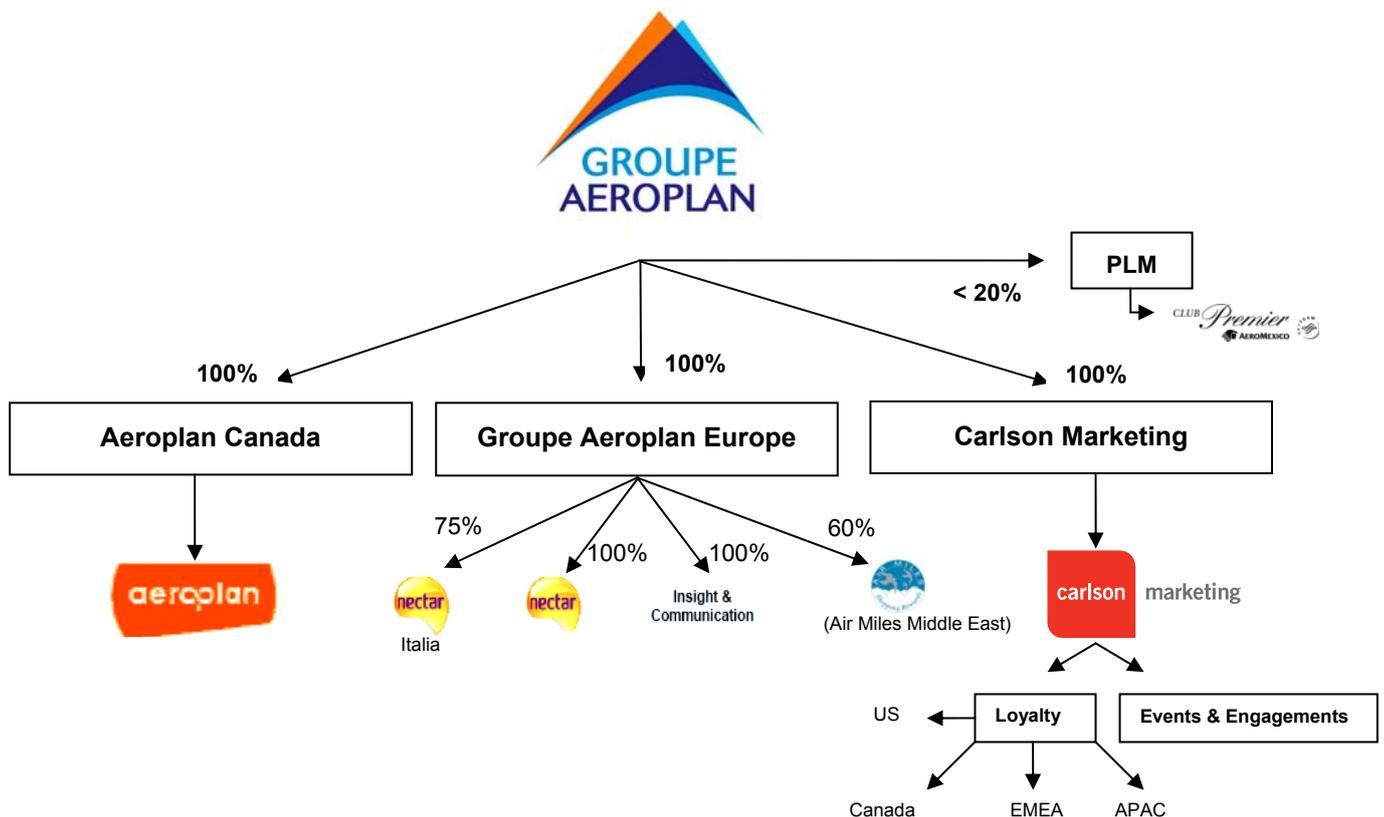
OVERVIEW

Groupe Aeroplan, a global leader in loyalty management, currently operates in three business segments: Aeroplan Canada, Carlson Marketing and Groupe Aeroplan Europe.

Aeroplan Canada operates the Aeroplan Program, Canada's premier coalition loyalty program. Carlson Marketing is an international loyalty marketing services and engagement and events provider headquartered in the U.S. Groupe Aeroplan Europe operates Nectar, the United Kingdom's largest coalition loyalty program. In the Gulf Region, Groupe Aeroplan Europe operates Air Miles Middle East, through its 60% interest in Rewards Management Middle East FZ LLC ("RMMEEL"). Groupe Aeroplan Europe also operates LMG Insight & Communication ("I&C"), a customer-driven insight and data analytics business offering international services to retailers and their suppliers and holds a 75% interest in Nectar Italia. Groupe Aeroplan also holds a minority interest in Premier Loyalty Management S.A.P.I. de C.V., owner and operator of Club Premier, Mexico's leading coalition loyalty program.

OPERATIONAL STRUCTURE

The following chart illustrates the operational structure of Groupe Aeroplan as at September 30, 2010:



Note: The chart above does not reflect the actual corporate structure of Groupe Aeroplan but rather reflects Groupe Aeroplan's operational structure.

STRATEGY

Please refer to the corresponding section of Groupe Aeroplan's 2009 MD&A to review Groupe Aeroplan's strategy.

PERFORMANCE INDICATORS

OPERATING INCOME

Revenue

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

In addition, Groupe Aeroplan, through Carlson Marketing, derives loyalty marketing service fees related to direct marketing, sales promotion and the design, development and administration of loyalty programs. These loyalty marketing service fees are included in Gross Billings and recognized as revenue once the services are rendered. Other revenue, which consists of charges to members for various services, royalties earned with respect to the Air Miles trademark, loyalty industry related business know-how and expertise and analytical services to retailers and consumer packaged goods companies and the management of Air Canada's tier membership program for its most frequent flyers, is also included in Gross Billings and is recognized as revenue when the services are performed or the royalties are earned.

Cost of Rewards, Direct Costs 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 GALUs. At that time, the costs of the chosen rewards are incurred and recognized. The total cost of rewards varies with the number of GALUs redeemed and the cost of the individual rewards purchased in connection with such redeemed GALUs.

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

Direct costs consist of those costs directly attributable to the delivery of loyalty marketing services and include labour, technology, reward fulfillment and commissions.

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 and to measure compliance with debt covenants. Management believes Adjusted EBITDA assists investors in comparing Groupe Aeroplan'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, revenue recognized and recognition of Breakage.

Future Redemption Costs represent management's estimated future cost of rewards in respect of GALUs 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 GALU redeemed for that period (cost of rewards / GALUs redeemed) and applying it to the total unbroken GALUs 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 GALU redeemed for the period in question.

EBITDA and Free Cash Flow are non-GAAP measurements recommended by the Canadian Institute of Chartered Accountants ("CICA") in accordance with the draft recommendations provided in their February 2008 publication, *Improved Communications with Non-GAAP Financial Measures – General Principles and Guidance for Reporting EBITDA and Free Cash Flow*.

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 CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF EBITDA, ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND FREE CASH FLOW](#) 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.

ADJUSTED NET EARNINGS

Net earnings in accordance with GAAP adjusted for Amortization of Accumulation Partners' contracts, customer relationships and technology, Change in deferred revenue, Change in Future Redemption Costs and the income tax effect thereon calculated at the effective income tax rate as reflected in the statement of operations, provides a measurement of profitability calculated on a basis consistent with Adjusted EBITDA.

Adjusted Net Earnings is not a measurement based on GAAP, is not considered an alternative to net earnings in measuring profitability, and is not comparable to similar measures used by other issuers. For a reconciliation to GAAP, please refer to the [SUMMARY OF CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF EBITDA, ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND FREE CASH FLOW](#) included in the *Operating and Financial Results* section.

STANDARDIZED FREE CASH FLOW ("FREE CASH FLOW")

Free Cash Flow is a non-GAAP measure recommended by the CICA in order to provide a consistent and comparable measurement of free cash flow across entities of cash generated from operations and is used as an indicator of financial strength and performance.

Free Cash Flow 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) dividends, when stipulated, unless deducted in arriving at cash flows from operating activities.

For a reconciliation to cash flows from operations please refer to the [SUMMARY OF CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF EBITDA, ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND FREE CASH FLOW](#) included in the *Operating and Financial Results* section.

CAPABILITY TO DELIVER RESULTS

For a review of these factors, please refer to the 2009 MD&A.

ACQUISITION OF CARLSON MARKETING

On November 3, 2009, Groupe Aeroplan entered into an agreement to acquire 100% of the Carlson Marketing business, for a net purchase price of US\$175.3 million (\$188.0 million), including transaction costs of US\$6.5 million (\$6.8 million). The purchase price was subject to certain working capital adjustments, which were estimated on the closing date of December 7, 2009 at US\$76.0 million (\$80.0 million). These were later adjusted in January 2010 to reflect additional actual working capital amounts of US\$11.7 million (\$12.1 million), and were included in accounts payable and accrued liabilities at December 31, 2009 and were paid during the first quarter of 2010. The transaction was financed with cash on hand and borrowings from bank facilities.

Groupe Aeroplan accounted for the acquisition under the purchase method of accounting. As permitted by Canadian accounting standards, at the time of the acquisition transaction, a preliminary estimate of the purchase price allocation was performed. The final allocation was completed during the first quarter of 2010. There were no adjustments to the initial purchase price allocation as reported at December 31, 2009, other than the recognition of a \$6.5 million future income tax asset, with the corresponding adjustment reducing goodwill.

Transition Services Agreement

Concurrently with the acquisition, Groupe Aeroplan entered into a one year transition services agreement to facilitate the effective migration of Carlson Marketing from Carlson Companies, Inc.'s administrative services platform, including accounting, human resources and payroll, information technology, consolidation, facilities and treasury, in consideration for certain fees. Each of the services under the agreement may be terminated upon 30 days notice. The maximum annual payment under this agreement could amount to US\$31.8 million (\$32.7 million).

Fees paid under this agreement amounted to US\$5.6 million (\$5.9 million) and US\$19.6 million (\$20.3 million) for the three and nine months ended September 30, 2010, respectively.

Migration Costs

The estimated costs of migration from Carlson Marketing's former parent company's infrastructure to a stand-alone platform, estimated at US\$15.0 million at closing, were adjusted to US\$26.0 million in the first quarter of 2010. The US\$26.0 million estimate remains unchanged at this time. Of this amount, approximately US\$10.0 million are anticipated to represent capital expenditures and the balance of US\$16.0 million are anticipated to represent operating expenses. The change to the initial estimate was effected mostly as a consequence of a fundamental change in technology migration approach, required as a result of increased security restrictions necessary during the migration of the network and customer applications, amounting to approximately US\$7.0 million; and additional costs associated with the re-engineering relative to financial processes and the implementation of the financial system platform, explaining approximately US\$4.0 million.

Management is currently in discussions with the vendor to identify mitigating solutions to the increased costs.

Migration of all technology platforms will be completed by November 11, 2010.

Migration costs incurred during the three months ended September 30, 2010 amounted to US\$7.8 million (\$8.2 million), with US\$3.5 million (\$3.7 million) representing capital expenditures and US\$4.3 million (\$4.5 million) of operating expenses.

Migration costs incurred for the nine months ended September 30, 2010 amounted to US\$18.9 million (\$19.6 million) with US\$9.2 (\$9.5 million) representing capital expenditures and US\$9.7 million (\$10.1 million) of operating expenses.

Non-Recurring Costs

In connection with the acquisition, and in order to retain knowledge and talent necessary to ensure a smooth ownership transition, certain identified employees will benefit from retention bonuses. These bonuses are expected to be approximately US\$3.0 million in 2010. Employee retention costs incurred for the nine months ended September 30, 2010 amounted to US\$1.8 million.

Given the significant efforts dedicated to the technology platform migration, it was considered opportune and more efficient to proceed with an upgrade of the U.S. rewards fulfillment platform to meet new business requirements. This upgrade, which had been previously scheduled for future years, is anticipated to amount to approximately US\$3.0 million in 2010. Platform upgrade costs incurred for the nine months ended September 30, 2010 amounted to US\$1.7 million, with US\$1.0 million representing capital expenditures and US\$0.7 million representing operating expenses.

The table below details the final purchase price allocation:

<i>In thousands of dollars</i>	September 30, 2010
	\$
Purchase price:	
Cash	280,071
Transaction costs	6,844
	286,915
Net identifiable assets acquired:	
Current assets and liabilities	
Cash and cash equivalents	90,399
Restricted cash	4,216
Accounts receivable	97,216
Inventories	16,346
Prepaid expenses	14,728
Accounts payable and accrued liabilities	(97,608)
Deferred revenue	(49,245)
Prepaid card deposits	(16,354)
Property and equipment	9,621
Intangible assets	
Finite life	
Customer relationships (8 to 14 years)	71,797
Software and technology (5 years)	23,953
Other intangibles (3 to 5 years) ^(a)	16,280
Indefinite life	
Goodwill ^(b)	103,066
Future income tax asset	2,500
	286,915

(a) Included in other intangibles are the rights to use the Carlson Marketing trade name over a period of 3 years (until December 7, 2012) and non-competition restrictions for 5 years (until December 7, 2014) agreed to by the vendor, pursuant to the acquisition agreement.

(b) Goodwill arising from the acquisition other than in Canada (where assets were purchased) and the U.S. is not tax deductible.

INVESTMENT IN PREMIER LOYALTY AND MARKETING, S.A.P.I. DE C.V.

