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

For the years ended
December 31st 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 February 24, 2011 and should be read in conjunction with the accompanying audited consolidated financial statements of Groupe Aeroplan for the year ended December 31, 2010 and the notes thereto.

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, dependency on top accumulation partners and clients, conflicts of interest, greater than expected redemptions for rewards, regulatory matters, retail market/economic conditions, industry competition, Air Canada liquidity issues, Air Canada or travel industry disruptions, airline industry changes and increased airline costs, 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, foreign operations, 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, uncertainty of dividend payments, 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 February 24, 2011, 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.

This MD&A contains the following sections:

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, the cost of rewards for such period divided by the number of GALUs 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;

"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.

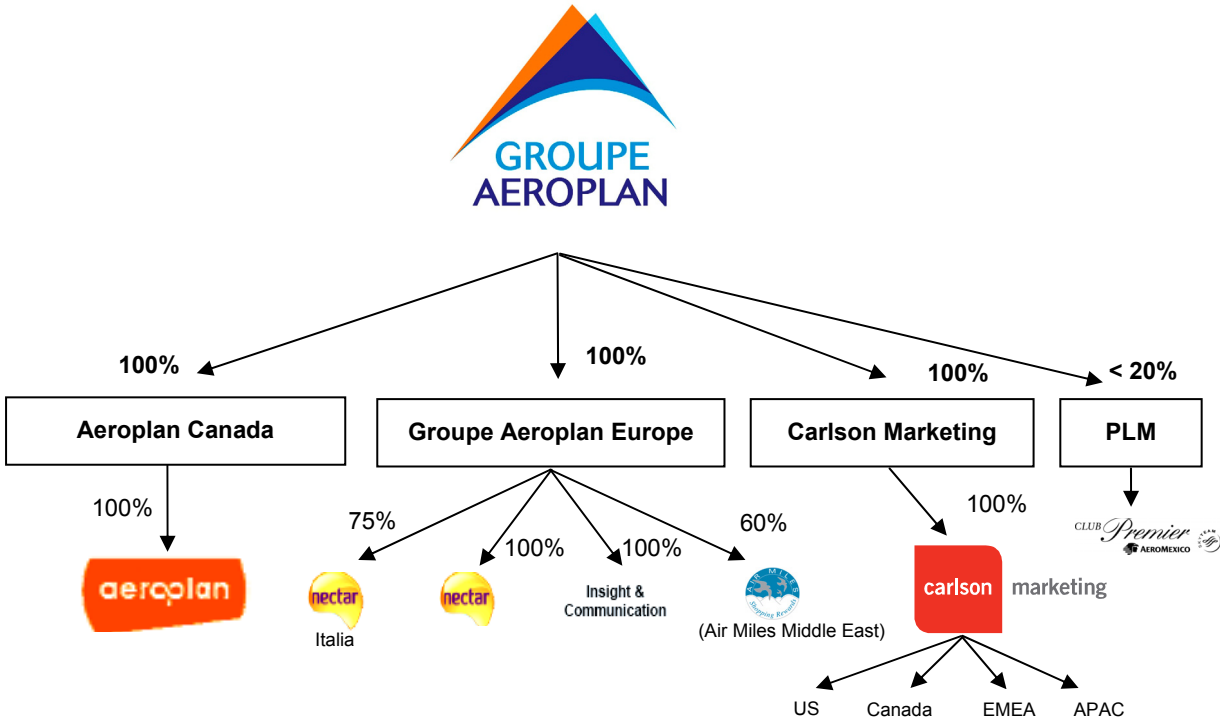
OVERVIEW

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 ("RMMEL"). 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 December 31, 2010:

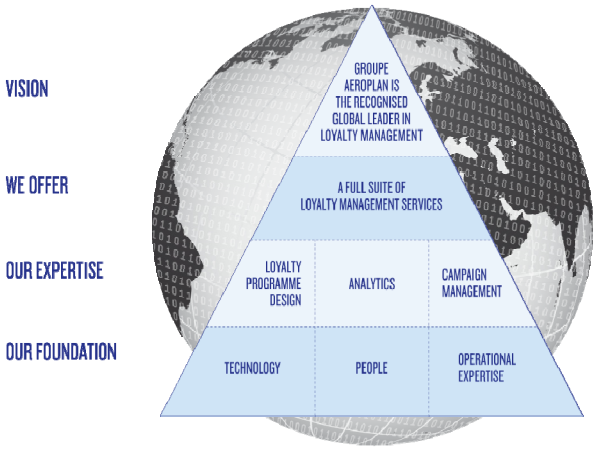


Note: The chart above does not reflect the actual corporate structure of Groupe Aeroplan but rather reflects Groupe Aeroplan's operational structure.

STRATEGY

Groupe Aeroplan's strategic vision is to be recognized as the global leader in loyalty management by offering the full-suite of loyalty management services across our coalition, proprietary and analytics businesses. We offer our clients and partners a full range of loyalty management capabilities with a particular focus on (i) loyalty strategy, program design and delivery, (ii) analytics and insights and (iii) campaign management and communications.

Our ability to execute this strategy is grounded in our depth of people, our technology and our operational expertise. As owner operators in the loyalty industry we have developed advanced technology platforms and operational experience which we leverage to grow profitability for our partners and clients. Groupe Aeroplan intends to increase profitability by offering this full suite of services on a global basis. Our strategy and full suite model are as depicted below.



The strategy is executed through the following initiatives:

- enhancing the value proposition to our members, partners and clients;
- increasing member engagement in the loyalty programs we own and operate by providing new accumulation opportunities and offering a wide range of redemption opportunities;
- assisting our clients in managing and evolving their proprietary loyalty programs to maximize the impact on their businesses;
- offering loyalty management services and applications that span across coalition and third-party proprietary models, from strategy to execution to optimization; and
- assisting our clients to gain unparalleled insight into consumer shopping trends from analysis of product and customer information to help them make strategic decisions.

We are also well positioned to leverage our full suite of loyalty management services to expand profitability by:

- developing start-up customer loyalty programs in new geographic markets;
- seeking to acquire interests in existing frequent flyer programs and customer loyalty programs in existing and new geographic markets; and
- pursuing investments in strategic and synergistic acquisitions.

PERFORMANCE INDICATORS

OPERATING INCOME

Revenue

Groupe Aeroplan derives its cash inflows primarily from the sale of GALUs 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, loyalty industry related business know-how, trademarks and expertise and analytical services to retailers and consumer packaged goods companies, royalties earned with respect to the Air Miles trademark, 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 *SELECTED ANNUAL INFORMATION 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 *SELECTED ANNUAL INFORMATION 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 *SELECTED ANNUAL INFORMATION 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

Groupe Aeroplan operates in a relatively new industry with a limited number of industry players. As a result, there is limited availability of industry comparables and Productive Capacity benchmarks.

Capital Resources

Groupe Aeroplan generates sufficient cash flow internally to fund cash distributions, capital expenditures and to service its debt obligations. Management believes that Groupe Aeroplan's internally generated cash flows, combined with its ability to access external capital, provide sufficient resources to finance its cash requirements for the foreseeable future and to maintain available liquidity, as discussed in the *Liquidity and Capital Resources* section.

Non-capital Resources

Groupe Aeroplan's critical non-capital resources are its brands, its strong and large member bases and related data, its relationships with Commercial Partners and clients, its technology and its employees.

Leading Market Position and Brands

Groupe Aeroplan's leading market position and strong brands make it attractive to existing and potential Commercial Partners and clients. Management believes that its brands are associated with an attractive base of consumers in terms of household income, spending habits and loyalty program engagement.

Strong Bases of Members

Groupe Aeroplan benefits from growing bases of over 4.5 million, over 17 million, and over 6 million active members in Canada, the U.K. and Italy, respectively, with attractive demographics who have demonstrated a strong willingness to collect GA Loyalty Units over other loyalty program points.

Relationship with Commercial Partners

Groupe Aeroplan has relationships with numerous Commercial Partners, including leading financial services, travel services, retailers and consumer products and services companies. The terms of these contractual arrangements typically range from 2 to 5 years and are longer with Air Canada and certain financial services partners. Management believes that Commercial Partners benefit from members' sustained purchasing behaviour, which translates into a recurring flow of Gross Billings.

Long-Term Strategic Relationship with Air Canada

Aeroplan benefits from its unique strategic relationship with Air Canada and its affiliation with the strong Air Canada brand. Aeroplan benefits from a long-term commercial agreement for the purchase of seat capacity from Air Canada and Jazz Air Limited Partnership ("Jazz"), at attractive rates based on its status as Air Canada's largest customer. This is of great importance as travel continues to be one of the most sought after rewards under the Aeroplan Program. In addition, not only does Aeroplan have access to Air Canada's passengers for the purpose of acquiring new Aeroplan members, it also has access to Air Canada's most affluent customers through the management of its frequent flyer tier membership program. As an exclusive benefit, Aeroplan also has the ability to offer qualified members access to Air Canada's global network of Maple Leaf airport lounges.

In addition, Air Canada is one of Aeroplan's leading Commercial Partners purchasing a high volume of Aeroplan Miles yearly for the purpose of awarding Aeroplan Miles to its customers. Aeroplan is Air Canada's exclusive loyalty marketing provider based in Canada.

Large Base of Loyalty Marketing Clients Worldwide

Groupe Aeroplan's international footprint spans four continents with presence and clients in the North America, Europe, Middle East and Asia Pacific region, and in sectors as diverse as packaged goods, automotive, banking, travel, telecommunications and retail.

Technology

Aeroplan Canada, Carlson Marketing and Groupe Aeroplan Europe rely on a number of sophisticated systems in order to operate the contact centres, manage and analyze the member data bases and redeem rewards (directly and through the program websites). Through the use of technology, Aeroplan Canada, Carlson Marketing and Groupe Aeroplan Europe are able to increase operational efficiency, facilitate reward redemption for their members and offer value-added services to Commercial Partners and clients. In addition, Groupe Aeroplan also provides analytical services to retailers and their suppliers.

Employees

Aeroplan Canada, Carlson Marketing and Groupe Aeroplan Europe benefit from a strong and experienced employee base, which is focused on driving growth and enhancing the franchises through value-added service offerings to members, Commercial Partners and clients.

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 generally accepted accounting principles, 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.

Fees paid under this agreement amounted to US$23.6 million ($24.3 million) for the year ended December 31, 2010.

Migration Costs

During the year ended December 31, 2010, costs of migration from Carlson Marketing's former parent company's infrastructure to a stand-alone platform amounted to US$26.0 million ($26.8 million), with US$12.0 million ($12.4 million) representing capital expenditures and US$14.0 million ($14.4 million) of operating expenses.

The migration of technology platforms from Carlson Marketing's former parent company was completed on November 11, 2010.

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 benefited from retention bonuses. Employee retention costs incurred for the year ended December 31, 2010 amounted to US$2.6 million ($2.7 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. Platform upgrade costs incurred for the year ended December 31, 2010 amounted to US$2.4 million ($2.5 million), with US$1.4 million ($1.5 million) representing capital expenditures and US$1.0 million ($1.0 million) representing operating expenses.

The table below details the final purchase price allocation:

(in thousands)

	$
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 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. Given that the remaining investment milestone has been met, Groupe Aeroplan expects to invest an additional $11.8 million in PLM imminently.

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 audited consolidated financial statements for the year ended December 31, 2010, 2009 and 2008, 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 business compared to that of Aeroplan Canada and Groupe Aeroplan Europe.

2010 HIGHLIGHTS

- Gross Billings of $2,187.8 million;
- Operating income of $63.3 million;
- Net loss of $22.5 million;
- Loss per share of $0.17;
- Cash flows from operations of $268.1 million;
- Adjusted EBITDA of $255.7 million;
- Adjusted net loss of $21.0 million;
- Free cash flow of $113.7 million.