On September 13, 2010, Groupe Aeroplan Inc. acquired an initial participation in Premier Loyalty and Marketing, S.A.P.I. de C.V. ("PLM"), for cash consideration of US\$23.3 million, including transaction costs of US\$1.3 million (\$24.1 million, including transaction costs of \$1.4 million). PLM is the owner and operator of Club Premier, Mexico's leading coalition loyalty program. The investment has been accounted for under the cost method.

An additional US\$12.0 million will be invested in PLM by Groupe Aeroplan if certain performance milestones are achieved within 18 months of closing.

OPERATING AND FINANCIAL RESULTS

Certain of the following financial information of Groupe Aeroplan has been derived from, and should be read in conjunction with, the interim consolidated financial statements for the three and nine months ended September 30, 2010, and the related notes.

Historically, Aeroplan Canada's business has been marked by seasonality relating to high redemption activity in the first half of the year and high accumulation activity in the second half of the year. Groupe Aeroplan Europe is characterized by high redemption activity in the last quarter of the year as a result of the Holiday Season. While Carlson Marketing is also affected by similar seasonality in the last quarter of the year, also related to the Holiday Season, the impact of the Carlson Marketing seasonality at the consolidated level is not significant due to a lower relative importance of the reward fulfilment component of the Carlson Marketing's business compared to that of Aeroplan Canada and Groupe Aeroplan Europe.

QUARTER HIGHLIGHTS

- Gross Billings of \$520.5 million;
- Operating loss of \$24.6 million;
- Net loss of \$40.4 million;
- Loss per share of \$0.22;
- Cash flows from operations of \$152.3 million;
- Adjusted EBITDA of \$27.0 million;
- Adjusted net earnings of \$6.2 million;
- Free cash flow of \$112.7 million.

SUMMARY OF CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF EBITDA, ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND FREE CASH FLOW

	Three months ended		Nine months ended		%Δ	
	September 30,		September 30,		Q3	YTD
	2010	2009	2010	2009		
	\$	\$	\$	\$		
<i>(in thousands, except miles, share and per share information)</i>						
Gross Billings	520,455	355,349	1,594,136	1,060,624	46.5	50.3
Gross Billings from the sale of GALUs	360,062	335,882	1,063,053	999,962	7.2	6.3
Revenue	442,062	303,181	1,377,925	951,325	45.8	44.8
Other revenue	23,962	19,467	68,075	60,662	23.1	12.2
Total revenue	466,024	322,648	1,446,000	1,011,987	44.4	42.9
Cost of rewards and direct costs	(322,938)	(190,346)	(902,934)	(623,362)	69.7	44.8
Gross margin	143,086	132,302	543,066	388,625	8.2	39.7
Selling, general and administrative expenses	(137,080)	(65,409)	(425,261)	(195,250)	109.6	117.8
Depreciation and amortization	(7,403)	(4,494)	(22,196)	(14,558)	64.7	52.5
Operating income (loss) before amortization of Accumulation Partners' contracts, customer relationships and technology	(1,397)	62,399	95,609	178,817	(102.2)	(46.5)
Depreciation and amortization	7,403	4,494	22,196	14,558	64.7	52.5
EBITDA^(b)	6,006	66,893	117,805	193,375	(91.0)	(39.1)
Adjustments:						
Change in deferred revenue						
Gross Billings	520,455	355,349	1,594,136	1,060,624		
Revenue	(466,024)	(322,648)	(1,446,000)	(1,011,987)		
Change in Future Redemption Costs ^(c)	(33,423)	(22,888)	(94,440)	(30,784)		
(Change in Net GALUs outstanding x Average Cost of Rewards per GALUs for the period)						
Subtotal of Adjustments	21,008	9,813	53,696	17,853		
Adjusted EBITDA^(b)	27,014	76,706	171,501	211,228	(64.8)	(18.8)
Net earnings (loss) in accordance with GAAP	(40,400)	18,756	(11,537)	68,730		
Weighted average number of shares	195,481,856	199,462,480	197,343,155	199,423,366		
Earnings (loss) per share ^(d)	(0.22)	0.09	(0.10)	0.34		
Net earnings (loss) in accordance with GAAP	(40,400)	18,756	(11,537)	68,730	(315.4)	(116.8)
Amortization of Accumulation Partners' contracts, customer relationships and technology	23,228	20,079	70,008	60,279		
Subtotal of Adjustments (from above)	21,008	9,813	53,696	17,853		
Effective tax rate (%) ^(e)	-11.17%	33.05%	732.86%	27.64%		
Tax on adjustments at the effective rate	2,346	(3,243)	(393,515)	(4,935)		
Adjusted net earnings (loss)^{(b)(f)}	6,182	45,405	(281,348)	141,927	(86.4)	(298.2)
Adjusted net earnings (loss) per share ^(d)	0.02	0.23	(1.46)	0.71		
Net earnings (loss)	(40,400)	18,756	(11,537)	68,730		
Earnings (loss) per share	(0.22)	0.09	(0.10)	0.34		
Cash flow from operations	152,340	75,193	170,750	181,024	102.6	(5.7)
Capital Expenditures	(12,947)	(6,182)	(31,016)	(20,169)		
Dividends	(26,686)	(24,997)	(81,402)	(74,991)		
Free cash flow^(b)	112,707	44,014	58,332	85,864	156.1	(32.1)
Total assets	5,218,595	4,932,521	5,218,595	4,932,521		
Total long-term liabilities	1,504,475	1,506,007	1,504,475	1,506,007		
Total dividends	26,686	24,997	81,402	74,991		
Total dividends per preferred share	0.406	N/A	1.124	N/A		
Total dividends per common share	0.125	0.125	0.375	0.375		

(a) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.

(b) A non-GAAP measurement.

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

(d) After deducting dividends paid on preferred shares in 2010.

(e) Effective tax rate calculated as follows: income tax expense per statement of operations / earnings before income taxes for the period.

(f) Includes the positive effect of a \$17.4 million adjustment, as a result of a reclassification of deferred revenue amounts previously included in customer deposits.

(g) The Average Cost of Rewards per GALU for the period includes the impact of the ECJ VAT Judgment related to the three and nine month periods ended September 30, 2010 amounting to \$0.4 million (£0.3 million) and \$1.6 million (£1.0 million) respectively.

(h) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

SEGMENTED INFORMATION

At September 30, 2010, the Corporation has three operating segments: Aeroplan Canada, Carlson Marketing and Groupe Aeroplan Europe.

The tables below summarize the relevant financial information by segment:

<i>(in thousands, except miles information)</i>		Three months ended September 30,									
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	
Operating segments	Aeroplan Canada		Groupe Aeroplan Europe		Carlson Marketing		Corporate ^(d)		Consolidated		
Number of Aeroplan Miles issued (in billions)	20.7	20.0									
Number of Total Miles redeemed (in billions)	15.5	16.1									
Number of Aeroplan Miles redeemed (in billions)	15.5	15.5									
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Gross Billings	268,351	257,020	115,707	98,329	136,397	-	-	-	520,455	355,349	
Gross Billings from the sale of GALUs	256,971	244,991	103,091	90,891	-	-	-	-	360,062	335,882	
Revenue	234,055	231,522	74,901	71,659	133,108	-	-	-	442,064	303,181	
Other revenue	11,378	12,030	12,582	7,437	-	-	-	-	23,960	19,467	
Total revenue	245,433	243,552	87,483	79,096	133,108	-	-	-	466,024	322,648	
Cost of rewards and direct costs	138,760	137,108	118,101 ^(a)	53,238	66,077	-	-	-	322,938 ^(a)	190,346	
Gross margin	106,673	106,444	(30,618) ^(a)	25,858	67,031	-	-	-	143,086 ^(a)	132,302	
Selling, general and administrative expenses	36,799	37,451	21,667 ^(a)	20,011	64,998	-	13,616	7,947	137,080 ^(a)	65,409	
Depreciation and amortization ^(b)	22,060	21,442	3,138	3,131	5,433	-	-	-	30,631	24,573	
Interest on long-term debt	-	-	50	-	-	-	12,905	12,808	12,955	12,808	
Other interest expense	829	-	6,360	91	-	-	-	2,027	7,189	2,118	
Interest income	5,923	5,233	2,214	661	291	-	-	-	8,428	5,894	
Foreign exchange loss	-	-	-	-	-	-	-	(5,275)	-	(5,275)	
Adjusted EBITDA ^(c)	79,908	74,643	(44,600) ^{(a)(d)}	10,010	5,322	-	(13,616)	(7,947)	27,014 ^{(a)(d)}	76,706	
Earnings (loss) before income taxes	52,908	52,784	(59,619) ^{(a)(f)}	3,286	(3,109)	-	(26,521)	(28,057)	(36,341) ^{(a)(f)}	28,013	
Additions to capital assets	6,230	4,011	1,827	2,171	4,890	-	N/A	N/A	12,947	6,182	
Goodwill	1,675,842	1,675,842	269,612	280,485	103,267	-	N/A	N/A	2,048,721	1,956,327	
Deferred revenue	1,705,451	1,637,299	350,939	305,299	29,759	-	N/A	N/A	2,086,149	1,942,598	
Total assets	4,826,315	4,776,864	232,973	155,657	159,307	-	N/A	N/A	5,218,595	4,932,521	

- (a) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.
- (b) Includes amortization of Accumulation Partners' contracts, customer relationships and technology.
- (c) A non-GAAP measurement.
- (d) Includes revenue and expenses that are not directly attributable to any operating segment.
- (e) The Average Cost of Rewards per GALU includes the ECJ VAT Judgment impact related to the period amounting to \$0.4 million (£0.3 million).
- (f) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

(in thousands, except miles information)										
Nine months ended September 30,										
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Operating segments	Aeroplan Canada		Groupe Aeroplan Europe		Carlson Marketing		Corporate ^(d)		Consolidated	
Number of Aeroplan Miles issued (in billions)	61.1	59.5								
Number of Total Miles redeemed (in billions)	48.5	52.2								
Number of Aeroplan Miles redeemed (in billions)	48.1	50.0								
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Gross Billings	794,425	772,209	337,466	288,415	462,245 ^(e)	-	-	-	1,594,136 ^(e)	1,060,624
Gross Billings from the sale of GALUs	757,422	731,576	305,631	268,386	-	-	-	-	1,063,053	999,962
Revenue	719,647	735,902	214,500	215,423	443,778	-	-	-	1,377,925	951,325
Other revenue	37,003	40,634	31,072	20,028	-	-	-	-	68,075	60,662
Total revenue	756,650	776,536	245,572	235,451	443,778	-	-	-	1,446,000	1,011,987
Cost of rewards and direct costs	443,397	460,070	229,429 ^(a)	163,292	230,108	-	-	-	902,934 ^(a)	623,362
Gross margin	313,253	316,466	16,143 ^(a)	72,159	213,670	-	-	-	543,066 ^(a)	388,625
Selling, general and administrative expenses	107,361	113,172	85,805 ^(a)	62,828	196,666	-	35,429	19,250	425,261 ^(a)	195,250
Depreciation and amortization ^(b)	65,993	64,466	9,754	10,371	16,457	-	-	-	92,204	74,837
Interest on long-term debt	-	-	146	-	-	-	40,418	27,465	40,564	27,465
Other interest expense	2,132	-	6,360	271	-	-	-	4,113	8,492	4,384
Interest income	16,579	7,045	8,375	4,269	324	-	-	-	25,278	11,314
Foreign exchange loss	-	-	-	-	-	-	-	(3,019)	-	(3,019)
Adjusted EBITDA ^(c)	224,889	209,341	(53,430) ^{(a)(f)}	21,137	35,471 ^(e)	-	(35,429)	(19,250)	171,501 ^{(a)(e)(f)}	211,228
Earnings (loss) before income taxes	154,346	145,873	(77,547) ^{(a)(g)}	2,958	871	-	(75,847)	(53,847)	1,823 ^{(a)(g)}	94,984
Additions to capital assets	14,758	15,603	3,144	4,566	13,114	-	N/A	N/A	31,016	20,169
Goodwill	1,675,842	1,675,842	269,612	280,485	103,267	-	N/A	N/A	2,048,721	1,956,327
Deferred revenue	1,705,451	1,637,299	350,939	305,299	29,759	-	N/A	N/A	2,086,149	1,942,598
Total assets	4,826,315	4,776,864	232,973	155,657	159,307	-	N/A	N/A	5,218,595	4,932,521

- (a) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.
- (b) Includes amortization of Accumulation Partners' contracts, customer relationships and technology.
- (c) A non-GAAP measurement.
- (d) Includes revenue and expenses that are not directly attributable to any operating segment.
- (e) Includes the positive effect of a \$17.4 million adjustment, as a result of a reclassification of deferred revenue amounts previously included in customer deposits.
- (f) The Average Cost of Rewards per GALU includes the ECJ VAT Judgment impact related to the period amounting to \$1.6 million (£1.0 million).
- (g) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

The tables below reflect the Corporation's geographic operations segmented between Canada and the rest of the world:

<i>(in thousands, except miles information)</i>						
Three months ended September 30,						
Geographic segments	2010	2009	2010	2009	2010	2009
	Canada ^(a)		Rest of the World		Consolidated	
	\$	\$	\$	\$	\$	\$
Gross Billings ^(d)	312,424	257,020	208,031 ^(c)	98,329 ^(c)	520,455	355,349
Gross Billings from the sale of GALUs	256,971	244,991	103,091	90,891	360,062	335,882
Revenue	274,984	231,523	167,080	71,658	442,064	303,181
Other revenue	11,378	12,029	12,582	7,438	23,960	19,467
Total revenue	286,362	243,552	179,662	79,096	466,024	322,648
Cost of rewards and direct costs	158,819	137,108	164,119 ^(e)	53,238	322,938 ^(e)	190,346
Gross margin	127,543	106,444	15,543 ^(e)	25,858	143,086 ^(e)	132,302
Selling, general and administrative expenses	65,692	45,398	71,388 ^(e)	20,011	137,080 ^(e)	65,409
Depreciation and amortization ^(b)	25,057	21,442	5,574	3,131	30,631	24,573
Earnings (loss) before income taxes	30,258	24,727	(66,599) ^{(e)(f)}	3,286	(36,341) ^{(e)(f)}	28,013
Additions to capital assets	6,676	4,011	6,271	2,171	12,947	6,182
Goodwill	1,697,590	1,675,842	351,131	280,485	2,048,721	1,956,327
Deferred revenue	1,719,014	1,637,299	367,135	305,299	2,086,149	1,942,598
Total assets	4,965,299	4,776,864	253,296	155,657	5,218,595	4,932,521

- (a) The corporate segment is included in the Canadian geographic segment.
- (b) Includes amortization of Accumulation Partners' contracts, customer relationships and technology.
- (c) Includes Gross Billings of \$102.2 million in the UK and \$46.7 million in the US for the three months ended September 30, 2010 compared to Gross Billings of \$92.5 million in the UK for the three months ended September 30, 2009.
- (d) Third party Gross Billings are attributed to a country on the basis of the country where the contractual and management responsibility for the customer resides.
- (e) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.
- (f) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

(in thousands,
except miles
information)

Nine months ended September 30,

Geographic segments	2010	2009	2010	2009	2010	2009
	Canada ^(a)		Rest of the World		Consolidated	
	\$	\$	\$	\$	\$	\$
Gross Billings ^(d)	912,232	772,209	681,904 ^{(c)(e)}	288,415 ^(c)	1,594,136 ^(e)	1,060,624
Gross Billings from the sale of GALUs	757,422	731,576	305,631	268,386	1,063,053	999,962
Revenue	832,082	735,903	545,843	215,422	1,377,925	951,325
Other revenue	37,003	40,633	31,072	20,029	68,075	60,662
Total revenue	869,085	776,536	576,915	235,451	1,446,000	1,011,987
Cost of rewards and direct costs	498,216	460,070	404,718 ^(f)	163,292	902,934 ^(f)	623,362
Gross margin	370,869	316,466	172,197 ^(f)	72,159	543,066 ^(f)	388,625
Selling, general and administrative expenses	188,361	132,422	236,900 ^(f)	62,828	425,261 ^(f)	195,250
Depreciation and amortization ^(b)	74,971	64,466	17,233	10,371	92,204	74,837
Earnings (loss) before income taxes	81,693	92,026	(79,870) ^{(f)(g)}	2,958	1,823 ^{(f)(g)}	94,984
Additions to capital assets	15,941	15,603	15,075	4,566	31,016	20,169
Goodwill	1,697,590	1,675,842	351,131	280,485	2,048,721	1,956,327
Deferred revenue	1,719,014	1,637,299	367,135	305,299	2,086,149	1,942,598
Total assets	4,965,299	4,776,864	253,296	155,657	5,218,595	4,932,521

(a) The corporate segment is included in the Canadian geographic segment.

(b) Includes amortization of Accumulation Partners' contracts, customer relationships and technology.

(c) Includes Gross Billings of \$302.7 million in the UK and \$210.9 million in the US for the nine months ended September 30, 2010 compared to Gross Billings of \$271.3 million in the UK for the nine months ended September 30, 2009.

(d) Third party Gross Billings are attributed to a country on the basis of the country where the contractual and management responsibility for the customer resides.

(e) Includes the positive effect of a \$17.4 million adjustment, as a result of a reclassification of deferred revenue amounts previously included in customer deposits.

(f) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.

(g) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

OPERATING RESULTS AND PERFORMANCE INDICATORS IN % TERMS

(as a % of total revenue)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	%	%	%	%
Total Revenue	100.0	100.0	100.0	100.0
Cost of rewards and direct costs	(69.3)	(59.0)	(62.4)	(61.6)
Gross margin	30.7	41.0	37.6	38.4
Selling, general and administrative expenses	(29.4)	(20.3)	(29.4)	(19.3)
Depreciation and amortization	(1.6)	(1.4)	(1.5)	(1.4)
Operating income (loss) before amortization of Accumulation Partners' contracts, customer relationships and technology	(0.3)	19.3	6.6	17.7

(as a % of Gross Billings)	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	%	%	%	%
Gross Billings	100.0	100.0	100.0	100.0
Total revenue	89.5	90.8	90.7	95.4
Cost of rewards and direct costs	(62.0)	(53.6)	(56.6)	(58.8)
Selling, general and administrative expenses	(26.3)	(18.4)	(26.7)	(18.4)
Operating income (loss) before amortization of Accumulation Partners' contracts, customer relationships and technology	(0.3)	17.6	6.0	16.9
Adjusted EBITDA	5.2	21.6	10.8	19.9
Adjusted Net Earnings	1.2	12.8	(17.6)	13.4
Free Cash Flow	21.7	12.4	3.7	8.1

(a) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.

(b) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

(c) The Average Cost of Rewards per GALU for the period includes the impact of the ECJ VAT Judgment related to the three and nine month periods ended September 30, 2010 amounting to \$0.4 million (£0.3 million) and \$1.6 million (£1.0 million) respectively.

QUARTER ENDED SEPTEMBER 30, 2010 COMPARED TO QUARTER ENDED SEPTEMBER 30, 2009

Gross Billings generated for the three months ended September 30, 2010 amounted to \$520.5 million compared to \$355.3 million for the three months ended September 30, 2009, representing an increase of \$165.2 million or 46.5%, mainly as a result of the inclusion of Carlson Marketing in the consolidated results accounting for \$136.4 million. Gross Billings include loyalty marketing services revenue generated by Carlson Marketing, as well as other revenue, amounting to \$133.1 million and \$24.0 million, respectively for the quarter.

Gross Billings from the Sale of GALUs

Groupe Aeroplan's ability to generate Gross Billings is a function of the underlying behaviour of the Accumulation Partners' respective customer base and their spending patterns, and loyalty marketing customers, which are in turn affected by the general economic conditions present in the countries in which the loyalty programs are operated. In the UK, the strong ties of the Nectar Program to the grocery sector has a positive impact despite the economic recession, as consumer behaviour tends to change with the replacement of restaurant spend with incremental grocery spend. More specifically, for the three months ended September 30, 2010, and as a result of the current economic environment, the different Gross Billings categories were affected in the following manner:

- Gross Billings generated from financial partners reflect an increase in average consumer spend per credit card and number of active cards;
- Gross Billings generated from retail partners continued to be positively affected by the grocery sector.

Aeroplan Miles issued during the three month period ended September 30, 2010 increased by 3.5% in comparison to the prior year, tracking to general economic indicators. Aeroplan Canada experienced an increase of \$12.0 million in Gross Billings from the sale of Aeroplan Miles compared to the same period in the prior year, as a consequence of an increase in average consumer spend per active credit card and increased airline partner activity.

Nectar Points issued during the three month period ended September 30, 2010 increased by 9.1% compared to the same period in the prior year, mainly driven by increased activities, including the use of bonusing in the grocery sector. Groupe Aeroplan Europe experienced an increase of \$22.4 million in Gross Billings from GALUs, offset by a currency related reduction of \$10.2 million resulting from the decline of the £ sterling relative to the Canadian \$ during the third quarter of 2010, compared to the third quarter of 2009. Nectar Italia, which commenced operations during the first quarter of 2010, generated Gross Billings from GALUs of \$15.5 million in the quarter.

Gross Billings from the sale of GALUs are accounted for as deferred revenue until such GALUs are redeemed. GALUs redeemed are recognized as revenue at the cumulative average selling price of the accumulated GALUs under the respective programs, issued since January 1, 2002 in the case of the Aeroplan Program and since the inception date, in the case of the Nectar and Nectar Italia Programs and the programs operated by RM MEL.

Redemption activity - Total Miles redeemed for the three months ended September 30, 2010 under the Aeroplan Program amounted to 15.5 billion compared to 16.1 billion for the three months ended September 30, 2009, representing a decrease of 0.6 billion or 3.7% driven primarily by additional capacity made available by air partners in 2009.

Redemption activity for the Nectar Program increased by 18.6% compared to the third quarter of 2009, mainly driven by an increase in the number of points in circulation, with the mix between grocery and non-grocery redemption activity remaining unchanged during the period, and by promotional campaigns by an Accumulation Partner early in the year.

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

Revenue includes the following components:

Revenue recognized from the redemption and sale of GALUs, including Breakage, amounted to \$309.0 million for the three months ended September 30, 2010 compared to \$303.2 million for the three months ended September 30, 2009, representing an increase of \$5.8 million or 1.9%. This increase is mainly attributable to:

- the effect of redemption activity on revenue recognition during the quarter of the following factors:
 - a decrease in total redemption volume, offset by a higher proportion of Aeroplan Miles redeemed during the quarter under the Aeroplan Program and by an increase in the cumulative average selling price of an Aeroplan Mile accounting, for a total favourable variance of \$1.2 million;
 - a higher number of GALUs redeemed during the quarter under the programs operated by Groupe Aeroplan Europe, generating an additional \$10.4 million; and offset by
 - the negative impact of the fluctuation in the £ sterling of \$7.2 million, related to the translation of foreign operations.
- revenue recognized from Breakage remained relatively constant in comparison to the three months ended September 30, 2009.

Loyalty marketing service revenue generated from Carlson Marketing amounted to \$133.1 million for the three months ended September 30, 2010, net of a \$2.7 million acquisition accounting fair value adjustment, relating to deferred revenue, which will be fully amortized by the end of 2010.

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 related to the Aeroplan Program, and other miscellaneous categories, amounted to \$24.0 million for the three months ended September 30, 2010 compared to \$19.5 million for the three months ended September 30, 2009, representing an increase of \$4.5 million or 23.1%, mainly driven by I&C activity.

Aeroplan Canada's other revenue category consists of the tier management, contact centre management, marketing fees from Air Canada and member based revenue.

The other revenue category in Groupe Aeroplan Europe consists primarily of I&C activity, which has grown by 136.9% during the period, and royalties earned with respect to the Air Miles trade name and loyalty industry related business know-how and expertise.

Cost of rewards and direct costs amounted to \$322.9 million for the three months ended September 30, 2010 compared to \$190.3 million for the three months ended September 30, 2009, representing an increase of \$132.6 million or 69.7%. This change is mainly attributable to the following factors:

Aeroplan Canada experienced a \$1.7 million increase in cost of rewards resulting from:

- a higher redemption cost per Aeroplan Mile redeemed in the total amount of \$1.7 million;
- a higher volume of non-air reward redemptions for the quarter, representing \$2.8 million; offset by
- a decrease in air redemption activity offset in part by an increase in the proportionate allocation of total air redemptions of Aeroplan Miles issued under the Aeroplan Program, representing a total of \$2.8 million;

Groupe Aeroplan Europe experienced a \$64.9 million increase in costs explained primarily by:

- the recognition of the negative impact of the ECJ VAT Judgment of \$58.5 million in the Nectar Program related to VAT deducted from indirect tax remittances to HMRC on member rewards;
- increased redemption activity accounting for approximately \$9.2 million, resulting from a greater volume of points in circulation;
- the impact of I&C related costs of \$3.5 million incurred in relation to the set-up and launch of I&C's growth in the UK and new international contracts; offset by
- the positive impact of the currency fluctuation relative to the pound sterling of \$6.3 million.

Carlson Marketing's inclusion in Groupe Aeroplan's consolidated results for the three months ended September 30, 2010 accounted for \$66.1 million of direct costs.

Gross margin decreased by 10.3%, a direct result of the factors described above, and represented 30.7% of total revenue at the end of the three month period ended September 30, 2010, and is detailed as follows:

- Aeroplan Canada's gross margin represented 43.5% of total revenue compared to 43.7%; resulting from a marginal increase in the cumulative average selling price per Aeroplan Mile offset by a slightly higher unit cost;
- Groupe Aeroplan Europe's gross margin was (35.0%) compared to 32.7%. Excluding the effect of the \$53.1 million ECJ VAT Judgment related to 2002 - 2009, gross margin for the period would have been 25.7%, mainly driven by the increase in cost of rewards and 2010 impact of the ECJ VAT Judgment of 6.2% as well as the set up costs attributable to I&C international activities;
- Carlson Marketing's gross margin for the period was 50.4%.

Selling, general and administrative expenses amounted to \$137.1 million for the three months ended September 30, 2010 compared to \$65.4 million for the same period in 2009, representing an increase of \$71.7 million or 109.6%. This variance is mainly attributable to the inclusion of Carlson

Marketing in the consolidated results, accounting for \$65.0 million. Groupe Aeroplan Europe expenses increased by \$4.1 million compared to the same period 2009 which is mainly a consequence of Nectar Italia related costs, including marketing costs associated with the launch of Nectar Italia of \$1.9 million, the impact of the ECJ VAT Judgment of \$1.6 million, increased headcount to support the growth and development activities of I&C, and is partly offset by a favourable \$2.4 million of currency fluctuation recognized on the translation of foreign operations. The variance includes the reversal of a \$7.2 million provision set up at the time of acquisition and payable to certain employees in the event of a favourable VAT outcome. The corporate segment contributed to an increase in expenses of \$5.7 million, mostly related to consulting fees of \$3.0 million and increased compensation costs. Aeroplan Canada experienced a reduction of \$0.7 million in expenses for the period relating mostly to lower information technology costs and advertising and promotion costs, partly offset by higher consulting costs.