SELECTED ANNUAL INFORMATION AND RECONCILIATION OF EBITDA, ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND FREE CASH FLOW

(in thousands, except miles, share and per share information)	For the years ended December 31,					Year over year %Δ	
	2010		2009		2008	2010 over 2009	2009 over 2008
	$		$				
Gross Billings	**2,187,753**	(f)	**1,447,322**		**1,501,041**	**51.2**	**(3.6)**
Gross Billings from the sale of GALUs	**1,457,751**		**1,363,010**		**1,420,548**	**7.0**	**(4.1)**
Revenue	1,960,945		1,352,527		1,377,736	45.0	(1.8)
Other revenue	92,853		84,312		80,493	10.1	4.7
Total revenue	2,053,798		1,436,839		1,458,229	42.9	(1.5)
Cost of rewards and direct costs	(1,295,282)	(a)	(903,060)		(867,736)	43.4	4.1
Gross margin	758,516	(a)	533,779		590,493	42.1	(9.6)
Selling, general and administrative expenses	(572,406)	(a)	(270,489)		(262,937)	111.6	2.9
Depreciation and amortization	(32,454)		(19,280)		(20,636)	68.3	(6.6)
Operating income before amortization of Accumulation Partners' contracts, customer relationships and technology	**153,656**	(a)	**244,010**		**306,920**	**(37.0)**	**(20.5)**
Depreciation and amortization	32,454		19,280		20,636	68.3	(6.6)
EBITDA (b)	**186,110**	(a)	**263,290**		**327,556**	**(29.3)**	**(19.6)**
Adjustments:							
Change in deferred revenue							
Gross Billings	2,187,753		1,447,322		1,501,041		
Revenue	(2,053,798)		(1,436,839)		(1,458,229)		
Change in Future Redemption Costs (c)	(64,344)	(g)	7,861		(51,202)		
(Change in Net GALUs outstanding x Average Cost of Rewards per GALUs for the period)							
Subtotal of Adjustments	69,611		18,344		(8,390)		
Adjusted EBITDA (b)	**255,721**	(a)(f)(g)	**281,634**		**319,166**	**(9.2)**	**(11.8)**
Net earnings (loss) in accordance with GAAP	**(22,501)**	(a)(h)	**89,275**		**(965,210)**		
Weighted average number of shares	194,748,024		199,443,084		199,392,420		
Earnings (loss) per common share (d)	(0.17)	(a)(h)	0.45		(4.84)		
Net earnings (loss) in accordance with GAAP	**(22,501)**	(a)(h)	**89,275**		**(965,210)**	**(125.2)**	**(109.2)**
Amortization of Accumulation Partners' contracts, customer relationships and technology	90,308		80,246		87,838		
Subtotal of Adjustments (from above)	69,611		18,344		(8,390)		
Effective tax rate (%) (e)	-227.59%		-33.1%	(j)	-0.38%	(j)	
Tax on adjustments at the effective rate	(158,425)		(6,077)		32		
Adjusted net earnings (loss) (b)	**(21,007)**	(a)(f)(g)(h)	**181,788**		**274,970**	(i)	**(111.6)**	**(33.9)**
Adjusted net earnings (loss) per common share (d)	(0.16)	(a)(f)(g)(h)	0.91		1.38	(i)	
Net earnings (loss)	(22,501)	(a)(h)	89,275		195,490	(i)	
Earnings (loss) per common share (d)	(0.17)	(a)(h)	0.45		0.98	(i)	
Cash flow from operations	**268,105**		**288,489**		**323,079**	**(7.1)**	**(10.7)**
Capital Expenditures	(46,877)		(23,469)		(22,558)		
Dividends	(107,577)		(99,988)		(122,981)		
Free cash flow (b)	**113,651**		**165,032**		**177,540**	**(31.1)**	**(7.0)**
Total assets	5,146,052		5,217,992		5,017,720		
Total long-term liabilities	1,467,591		1,618,201		1,428,503		
Total dividends / distributions	107,577		99,988		108,983		
Total dividends per preferred share	1.530		N/A		N/A		
Total dividends per common share / distributions declared per units	0.500		0.500		0.550		

(a) Includes the effect of a $56.5 million (£35.5 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, $62.1million (£39.0 million) (of which $9.0 million (£5.6 million) relates to the year ended December 31, 2010 and $53.1 million (£33.4 million) relates to the period from 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 were 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 and non-controlling interest 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 Change in Future Redemption Costs for the period ended December 31, 2010 reflects the favorable impact resulting from high redemption activity attributable to the fourth quarter seasonality in the Nectar program and partly offset by a high average cost of rewards related to the impact of the ECJ VAT Judgment amounting to $0.4 million (£0.3 million).

(h) Includes the effect of a $7.2 million (£4.5 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

(i) Excluding impairment charge.

(j) Including the impact of non-controlling interests.

SEGMENTED INFORMATION

At December 31, 2010, the Corporation had three operating segments: Aeroplan Canada, Carlson Marketing and Groupe Aeroplan Europe.

The table below summarizes the relevant financial information by operating segment:

(in thousands, except miles information)	Years ended December 31,									
	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)	**83.5**	**81.0**								
Number of Total Miles redeemed (in billions)	**64.9**	**68.2**								
Number of Aeroplan Miles redeemed (in billions)	**64.5**	**65.4**								
	$	$	$	$	$	$	$	$	$	$
Gross Billings	1,082,488	1,046,571	469,990	400,751	635,275 [e]	-	-	-	2,187,753 [e]	1,447,322
Gross Billings from the sale of GALUs	1,033,223	993,295	424,528	369,715	-	-	-	-	1,457,751	1,363,010
Revenue	964,840	967,590	385,525	384,937	610,580	-	-	-	1,960,945	1,352,527
Other revenue	49,266	53,276	43,587	31,036	-	-	-	-	92,853	84,312
Total revenue	1,014,106	1,020,866	429,112	415,973	610,580	-	-	-	2,053,798	1,436,839
Cost of rewards and direct costs	587,387	601,716	377,589 [a]	301,344	330,306	-	-	-	1,295,282 [a]	903,060
Gross margin	426,719	419,150	51,523 [a]	114,629	280,274	-	-	-	758,516 [a]	533,779
Selling, general and administrative expenses	145,147	157,686	118,577 [a]	87,926	259,867	-	48,815	24,877	572,406 [a]	270,489
Depreciation and amortization[b]	87,893	85,743	12,456	13,783	22,413	-	-	-	122,762	99,526
Interest on long-term debt	-	-	-	-	-	-	56,095	40,921	56,095	40,921
Other interest expense	177	-	8,156 [g]	279	235	-	-	3,975	8,568 [g]	4,254
Interest income	19,062	12,288	4,428	4,903	681	-	-	-	24,171	17,191
Foreign exchange loss	-	-	-	-	-	-	-	(2,965)	-	(2,965)
Adjusted EBITDA [c]	312,543	277,217	(53,109) [a][f]	29,294	45,102 [e]	-	(48,815)	(24,877)	255,721 [a][e][f]	281,634
Earnings (loss) before income taxes and non-controlling interests	212,564	188,009	(83,238) [a][g]	17,544	(1,560)	-	(104,910)	(72,738)	22,856 [a][g]	132,815
Property and equipment	2,234	1,552	1,550	1,455	5,209	9,621	N/A	N/A	8,993	12,628
Goodwill	1,675,842	1,675,842	259,212	282,689	97,811	109,566	N/A	N/A	2,032,865	2,068,097
Deferred revenue	1,735,715	1,667,957	286,989	259,186	33,360	9,222	N/A	N/A	2,056,064	1,936,365
Total assets	4,803,331	4,906,975	169,049	143,758	173,672	167,259	N/A	N/A	5,146,052	5,217,992

(a) Includes the effect of a $56.5 million (£35.5 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, $62.1 million (£39.0 million) (of which $9.0 million (£5.6 million) relates to the year ended December 31, 2010 and $53.1 million (£33.4 million) relates to the period from 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 were 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 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 Change in Future Redemption Costs for the period ended December 31, 2010 reflects the favorable impact resulting from high redemption activity attributable to the fourth quarter seasonality in the Nectar program and partly offset by a high average cost of rewards related to the impact of the ECJ VAT Judgment amounting to $0.4 million (£0.3 million).

(g) Includes the effect of a $7.2 million (£4.5 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:

(in thousands, except miles information)	Years ended December 31,					
	2010	2009	2010	2009	2010	2009
Geographic segments	**Canada** [a]		**Rest of the World**		**Consolidated**	
	$	$	$	$	$	$
Gross Billings [d]	1,248,569	1,046,571	939,184 [c][e]	400,751 [c]	2,187,753 [c][e]	1,447,322 [c]
Gross Billings from the sale of GALUs	1,033,223	993,295	424,528	369,715	1,457,751	1,363,010
Revenue	1,122,155	967,590	838,790	384,937	1,960,945	1,352,527
Other revenue	49,266	53,276	43,587	31,036	92,853	84,312
Total revenue	1,171,421	1,020,866	882,377	415,973	2,053,798	1,436,839
Cost of rewards and direct costs	665,371	601,716	629,911 [f]	301,344	1,295,282 [f]	903,060
Gross margin	506,050	419,150	252,466 [f]	114,629	758,516 [f]	533,779
Selling, general and administrative expenses	257,355	182,563	315,051 [f]	87,926	572,406 [f]	270,489
Depreciation and amortization [b]	99,850	85,743	22,912	13,783	122,762	99,526
Earnings (loss) before income taxes and non-controlling interests	111,762	115,271	(88,906) [f][g]	17,544	22,856 [f][g]	132,815
Property and equipment	4,672	4,045	4,321	8,583	8,993	12,628
Goodwill	1,691,730	1,699,062	341,135	369,035	2,032,865	2,068,097
Deferred revenue	1,752,671	1,676,149	303,393	260,216	2,056,064	1,936,365
Total assets	4,888,206	4,951,565	257,846	266,427	5,146,052	5,217,992

(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 $417.5 million in the UK and $271.7 million in the US for the year ended December 31, 2010 compared to Gross Billings of $378.5 million in the UK for the year ended December 31, 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 $56.5 million (£35.5 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, $62.1 million (£39.0 million) (of which $9.0 million (£5.6 million) relates to the year ended December 31, 2010 and $53.1 million (£33.4 million) relates to the period from 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 were 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 $7.2 million (£4.5 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)	Year ended December 31, 2010 %		Year ended December 31, 2009 %
Total Revenue	**100.0**		**100.0**
Cost of rewards and direct costs	(63.1)	*(a)*	(62.9)
Gross margin	36.9	*(a)*	37.1
Selling, general and administrative expenses	(27.9)	*(a)*	(18.8)
Depreciation and amortization	(1.6)		(1.3)
Operating income before amortization of Accumulation Partners' contracts, customer relationships and technology	7.5	*(a)*	17.0

(as a % of Gross Billings)	Year ended December 31, 2010 %		Year ended December 31, 2009 %	
Gross Billings	**100.0**		**100.0**	
Total revenue	93.9		99.3	
Cost of rewards and direct costs	(59.2)	*(a)*	(62.4)	
Selling, general and administrative expenses	(26.2)	*(a)*	(18.7)	
Operating income before amortization of Accumulation Partners' contracts, customer relationships and technology	7.0	*(a)*	16.9	
Adjusted EBITDA	11.7	*(a)(c)*	19.5	
Adjusted Net Earnings (Loss)	(1.0)	*(a)(b)(c)*	12.6	*(d)*
Free Cash Flow	5.2		11.4	

(a) Includes the effect of a $56.5 million (£35.5 million) net charge to earnings recognized as a result of the ECJ VAT Judgment. Of this amount, $62.1 million (£39.0 million) (of which $9.0 million (£5.6 million) relates to year ended December 31, 2010 and $53.1 million (£33.4 million) relates to the period from 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 were 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 $7.2 million (£4.5 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment.