Fees paid under the transition services agreement by Carlson Marketing amounted to \$5.9 million for the quarter. Migration costs charged to operations during the quarter amounted to \$4.5 million.

Depreciation and amortization amounted to \$7.4 million and \$4.5 million for the three months ended September 30, 2010 and 2009 respectively. The increase is due to the inclusion of Carlson Marketing.

Amortization of Accumulation Partners' contracts, customer relationships and technology amounted to \$23.2 million for the three months ended September 30, 2010 compared to \$20.1 million for the same period in 2009. The increase is a result of the inclusion of Carlson Marketing and the amortization of the finite life intangibles recognized as a result of the acquisition.

Operating income (loss), excluding the amortization of Accumulation Partners' contracts, customer relationships and technology, referred to above, amounted to (\$1.4) million for the three months ended September 30, 2010 compared to \$62.4 million for the three months ended September 30, 2009, representing a decrease of \$63.8 million or 102.2%. Operating income was negatively impacted by the recognition of a \$52.9 million net charge resulting from the ECJ VAT Judgment.

Net interest expense for the three months ended September 30, 2010, consists of interest revenue of \$8.4 million earned on cash and cash equivalents and short-term investments on deposit; offset by interest on long-term debt of \$13.0 million on the borrowings described under **Credit Facilities and Long Term Debt**, and other interest expense of \$7.2 million, which includes the recognition of \$6.4 million of interest payable as a result of the ECJ VAT Judgment.

Foreign exchange in 2009 reflected the currency fluctuation associated with the financing structure adopted for the LMG investment. Since the currency swap was disposed of in the third quarter of 2009, these currency fluctuations are no longer incurred.

Net earnings (loss) include the effect of \$13.0 million of current income taxes and a net charge of \$59.3 million resulting from the ECJ VAT Judgment.

In connection with the acquisition of LMG, the Corporation implemented steps to shelter expected gains under an anticipated positive outcome of the VAT litigation and recorded the benefit of such planning steps in prior periods. As a result of the adverse ECJ VAT Judgment, Groupe Aeroplan has determined not to record an additional benefit at this time.

Current income taxes are mostly attributable to income taxes payable in our Canadian operations. Future income tax recovery relates mostly to our international tax structure and is lower in magnitude than would otherwise have been expected as a result of not recording the tax benefit arising from the ECJ VAT Judgment.

Adjusted EBITDA amounted to \$27.0 million or 5.2% (as a % of Gross Billings) and included an impact of \$0.4 million in the average cost of rewards per GALU resulting from the ECJ VAT Judgment for the three months ended September 30, 2010 compared to \$76.7 million or 21.6% (as a % of Gross Billings) for the three months ended September 30, 2009. Adjusted EBITDA for the period includes the effect of a \$52.9 million net charge to earnings in the period as a result of the ECJ VAT Judgment.

Adjusted Net Earnings amounted to \$6.2 million or 1.2% (as a % of Gross Billings) for the three months ended September 30, 2010; compared to \$45.4 million or 12.8% (as a % of Gross Billings), for the three months ended September 30, 2009. Adjusted Net Earnings for the period also includes the effect of a \$59.3 million net charge to earnings recorded as a result of the ECJ VAT Judgment. The effective tax rate has been impacted as described under *Net Earnings*.

Free Cash Flow for the three months ended September 30, 2010, amounted to \$112.7 million compared to \$44.0 million for the three months ended September 30, 2009, mainly as a result of:

- a \$77.1 million increase in cash from operating activities quarter over quarter due primarily to lower levels of working capital items;
- dividends paid on the preferred shares of \$2.8 million;
- a higher amount of capital expenditures of approximately \$6.8 million for the three months ended September 30, 2010, compared to the three months ended September 30, 2009.

Adjusted EBITDA, Adjusted Net Earnings, and Free Cash Flow are non-GAAP measures. Please refer to the *Performance Indicators* section for additional information on these measures.

NINE MONTHS ENDED SEPTEMBER 30, 2010 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2009

Gross Billings generated for the nine months ended September 30, 2010 amounted to \$1,594.1 million compared to \$1,060.6 million for the nine months ended September 30, 2009, representing an increase of \$533.5 million or 50.3%, mainly as a result of the inclusion of Carlson Marketing in the consolidated results accounting for \$462.2 million. Gross Billings include loyalty marketing services generated by Carlson Marketing, as well as other revenue amounting to \$443.8 million and \$68.1 million, respectively for the period.

During the period, Gross Billings related to Carlson Marketing were positively affected by a \$17.4 million adjustment, as a result of a reclassification of deferred revenue amounts which were previously included in customer deposits.

Gross Billings from the Sale of GALUs

Groupe Aeroplan's ability to generate Gross Billings is a function of the underlying behaviour of the Accumulation Partners' respective customer base and their spending patterns, and loyalty marketing customers, which are in turn affected by the general economic conditions present in the countries in which the loyalty programs are operated. In the UK, the strong ties of the Nectar Program to the grocery sector has a positive impact despite the economic recession, as consumer behaviour tends to change with the replacement of restaurant spend with incremental grocery spend. More specifically, for the nine months ended September 30, 2010, and as a result of the current economic environment, the different Gross Billings categories were affected in the following manner:

- Gross Billings generated from financial partners reflect an increase in average consumer spend per credit card and number of active cards;
- Gross Billings generated from retail partners continued to be positively affected by the grocery sector.

Aeroplan Miles issued during the nine month period increased by 2.6% in comparison to the prior year driven by improved economic activity. Aeroplan Canada experienced an increase of \$25.8 million in Gross Billings from the sale of Aeroplan Miles, as a consequence of an increase in average consumer spend per active credit card, increased airline partner activity, and increased retail activity.

Nectar Points issued during the nine-month period ending September 30, 2010 increased by 15.2%, mainly driven by bonus activity by certain key partners and the full year effect of a new Accumulation Partner. Groupe Aeroplan Europe experienced an increase of \$71.3 million in Gross Billings from GALUs, offset by a currency related reduction of \$34.1 million resulting from the decline of the £ sterling relative to the Canadian \$ during 2010 compared to 2009. Nectar Italia commenced

operations during the first quarter of 2010 and its Gross Billings from GALUs amounted to \$44.6 million for the nine months ended September 30, 2010.

Gross Billings from the sale of GALUs are accounted for as deferred revenue until such GALUs are redeemed. GALUs redeemed are recognized as revenue at the cumulative average selling price of the accumulated GALUs under the respective programs, issued since January 1, 2002 in the case of the Aeroplan Program and since the inception date, in the case of the Nectar and Nectar Italia Programs and the programs operated by RM MEL.

Redemption activity - Total Miles redeemed for the nine months ended September 30, 2010 under the Aeroplan Program amounted to 48.5 billion compared to 52.2 billion for the nine months ended September 30, 2009, representing a decrease of 3.7 billion or 7.1% driven primarily by additional capacity made available by air partners in 2009. Of those 48.5 billion Total Miles (calculated on a first-in, first-out basis on a member account basis for air redemptions) redeemed during the nine months ended September 30, 2010, under the Aeroplan Program, 99.2% or 48.1 billion, represented Aeroplan Miles issued under the Aeroplan Program with the balance being Air Canada Miles.

Redemption activity for the Nectar Program increased by 14.8% compared to the nine months ended September 30, 2009, mainly driven by an increase in the number of points in circulation, with an increased proportion of non-grocery redemption activity during the period.

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

Revenue includes the following components:

Revenue recognized from the redemption and sale of GALUs, including Breakage, amounted to \$934.1 million for the nine months ended September 30, 2010 compared to \$951.3 million for the nine months ended September 30, 2009, representing a decrease of \$17.2 million or 1.8%. This decrease is mainly attributable to:

- the effect of redemption activity on revenue recognition during the period of the following factors:
 - a decrease in total redemption volume, including a higher proportion of Aeroplan Miles redeemed during the period under the Aeroplan Program, accounting for \$22.7 million offset by an increase in the cumulative average selling price of an Aeroplan Mile accounting for \$3.0 million, for a total unfavourable variance of \$19.7 million;
 - a higher number of GALUs redeemed during the period under the programs operated by Groupe Aeroplan Europe, generating an additional \$23.8 million; and offset by
 - the negative impact of the fluctuation in the £ sterling of \$23.5 million, related to the translation of foreign operations.
- revenue recognized from Breakage remained relatively constant compared to the nine month period ended September 30, 2009.

Loyalty marketing service revenue generated from Carlson Marketing amounted to \$443.8 million for the nine months ended September 30, 2010, net of a \$8.1 million acquisition accounting fair value adjustment, relating to deferred revenue, which will be fully amortized by the end of 2010.

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 related to the Aeroplan Program, and other miscellaneous categories, amounted to \$68.1 million for the nine months ended September 30, 2010 compared to \$60.7 million for the nine months ended September 30, 2009, representing an increase of \$7.4 million or 12.2%, mainly driven by increased activity in I&C.

Aeroplan Canada's other revenue category consists of the tier management, contact centre management, marketing fees from Air Canada and member based revenue.

The other revenue category in Groupe Aeroplan Europe consists primarily of I&C activity and royalties earned with respect to the Air Miles trade name and loyalty industry related business know-how and expertise. I&C related revenue increased by 109.6% compared to the same period in the prior year.

Cost of rewards and direct costs amounted to \$902.9 million for the nine months ended September 30, 2010 compared to \$623.4 million for the nine months ended September 30, 2009, representing an increase of \$279.5 million or 44.8%. This change is mainly attributable to the following factors:

Aeroplan Canada experienced a \$16.7 million decrease in cost of rewards resulting mostly from:

- a decrease in air redemption activity offset in part by an increase in the proportionate allocation of total air redemptions of Aeroplan Miles issued under the Aeroplan Program, representing a total of \$22.5 million;
- a higher redemption cost per Aeroplan Mile redeemed in the total amount of \$1.4 million; and
- a higher volume of non-air reward redemptions for the nine months ended September 30, 2010, representing \$4.4 million.

Groupe Aeroplan Europe experienced a \$66.1 million increase in costs explained primarily by:

- the recognition of the negative impact of the ECJ VAT Judgment of \$58.5 million in the Nectar Program related to VAT deducted from indirect tax remittances to HMRC on member rewards;
- increased redemption activity accounting for the majority of the remaining \$19.7 million, arising from a greater volume of points in circulation;
- the impact of I&C related costs of \$8.8 million incurred in relation to the growth of the I&C business in the UK and execution of international I&C contracts; offset by
- the positive impact of the currency fluctuation relative to the pound sterling of \$20.9 million.

Carlson Marketing's inclusion in Groupe Aeroplan's consolidated results for the nine months ended September 30, 2010 accounted for \$230.1 million of direct costs.

Gross margin decreased by 0.8%, a direct result of the factors described above, and represented 37.6% of total revenue at the end of the nine months ended September 30, 2010, and is detailed as follows:

- Aeroplan Canada's gross margin represented 41.4% of total revenue compared to 40.8%; resulting from a marginal increase in the cumulative average selling price per Aeroplan Mile;
- Groupe Aeroplan Europe's gross margin was 6.6% compared to 30.6%. Excluding the effect of \$53.1 million ECJ VAT Judgment related to 2002-2009, gross margin for the period would have been 28.2%, mainly driven by the increase in cost of rewards and the 2010 impact of the ECJ VAT Judgment of 2.2%;
- Carlson Marketing's gross margin for the period was 48.1%.

Selling, general and administrative expenses amounted to \$425.3 million for the nine months ended September 30, 2010 compared to \$195.3 million for the same period in 2009, representing an increase of \$230.0 million or 117.8%. This variance is mostly attributable to the inclusion of Carlson Marketing in the consolidated results, accounting for \$196.7 million. Groupe Aeroplan Europe expenses increased by \$30.7 million compared to 2009 which is mainly attributable to \$32.2 million of Nectar Italia related costs, and include \$20.4 million of marketing costs associated with the launch of Nectar Italia, increased costs related to the growth and development of I&C activities, and a \$1.6 million charge due to the ECJ VAT Judgment, partly offset by a favourable \$7.7 million of currency fluctuation recognized on the translation of foreign operations. The variance includes a reversal of a \$7.2 million provision set up at the time of acquisition and payable to certain employees in the event of a favourable VAT outcome. Groupe Aeroplan Europe's 2009 results included \$5.3 million of marketing and headcount costs related to the launch of Homebase and I&C activities. The corporate segment contributed to an increase in expenses of \$16.2 million, mostly related to consulting fees of \$7.2 million and increased compensation costs. Aeroplan Canada experienced a reduction of \$5.8 million in expenses for the period relating mostly to lower compensation costs due to

lower personnel and a reduction of information technology costs, partly offset by increased consulting expenses.

Fees paid under the transition services agreement by Carlson Marketing amounted to \$20.3 million for the year-to-date. Migration costs charged to operations during the nine months ended September 30, 2010, amounted to \$10.1 million.

Depreciation and amortization amounted to \$22.2 million and \$14.6 million for the nine months ended September 30, 2010 and 2009 respectively. The increase is due to the inclusion of Carlson Marketing.