(c) The Change in Future Redemption Costs for the period ended December 31, 2010 reflects the favorable impact resulting from high redemption activity attributable to the fourth quarter seasonality in the Nectar program and partly offset by a high average cost of rewards related to the impact of the ECJ VAT Judgment amounting to $0.4 million (£0.3 million).

(d) The effective tax rate used to calculate Adjusted net earnings includes the impact of non-controlling interests.

YEAR ENDED DECEMBER 31, 2010 COMPARED TO YEAR ENDED DECEMBER 31, 2009

Gross Billings generated for the year ended December 31, 2010 amounted to $2,187.8 million compared to $1,447.3 million for the year ended December 31, 2009, representing an increase of $740.5 million or 51.2%, mainly as a result of the inclusion of Carlson Marketing in the consolidated results, accounting for $635.3 million. Gross Billings include loyalty marketing services revenue generated by Carlson Marketing, as well as other revenue, amounting to $610.6 million and $92.9 million, respectively, for the year.

During the year, 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. For the year ended December 31, 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. Specifically, in the UK, the strong ties of the Nectar Program to the grocery sector is having a positive impact on Gross Billings despite the economic recession where increased promotional activity to stimulate consumption arises and consumer behaviour tends to change by replacing restaurant spend with incremental grocery spend.

Aeroplan Miles issued during the year increased by 3.1% in comparison to the prior year driven by improved economic activity. Aeroplan Canada experienced an increase of $39.9 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 for the year ended December 31, 2010 increased by 11.6%, 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 $97.0 million in Gross Billings from GALUs, offset by a currency related reduction of $42.2 million resulting from the decline of the pound 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 $64.7 million for the year ended December 31, 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 RMMEL.

Redemption activity - Total Miles redeemed for the year ended December 31, 2010 under the Aeroplan Program amounted to 64.9 billion compared to 68.2 billion for the year ended December 31, 2009, representing a decrease of 3.3 billion or 4.8% driven primarily by additional capacity made available by air partners in 2009. Of those 64.9 billion Total Miles (calculated on a first-in, first-out basis on a member account basis for air redemptions) redeemed during the year ended December 31, 2010, under the Aeroplan Program, 99.4% or 64.5 billion, represented Aeroplan Miles with the balance being Air Canada Miles.

Redemption activity for the Nectar Program increased by 12.1% compared to the year ended December 31, 2009, mainly driven by an increase in the number of Nectar Points in circulation.

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 $1,350.4 million for the year ended December 31, 2010 compared to $1,352.5 million for the year ended December 31, 2009, representing a decrease of $2.1 million or 0.2%. This decrease is mainly attributable to:

- the effect of redemption activity on revenue recognition during the period as follows:
  - a decrease in total redemption volume, including a higher proportion of Aeroplan Miles redeemed during the period under the Aeroplan Program, accounting for $11.3 million partially offset by an increase in the cumulative average selling price of an Aeroplan Mile accounting for $4.2 million, for a total unfavourable variance of $7.1 million;
  - a higher number of GALUs redeemed during the period under the programs operated by Groupe Aeroplan Europe, generating an additional $41.1 million; and offset by
  - the negative impact of the fluctuation in the pound sterling of $39.1 million, related to the translation of foreign operations.
- revenue recognized from Breakage remained relatively constant compared to the year ended December 31, 2009.

Loyalty marketing service revenue generated from Carlson Marketing amounted to $610.6 million for the year ended December 31, 2010, net of a $10.8 million acquisition accounting fair value adjustment, relating to deferred revenue, which has been fully amortized at 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 $92.9 million for the year ended December 31, 2010 compared to $84.3 million for the year ended December 31, 2009, representing an increase of $8.6 million or 10.1%, 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, trademarks and expertise. I&C related revenue increased by 82.5% compared to the prior year.

Cost of rewards and direct costs amounted to $1,295.3 million for the year ended December 31, 2010 compared to $903.1 million for the year ended December 31, 2009, representing an increase of $392.2 million or 43.4%. This change is mainly attributable to the following factors:

Aeroplan Canada experienced a $14.3 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 $20.7 million;
- a lower redemption cost per Aeroplan Mile redeemed in the total amount of $4.3 million; and partly offset by
- a higher volume of non-air reward redemptions for the year ended December 31, 2010, representing an increase of $10.7 million.

Groupe Aeroplan Europe experienced a $76.2 million increase in costs explained primarily by:

- the recognition of the negative impact of the ECJ VAT Judgment of $62.1 million in the Nectar Program related to VAT deducted from indirect tax remittances to HMRC on member rewards;
- increased redemption activity accounting for $35.5 million of additional costs, arising from a greater volume of GALUs in circulation and redemptions from Nectar Italia;
- the impact of I&C related costs of $13.2 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 $34.6 million.

Carlson Marketing's inclusion in Groupe Aeroplan's consolidated results for the year ended December 31, 2010 accounted for $330.3 million of direct costs.

Gross margin decreased by 0.2% points, a direct result of the factors described above, and represented 36.9% of total revenue at the end of the year ended December 31, 2010, and is detailed as follows:

- Aeroplan Canada's gross margin represented 42.1% of total revenue compared to 41.1%; resulting from a marginal increase in the cumulative average selling price per Aeroplan Mile and a lower unit cost;
- Groupe Aeroplan Europe's gross margin was 12.0% compared to 27.6%. Excluding the effect of $53.1 million ECJ VAT Judgment related to the period from 2002 to 2009, gross margin for the period would have been 24.4%, mainly driven by the 2010 impact of the ECJ VAT Judgment of 2.1% and the timing of I&C international activities;
- Carlson Marketing's gross margin for the year was 45.9%.

Selling, general and administrative expenses amounted to $572.4 million for the year ended December 31, 2010 compared to $270.5 million for the same period in 2009, representing an increase of $301.9 million or 111.6%. This variance is mostly attributable to the inclusion of Carlson Marketing in the consolidated results, accounting for $259.9 million. Groupe Aeroplan Europe expenses increased by $40.9 million compared to 2009. This variance is mainly attributable to $37.4 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 the business, and a $1.6 million charge due to the ECJ VAT Judgment. The variance also includes a reversal of a $7.2 million provision set up at the time of the acquisition and was payable to certain employees in the event of a favourable VAT outcome. The increase is partly offset by a favourable $10.2 million of currency fluctuation recognized on the translation of foreign operations. The corporate segment contributed to an increase in expenses of $23.9 million, mostly related to consulting fees of $9.1 million and increased compensation and other corporate costs. Aeroplan Canada experienced a reduction of $12.5 million in expenses for the year mostly due to the fact that the fourth quarter of 2009 included a write-down of certain technology developed jointly with Air Canada, and no longer supported by Air Canada, and additional provisions for doubtful accounts totaling $7.2 million. In addition, during the fourth quarter of 2010, Aeroplan Canada recognized the benefit of Research and Development income tax credits of $5.8 million, claimed and receivable related to 2007 to 2009 fiscal years, and almost fully offset by the non-cash write-down of certain technology assets no longer in use of $5.5 million, a reduction of information technology costs, partly offset by increased consulting fees.

Fees paid under the transition services agreement by Carlson Marketing amounted to $24.3 million in 2010. Migration costs charged to operations during the year ended December 31, 2010, amounted to $14.4 million.

Depreciation and amortization amounted to $32.5 million and $19.3 million for the year ended December 31, 2010 and 2009 respectively. The increase is mainly due to the inclusion of Carlson Marketing.

Amortization of Accumulation Partners' contracts, customer relationships and technology amounted to $90.3 million for the year ended December 31, 2010 compared to $80.2 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 $153.7 million for the year ended December 31, 2010 compared to $244.0 million for the year ended December 31, 2009, representing a decrease of $90.3 million or 37.0%. Operating income was negatively impacted by the recognition of a net charge of $56.5 million resulting from the ECJ VAT Judgment.

Net interest expense for the year ended December 31, 2010, consists of interest revenue of $24.2 million earned on cash and cash equivalents, short-term investments on deposit and long-term investments in bonds; offset by interest on long-term debt of $56.1 million on the borrowings described under *Credit Facilities and Long Term Debt,* and other interest expense of $8.6 million which includes the recognition of $7.2 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 (loss) include the effect of $41.0 million of current income taxes and of $63.7 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 it prudent to not record additional benefits at this time.

Current income taxes are mostly attributable to income tax payable in our Canadian operations. Future income tax recoveries, related mostly to our international tax structures and foreign operations, have not been recognized and are lower in magnitude than would otherwise have been expected as a result of not recording the tax benefit arising from the ECJ VAT Judgment in the UK, start-up losses and operating tax losses incurred in Italy and the US, respectively. Consequently, the future income tax expense, which is also primarily related to the Canadian and UK operations, is not offset by future income tax recoveries available in our foreign operations, resulting in a distorted effective tax rate which is not meaningful or comparative.

Adjusted EBITDA amounted to $255.7 million or 11.7% (as a % of Gross Billings) for the year ended December 31, 2010, and included a favourable impact of $0.4 million in the change in future redemption costs resulting from the high redemption activity attributable to the fourth quarter seasonality in the Nectar Program and partly offset by a high average cost of rewards related to the impact of the ECJ VAT Judgment. Adjusted EBITDA was $281.6 million or 19.5% (as a % of Gross Billings) for the year ended December 31, 2009. Adjusted EBITDA for the year includes the effect of a $56.5 million net charge to earnings in the year as a result of the ECJ VAT Judgment.

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

Adjusted Net Earnings (loss) amounted to ($21.0) million or (1.0%) (as a % of Gross Billings) for the year ended December 31, 2010; compared to $181.8 million or 12.6% (as a % of Gross Billings), for the year ended December 31, 2009. Adjusted Net Earnings for the year also include the effect of a $63.7 million net charge to earnings recorded as a result of the ECJ VAT Judgment and other factors described under *Net earnings (loss)*. The effective tax rate has been impacted as described under *Net Earnings (loss).*

Free Cash Flow for the year ended December 31, 2010, amounted to $113.7 million compared to $165.0 million for the year ended December 31, 2009, mainly as a result of:

- a $20.4 million decrease in cash from operating activities for the year ended December 31, 2010 compared to the prior year due primarily to lower net earnings and higher levels of working capital items;
- the positive impact of the termination of the acceleration of payment terms to Air Canada in the amount of $63.0 million included in cash from operating activities for the year ended December 31, 2009;
- dividends paid on the preferred shares of $10.6 million;
- a higher amount of capital expenditures of $23.4 million for the year ended December 31, 2010, compared to the year ended December 31, 2009 and
- lower dividends paid on common shares of $3.0 million.

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.

QUARTER ENDED DECEMBER 31, 2010 COMPARED TO QUARTER ENDED DECEMBER 31, 2009

Gross Billings generated for the three months ended December 31, 2010 amounted to $593.6 million compared to $386.7 million for the three months ended December 31, 2009, representing an increase of $206.9 million or 53.5%, mainly as a result of the inclusion of Carlson Marketing in the consolidated results accounting for $173.0 million. Gross Billings include loyalty marketing services revenue generated by Carlson Marketing, as well as other revenue, amounting to $166.8 million and $24.8 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. For the three months ended December 31, 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. Specifically, in the UK, the strong ties of the Nectar Program to the grocery sector is having a positive impact on Gross Billings despite the economic recession where increased promotional activity to stimulate consumption arises and consumer behaviour tends to change by replacing restaurant spend with incremental grocery spend.

Aeroplan Miles issued during the three month period ended December 31, 2010 increased by 4.2% in comparison to the prior year, tracking to general economic indicators. Aeroplan Canada experienced an increase of $14.1 million in Gross Billings from the sale of Aeroplan Miles compared to the same period in the prior year, as a consequence of increased airline partner activity and an increase in average consumer spend per active credit card.

Nectar Points issued during the three month period ended December 31, 2010 increased by 2.8% compared to the same period in the prior year, mainly driven by growth in the grocery sector offset in part by the reduced activity of a former energy partner. Groupe Aeroplan Europe experienced an increase of $25.3 million in Gross Billings from GALUs, offset by a currency related reduction of $7.7 million resulting from the decline of the pound sterling relative to the Canadian $ during the fourth quarter of 2010, compared to the fourth quarter of 2009. Nectar Italia, which commenced operations during the first quarter of 2010, generated Gross Billings from GALUs of $20.2 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 RMMEL.

Redemption activity - Total Miles redeemed for the three months ended December 31, 2010 under the Aeroplan Program amounted to 16.4 billion compared to 16.0 billion for the three months ended December 31, 2009, representing an increase of 0.4 billion or 2.5% driven primarily by non-air redemptions.

Redemption activity for the Nectar Program increased by 9.1% compared to the fourth quarter of 2009, mainly driven by an increase in the number of Nectar 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 $416.2 million for the three months ended December 31, 2010 compared to $401.2 million for the three months ended December 31, 2009, representing an increase of $15.0 million or 3.7%. This increase is mainly attributable to:

- the effect of redemption activity on revenue recognition during the quarter as follows:
  - an increase in total redemption volume, a higher proportion of Aeroplan Miles redeemed during the quarter under the Aeroplan Program, and an increase in the cumulative average selling price of an Aeroplan Mile, accounting for a total favourable variance of $12.6 million;
  - a higher number of GALUs redeemed during the quarter under the programs operated by Groupe Aeroplan Europe, generating an additional $13.7 million; and offset by
  - the negative impact of the fluctuation in the pound sterling of $12.0 million, related to the translation of foreign operations.
- revenue recognized from Breakage remained relatively constant in comparison to the three months ended December 31, 2009.

Loyalty marketing service revenue generated from Carlson Marketing amounted to $166.8 million for the three months ended December 31, 2010, net of a $2.7 million acquisition accounting fair value adjustment, relating to deferred revenue, which has been fully amortized at 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 $24.8 million for the three months ended December 31, 2010 compared to $23.7 million for the three months ended December 31, 2009, representing an increase of $1.1 million or 4.8%, 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 39.7% during the period, and royalties earned with respect to the Air Miles trade name and loyalty industry related business know-how, trademarks and expertise.

Cost of rewards and direct costs amounted to $392.3 million for the three months ended December 31, 2010 compared to $279.7 million for the three months ended December 31, 2009, representing an increase of $112.6 million or 40.3%. This change is mainly attributable to the following factors:

Aeroplan Canada experienced a $2.3 million increase in cost of rewards resulting from:

- a higher volume of non-air reward redemptions for the quarter, representing $6.2 million;
- an increase in the proportionate allocation of the total air redemptions of Aeroplan Miles issued under the Aeroplan Program partially offset by a decrease in air activity, representing a total of $1.8 million; partially offset by
- a lower redemption cost per Aeroplan Mile redeemed in the total amount of $5.7 million.

Groupe Aeroplan Europe experienced a $10.1 million increase in costs explained primarily by:

- the recognition of the negative impact of the ECJ VAT Judgment of $3.6 million in the Nectar Program related to VAT deducted from indirect tax remittances to HMRC on member rewards;
- increased redemption activity accounting for approximately $12.9 million, resulting from a greater volume of GALUs in circulation and redemptions from Nectar Italia;

- the impact of I&C related costs of $4.2 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 $10.6 million.

Carlson Marketing's inclusion in Groupe Aeroplan's consolidated results for the three months ended December 31, 2010 accounted for $100.2 million of direct costs.

Gross margin increased by 1.2% points, a direct result of the factors described above, and represented 35.4% of total revenue at the end of the three month period ended December 31, 2010, and is detailed as follows:

- Aeroplan Canada's gross margin represented 44.1% of total revenue compared to 42.0%; resulting from a marginal increase in the cumulative average selling price per Aeroplan Mile partially offset by a slightly higher unit cost;
- Groupe Aeroplan Europe's gross margin was 19.3% compared to 23.5%. The variance was mainly driven by the Q4 2010 impact of the ECJ VAT Judgment of 1.9% as well as the mix and timing of I&C international activities;
- Carlson Marketing's gross margin for the period was 39.9%.

Selling, general and administrative expenses amounted to $147.1 million for the three months ended December 31, 2010 compared to $75.2 million for the same period in 2009, representing an increase of $71.9 million or 95.6%. This variance is mainly attributable to the inclusion of Carlson Marketing in the consolidated results, accounting for $63.2 million. Groupe Aeroplan Europe expenses increased by $9.9 million compared to the same period 2009 which is mainly attributable to brand investments in both the UK and Italy, Nectar Italia related costs and increased headcount and costs to support the growth and development of I&C activities. The variance is partly offset by a favourable $2.2 million of currency fluctuation recognized on the translation of foreign operations. The corporate segment contributed to an increase in expenses of $7.8 million, mostly related to consulting fees of $1.9 million and increased compensation costs. Aeroplan Canada experienced a reduction of $6.7 million in expenses for the period mostly due to the fact that the fourth quarter of 2009 included a write-down of certain technology developed jointly with Air Canada, and no longer supported by Air Canada, and additional provisions for doubtful accounts totaling $7.2 million. In addition, during the fourth quarter of 2010, Aeroplan Canada recognized the benefit of Research and Development income tax credits of $5.8 million, claimed and receivable related to 2007 to 2009 fiscal years, and almost fully offset by the non-cash write-down of certain technology assets no longer in use of $5.5 million, a reduction of information technology costs, partly offset by increased consulting fees.

Fees paid under the transition services agreement by Carlson Marketing amounted to $4.0 million for the quarter. Migration costs charged to operations during the quarter amounted to $4.3 million.

Depreciation and amortization amounted to $10.3 million and $4.7 million for the three months ended December 31, 2010 and 2009 respectively. The increase is mainly due to the inclusion of Carlson Marketing.

Amortization of Accumulation Partners' contracts, customer relationships and technology amounted to $20.3 million for the three months ended December 31, 2010 compared to $20.0 million for the same period in 2009.

Operating income, excluding the amortization of Accumulation Partners' contracts, customer relationships and technology, referred to above, amounted to $58.0 million for the three months ended December 31, 2010 compared to $65.2 million for the three months ended December 31, 2009, representing a decrease of $7.2 million or 11.0%. Operating income was negatively impacted by the recognition of a $3.6 million net charge resulting from the ECJ VAT Judgment.

Net interest expense for the three months ended December 31, 2010, consists of interest revenue of $4.5 million earned on cash and cash equivalents, short-term investments on deposit and long-term investments in bonds; offset by interest on long-term debt of $13.5 million on the borrowings described

under *Credit Facilities and Long Term Debt,* and other interest expense of $2.1 million, which includes the recognition of $0.8 million of interest payable as a result of the ECJ VAT Judgment.

Net earnings (loss) include the effect of $10.0 million of current income taxes and a net charge of $4.4 million resulting from the ECJ VAT Judgment.

Current income taxes are mostly attributable to income tax payable in our Canadian operations. Future income tax recoveries, related mostly to our international tax structures and foreign operations, have not been recognized and are lower in magnitude than would otherwise have been expected as a result of not recording the tax benefit arising from the ECJ VAT Judgment in the UK, start-up losses and operating tax losses incurred in Italy and the US, respectively. Consequently, the future income tax expense, which is also primarily related to the Canadian and UK operations, is not offset by future income tax recoveries available in our foreign operations, resulting in a distorted effective tax rate which is not meaningful or comparative.

Adjusted EBITDA amounted to $84.9 million or 14.3% (as a % of Gross Billings) for the three months ended December 31, 2010 and included a favourable impact of $1.1 million in the change in future redemption costs resulting from the high redemption activity attributable to the fourth quarter seasonality in the Nectar Program and partly offset by a high average cost of rewards related to the impact of the ECJ VAT Judgment. Adjusted EBITDA was $69.6 million or 18.0% (as a % of Gross Billings) for the three months ended December 31, 2009. Adjusted EBITDA for the period includes the effect of a $3.6 million net charge to earnings in the period as a result of the ECJ VAT Judgment.

Adjusted Net Earnings (loss) amounted to ($4.6) million or (0.8%) (as a % of Gross Billings) for the three months ended December 31, 2010; compared to $40.3 million or 10.4% (as a % of Gross Billings), for the three months ended December 31, 2009. Adjusted Net Earnings for the period also includes the effect of a $4.4 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 (loss)*.

Free Cash Flow for the three months ended December 31, 2010, amounted to $55.3 million compared to $79.2 million for the three months ended December 31, 2009, mainly as a result of:

- a $10.1 million decrease in cash from operating activities quarter over quarter due primarily to lower net earnings and partly offset by higher levels of working capital items;
- dividends paid on the preferred shares of $2.8 million;
- a higher amount of capital expenditures of approximately $12.6 million for the three months ended December 31, 2010, compared to the three months ended December 31, 2009;
- lower dividends paid on common share of $1.6 million.

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 December 31, 2010.

(in thousands, except per share amounts)	2010				2009			
	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Gross Billings	**593,617**	**520,455**	**555,734** [e]	**517,947**	**386,698**	**355,349**	**358,947**	**346,328**
Gross Billings from the sale of GALUs	**394,698**	**360,062**	**364,722**	**338,269**	**363,048**	**335,882**	**337,832**	**326,248**
Revenue	**607,798**	**466,024**	**473,197**	**506,779**	**424,852**	**322,648**	**333,515**	**355,824**
Cost of rewards and direct costs	(392,348) [b]	(322,938) [a]	(274,256)	(305,740)	(279,698)	(190,346)	(204,360)	(228,656)
Gross margin	215,450	143,086	198,941	201,039	145,154	132,302	129,155	127,168
Selling, general and administrative expenses	(147,145)	(137,080) [a]	(141,746)	(146,435)	(75,239)	(65,409)	(65,994)	(63,847)
Depreciation and amortization	(10,258)	(7,403)	(7,166)	(7,627)	(4,722)	(4,494)	(5,127)	(4,937)
Operating income (loss) before amortization of Accumulation Partners' contracts, customer relationships and technology	58,047 [b]	(1,397) [a]	50,029	46,977	65,193	62,399	58,034	58,384
Amortization of Accumulation Partners' contracts, customer relationships and technology	(20,300)	(23,228)	(23,812)	(22,968)	(19,967)	(20,079)	(20,485)	(19,715)
Operating income (loss)	37,747 [b]	(24,625) [a]	26,217	24,009	45,226	42,320	37,549	38,669
Net earnings (loss)	**(10,964)** [b][h]	**(40,400)** [a][h]	**13,991**	**14,872**	**20,545**	**18,756**	**26,746**	**23,228**
Adjusted EBITDA [c]	84,934 [b][g]	27,014 [a][f]	89,883 [e]	55,990	69,553	76,706	70,564 [d]	65,228 [d]
Adjusted net earnings [c]	(4,598) [b][g][h]	6,182 [a][f][h][i]	60,890 [e][i]	38,963 [i]	40,319 [i]	45,405 [i]	52,254 [i]	44,551 [i]
Net earnings (loss)	**(10,964)** [b][h]	**(40,400)** [a][h]	**13,991**	**14,872**	**20,545**	**18,756**	**26,746**	**23,228**
Earnings (loss) per common share [j]	(0.07) [b][h]	(0.22) [a][h]	0.06	0.07	0.10	0.09	0.13	0.12
Free cash flow [c]	55,319	112,707	11,664	(66,039)	79,168	44,014	90,841	(48,991)

(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 the period from 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 were 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 $3.6 million (£2.2 million) net charge to cost of rewards recognized as a result of the ECJ VAT Judgment.

(c) A non-GAAP measurement.

(d) 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.

(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 for the three month period ended September 30, 2010 includes the unfavorable impact of the ECJ VAT Judgment amounting to $0.4 million (£0.3 million).