Amortization of Accumulation Partners' contracts, customer relationships and technology amounted to \$70.0 million for the nine months ended September 30, 2010 compared to \$60.3 million for the comparable period of 2009. The increase is a result of the inclusion of Carlson Marketing and the amortization of the finite life intangibles recognized as a result of the acquisition.

Operating income, excluding the amortization of Accumulation Partners' contracts, customer relationships and technology, referred to above, amounted to \$95.6 million for the nine months ended September 30, 2010 compared to \$178.8 million for the nine months ended September 30, 2009, representing a decrease of \$83.2 million or 46.5%. Operating income was negatively impacted by the recognition of a net charge of \$52.9 million resulting from the ECJ VAT Judgment.

Net interest expense for the nine months ended September 30, 2010, consists of interest revenue of \$25.3 million earned on cash and cash equivalents and short-term investments on deposit; offset by interest on long-term debt of \$40.6 million on the borrowings described under **Credit Facilities and Long Term Debt**, and other interest expense of \$8.5 million which includes the recognition of \$6.4 million of interest payable resulting from the ECJ VAT Judgment.

Foreign exchange in 2009 reflected the currency fluctuation associated with the financing structure adopted for the LMG investment. Since the currency swap was disposed of in the third quarter of 2009, these currency fluctuations are no longer incurred.

Net earnings include the effect of \$31.1 million of current income taxes and of \$59.3 million resulting from the ECJ VAT Judgment.

In connection with the acquisition of LMG, the Corporation implemented steps to shelter expected gains under an anticipated positive outcome of the VAT litigation and recorded the benefit of such planning steps in prior periods. As a result of the adverse ECJ VAT Judgment, Groupe Aeroplan has determined not to record an additional benefit at this time.

Current income taxes are mostly attributable to income taxes payable in our Canadian operations. Future income tax recovery relates mostly to our international tax structure and is lower in magnitude than would otherwise have been expected as a result of not recording the tax benefit arising from the ECJ VAT Judgment.

Adjusted EBITDA amounted to \$171.5 million or 10.8% (as a % of Gross Billings), and included an impact of \$1.6 million in the average cost of rewards per GALU related to the ECJ VAT Judgment, for the nine months ended September 30, 2010 compared to \$211.2 million or 19.9% (as a % of Gross Billings) for the nine months ended September 30, 2009. Adjusted EBITDA for the period includes the effect of a \$52.9 million net charge to earnings in the period as a result of the ECJ VAT Judgment.

Adjusted Net Earnings amounted to (\$281.3) million or (17.6%) (as a % of Gross Billings) for the nine months ended September 30, 2010; compared to \$141.9 million or 13.4% (as a % of Gross Billings), for the nine months ended September 30, 2009. Adjusted Net Earnings for the period also include the effect of a \$59.3 million net charge to earnings recorded as a result of the ECJ VAT Judgment. The effective tax rate has been impacted as described under **Net Earnings**.

Consolidated **Adjusted EBITDA** and Carlson Marketing's **Adjusted EBITDA** for the period was positively affected by the \$17.4 million reclassification to deferred revenue described under **Gross Billings**.

Free Cash Flow for the nine months ended September 30, 2010, amounted to \$58.3 million compared to \$85.9 million for the nine months ended September 30, 2009, mainly as a result of:

- a \$10.3 million decrease in cash used in operating activities for the nine months ended September 30, 2010 compared to the prior year due primarily to lower net earnings and higher levels of working capital items;
- dividends paid on the preferred shares of \$7.8 million;
- the positive impact of the termination of the acceleration of payment terms to Air Canada in the amount of \$29.7 million included in cash from operating activities for the nine months ended September 30, 2009;
- a higher amount of capital expenditures of \$10.8 million for the nine months ended September 30, 2010, compared to the nine months ended September 30, 2009.

Adjusted EBITDA, **Adjusted Net Earnings**, and **Free Cash Flow** are non-GAAP measures. Please refer to the **Performance Indicators** section for additional information on these measures.

SUMMARY OF QUARTERLY RESULTS

This section includes sequential quarterly data for the eight quarters ended September 30, 2010.

(in thousands, except per share amounts)	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	\$	\$	\$	\$	\$	\$	\$	\$
Gross Billings	520,455	555,734 ^(f)	517,947	386,698	355,349	358,947	346,328	385,217
Gross Billings from the sale of GALUs	360,062	364,722	338,269	363,048	335,882	337,832	326,248	364,437
Revenue	466,024	473,197	506,779	424,852	322,648	333,515	355,824	430,332
Cost of rewards and direct costs	(322,938) ^(a)	(274,256)	(305,740)	(281,364)	(190,346)	(204,360)	(228,656)	(254,897)
Gross margin	143,086	198,941	201,039	143,488	132,302	129,155	127,168	175,435
Selling, general and administrative expenses	(137,080) ^(a)	(141,746)	(146,435)	(73,573)	(65,409)	(65,994)	(63,847)	(63,758)
Depreciation and amortization	(7,403)	(7,166)	(7,627)	(4,722)	(4,494)	(5,127)	(4,937)	(6,494)
Operating income (loss) before amortization of Accumulation Partners' contracts, customer relationships and technology	(1,397) ^(a)	50,029	46,977	65,193	62,399	58,034	58,384	105,183
Amortization of Accumulation Partners' contracts, customer relationships and technology	(23,228)	(23,812)	(22,968)	(19,967)	(20,079)	(20,485)	(19,715)	(19,836)
Operating income	(24,625) ^(a)	26,217	24,009	45,226	42,320	37,549	38,669	85,347
Net earnings (loss)	(40,400) ^(a)	13,991	14,872	20,545	18,756	26,746	23,228	(1,073,752) ^(c)
Adjusted EBITDA ^(b)	27,014 ^{(a)(g)}	89,883 ^(f)	55,990	69,553	76,706	70,564 ^(a)	65,228 ^(a)	80,559 ^(a)
Adjusted net earnings ^(b)	6,182 ^(a)	60,890	38,963	40,319	45,405	52,254	44,551	84,661 ^(d)
Net earnings (loss)	(40,400) ^{(a)(h)}	13,991	14,872	20,545	18,756	26,746	23,228	86,948 ^(d)
Earnings (loss) per share	(0.22) ^{(a)(h)}	0.06	0.07	0.10	0.09	0.13	0.12	0.44 ^(d)
Free cash flow ^(b)	112,707	11,664	(66,039)	79,168	44,014	90,841	(48,991)	42,492
Earnings per share (loss), in accordance with GAAP – Groupe Aeroplan	(0.22)	0.06	0.07	0.10	0.09	0.13	0.12	(5.39)

(a) Includes the effect of a \$52.9 million (£33.3 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively and \$53.1 million (£33.4 million) relates to 2002 to 2009) was charged to cost of rewards and \$1.6 million (£1.0 million) to selling, general and administrative expenses. Selling, general and administrative expenses was also reduced by the reversal of a provision of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable VAT outcome.

(b) A non-GAAP measurement.

(c) Includes impairment charge.

(d) Excludes impairment charge.

(e) A non-GAAP measurement, excluding the effect of the "Foreign Exchange" line of the Statement of Operations, as it reflects the impact of the currency SWAP.

(f) Includes the positive effect of a \$17.4 million adjustment, as a result of a reclassification of deferred revenue amounts previously included in customer deposits.

(g) The Average Cost of Rewards per GALU for the period includes the ECJ VAT Judgment impact related to the three months ended September 30, 2010 amounting to \$0.4 million (£0.3 million).

(h) Includes the effect of a \$6.4 million (£4.0 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

FINANCING STRATEGY

Groupe Aeroplan generates sufficient cash flow internally to fund cash dividends, capital expenditures and to service its debt obligations. Management believes that Groupe Aeroplan's internally generated cash flows, combined with its ability to access undrawn credit facilities and 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. Dividends are expected to continue to be funded from internally generated cash flows.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2010, Groupe Aeroplan had \$688.6 million of cash and cash equivalents, \$8.0 million of restricted cash and \$12.4 million of short-term investments, for a total of \$709.0 million. Of this total amount approximately \$431.0 million is invested in Bankers' Acceptances and term deposits maturing on various dates through to May 2011. The Aeroplan Canada Miles redemption reserve described under *Aeroplan Canada Miles Redemption Reserve* of \$400.0 million is included in this amount. Groupe Aeroplan's cash and cash equivalents and short-term investments are not invested in any asset-backed commercial paper.

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

<i>(in thousands)</i>	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash and cash equivalents, beginning of period	541,131	589,974	609,848	188,016
Cash from operating activities	152,340	75,193	170,750	181,024
Cash from (used in) investing activities	111,383	(10,804)	81,533	337,066
Cash used in financing activities	(115,656)	(26,811)	(168,287)	(85,795)
Translation adjustment related to cash	(621)	(11,764)	(5,267)	(4,523)
Cash and cash equivalents, end of period	688,577	615,788	688,577	615,788

OPERATING ACTIVITIES

Cash from operations is generated primarily from the collection of Gross Billings and is reduced by the cash required to deliver the rewards when GA Loyalty Units are redeemed and loyalty marketing services are rendered and by operating and interest expenses.

Cash flows from operating activities was \$152.3 million and \$170.8 million for the three and nine months ended September 30, 2010 compared to \$75.2 million and \$181.0 million for the three and nine months ended September 30, 2009, respectively. Quarter over quarter, fluctuations are primarily attributable to expenditures related to Nectar Italia and the impact of Carlson Marketing. For the three and the nine months ended September 30, 2010, cash from operations was impacted by lower net earnings, timing of collection of certain accounts receivable and lower levels of accounts payable given that cash flows from operations for the first half of the year are typically impacted by the settlement of accounts payable, related to the seasonally high redemption activity of the last quarter of the year, characteristic of the Nectar program. In addition, cash flows from operating activities for the nine months ended September 30, 2009 were unusually high as they included \$29.7 million of cash

related to the terminations of the acceleration of payment terms to Air Canada pursuant to the agreement entered into in late 2008 with Air Canada.

Aeroplan Canada's operations are characterized by higher redemption activity in the first half of the year and higher accumulation activity in the second half of the year.

The ECJ VAT Judgment has not yet affected cash flow from operating activities as the amounts have not been settled. This will only occur once the UK Supreme Court renders judgment based on the guidance of the ECJ and the settlement process is agreed to with HMRC, which is anticipated to take place in 2011.

Pursuant to the escrow agreement entered into at the time of the acquisition, the funds held in escrow (\$43.9 million (£27.1 million)) will be released to the Corporation upon ratification by the UK Supreme Court of the ECJ VAT Judgment against the Corporation.

Upon settlement, the net cash outflow is expected to be £13.9 million, including the receipt of accrued interest on the cash held in escrow amounting to £0.8 million to date.

INVESTING ACTIVITIES

Groupe Aeroplan's investing activities for the nine months ended September 30, 2010 reflect the payment of the working capital adjustment and remaining transaction costs on the acquisition of Carlson Marketing, which was funded from cash on hand in the amount of \$14.7 million.

Investing activities in the three months and nine months ended September 30, 2010, were also impacted by the investment in PLM which amounted to \$24.1 million, and by the repayment of the loan by Air Canada of \$156.3 million, which includes interest and a prepayment charge.

Capital expenditures for the three and nine months ended September 30, 2010, amounted to \$12.9 million and \$31.0 million, respectively. Anticipated capital expenditures, which are primarily related to capital expenditures associated with software development initiatives for fiscal 2010, are expected to amount to approximately \$48.0 million for the year, including Carlson Marketing's migration expenditures.

FINANCING ACTIVITIES

For the three and nine months ended September 30, 2010, financing activities used cash of \$115.7 million and \$168.3 million, respectively.

During the nine months ended September 30, 2010, Groupe Aeroplan issued Senior Secured Notes Series 3 in the aggregate amount of \$200.0 million. In addition, the issuance of the Series 1 Preferred Shares generated \$167.3 million, net of issue costs. A portion of the proceeds from these issuances were used to repay \$340.0 million of borrowings under Groupe Aeroplan's credit facilities, as described in the *Credit Facilities and Long Term Debt* section.

Cash used in financing activities for the nine months ended September 30, 2010, was primarily related to the payment of common and preferred dividends in the amount of \$81.4 million and the repurchase of common shares in the amount of \$112.6 million as described under the *Capital Stock* section, as well as the payment of financing costs in the amount of \$1.7 million.

Groupe Aeroplan's dividend policy has been established at \$0.125 per common share per quarter. The dividend policy is subject to the discretion of the Board of Directors of Groupe Aeroplan and may vary depending on, among other things, Groupe Aeroplan's earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time. The preferred shares bear a 6.5% annual cumulative dividend or \$0.40625 per preferred share per quarter.

LIQUIDITY

On January 20, 2010 and January 26, 2010, pursuant to a prospectus supplement dated January 13, 2010, Groupe Aeroplan issued 6,900,000 Preferred Shares, Series 1 for total cash proceeds of \$172.5 million. The proceeds from the shares issued were used to repay borrowings under the revolving facility in the amount of \$140.0 million, with the balance being used for general corporate purposes.

In addition, on January 26, 2010, Groupe Aeroplan issued Senior Secured Notes Series 3 in the principal amount of \$200.0 million. The proceeds from the notes issued have been used to repay \$200.0 million of the term facility.