(g) The Change in Future Redemption Costs for the three month period ended December 31, 2010 reflects the favorable impact resulting from high redemption activity attributable to the fourth quarter seasonality in the Nectar program and partly offset by a high average cost of rewards related to the impact of the ECJ VAT Judgment amounting to $1.1 million (£0.7 million).

(h) Includes the effect of a $7.2 million (£4.5 million) net charge to interest expense recognized as a result of the ECJ VAT Judgment, of which $6.4 million (£4.0 million) and $0.8 million (£0.5 million) were recorded in the three month periods ended September 30, 2010 and December 31, 2010, respectively.

(i) The effective tax rate used to calculate Adjusted net earnings includes the impact of non-controlling interests.

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

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 for 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 December 31, 2010, Groupe Aeroplan had $538.6 million of cash and cash equivalents, $12.6 million of restricted cash and $176.9 million of long-term investments, for a total of $728.1 million. Of this total amount approximately $263.3 million is invested in Bankers' Acceptances and term deposits maturing on various dates through to January 2011 and $176.9 million of long-term investments which is mostly invested in corporate, federal and provincial government bonds maturing at various dates between September, 2012 and June, 2020. The Aeroplan Canada Miles redemption reserve described under *Aeroplan Canada Miles Redemption Reserve* of $400.0 million is included in these invested amounts. Groupe Aeroplan's cash and cash equivalents and long-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:

(in thousands)	Year ended December 31,	
	2010	**2009**
	$	**$**
Cash and cash equivalents, beginning of year	**609,848**	**188,016**
Cash from operating activities	268,105	288,489
Cash from (used in) investing activities	(99,079)	161,265
Cash used in financing activities	(224,309)	(21,928)
Translation adjustment related to cash	(15,985)	(5,994)
Cash and cash equivalents, end of year	**538,580**	**609,848**

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 were $268.1 million and $288.5 million for the years ended December 31, 2010 and 2009, respectively. Cash flows from operating activities for the year ended December 31, 2009 were unusually high as they included $63.0 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. Excluding this impact, the fluctuation in cash flows from operations for the year ended December 31, 2010 was primarily attributable to the inclusion of Carlson Marketing and Nectar Italia affecting Gross Billings and changes in working capital items, increased Gross Billings in the Canadian and European operations and the effect of seasonality relating to fourth quarter retail activity affecting accounts payable.

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 ($42.0 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 $25.8 million (£16.6 million), including the receipt of accrued interest on the cash held in escrow amounting to $1.3 million (£0.8 million) to date.

INVESTING ACTIVITIES

Groupe Aeroplan's investing activities for the year ended December 31, 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 year ended December 31, 2010 also reflect the investment in PLM, which amounted to $24.1 million, the repayment by Air Canada of the Air Canada Club Loan in the amount of $150.0 million, and long-term investments of $177.0 million.

Capital expenditures for the year ended December 31, 2010, amounted to $46.9 million. Anticipated capital expenditures, which are primarily related to capital expenditures associated with software

development initiatives for fiscal 2011, are expected to amount to approximately $55.0 million for the next twelve months.

FINANCING ACTIVITIES

For the year ended December 31, 2010, financing activities used cash of $224.3 million.

During the year ended December 31, 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 year ended December 31, 2010, was primarily related to the payment of common and preferred dividends in the amount of $107.6 million and the repurchase of common shares in the amount of $142.5 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 Canada Business Corporations Act (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 $172.4 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 were used to repay $200.0 million of the term facility.

Groupe Aeroplan anticipates that total capital requirements for the 2011 fiscal year of $157.0 million, including $102.0 million in respect of anticipated cash dividends to its common and preferred shareholders, and approximately $55.0 million of capital 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.

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. In the event that the Reserve is accessed, Aeroplan has agreed to replenish it as soon as practicable, with available cash generated from operations. As at December 31, 2010, the Reserve amounted to $400.0 million and was included in cash and cash equivalents, and long-term investments. Refer to *"Subsequent Event"* section

The amount held in the Reserve, as well as the types of securities in which it may be invested, are based on policies established by management, which are reviewed periodically. At December 31, 2010, the Reserve was invested in Bankers' Acceptances and in corporate, federal and provincial bonds.

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 December 31, 2010, the Reserve, as well as other assets held to comply with a contractual covenant with a major Accumulation Partner, represented 39.8% 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 consolidated Future Redemption Cost liability of those GALUs, calculated at the current Average Cost of Rewards per GALU redeemed, is approximately $1,277.0 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 December 31, 2010, $100.0 million was 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 December 31, 2010	Drawn at December 31, 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)]	-	(259)	(709)
Unamortized refinancing costs [(e)]	-	(5,838)	(9,183)
		643,903	780,108
Less: current portion		-	-
Total		643,903	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 December 31, 2010, amounts borrowed under the term facility were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 4.74%.

Amounts owed under the revolving facility were 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 $10.2 million. This amount reduces the available credit under the revolving facility.

(b) On April 23, 2009 and April 30, 2009, Groupe Aeroplan issued Senior Secured Notes Series 1 in the principal amount of $175.0 million and $25.0 million, respectively. These 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. The proceeds from the notes issued were used to repay $200.0 million of the $300.0 million drawn on the bridge facility in 2009.

(c) On September 2, 2009, Groupe Aeroplan issued Senior Secured Notes Series 2 in the principal amount of $150.0 million. These notes 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. The proceeds from the notes issued were used to repay the remaining $100.0 million outstanding on the bridge facility in 2009, $25.0 million of the term facility, with the remaining $25.0 million being used for general corporate purposes.

(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	2.19	≤ 2.75
Debt service [(a)]	(0.35)	≤ 2.00
Interest coverage	7.33	≥ 3.00

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

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.

INCOME TAXES

Groupe Aeroplan's provision for income taxes reflects the following:

	December 31, 2010		December 31, 2009	
	%	$	%	$
Reconciliation of statutory tax rate:				
Income tax expense at Canadian statutory tax rate:	30.00	6,857	30.60	40,641
Adjusted for the effect of:				
Temporary differences for which no future income tax asset has been recorded	184.57	42,185	-	-
Permanent differences – other	5.09	1,164	2.92	3,882
Foreign operations – subject to lower tax rates	7.93	1,811	(0.22)	(295)
Income tax expense, as reported in the consolidated statements of operations and effective tax rate	227.59	52,017	33.30	44,228

The future income tax assets and liabilities result from differences between the tax value and book value of the following items:

	December 31,	
	2010	2009
	$	$
Assets		
Eligible capital expenditures	183,803	172,541
Deferred revenues	9,357	20,887
Losses available for carryforward	29,736	30,466
Note receivable	1,311	2,381
Deferred financing costs	2,373	1,404
Other	1,092	-
Liabilities		
Accumulation Partners' contracts, customer relationships and trade names	(355,996)	(347,095)
Software and technology	(12,792)	(13,465)
Other	-	(10,358)
Net future income tax liabilities	**(141,116)**	**(143,239)**

The amounts recognized in the consolidated balance sheet consist of:

	December 31,	
	2010	2009
	$	$
Future income tax assets – Non-Current	5,088	17,161
Future income tax liabilities – Non-Current	(146,204)	(160,400)
	(141,116)	(143,239)

At December 31, 2010, Groupe Aeroplan had the following operating tax losses available for carryforward which may be used to reduce taxable income in future years and for which no future tax benefit has been recorded in the accounts:

Country	Losses available for carryforward	Carryforward period
	$	
Italy	36,168	indefinite
United Kingdom	124,945	indefinite
United States	1,476	expire 2029
	10,260	expire 2030
	11,736	

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 December 31, 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 any remaining Air Canada Miles.

The maximum potential redemption cost of meeting this obligation, if all 7.0 billion estimated broken but unexpired Air Canada Miles were to be redeemed, amounts to $63.5 million at December 31, 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 $1,029.3 million at December 31, 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 $86.4 million for the period in which the change occurred, with $73.0 million relating to prior years and $13.4 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 $133.0 million (£85.7 million) has been recorded in accounts payable and accrued liabilities as of December 31, 2010 representing input tax credits relating to the supply of goods claimed historically. An amount of $63.9 million (£41.2 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, $62.1 million (£39.0 million) (of which $9.0 million (£5.6 million) relate to the year ended December 31, 2010, and $53.1 million (£33.4 million) relate to the period from 2002 to 2009) has been charged to cost of rewards during the year. In addition, $1.6 million (£1.0 million) and $7.2 million (£4.5 million) have 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.

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 December 31, 2010, Groupe Aeroplan's maximum exposure under such guarantees was estimated to amount to $152.3 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% and 17% of Gross Billings respectively for years ended December 31, 2010 and 2009. Under the CPSA, 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 $215.3 million for 2011. Air Canada, including other Star Alliance partners, is Groupe Aeroplan's largest Redemption Partner. For the years ended December 31, 2010 and 2009, 37% and 56% 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).

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 of 16.2 years for the defined benefit pension plan and 13.9 years for the non-pension benefit plans.

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 $4.5 million at December 31, 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 December 31, 2010, estimated future minimum payments under Groupe Aeroplan's contractual obligations and commitments are as follows:

(in millions)	**Total**	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Contractual Obligations							
Operating leases	62.0	14.2	12.0	10.8	7.4	6.9	10.7
Technology infrastructure and other	65.3	31.7	21.0	10.0	2.5	0.1	-
Marketing support and other	84.6	20.1	19.1	19.1	17.0	9.3	-
Long-term debt [(a)]	821.0	48.5	336.2	25.8	175.8	13.9	220.8
Purchase obligation under the CPSA	3,969.1	417.8	417.8	417.8	417.8	417.8	1,880.1
Contractual Obligations	**5,002.0**	**532.3**	**806.1**	**483.5**	**620.5**	**448.0**	**2,111.6**
Commitments							
Letters of Credit and Surety Bonds	16.2	9.3	6.9	-	-	-	-
Commitments	**16.2**	**9.3**	**6.9**	**-**	**-**	**-**	**-**
Total Contractual Obligations and Commercial Commitments	**5,018.2**	**541.6**	**813.0**	**483.5**	**620.5**	**448.0**	**2,111.6**

(a) Includes interest on the Term Facility, 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 December 31, 2010, Groupe Aeroplan complied with all such covenants.

CURRENCY SWAP

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

On July 22, 2009, the currency swap was disposed for net proceeds of $52.7 million, with the resulting gain being recognized as foreign exchange in the statement of operations.

DIVIDENDS

Quarterly dividends declared to common shareholders of Groupe Aeroplan in 2010 and 2009 were as follows:

Record date	**2010**		**2009**	
(in thousands)	**Amount**	**Amount per common share**	**Amount**	**Amount per common share**
	$	**$**	**$**	**$**
March	24,999	0.125	24,997	0.125
June	24,766	0.125	24,997	0.125
September	23,880	0.125	24,997	0.125
December	23,372	0.125	24,997	0.125
	97,017	**0.500**	**99,988**	**0.500**

Quarterly dividends declared to preferred shareholders of Groupe Aeroplan in 2010 were as follows:

Record date	**2010**		**2009**	
(in thousands)	**Amount**	**Amount per preferred share**	**Amount**	**Amount per preferred share**
	$	**$**		
March	2,150	0.312	N/A	N/A
June	2,803	0.406	N/A	N/A
September	2,803	0.406	N/A	N/A
December	2,804	0.406	N/A	N/A
	10,560	1.530	N/A	N/A

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 $5.2 million. Additionally, a related income tax benefit of $1.5 million was recorded. 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 December 31, 2010, Groupe Aeroplan had 186,788,979 common shares and 6,900,000 preferred shares issued and outstanding for an aggregate amount of $1,807.5 million. In addition, there were 3,183,517 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 December 31, 2010, Groupe Aeroplan repurchased and cancelled 13,022,900 common shares for total cash consideration of $142.5 million, with 6,960,731 common shares remaining available for purchase through the period ending May 13, 2011. Share capital was reduced by $113.9 million, and the remaining $28.6 million was accounted for as a reduction of contributed surplus.