Groupe Aeroplan anticipates that total capital requirements for the 2010 fiscal year of \$156.0 million, including \$108.0 million in respect of anticipated cash dividends to its common and preferred shareholders, and approximately \$48.0 million of capital expenditures, including Carlson Marketing's migration expenditures, will be funded from operations, available cash on deposit and, to the extent required, from the *Aeroplan Canada Miles Redemption Reserve*, where applicable (i.e. in periods of unusually high redemption activity) and undrawn credit facilities, if necessary.

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, 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. As at September 30, 2010, the Reserve amounted to \$400.0 million and was included in cash and cash equivalents.

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. At September 30, 2010, the Reserve was invested in Bankers' Acceptances.

Subject to compliance with the provisions of the June 12, 2009 credit agreement, 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. In the event that the Reserve is accessed, Aeroplan has agreed to replenish it as soon as practicable, with available cash generated from operations.

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. Management reviews the adequacy of the Reserve periodically and may adjust the level of the Reserve depending upon the outcome of this review.

To date, Aeroplan has not used the funds held in the Reserve.

At September 30, 2010, the Reserve, as well as other assets held to comply with a contractual covenant with a major Accumulation Partner, represented 42.8% of the consolidated Future Redemption Cost liability.

The deferred revenue presented in the balance sheet represents accumulated unredeemed GA Loyalty Units valued at their weighted average selling price and unamortized Breakage. The estimated Future Redemption Cost liability of those GALUs, calculated at the current Average Cost of Rewards per GALU redeemed, is approximately \$1,328.0 million.

CREDIT FACILITIES AND LONG-TERM DEBT

On June 12, 2009, Groupe Aeroplan concluded a refinancing of its credit facilities with its lending syndicate, resulting in the settlement of the old credit facilities and new borrowings under the new credit facilities. At September 30, 2010, after the application of the proceeds of the issuance of the Preferred Shares, Series 1 and the Senior Secured Notes Series 3, \$100.0 million had been drawn and \$300.0 million remained committed and available.

The following is a summary of Groupe Aeroplan's authorized and outstanding credit facilities and Senior Secured Notes Series 1, 2 and 3:

	Authorized at September 30, 2010	Drawn at September 30, 2010	Drawn at December 31, 2009
	\$	\$	\$
Revolving facility ^(a)	300,000	-	140,000
Term facility ^{(a) (d)}	100,000	100,000	300,000
Senior Secured Notes Series 1 ^(b)	N/A	200,000	200,000
Senior Secured Notes Series 2 ^(c)	N/A	150,000	150,000
Senior Secured Notes Series 3 ^(d)	N/A	200,000	-
Prepaid interest ^(e)	-	(232)	(709)
Unamortized refinancing costs ^(e)	-	(6,560)	(9,183)
		643,208	780,108
Less: current portion		-	-
Total		643,208	780,108

(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 Corporation'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 September 30, 2010, amounts borrowed under the term facility were in the form of Bankers' Acceptances with a 90 day term and an effective interest rate of 4.72%.

The revolving facility was repaid in January 2010 with proceeds generated from the issuance of the Preferred Shares, Series 1.

Letters of credit: Groupe Aeroplan has issued irrevocable letters of credit in the aggregate amount of \$10.8 million. This amount reduces the available credit under the revolving facility.

(b) The Senior Secured Notes Series 1 notes bear interest at 9% per annum, payable semi-annually in arrears on April 23rd and October 23rd of each year, commencing October 23, 2009, and mature on April 23, 2012.

(c) The Senior Secured Notes Series 2 bear interest at 7.9% per annum, payable semi-annually in arrears on March 2nd and September 2nd of each year, commencing March 2, 2010 and mature on September 2, 2014.

(d) On January 26, 2010, Groupe Aeroplan issued Senior Secured Notes Series 3 in the principal amount of \$200.0 million. These notes bear interest at 6.95%, payable semi-annually in arrears on January 26th and July 26th of each year, mature on January 26, 2017. The proceeds from the notes issued were used to repay a portion of the term facility, with the authorized availability being reduced by the amount of the payment.

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

Each of the Senior Secured Notes Series 1, 2 and 3 are secured by certain present and future undertakings, property and assets of the Corporation 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 Corporation, and are subject to compliance with certain affirmative and negative covenants.

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.

The following table illustrates the financial ratios calculated on a trailing twelve-month basis:

Ratio	Result	Test
Leverage	2.31	≤ 3.00 ^(b)
Debt service ^(a)	(0.24)	≤ 2.25 ^(c)
Interest coverage	9.20	≥ 3.00

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

(b) The threshold increases for the twelve months following an acquisition from 2.75 to 3.00.

(c) The threshold increases for the twelve months following an acquisition from 2.00 to 2.25.

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

In order to facilitate the refinancing of these credit facilities, in October 2008, Groupe Aeroplan obtained ratings from two rating agencies, DBRS and Standard & Poors ("S&P") of BBB stable and BBB- with a positive outlook, respectively. In April 2009, both agencies maintained their respective ratings, however, S&P revised their outlook from positive to stable. In September 2009 and January 2010, both agencies reconfirmed their respective ratings.

GUARANTEES (OFF-BALANCE SHEET ARRANGEMENTS) AND 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 September 30, 2010, the full 112.4 billion of Air Canada Miles had been redeemed.

As a result, Aeroplan is required to honour any obligation resulting from the redemption of Air Canada Miles.

The maximum potential redemption cost of meeting this obligation, if all 7.8 billion estimated broken but unexpired Air Canada Miles were to be redeemed, amounts to \$71.5 million at September 30, 2010, which would be charged to costs of rewards when they are incurred, as the Air Canada Miles are redeemed over time.

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

GA LOYALTY UNITS ISSUED AFTER JANUARY 1, 2002

In addition, Groupe Aeroplan may be required to provide rewards to members for unexpired GA Loyalty Units accounted for as Breakage on the GA Loyalty Units 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 GA Loyalty Units is estimated to be \$1,008.6 million at September 30, 2010. 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 \$84.0 million for the period in which the change occurred, with \$74.1 million relating to prior years and \$9.9 million relating to the current year.

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 paid an assessed amount of £13.8 million (\$27.1 million).

LMG appealed to the VAT and Duties Tribunal, which ruled in its favour. HMRC then appealed to the High Court which found in favour of HMRC. LMG, in turn, appealed to the Court of Appeal, which issued a judgment 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 ("ECJ"). The case was heard on January 21, 2010. On October 7, 2010, the ECJ ruled against LMG and in favour of HMRC. The case will be referred back to the UK Supreme Court for judgment based on the guidance of the ECJ.

Based on the binding and non-appealable nature of the judgment rendered by the ECJ, an amount of \$128.0 million (£79.0 million) has been recorded in accounts payable and accrued liabilities as of September 30, 2010 representing input tax credits relating to the supply of goods claimed historically. An amount of \$60.3 million (£37.2 million), relating to recoverable amounts under the terms of contractual agreements with certain Redemption Partners, has also been recorded in accounts receivable. Of the net amount, \$58.5 million (£36.8 million) (of which \$1.8 million (£1.1 million) and \$5.4 million (£3.4 million) relate to the three and nine months ended September 30, 2010, respectively, and \$53.1 million (£33.4 million) relate to 2002 to 2009) has been charged to cost of rewards during the quarter. In addition, \$1.6 million (£1.0 million) and \$6.4 million (£4.0 million) has been charged to selling, general and administrative expenses and interest expense, respectively.

In addition, a provision in the amount of \$7.2 million (£4.5 million) payable to certain employees in the event of a favourable outcome, set up at the time of the acquisition, has been reversed into earnings, reducing selling, general and administrative expenses during the period.

At this time, the provision represents management's best estimate. The ECJ provided for potential relief to mitigate a portion of the increase in the cost base resulting from the ECJ VAT Judgment which will require further discussion with HMRC. Given that the case will be referred back to the UK Supreme Court for judgment based on the guidance of the ECJ, and due to the need for on-going discussions with HMRC, management has neither considered nor accounted for any potential favourable impact of this aspect of the ECJ VAT Judgment.

The ECJ VAT Judgment has not yet affected cash flow from operating activities as the amounts have not been settled. This will only occur once the UK Supreme Court renders judgment based on the guidance of the ECJ and the settlement process is agreed to with HMRC, which is anticipated to take place in 2011.

Pursuant to the escrow agreement entered into at the time of the acquisition, the funds held in escrow (\$43.9 million (£27.1 million)) will be released to the Corporation upon ratification by the UK Supreme Court of the ECJ VAT Judgment against the Corporation.

OTHER

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 or 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 and/or indemnifications to third parties to support the performance obligations of its subsidiaries under commercial contracts. At

September 30, 2010, Groupe Aeroplan's maximum exposure under such guarantees was estimated to amount to \$118.6 million. No amount has been recorded in these financial statements with respect to the indemnification and guarantee agreements.

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. The motion is scheduled to be heard on May 9 and 10, 2011. 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 on 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.

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.

TRANSACTIONS WITH AIR CANADA

Aeroplan has entered into various agreements with Air Canada, governing the commercial relationship between Aeroplan and Air Canada, which are described in Groupe Aeroplan's Annual Information Form dated March 22, 2010.

Air Canada is one of Groupe Aeroplan's largest Accumulation Partners, representing 12% of Gross Billings for each of the three and nine months ended September 30, 2010 compared to 17% and 18% for the three months and nine months ended September 30, 2009. Under the CPISA, Air Canada's annual commitment, which is based on 85% of the average total Aeroplan Miles issued in respect of Air Canada flights or Air Canada airline affiliate products and services in the three preceding calendar years, is estimated to be \$210.5 million for 2010. Air Canada, including other Star Alliance partners, is Groupe Aeroplan's largest Redemption Partner. For the three and nine months ended September 30, 2010, 35% and 41% respectively of total reported cost of rewards and direct costs was paid to Air Canada, in connection with rewards purchased from Air Canada and other airlines (Star Alliance Partners) compared to 60% and 63% for each of the three and nine months ended September 30, 2009.

CONTACT CENTRE EMPLOYEES

As part of the transfer of the contact centre on June 1, 2009, 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 other employee future benefits have been estimated at \$13.9 million and \$8.9 million, respectively, based on an actuarial valuation dated December 31, 2009, and are amortized over the expected average remaining service of active employees covered by the pension plan of 16.2 years.

As a result of the termination of the General Services Agreement ("GSA"), all obligations under the agreement, 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.

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 the responsibility 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 recorded in the financial statements.

LOAN TO AIR CANADA

On July 29, 2009, Aeroplan, with a syndicate of other lenders, including GE Canada Finance Holding Company, Export Development Canada and ACE Aviation Holdings Inc., entered into an agreement to provide financing to Air Canada ("Air Canada Club Loan"), pursuant to which Aeroplan committed to advance \$150.0 million to the airline.

On August 3, 2010, Air Canada repaid \$156.3 million, representing all amounts outstanding and accrued to the date of repayment owed under the Air Canada Club Loan, in advance of its maturity. Of this amount, \$6.3 million was recorded in interest income which included \$4.8 million of accrued interest and a \$1.5 million prepayment charge.

In connection with the Air Canada Club Loan, Air Canada issued warrants to the lenders to purchase Air Canada Class A or Class B variable voting shares. Upon closing, 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 was entitled to receive its *pro rata* share of additional warrants, representing up to an aggregate five percent of the total issued common stock of Air Canada at the time of issuance, in the event that Air Canada did not grant additional security over certain assets within 90 days of closing. The security was not granted within the 90 day period and on October 19, 2009, Aeroplan received 1,250,000 additional warrants. The additional warrants received have an exercise price of \$1.44 each, are exercisable at any time and expire four years from the date of grant, consistent with the warrants granted by Air Canada upon closing of the Air Canada Club Loan.

The warrants are presented with accounts receivable and any changes in fair value are recorded with interest income in the statement of operations.

The total fair value of the 2,500,000 warrants amounted to \$3.4 million at September 30, 2010 and \$1.1 million at December 31, 2009.

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

CPSA

On August 4, 2010, 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, in connection with airline seat redemptions, for the period beginning January 1, 2011, through to December 31, 2013. The outcome falls within the pre-established contractual parameters and is in line with Aeroplan's business expectations.

SUMMARY OF CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

As at September 30, 2010, estimated future minimum payments under Groupe Aeroplan's contractual obligations and commitments are as follows:

<i>(in millions)</i>	Total	2010	2011	2012	2013	2014	Thereafter
	\$	\$	\$	\$	\$	\$	\$
Contractual Obligations							
Operating leases	47.3	3.4	11.2	8.9	7.7	5.0	11.1
Technology infrastructure and other	78.1	11.9	33.5	20.5	9.6	2.5	0.1
Marketing support and other	65.1	1.2	23.9	14.8	11.8	11.8	1.6
Long-term debt ^(a)	825.2	10.2	48.4	336.2	25.8	175.8	228.8
Purchase obligation under the CPSA	4,003.4	44.7	416.7	416.7	416.7	416.7	2,291.9
Contractual Obligations	5,019.1	71.4	533.7	797.1	471.6	611.8	2,533.5
Commitments							
Letters of Credit and Surety Bonds	26.4	1.3	17.9	7.2	-	-	-
Commitments	26.4	1.3	17.9	7.2	-	-	-
Total Contractual Obligations and Commercial Commitments	5,045.5	72.7	551.6	804.3	471.6	611.8	2,533.5

(a) Includes interest on the Senior Secured Notes Series 1, 2 and 3 described in the Credit Facilities and Long-Term Debt section.

Marketing support amounts represent maximum obligations in connection with the Corporation'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 formulas. At September 30, 2010, Groupe Aeroplan complied with all such covenants.

DIVIDENDS

During the first, second and third quarter of 2010, Groupe Aeroplan declared and paid quarterly cash dividends in the amount of \$24,998,668, \$24,765,901 and \$23,880,426 or \$0.125 per common share and \$2,150,316, \$2,803,125 and \$2,803,125 or \$0.31164 and \$0.40625 (for each of the second and third quarters) per preferred share respectively. Dividends payable by Groupe Aeroplan to its shareholders are recorded when declared.

The dividend policy is subject to the discretion of the board of directors of Groupe Aeroplan and may vary depending on, among other things, Groupe Aeroplan's earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

CAPITAL STOCK

On January 20, 2010 and January 26, 2010, pursuant to a prospectus supplement dated January 13, 2010, Groupe Aeroplan issued a total of 6,900,000 Preferred Shares, Series 1, for total cash consideration of \$167.3 million, net of issue costs of \$3.7 million (\$5.2 million, less a related income tax benefit of \$1.5 million). The Preferred Shares, Series 1, bear a 6.5% annual cumulative, quarterly dividend, which is subject to a rate reset on March 31, 2015 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 3.75%. The Preferred Shares, Series 1 are redeemable by Groupe Aeroplan on March 31, 2015, and every five years thereafter in accordance with their terms.

Holders of Preferred Shares, Series 1 will have the right, at their option, to convert their shares into cumulative floating rate preferred shares, series 2 (the "Preferred Shares, Series 2"), subject to certain conditions, on March 31, 2015 and on March 31 every five years thereafter. Holders of the Preferred Shares, Series 2 will be entitled to receive cumulative quarterly floating dividends at a rate equal to the three-month Government of Canada Treasury Bill yield plus 3.75%. The net proceeds of the issue were used by Groupe Aeroplan to repay amounts owed under the revolving facility in the amount of \$140.0 million, with the balance used for general corporate purposes.

At September 30, 2010, Groupe Aeroplan had 189,668,707 common shares and 6,900,000 preferred shares issued and outstanding for an aggregate amount of \$1,824.6 million. In addition, there were 3,207,389 stock options issued and outstanding under the Groupe Aeroplan Long-Term Incentive Plan.

On May 11, 2010, the Corporation received approval from the Toronto Stock Exchange and announced its intention to repurchase up to 5,000,000 of its issued and outstanding common shares during the period from May 14, 2010 to no later than May 13, 2011, through a Normal Course Issuer Bid ("NCIB") program.

On August 11, 2010, the Corporation received approval from the Toronto Stock Exchange to increase the number of common shares that may be repurchased under the NCIB from 5,000,000 to 19,983,631, during the period from May 14, 2010 to no later than May 13, 2011.

From May 14 to September 30, 2010, Groupe Aeroplan repurchased and cancelled 10,650,600 common shares for total cash consideration of \$112.6 million, with 9,333,031 common shares remaining available for purchase through the period ending May 13, 2011. Share capital was reduced by \$93.1 million, and the remaining \$19.5 million was accounted for as a reduction of contributed surplus.

EARNINGS (LOSS) PER SHARE

Groupe Aeroplan's earnings (loss) per share amounted to (\$0.22) and \$0.09 for the three months ended September 30, 2010 and September 30, 2009, respectively, and (\$0.10) and \$0.34 for the nine months ended September 30, 2010 and 2009, respectively. Earnings per share in 2010 are calculated after dividends on preferred shares.

SUBSEQUENT EVENTS

Subsequent to September 30, 2010, Groupe Aeroplan repurchased and cancelled 1,972,300 common shares for total cash consideration of \$24.7 million, pursuant to the NCIB.

On October 7, 2010, the ECJ rendered the ECJ VAT Judgment and found in favour of HMRC. The effect of the judgment has been recorded in the September 30, 2010 consolidated financial statements and the impact is described in the *Guarantees (Off-balance Sheet Arrangements) and Contingent Liabilities* section.

CRITICAL ACCOUNTING ESTIMATES

Please refer to note 2 to the December 31, 2009 audited consolidated financial statements of the Groupe Aeroplan and the corresponding section of Groupe Aeroplan's 2009 MD&A to review Groupe Aeroplan's critical accounting estimates.

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates, judgements and assumptions that management believes are reasonable based upon the information available. These estimates, judgements and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to *Caution regarding forward-looking information*). Significant estimates made in the preparation of the consolidated financial statements include those used in accounting for breakage, income taxes, the determination of amortization period for long-lived assets, the impairment considerations on long-lived assets and goodwill, particularly future cash flows and cost of capital, the carrying value of financial instruments recorded at fair value and contingencies.

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.

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Groupe Aeroplan will be required to convert to IFRS financial statements for periods beginning on or after January 1, 2011. Comparative figures will also have to be restated to comply with IFRS. As a result, the Corporation has developed a plan to convert its financial statements to IFRS consisting of four phases:

- Phase 1 - Preliminary Diagnosis, Planning and Definition of Scope – developing an IFRS transition plan based on the results of a high-level preliminary assessment of the major differences between IFRS and the Corporation's current accounting policies;
- Phase 2 - Detailed Evaluation - assessing the differences between GAAP and IFRS and focusing on the areas that will have the most significant impacts on the Corporation;
- Phase 3 - Definition of the Solution - resulting in the design and development of detailed solutions to address the differences identified during the Detailed Evaluation Phase. This

phase of the project involves the analysis and determination of accounting policies based on available IFRS standards and identification of related changes to accounting and reporting processes, IT systems, internal controls and other business processes; and

- Phase 4 - Implementation - implementing all of the required changes necessary for IFRS compliance.

Groupe Aeroplan has assembled a team of internal and external resources to execute the plan. The project team is led by senior finance executives that provide overall project governance, management and support. The project team reports quarterly to the Corporation's Audit Finance and Risk Committee. The preliminary diagnosis and detailed evaluation phases having been completed, the Corporation continues to make significant progress in defining the solution of its changeover process through the third quarter of 2010 and has commenced certain aspects of the implementation of the changeover. The Corporation's conversion process is proceeding as planned and the Corporation will continue with the two latter phases in the last quarter of 2010.

The analysis to date indicates that similar standards to those used by Groupe Aeroplan in the preparation of its consolidated financial statements will apply. However, several IFRS standards are in the process of being amended by the International Accounting Standards Board ("IASB"). Amendments to existing standards are expected to continue until the changeover date of January 1, 2011. The Corporation monitors the IASB's activities on an ongoing basis, giving consideration to any proposed changes, where applicable, in its assessment of differences between IFRS and Canadian GAAP. Of particular significance to Groupe Aeroplan's financial reporting are the applicable revenue recognition standards under IFRS, which are not expected to be finalized until 2011. While there appears to be a general consensus that similar revenue recognition standards to those to be used by Groupe Aeroplan upon initial adoption of IFRS will apply, this will only be confirmed at a later date. Since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, any conclusions drawn at this point in time must be considered preliminary.

The Corporation's progress-to-date has resulted in the following conclusions/assessments:

First-time adoption of IFRS (IFRS 1)

IFRS 1 provides the framework for the first-time adoption of IFRS and outlines that, in general, an entity shall apply the principles under IFRS retrospectively and that adjustments arising on conversion from Canadian GAAP to IFRS shall be directly recognized in retained earnings. However, IFRS 1 also provides a number of optional exemptions from retrospective application of certain IFRS requirements as well as mandatory exceptions which prohibit retrospective application of standards. While this list has been subject to some change, currently there are sixteen elective exemptions and four mandatory exceptions that need to be considered.

Groupe Aeroplan currently expects to apply the following elective exemptions:

- it will not retrospectively restate the accounting of past business combinations;
- it will not retrospectively restate the cumulative translation adjustments recorded in Accumulated Other Comprehensive Loss. The cumulative translation loss balance of approximately \$47.0 million at December 31, 2009 under Canadian GAAP will be deemed to be nil at the transition date and the corresponding adjustment will be recorded in retained earnings;
- it will apply the requirements of IAS 23 Borrowing Costs prospectively from January 1, 2010; and
- it will avail itself of the exemption not to provide additional disclosures regarding employee benefits, including certain information in respect of defined benefit plans for the period prior to its date of transition.

Prima facie, the remaining elective exemptions have limited or no applicability to Groupe Aeroplan. The elective exemption relating to the elimination of unamortized actuarial gains and losses on post-employment benefit plans will not be used given that the Corporation has chosen as an accounting

policy to record actuarial gains and losses directly into other comprehensive income (see Employee benefits below).

Set out below are selected key areas of accounting differences where changes in accounting policies on conversion to IFRS may impact the Corporation's consolidated financial statements. The list and comments should not be construed as a comprehensive list of changes that will result from transition to IFRS, but rather highlights those areas of accounting differences Groupe Aeroplan currently believes to be most significant. Notwithstanding, analysis of changes is still in progress and certain decisions remain to be made where choices relating to accounting policies are available. At this stage, the Corporation is not able to reliably quantify the full impact of these and other differences on Groupe Aeroplan's consolidated financial statements. The Corporation expects to complete the quantification of these selected key areas in the last quarter of 2010.

Revenue (IAS 18)

Following additional analysis performed in the third quarter of 2010, the Corporation concluded that certain changes were required to its revenue recognition models in order to meet the requirements of IFRS. Currently under Canadian GAAP, Gross Billings received from the sale of GA Loyalty Units under the Corporation's loyalty programs are deferred and revenue is recognized either upon redemption of loyalty units by members or in accordance with the accounting policy for Breakage. Breakage is currently recognized ratably over the estimated average life of a GA Loyalty Unit issued, which is determined in a rational and systematic manner. Under IFRS, the Corporation will defer Gross Billings received and recognize revenue as the GA Loyalty Units are redeemed by members. The amount of revenue recognized will be based on the number of GA Loyalty Units redeemed in a period in relation to the total number of GA Loyalty Units expected to be redeemed, which factors in the Corporation's estimate for Breakage. Consequently, Breakage revenue previously recognized ratably over the estimate average life of GA Loyalty Units will be recognized based on GA Loyalty Unit redemption patterns.

This change in the Corporation's revenue recognition model will result in an increase in deferred revenue of \$37.0 million at the transition date, with a corresponding adjustment to reduce retained earnings at that date.

Business Combination (IFRS 3)

The IASB's annual improvement of IFRS 2009 has not provided similar relief to first time adopters of IFRSs as that provided to existing users of IFRSs, as it relates to the treatment of contingent consideration that arose from a business combination where the acquisition date preceded the application date of IFRS 3 (2008). Consequently, although the Corporation will apply the IFRS 1 elective exemption not to restate prior business acquisitions, IFRS 3 Business Combinations will have an impact on the Corporation's financial statements, as the unresolved contingent consideration related to the 2007 LMG acquisition will be recognized at its fair value at the transition date, with a corresponding debit to retained earnings. Under IFRS, unlike Canadian GAAP, contingent considerations are not recognized as an increase to goodwill on resolution of the contingency but are recorded at fair value in the purchase price allocation. Under IFRS, subsequent remeasurement of the fair value at each balance sheet date until resolution of the contingency are recognized in the statement of operations.

As a result of this difference, the fair value of the contingent consideration included in accounts payable and accrued liabilities related to a favourable outcome of the VAT litigation, calculated on a weighted probability basis of approximately \$31.0 million, will be charged to equity on transition to IFRS.

Impairment of assets (IAS 36)

Canadian GAAP impairment testing involves two steps, the first of which compares the long-lived asset carrying values with undiscounted future cash flows to determine whether impairment exists. If the carrying value exceeds the amount recoverable on an undiscounted basis, then the cash flows are discounted to calculate the amount of the impairment and the carrying values are written down to

estimated fair value. IAS 36 Impairment of Assets, uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (which uses discounted future cash flows). This may result in more frequent write-downs where carrying values of assets were previously accepted under GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis. Under Canadian GAAP, an indefinite-life intangible asset is always tested for impairment as an individual asset. Under IFRS, indefinite-life intangibles, which do not generate independent cash inflows such as Groupe Aeroplan's trade names, are tested for impairment as part of a cash generating unit ("CGU"). Under Canadian GAAP, goodwill is tested for impairment by comparing the carrying amount of the reporting unit(s) to which it is allocated, i.e., including the allocated goodwill, to the fair value of the reporting unit(s). If the fair value is less than the carrying amount of the reporting unit(s), then an impairment loss is calculated. The impairment loss is measured as the difference between the implied fair value of the goodwill and its carrying amount. The implied fair value of the goodwill is determined based on the value that would be ascribed to goodwill if the reporting unit(s) were acquired in a current business combination. Under IFRS, goodwill is allocated to the Corporation's CGUs and is always tested for impairment at the level of a CGU or groups of CGUs. An impairment loss is recognized if a CGU's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of fair value less costs to sell and value in use, which is based on the net present value of future cash flows. The impairment loss equals the amount of this excess.

The Corporation has completed the analysis of its operations and has determined its cash generating units to be used for the purpose of impairment testing and groups of CGUs for goodwill testing purposes. Models have been developed, which will be used for the impairment testing as required at the date of transition to IFRS and on a going forward basis. During the third quarter of 2010, the Corporation progressed with the preliminary determination of the estimates of the recoverable amount of its CGUs and groups of CGUs at January 1, 2010, and determined that there were no differences to be recorded affecting the opening balances. The conclusion of the impairment testing is dependent on the resolution of other IFRS differences that will impact the carrying values of each CGU and group of CGUs under IFRS, in the last quarter of 2010.