EARNINGS (LOSS) PER COMMON SHARE

Groupe Aeroplan's earnings (loss) per share amounted to ($0.17) and $0.45 for the year ended December 31, 2010 and December 31, 2009, respectively. Earnings per share in 2010 are calculated after dividends on preferred shares.

SUBSEQUENT EVENTS

Subsequent to December 31, 2010, Groupe Aeroplan repurchased and cancelled 1,160,000 common shares for total cash consideration of $15.6 million, pursuant to the NCIB.

On February 2, 2011, Groupe Aeroplan invested an additional $125.0 million in corporate and government bonds which are classified as long-term investments and are part of the Aeroplan Canada

Miles Redemption Reserve. These long-term investments have an original term to maturity varying between 4 years and 8 years and yield an effective interest rate of 3.22%.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles ("GAAP") requires management to make estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates, judgments and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results can differ from those estimates (refer to *Caution regarding forward-looking information*). Management has identified the areas, discussed below, which it believes are the most subject to judgments, often requiring the need to make estimates about the effects of matters that are inherently uncertain and may change significantly in subsequent periods.

The significant accounting policies are described in *Note 2* to the December 31, 2010 audited consolidated financial statements. The policies which Groupe Aeroplan believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

REVENUE RECOGNITION, DIRECT COSTS AND COST OF REWARDS

Groupe Aeroplan derives its cash inflows primarily from the sale of "GA Loyalty Units" or "GALUs", which are defined as the miles, points or other loyalty program reward units issued by Groupe Aeroplan's subsidiaries under the respective programs operated by each of the entities, to its Accumulation Partners and from services rendered or to be rendered to customers, which are referred to as Gross Billings. GA Loyalty Units issued for promotional purposes, at a discount or no value, are also included in Gross Billings at their issue price. Gross Billings from the sale of GALUs are deferred and recognized as revenue either upon the redemption of GA Loyalty Units by members or in accordance with the accounting policy for Breakage. Revenue recognized per GA Loyalty Unit redeemed is calculated, on a weighted average basis, separately for each program. Breakage represents the estimated GA Loyalty Units that are not expected to be redeemed by members. Breakage is estimated by management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions that may affect members' redemption practices. In 2008, management, assisted by an independent expert, developed an econometric model that takes into account historical activity, and expected member behaviour, projected on a going-concern basis. This tool is used by Groupe Aeroplan to estimate and monitor the appropriate Breakage estimates of the different programs it operates on a continuous basis. Groupe Aeroplan uses an independent expert every two years to validate the robustness of the Breakage tool. Changes in Breakage are accounted for at the reporting unit level as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to revenue; and for subsequent periods, the revised estimate is used. Based on the results of the application of the model in 2010 and the expert review, incorporating the adjustments to the Breakage rates applicable to the respective programs, operated by each of the reporting units, the consolidated weighted average estimated Breakage is approximately 21% (2009: 20%). Breakage is recognized ratably over the estimated average life of a mile or point issued being 30 and 15 months for the Aeroplan and Nectar programs, respectively, which has been determined in a rational and systematic manner.

In limited circumstances, Groupe Aeroplan may sell GA Loyalty Units directly to members. Revenue from these sales to members is recognized at the time the member redeems GA Loyalty Units for rewards.

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, loyalty industry related business know-how, trademarks and expertise and analytical

services to retailers and consumer packaged goods companies, royalties earned with respect to the Air Miles trademark, 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 rendered or the royalties are earned.

Cost of rewards representing the amount paid by Groupe Aeroplan to Redemption Partners is accrued when the member redeems the GA Loyalty Units. Direct costs consist of those costs directly attributable to the delivery of loyalty marketing services and include labour, technology, reward fulfillment and commissions.

ACCUMULATION PARTNERS' CONTRACTS, CUSTOMER RELATIONSHIPS, SOFTWARE AND TECHNOLOGY AND OTHER INTANGIBLES

Accumulation Partners' contracts, customer relationships, software and technology and other intangibles are considered long-lived assets with finite lives. Accumulation Partners' contracts and customer relationships are recorded at cost and are amortized using the straight-line method over their estimated lives, typically 5 - 25 years.

Other intangibles, which include the rights to use the Carlson Marketing trade name and non-competition restrictions agreed to by the vendor, pursuant to the acquisition agreement, are recorded at cost and are amortized using the straight-line method over their estimated lives, 3 - 5 years.

Software and technology are recorded at cost and amortized using the straight-line method over 3 to 7 years. Software under development includes costs paid to third parties such as consultants' fees and other direct costs of development. Amortization will commence upon completion of development once the software is available for use.

Accumulation Partners' contracts, customer relationships, software and technology and other intangibles are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When such a situation arises, the future undiscounted cash flows associated with the particular asset's use and disposition are compared to its carrying amount to determine if the carrying amount is recoverable. Any impairment loss is measured as the amount by which the asset's carrying value exceeds its fair value.

TRADE NAMES AND GOODWILL

Trade names, which are considered intangible assets with indefinite lives, are recorded at cost, and are not amortized but instead tested for impairment annually, or more frequently, should events or changes in circumstances indicate that the trade names may be impaired. The impairment test consists of a comparison of the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds the fair value, the trade name is written down to its fair value.

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized. On an annual basis, a goodwill impairment test is performed. This test is carried out more frequently if events or changes in circumstances indicate that goodwill might be impaired. A ***"Step I"*** goodwill impairment test determines whether the fair value of a reporting unit exceeds the net carrying amount of that reporting unit as of the assessment date in order to assess if goodwill is impaired. If the fair value is greater than the net carrying amount, no impairment is necessary. In the event that the net carrying amount exceeds the fair value, a ***"Step II"*** goodwill impairment test must be performed in order to determine the amount of the impairment charge. Fair value of goodwill is estimated in the same way as goodwill is determined at the date of the acquisition in a business combination. That is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. To accomplish this step II test, the fair value of the reporting unit's goodwill must be estimated and compared to its carrying value. The excess of the carrying value over the fair value is taken as an impairment charge in the period.

For purposes of impairment testing, goodwill must be assigned and tested at the reporting unit level. From December 20, 2007 to December 7, 2009, Groupe Aeroplan had two reporting units, Aeroplan

Canada and the European and Middle East unit consisting of Groupe Aeroplan Europe's operations, including Nectar, LMG Insight & Communication and Air Miles Middle East. On December 7, 2009 through the acquisition of Carlson Marketing, a third reporting segment, "Carlson Marketing" consisting of Carlson Marketing's loyalty operations and the Events and Engagements Business, in the U.S., Canada, the Middle East and the Asia Pacific region, was added.

INCOME TAXES

Groupe Aeroplan provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and the tax values of assets and liabilities, using enacted or substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse.

FUTURE ACCOUNTING CHANGES

Groupe Aeroplan will cease to prepare its financial statements in accordance with Canadian Generally Accepted Principles ("Canadian GAAP") as set out in Part V of the Canadian Institute of Chartered Accountants handbook – Accounting for the periods beginning on January 1, 2011 when it will start to apply International Financial Reporting Standards as published by the International Accounting Standards Board as its primary basis of accounting. Consequently, future accounting changes to Canadian GAAP that are effective for periods beginning on or after January 1, 2011 are not discussed in these financial statements.

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 for 2010 will also 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, detailed evaluation and definition of the solution phases having been completed, the Corporation 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 last phase in the first quarter of 2011.

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 after 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. 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 the end of 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, once the new revenue standards are finalized and issued. 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.

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. In the last quarter of 2010, the Corporation has significantly advanced in this area and has completed a preliminary quantification of these selected key items.

Revenue (IAS 18)

Following additional analysis performed in the third and fourth 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 is estimated to result in an increase in deferred revenue of $72.1 million at the transition date, with a corresponding adjustment to reduce retained earnings at that date.

The impact related to the breakage revenue adjustment for the year 2010 has been estimated to approximate an increase of $3.0 million.

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. 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. This contingent event was resolved with the ECJ Judgment relating to VAT and consequently under IFRS the contingent consideration liability will be eliminated and replaced by a provision in the amount of $133.0 million.

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.

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 and fourth quarters 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 December 31, 2010, respectively, and determined that there were no differences to be recorded affecting the respective balances.

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. Unvested past service costs are amortized over the vesting period. 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 $16.0 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 and gain balance of $0.7 million and $0.6 million at December 31, 2009 and 2010, respectively under Canadian GAAP will be eliminated at the transition date and the corresponding adjustment will be recorded in retained earnings or through the statement of earnings, as appropriate.

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 debt. The refinancing costs were deferred and recorded as an adjustment to the carrying value of the new debt under Canadian GAAP. As the costs would have been recorded in the statement of operations under IFRS, the unamortized balance of approximately $5.8 million as at December 31, 2009 will be reclassified to retained earnings on transition to IFRS, and any related amortization previously recognized in earnings in 2010 under Canadian GAAP will be reversed .

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 completed 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 first quarter of 2011, 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 first quarter of 2011 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 be in the first quarter of 2011. 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.

CAPITAL DISCLOSURES

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

Groupe Aeroplan's main objectives when managing capital are:

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

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

The total capital as at December 31, 2010 and December 31, 2009 is calculated as follows:

	December 31,	
	2010	**2009**
(in thousands)	**$**	**$**
Cash and cash equivalents	(538,580)	(609,848)
Short-term investments	-	(14,433)
Long-term investments	(176,922)	-
Long-term debt (including current portion)	643,903	780,108
Shareholders' Capital	1,807,497	1,747,448
Contributed surplus	1,266,830	1,294,113
Deficit	(1,209,259)	(1,079,181)
Total capital	**1,793,469**	**2,118,207**

Groupe Aeroplan monitors capital using a number of financial metrics, including but not limited to:

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

Refer to *"Credit Facilities and Long-Term Debt"* section for financial ratios.

Groupe Aeroplan uses adjusted earnings before interest taxes depreciation and amortization ("EBITDA") and adjusted net earnings as a measurement to monitor operating performance. Free cash flow is used as an indicator of financial performance. These measures, as presented, are not recognized for financial statement presentation purposes under Canadian GAAP, and do not have a standardized meaning. Therefore, they are not likely to be comparable to similar measures presented by other public entities.

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

Groupe Aeroplan has also established the Reserve, which at December 31, 2010 amounted to $400.0 million and is included in cash and cash equivalents and long-term investments. The amount held in the Reserve, as well as the types of securities in which it may be invested, are based upon policies established by management. This internally imposed reserve, which was established as a matter of prudence, may be used to supplement cash flows generated from operations in order to pay for rewards during periods of unusually high redemption activity, subject to compliance with provisions of the credit facilities. To date, Groupe Aeroplan has not used any of the funds held in the Reserve. Management is of the opinion that the Reserve is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of operations.

FINANCIAL INSTRUMENTS

Groupe Aeroplan's financial instruments consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, investment in PLM, loan to Air Canada, long-term investments, note receivable, accounts payable and accrued liabilities, and long-term debt.

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

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Groupe Aeroplan is exposed to fluctuations in interest rates with respect to cash and cash equivalents, restricted cash, short-term investments, and borrowings under the terms of the outstanding credit facilities, all of which bear interest at variable rates and are held or borrowed in the form of short-term deposits or Bankers' Acceptances.

At December 31, 2010, the interest rate risk profile of Groupe Aeroplan's interest bearing financial instruments was as follows:

(in thousands)	**December 31,**	
	2010	**2009**
	$	**$**
Variable rate instruments		
Cash and cash equivalents, restricted cash and short-term investments	551,162	628,497
Credit facilities	(100,000)	(440,000)

For the year ended December 31, 2010, management has determined that a 1% variance in the interest rates on the cash and cash equivalents, restricted cash and short-term investments and credit facilities would have an impact of approximately $4.5 million on earnings before income taxes.

CREDIT RISK

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2010, Groupe Aeroplan's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, long-term investments and note receivable.

In accordance with its investment policy, Groupe Aeroplan invests the Reserve and excess cash, included in short-term investments and cash and cash equivalents in commercial paper and corporate, federal and provincial government bonds with a minimum rating of R-1 (mid) or A, and bankers' acceptances or term deposits, subject to certain thresholds to reduce undue exposure to any one issuer. The credit risk on short-term investments, long-term investments and cash and cash equivalents is limited because the counterparties are banks, corporations and federal and provincial governments with high credit-ratings, assigned by international credit-ratings agencies. At December 31, 2010, the Reserve and excess cash are invested in bankers' acceptances, corporate, federal and provincial government bonds and overnight and term deposits.

With respect to accounts receivable and the note receivable, Groupe Aeroplan is exposed to a concentration of credit risk on the Accumulation Partners. However, any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. A significant portion of accounts receivable is due from banks with high credit-ratings assigned by international credit-ratings agencies. In addition, Groupe Aeroplan is directly affected by the financial and operational strength of Air Canada. In order to manage its exposure to credit risk and assess credit quality, Groupe Aeroplan reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary. Historically, bad debts experienced by Groupe Aeroplan have been negligible.

LIQUIDITY RISK

Groupe Aeroplan's objective is to maintain sufficient liquidity to meet its financial liabilities as they come due as well as to demonstrate compliance with liquidity covenants on credit facilities. Groupe Aeroplan manages liquidity risk through financial leverage which includes monitoring of its cash balances and uses cash flows generated from operations to meet financial liability requirements. At December 31, 2010, Groupe Aeroplan had authorized credit facilities of $400.0 million and drawings of $100.0 million, maturing on April 23, 2012, against the facilities. Groupe Aeroplan also had authorized Senior Secured Notes in the amount of $550.0 million maturing at various dates through January 26, 2017. The credit facilities are provided by a syndicate that consists of ten institutional lenders. It is Groupe Aeroplan's intention to renew or replace credit facilities as they come due or earlier if credit market conditions permit. Groupe Aeroplan also had letters of credit totaling approximately $11.1 million (of which $10.2 million were issued against the revolving facility) at December 31, 2010 issued as security in the normal course of business.

At December 31, 2010, maturities of the financial liabilities are as follows:

(in thousands)	**Total**	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Long-term debt including interest	820,957	48,490	336,217	25,750	175,750	13,900	220,850
Accounts payable and accrued liabilities	471,457	471,457	-	-	-	-	-
Total	**1,292,414**	**519,947**	**336,217**	**25,750**	**175,750**	**13,900**	**220,850**

CURRENCY RISK

Groupe Aeroplan is exposed to currency risk on its foreign operations which are denominated in a currency other than the Canadian dollar, mainly the pound sterling, and as such, is subject to fluctuations as a result of foreign exchange rate variations.

At December 31, 2010, Groupe Aeroplan held net financial assets denominated in pound sterling of approximately £61.2 million. A 1% variance in the pound sterling foreign exchange rate would result in an approximate variance of $1.0 million in the net assets of Groupe Aeroplan and in other comprehensive income.

FINANCIAL INSTRUMENTS – CARRYING AMOUNTS AND FAIR VALUES

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

(in thousands)	December 31,			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	$	$	$	$
Financial assets				
Held for trading:				
Cash and cash equivalents, restricted cash and short-term investments	551,162	551,162	628,497	628,497
Loans and receivables:				
Accounts receivable	355,055	355,055	256,254	256,254
Loan receivable from Air Canada	-	-	150,000	150,000
Note receivable	57,379	57,379	59,179	59,179
Held to maturity:				
Long-term investments	176,922	175,737	-	-
Financial liabilities				
Other financial liabilities:				
Accounts payable and accrued liabilities	471,457	471,457	350,934	350,934
Long-term debt	643,903	680,495	780,108	809,635

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the balance sheet for cash and cash equivalents, restricted cash, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair values based on the immediate or short-term maturities of these financial instruments. The carrying amount of the note receivable approximates fair value based on discounted cash flows. The fair value of the borrowings of approximately $680.5 million is estimated as being the quoted market value for the publically traded debt securities, while the fair value of borrowings under the term facility is estimated to be their drawn amount, since the borrowings bear interest at floating rates, and are typically drawn in the form of Bankers' Acceptances with a short-term maturity.

The fair value of long-term investments approximates $175.7 million and is based on the quoted market price of the investments.

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities.

Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the consolidated balance sheet as at December 31, 2010, classified using the fair value hierarchy described above:

(in thousands)	**December 31, 2010**		
	Level 1	**Level 2**	**Level 3**
	$	**$**	**$**
Financial assets			
Held for trading:			
Cash and cash equivalents, restricted cash and short-term investments	551,162	-	-
Air Canada Warrants	-	4,461	-

CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures within Groupe Aeroplan have been designed to provide reasonable assurance that all relevant information is identified to the Disclosure Policy Committee to ensure appropriate and timely decisions are made regarding public disclosure.

An evaluation of the design and effectiveness of the operation of Groupe Aeroplan's disclosure controls and procedures has been conducted by management, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2010, Groupe Aeroplan's disclosure controls and procedures, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Internal control over financial reporting has been designed, based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), to provide reasonable assurance regarding the reliability of Groupe Aeroplan's financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on

this evaluation, the CEO and CFO have concluded that internal control over financial reporting, as defined by National Instrument 52-109, was effective as at December 31, 2010.

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.

A new financial system was implemented at two of the Corporation's subsidiaries during 2010. This change had no material impact on the control environment.

There has been no change in Groupe Aeroplan's internal control over financial reporting that occurred during the year ended 2010 that has materially affected, or is reasonable likely to materially affect, Groupe Aeroplan's internal control over financial reporting.

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.

MEASURING OUR PERFORMANCE AGAINST 2010 GUIDANCE

On March 3, 2010, Groupe Aeroplan issued guidance for the year ending December 31, 2010, which guidance was updated most recently on November 10, 2010. Below is a comparison of Groupe Aeroplan's actual results for the year ended December 31, 2010 against the guidance issued for such year:

Guidance Issued March 3, 2010, as Updated	***Comparison to Actual Results***
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.	*For the year ended December 31, 2010, Groupe Aeroplan delivered:* *Consolidated Gross Billings of $2.19 billion.* ▪ *Consolidated Adjusted EBITDA of $255.7 million. Excluding the $56.1 million impact of the ECJ VAT Judgment on Adjusted EBITDA ($56.5 million less the favourable impact in the change in future redemption costs of $0.4 million), Groupe Aeroplan posted higher consolidated Adjusted EBITDA in 2010, $311.8 million, than reported for 2009 $281.8 million.* ▪ *Consolidated Free Cash Flow of $113.7 million compared to $165.0 million in 2009. The ECJ VAT Judgment did not result in a cash payment in 2010.*
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.	*The current income tax rate on taxable income in the Canadian operations for the year ended December 31, 2010 was 30% and current income taxes attributable to the Corporation's foreign operations amounted to $4.3 million for the year ended December 31, 2010.*
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 the year ended December 31, 2010:* ▪ *Aeroplan Canada posted Gross Billings growth of 3.4% compared to 2009 and* ▪ *Groupe Aeroplan Europe (excluding Nectar Italia), posted 13.0% growth in Gross Billings expressed in GBP.*
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.*	*Aeroplan Canada generated growth in Adjusted EBITDA for the year ended December 31, 2010 of 12.7% compared to 2009. Excluding the impact of the ECJ VAT Judgment, the Nectar Italia program and the increased promotional spending in the Nectar UK program, Groupe Aeroplan Europe achieved growth in Adjusted EBITDA for the year ended December 31, 2010 compared to 2009.*
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.	*The Average Cost of Rewards per Aeroplan Mile Redeemed was 0.91 cents for the year ended December 31, 2010 and Aeroplan Canada's gross margin for the year ended December 31, 2010 remained relatively stable at 42.1% compared to 41.1% for 2009.*
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 US$16.2 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.	*Carlson Marketing's Gross Billings for the year ended December 31, 2010 amounted to US$616.5 million. Excluding the US$16.2 million reclassification adjustment, Gross Billings were US$600.3 million. Adjusted EBITDA before one-time migration (US$14.0 million) and non-recurring costs (US$3.6 million) and excluding the US$16.2 million reclassification adjustment was US$45.2 million or 7.3% of Gross Billings. Migration of all technology platforms was completed on November 11, 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.	*The launch of the Nectar Italia program resulted in €15 million ($20.4 million) of launch costs affecting consolidated Adjusted EBITDA. Nectar Italia generated Gross Billings of €47.2 million ($64.7 million) for the year ended December 31, 2010.*

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. The following section summarizes certain of the major risks and uncertainties that could materially affect our future business results going forward. The risks described below 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.

RISKS RELATED TO THE BUSINESS AND THE INDUSTRY

Dependency on Top Accumulation Partners and Clients

Groupe Aeroplan's top three Accumulation Partners were responsible for 48% of Gross Billings for the year ended December 31, 2010. A decrease in sales of GA Loyalty Units to any significant Accumulation Partner, for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services provided, could have a material adverse effect on Gross Billings and revenue. Subject to the minimum number of Aeroplan Miles to be purchased by Air Canada under the CPSA, Air Canada can change the number of Aeroplan Miles awarded per flight without Aeroplan's consent, which could result in a significant reduction in Gross Billings. There is no assurance that contracts with Groupe Aeroplan's principal Accumulation Partners will be renewed on similar terms, or at all when they expire.

Carlson Marketing's clients are generally able to reduce marketing spending or cancel projects on short notice at their discretion. It is possible that such clients could reduce spending in comparison with historical patterns, or they could reduce future spending. A significant reduction in marketing spending by Carlson Marketing's largest clients, or the loss of several large clients, if not replaced by new accounts or an increase in business from other clients, could adversely affect our marketing service revenues and impact Groupe Aeroplan's results of operations and financial condition.

Conflicts of Interest

Groupe Aeroplan's businesses provide services to a number of clients who are competitors in various industries. Our ability to retain existing, and attract new, Accumulation Partners and clients may be limited by perceptions of conflicts of interest arising out of other relationships. If we are unable to adequately manage multiple client relationships and avoid potential conflicts of interests, there could be an impact on our results of operations and financial condition.

Greater Than Expected Redemptions for Rewards

A significant portion of our profitability is based on estimates of the number of GA Loyalty Units that will never be redeemed by the member base. The percentage of GA Loyalty Units that are not expected to be redeemed is known as "Breakage" in the loyalty industry. Breakage is estimated by Management based on the terms and conditions of membership and historical accumulation and redemption patterns, as adjusted for changes to any terms and conditions that may affect members' redemption practices. During 2008, Management, assisted by an independent expert, developed an econometric model that takes into account historical activity, and expected member behaviour, projected on a going-concern basis. This tool is used by Groupe Aeroplan to estimate and monitor the appropriate Breakage estimates of the different programs it operates on a continuous basis. Groupe Aeroplan also seeks advice from an independent expert every two years to validate the robustness of the Breakage tool. Based on the results of the application of the model, incorporating the adjustments to the Breakage rates applicable to the respective programs operated by each of the Subsidiary entities, the consolidated weighted average estimated Breakage factor is approximately 21%. Breakage is recognized rateably over the estimated average life of a mile or point issued being 30 and 15 months for the Aeroplan and Nectar Programs, respectively, which has been determined in a rational and systematic manner. Breakage for the Aeroplan and Nectar Programs may decrease as such programs grow and a greater diversity of rewards become available. If actual redemptions are greater than current estimates, profitability could be adversely affected due to the cost of the excess

redemptions. Furthermore, the actual mix of redemptions between air and non-air rewards could adversely affect profitability.