Employee benefits (IAS 19)

Under IFRS, liabilities and expenses for vested past service costs under a defined benefit plan are recognized immediately in the statement of operations. The vested past service costs under Aeroplan's contact centre agents defined benefit plans and other post-employment benefit plans are recognized over the expected average remaining service period under Canadian GAAP. As a result of this difference, the unamortized past service cost of approximately \$22.0 million as at December 31, 2009 will be charged to equity on transition to IFRS.

The Corporation has also chosen as its accounting policy for its post-employment benefit plans to recognize actuarial gains and losses directly into other comprehensive income rather than through net earnings. Under this method, actuarial gains and losses that have been recognized in other comprehensive income are immediately recognized in retained earnings and are not reclassified to net earnings in subsequent periods. Consequently, the unamortized actuarial loss balance of \$0.7 million at December 31, 2009 under Canadian GAAP will be eliminated at the transition date and the corresponding adjustment will be recorded in retained earnings.

Financial instruments: recognition and measurement (IAS 39)

Under IFRS, when a financial liability is derecognized, related transaction costs are recognized in the statement of operations as part of the gain or loss on extinguishment. In the third quarter of 2009, Groupe Aeroplan refinanced its long term debts. The refinancing costs were deferred and recorded as an adjustment to the carrying value of the new debts under Canadian GAAP. As the costs would have been recorded in the statement of operations under IFRS, the unamortized balance of approximately \$4.0 million as at December 31, 2009 will be reclassified to retained earnings on transition to IFRS.

Presentation of financial statements (IAS 1)

A number of financial statement presentation differences exist between IFRS and Canadian GAAP, including but not limited to, the classification of the statement of operations by function or nature and the presentation of non-controlling interest as a component of equity. The Corporation is addressing these presentation differences as it prepares its draft IFRS financial statements throughout 2010. Groupe Aeroplan has made significant progress in the preparation of its draft IFRS financial statements and related note disclosures to reflect the revised presentation and disclosure requirements under IFRS. The Company expects to complete the draft financial statements during the last quarter of 2010.

Share-based payments (IFRS 2)

Under Canadian GAAP for share-based payments, the Corporation accrues the cost of employee stock options and performance share units over the vesting period using the straight-line method, and recognizes forfeitures of awards as they occur. Under IFRS, the cost of employee stock options and performance share units is accrued over the vesting period using the graded method of amortization, and takes into account an estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate. This change in accounting for share-based payments will increase the cost of employee stock options and performance share units accrued at the transition date by \$0.6 million, also increasing contributed surplus by the same amount, with a corresponding adjustment to retained earnings on transition to IFRS.

Other

A number of other areas of IFRS will impact Groupe Aeroplan as well, albeit to a lesser extent. Other differences between the Corporation's current accounting policies and IFRS and IFRS accounting policy choices have been identified and are expected to be resolved in the last quarter of 2010, but these are currently not expected to have a significant impact on Groupe Aeroplan's financial statements.

Impact on information systems and technology

The areas where information systems will be impacted the most are firstly, the need to create the ability for information systems to track IFRS adjustments for the 2010 comparative year, and secondly the need for the creation of several new or modified reports to assist in preparing the increased note disclosures and different presentation required by IFRS. These report requirements may also require modifications to existing general ledger account structures. At this time, the transition is expected to have minimal impact on other information systems used by the organization. The final impact on information systems and technology is expected to be determined in the last quarter of 2010 following the completion of the first draft IFRS financial statements, but the impact, if any, is not expected to be significant.

Impact on reporting and internal controls

The Corporation's transaction-level controls will not be affected by the transition to IFRS in any material respect. As noted, the transition to IFRS for the Corporation mainly affects the presentation and disclosure of its financial statements as well as presentation of transitional adjustments. This may lead to significant presentation and process changes to report more detailed information in the notes to the financial statements, but it is not currently expected to lead to many measurement or fundamental differences in the accounting treatments used by the Corporation.

Financial reporting controls will change due to the transition to IFRS, but the impact is expected to be minimal. The majority of change surrounds new processes, or modified processes, due to the fact that IFRS requires more judgement with respect to various accounting treatments. Processes and controls will be put in place to ensure the company is making the appropriate judgements and following the IFRS accounting policies selected.

Impact on financial reporting expertise

Training and education to this point has been limited to those directly involved with the transition to IFRS. IFRS training for relevant financial staff is ongoing, while targeted programs for operational staff will need to be developed once the transition to IFRS is underway. This training will focus mainly around the process changes required and an overview of the reasons behind the changes from a standards perspective. Investor relations will be updated once the impacts of the transition to IFRS are better understood, which will most likely be in the last quarter of 2010. It is expected that the training requirements across the organization will not be significant given that there is minimal impact on the nature of the items affecting operating results.

Impact on business activities

Covenants contained in the existing agreements with the Corporation's lenders are determined in accordance with GAAP. The Corporation does not anticipate that the transition to IFRS will have a significant impact on its covenants.

The Corporation's incentive compensation is largely based upon attaining and exceeding targeted *Adjusted EBITDA and Free Cash Flow*. These targets are determined on an annual basis and may need to be re-evaluated commencing in 2011, when the impacts of changes brought about by the transition to IFRS are fully known.

General

Based upon the work completed to date, and since all potential changes to IFRS that will be effective as at December 31, 2011 are not yet known, Groupe Aeroplan cannot reasonably determine the full impact that adopting IFRS may have on its financial position and future results. As a result of the transition, changes in accounting policies could have a material impact on the consolidated financial statements.

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Corporation has adopted disclosure controls and procedures that were designed by the CEO and CFO, with management's assistance, in order to provide reasonable assurance that they are made aware of material information. The Corporation has also adopted internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. During the interim period ended on September 30, 2010, there were no changes in the Company's internal controls over financial reporting that have significantly affected, or are reasonably likely to significantly affect, Groupe Aeroplan's internal controls over financial reporting.

Because of inherent limitations, internal control over financial reporting and disclosure controls can provide only reasonable assurances and may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Audit, Finance and Risk Committee reviewed this MD&A, and the consolidated financial statements, and the board of directors of Groupe Aeroplan approved these documents prior to their release.

OUTLOOK

2010 Guidance

As previously announced on October 7, 2010 and as otherwise described herein, the ECJ VAT Judgment negatively affected Adjusted EBITDA for the three and nine months ended September 30, 2010, respectively, as a result of a \$52.9 million (£33.3 million) net charge to earnings related thereto. The change in future redemption costs included in Adjusted EBITDA, for the three and nine months ended September 30, 2010, reflects an additional impact of \$0.4 million (£0.3 million) and \$1.6 million (£1.0 million), respectively, related to the ECJ VAT Judgment. The prior guidance provided by the Corporation was premised on the assumption of a neutral or positive judgment.

Guidance Issued March 3, 2010, as Updated

For the year ending 2010, Groupe Aeroplan expects to report consolidated Gross Billings within the range of \$2.0 billion and \$2.1 billion and realize growth in consolidated Adjusted EBITDA, excluding the impact of the ECJ VAT Judgment, compared to 2009 reported Adjusted EBITDA. Free Cash Flow levels for 2010 are expected to be reduced compared to 2009 as a result of investments required to support future growth and the effect of non-recurring favourable items which occurred in 2009.

The current income tax rate is anticipated to approximate 30% in Canada, and there is an expectation that no significant cash income taxes will be incurred in the rest of the Corporation's foreign operations.

For 2010, Groupe Aeroplan anticipates Gross Billings growth ranging between 2 and 4 per cent for Aeroplan Canada and Groupe Aeroplan Europe (excluding Nectar Italia). Based on the year-to-date performance of these loyalty programs and taking into account current market drivers in their respective environments, we now expect to achieve results at the high end of this range for Aeroplan Canada and double digit growth for Groupe Aeroplan Europe (excluding Nectar Italia).

For 2010, Groupe Aeroplan expects to realize growth in Adjusted EBITDA in its legacy businesses, excluding the negative effect of the ECJ VAT Judgment, after adjusting for operating costs, which are not expected to recur in the future, related to:

- the launch of the Nectar Italia program; and
- the effect of brand investment promotional campaigns scheduled for 2010, in the Aeroplan and Nectar UK programs.

The Average Cost of Rewards per Aeroplan Mile Redeemed is not expected to exceed 0.95 cents on an annual basis through to the end of 2011, with gross margin remaining relatively stable.

Gross Billings from Carlson Marketing are expected to approximate US\$600.0 million in 2010, with Adjusted EBITDA in the 6% to 8% range, before one-time migration costs, which are estimated at US\$26.0 million and the \$17.4 million reclassification adjustment. The migration from Carlson Marketing's former parent company's infrastructure to a stand-alone platform is progressing according to schedule and is expected to be completed by the end of 2010.

The funding requirements for the launch of the Nectar Italia program, which will affect consolidated Adjusted EBITDA, is expected to be in the range of €15 million over 2010. Nectar Italia is expected to generate annual Gross Billings in the range of €60 million to €80 million within three years. For 2010, Nectar Italia is expected to generate annual Gross Billings in the range of €40 million to €50 million.

Update and Comparison to Actual Results

At September 30, 2010, on the basis of performance to date, Groupe Aeroplan is on track to deliver Gross Billings within the anticipated range for 2010. Excluding the \$54.5 million impact of the ECJ VAT Judgment to Adjusted EBITDA for the nine months ended September 30, 2010 (\$52.9 million plus the impact to change in future redemption costs of \$1.6 million), Groupe Aeroplan anticipates to post higher Adjusted EBITDA in 2010 than reported for 2009. In addition, Free Cash Flow levels are tracking to lower levels than those reported in 2009 and the ECJ VAT Judgment is not anticipated to result in a cash payment and affect Free Cash Flow before 2011.

The current income tax rate on taxable income in the Canadian operations to September 30, 2010 is 30% and cash income taxes attributable to the Corporation's foreign operations amounted to \$2.9 million for the nine months ended September 30, 2010.

For the nine months ended September 30, 2010, Aeroplan Canada posted Gross Billings growth of 2.9% compared to the same period of 2009 and Groupe Aeroplan Europe (excluding Nectar Italia), posted 14.8% growth in Gross Billings expressed in GBP.

Aeroplan Canada generated growth in Adjusted EBITDA for the nine months ended September 30, 2010 of 7.4% compared to the same period of 2009. Excluding the impact of the ECJ VAT Judgment of £33.3 million and the Nectar Italia launch costs of €15 million, Groupe Aeroplan Europe generated Adjusted EBITDA of £13.5 million, compared to £11.7 million for the nine months ended September 30, 2009.

The Average Cost of Rewards per Aeroplan Mile Redeemed is 0.92 cents for the nine months ended September 30, 2010 and Aeroplan Canada's gross margin for the nine months ended September 30, 2010 has remained virtually unchanged at 41.4%, from 40.8% for the same period of 2009.

Carlson Marketing's Gross Billings for the nine months ended September 30, 2010 amounted to US\$446.0 million, substantially on track to meet the stated targets. Adjusted EBITDA before one-time migration costs of US\$9.7 million (total migration costs including capital expenditures and operating expenses incurred to September 30, 2010 amount to US\$18.9 million) and excluding the US\$16.2 million (\$17.4 million) reclassification adjustment, represented 6.3% of Gross Billings. Migration of all technology platforms will be completed by November 11, 2010.

The launch of the Nectar Italia program resulted in €15 million (\$20.4 million) of expenses affecting consolidated Adjusted EBITDA. Nectar Italia has generated Gross Billings of €32.5 million (\$44.6 million) for the nine months ended September 30, 2010.

The above guidance excludes the effect of any currency fluctuations on Groupe Aeroplan's operating results.

2011 Guidance

For 2011, the Corporation expects to exceed \$2.2 billion in consolidated Gross Billings, and \$350.0 million in consolidated Adjusted EBITDA. This initial directional guidance for 2011 is based on a number of assumptions about general economic and market conditions, as well as foreign exchange rates, in Canada, the U.S., the U.K., and other countries in which the Corporation operates. The Corporation will be providing further guidance for 2011 upon issuance of its 2010 fourth quarter and year-end results.

The Corporation cautions that the assumptions used to prepare the above forecasts for 2010 and 2011 may not materialize and that current economic conditions render such assumptions, although reasonable at the time they were made, subject to greater uncertainty. There are important risk factors that could cause the assumptions and estimates to be inaccurate and actual results to differ materially. The outlook provided constitutes forward-looking statements within the meaning of applicable securities laws and should be read in conjunction with the “*Caution Concerning Forward-Looking Information*” section.

RISKS AND UNCERTAINTIES

The results of operations and financial condition of Groupe Aeroplan are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of Management.

For more information, and for a complete description of the risk factors that could materially affect the business, please refer to the corresponding sections in the 2009 MD&A and Groupe Aeroplan’s Annual Information Form dated March 22, 2010.

The risks described therein may not be the only risks faced by Groupe Aeroplan. Other risks which currently do not exist or which are deemed immaterial may surface and have a material adverse impact on Groupe Aeroplan’s results of operations and financial condition.

ADDITIONAL INFORMATION

Additional information relating to Groupe Aeroplan and its operating businesses, including Groupe Aeroplan’s Annual Information Form and Management Information Circular, respectively dated March 22 and March 15, 2010, is available on SEDAR at www.sedar.com or on Groupe Aeroplan’s website at www.groupeaeroplan.com under Investors.