Regulatory Matters

Groupe Aeroplan's businesses are subject to several types of regulation, including legislation relating to banking and credit card systems, privacy, telemarketing, consumer protection, competition, advertising and sales, and lotteries, gaming and publicity contests.

During the month of March 2009, the Canadian Senate Standing Committee on Banking Trade and Commerce and the House of Commons Standing Committee on Industry, Science and Technology announced that it would study the credit card systems and their relative rates and fees including, among other things, credit cards' interchange rates. As a result of this study, the committee adopted in mid-2010 a voluntary code of conduct for the debit and credit card industries (the "Credit Card Code of Conduct"). The government did not recommend or include in the Credit Card Code of Conduct any direct caps to interchange rates. However, given the political and regulatory environment in Canada and particularly in the U.S., where new laws, such as the Wall Street Reform and Consumer Protection Act, have been enacted or are being considered that impose or would impose direct caps on debit interchange rates, there can be no assurance that such caps will not spread to Canada in credit and other product categories. Any downward change in the credit cards' interchange rates could lead to a decrease in revenue for credit card companies and, as a result, could require Aeroplan to renegotiate certain agreements with certain of its credit and charge cards' partners.

On December 15th, 2010, the Competition Bureau of Canada announced that it had filed an application with the Competition Tribunal to "strike down restrictive and anti-competitive rules that Visa and MasterCard impose on merchants who accept their credit cards." The outcome of this action is not determinable at this time. However, changes to credit card regulation in Canada could have a significant impact on our operations and financial condition given the importance of Aeroplan Canada's relationships with financial card providers.

An increasing number of laws and regulations pertain to the Internet. These laws and regulations relate to liability for information retrieved from or transmitted over the Internet, online content regulation, user privacy, taxation and the quality of products and services. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing.

In addition, Air Canada and several other Commercial Partners operate in the highly regulated airline industry. Changes in regulations affecting Groupe Aeroplan’s businesses, Air Canada, the airline industry in general, or the implementation of additional limitations or adverse regulatory decisions affecting such entities, may have a material adverse effect on Groupe Aeroplan's businesses, results from operations and financial condition.

Retail Market/Economic Conditions

The markets for the services that Groupe Aeroplan's businesses offer have recently experienced modest recovery. However, these markets may fail to continue to expand or may contract and this could negatively impact growth and profitability. Loyalty and database marketing strategies are relatively new to retailers, and there can be no guarantee that merchants will continue to use these types of marketing strategies. In addition, Gross Billings and marketing revenues are dependent on levels of consumer spend with Accumulation Partners and clients, and any slowdown or reduction in consumer activity may have an impact on our business.

Industry Competition

Competition in the loyalty marketing industry is intense. New and existing competitors may target Accumulation Partners, clients and members, as well as draw rewards from Redemption Partners. The continued attractiveness of Groupe Aeroplan’s businesses will depend in large part on their ability to remain affiliated with existing Commercial Partners and clients or add new partners, that are desirable

to consumers and to offer rewards that are both attainable and attractive to consumers. With respect to database marketing services, the ability to continue collecting detailed transaction data on consumers is critical in providing effective marketing strategies. Many of our current competitors may have greater financial, technical, marketing and other resources. We cannot ensure that we will be able to compete successfully against current and potential competitors, including in connection with technological advancements by such competitors.

Air Canada Liquidity Issues

In the past, Air Canada has sustained significant operating losses and may sustain significant losses in the future. There can be no assurance that Air Canada will continue to achieve sustainable profitability in the future or to meet its financial liabilities and other contractual obligations as they become due. If Air Canada is unable to meet its financial liabilities and other contractual obligations as they become due, or to conclude arrangements to secure additional liquidity should it be unable to do so, it may be required to commence proceedings under applicable creditor protection legislation.

The bankruptcy or insolvency of Air Canada could lead to a termination or renegotiation of the CPSA. Upon such a renegotiation, Aeroplan Canada may be required to pay more for seat capacity from Air Canada than the currently negotiated rates under the CPSA. If the CPSA is terminated, Aeroplan Canada would have to purchase seat capacity from other airlines. Seat capacity from other airlines could be more expensive than comparable seat capacity under the CPSA, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming members. As a result, Aeroplan Canada would experience higher air travel redemption costs, while at the same time member satisfaction with the Aeroplan Program may be adversely affected by requiring travel on other carriers.

The bankruptcy or insolvency of Air Canada could also lead certain Accumulation Partners to attempt to renegotiate certain terms of their commercial relationships with Aeroplan. Depending on the results of any such negotiation, Aeroplan's gross proceeds from the sale of Aeroplan Miles could be negatively affected.

Air Canada or Travel Industry Disruptions

Aeroplan members' strong demand for air travel creates a significant dependency on Air Canada in particular and the airline industry in general. Any disruptions or other material adverse changes in the airline industry, whether domestic or international, affecting Air Canada or a Star Alliance member airline, could have a material adverse impact on the business. This could manifest itself in Aeroplan's inability to fulfill member's flight redemption requests or to provide sufficient accumulation opportunities. As a result of airline or travel services industry disruption, such as those which resulted from the terrorist attacks on September 11, 2001, or as might result from political instability, other terrorist acts or war, from epidemic diseases, environmental conditions and factors, such as those arising from volcanic eruptions or other natural phenomena, or from increasingly restrictive security measures, such as restrictions on the content of carry-on baggage, too much uncertainty could result in the minds of the traveling public and have a material adverse effect on passenger demand for air travel. Consequently, members might forego redeeming miles for air travel and therefore might not participate in the Aeroplan Program to the extent they previously did which could adversely affect revenue from the Aeroplan Program. A reduction in member use of the Aeroplan Program could impact Aeroplan's ability to retain its current Commercial Partners and members and to attract new Commercial Partners and members.

Airline Industry Changes and Increased Airline Costs

Air travel rewards remain the most desirable reward for consumers under the Aeroplan Program. An increase in low cost carriers and the airline industry trend which has major airlines offering low cost fares may negatively impact the incentive for consumers of air travel services to book flights with Air Canada or participate in the Aeroplan Program. Similarly, any change which would see the benefits of Star Alliance reduced either through Air Canada's, or, to a lesser extent, another airline's withdrawal from Star Alliance, or the dissolution of Star Alliance, could also have a negative impact since Aeroplan's members would lose access to the existing portfolio of international reward travel. In

addition, the growth or emergence of other airline alliance groups could have a negative impact on Aeroplan by reducing traffic on Air Canada and Star Alliance member airlines.

The airline industry has been subject to a number of increasing costs over the last several years, including increases in the cost of fuel and insurance, and increased airport user fees and air navigation fees. In addition, new and proposed legislation have been considered or adopted concerning carbon emissions emanating from the airline industry, including the setting of emissions allowances and charging aircraft operators for a certain percentage of these allowances. These increased costs may be passed on to consumers, increasing the cost of redeeming Aeroplan Miles for air travel rewards. This may negatively impact consumer incentive to participate in the Aeroplan Program.

Supply and Capacity Costs

Costs may increase as a result of supply arrangements with Air Canada and other suppliers for our coalition loyalty programs. Aeroplan Canada may not be able to satisfy its members if the seating capacity made available to Aeroplan by Air Canada, Jazz Air LP and Star Alliance® member airlines or other non-air rewards from other suppliers are inadequate to meet their redemption demands at specific prices.

If, upon the renegotiation of the rates charged to Aeroplan under the CPSA which takes place every three years based on agreed-to metrics (with the next rate renegotiation scheduled for 2013) or upon the expiry of the CPSA, Aeroplan is unable to negotiate new rates or a replacement agreement with Air Canada on similarly favourable terms or if Air Canada sharply reduces its seat capacity, Aeroplan may be required to pay more for seat capacity from Air Canada than the currently negotiated rates under the CPSA or to purchase seat capacity from other airlines. Seat capacity from other airlines could be more expensive than comparable seat capacity under the CPSA, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming members. As a result, Aeroplan would experience higher air travel redemption costs, while at the same time member satisfaction with the Aeroplan Program may be adversely affected by requiring travel on other carriers on certain routes.

Unfunded Future Redemption Costs

In the coalition loyalty program model, Gross Billings are derived from the sale of GA Loyalty Units to Accumulation Partners. The earnings process is not complete at the time a GALU is sold as most of the costs are incurred on the redemption thereof. Based on historical data, the estimated period between the issuance of GA Loyalty Unit and its redemption is currently 30 months for the Aeroplan Program and 15 months for the Nectar Program; however, Aeroplan and Nectar have no control over the timing of the redemption or the number of units redeemed. Aeroplan and Nectar currently use proceeds from Gross Billings (which are deferred for accounting purposes) in the fiscal year from the issuance of the unit to pay for the redemption costs incurred in the year. As a result, if Aeroplan or Nectar were to cease to carry on business, or if redemption costs incurred in a given year were in excess of the revenues received in the year from the issuance of the GA Loyalty Units, they would face unfunded Future Redemption Costs, which could increase the need for working capital and, consequently, affect the payment of dividends to Shareholders.

Failure to Safeguard Databases and Consumer Privacy

As part of our coalition loyalty programs and in connection with Carlson Marketing and the I&C business' activities, member databases are maintained for our programs and those of our clients. These databases contain member information including account transactions. Although we have established rigorous security procedures, the databases may be vulnerable to potential unauthorized access to, or use or disclosure of member data. If we were to experience a security breach, our reputation may be negatively affected and an increased number of members in our loyalty programs may opt out from receiving marketing materials. The use of marketing services by partners and clients could decline in the event of any publicized compromise of security. Any public perception that we released consumer information without authorization could subject our businesses to complaints and investigation by the applicable privacy regulatory bodies and adversely affect relationships with

members, clients and partners. In addition, any unauthorized release of member information, or any public perception that member information was released without authorization, could lead to legal claims from consumers or regulatory enforcement actions.

Consumer Privacy Legislation

The enactment of new, or amendments to existing, legislation or industry regulations relating to consumer privacy issues and/or marketing, including telemarketing, could have a material adverse impact on marketing services. Any such legislation or industry regulations could place restrictions upon the collection and use of information and could adversely affect our ability to deliver marketing services.

Changes to Loyalty Programs

From time to time we may make changes to our loyalty programs that may not be well received by certain segments of the membership and may affect their level of engagement. In addition, these members may choose to seek such legal and other recourses as available to them, which if successful, could have a negative impact on results of operations and /or reputation.

Seasonal Nature of the Business, Other Factors and Prior Performance

Aeroplan has historically experienced lower Gross Billings from the sale of Aeroplan Miles in the first and second quarters of the calendar year and higher Gross Billings from the sale of Aeroplan Miles in the third and fourth quarters of the calendar year. In addition, Aeroplan has historically experienced greater redemptions and therefore costs for rewards, in the first and second quarters of the calendar year and lower redemptions and related costs for rewards in the third and fourth quarters of the calendar year. This pattern results in significantly higher operating cash flow and margins in the third and fourth quarters for each calendar year compared to the first and second quarters. This pattern may however vary in future years as the degree of seasonality evolves over time.

Nectar's Gross Billings from the Nectar Program are seasonal with fourth quarter gross billings typically higher than the preceding quarters, as a result of the impact of Christmas shopping. Gross Billings for the other quarters are broadly similar. Redemption activity in the Nectar Program is more seasonal than Gross Billings. More than 45% of all redemptions for the Nectar Program in the last three years have taken place during the fourth quarter, as a result of members redeeming for gifts and other rewards prior to Christmas. Consequently, operating results for any one quarter may not be necessarily indicative of operating results for an entire year.

Demand for travel rewards is also affected by factors such as economic conditions, war or the threat of war, fare levels and weather conditions. Due to these and other factors, operating results for an interim period are not necessarily indicative of operating results for an entire year, and operating results for a historical period are not necessarily indicative of operating results for a future period.

Foreign Operations

A significant portion of Groupe Aeroplan's Gross Billings is generated outside Canada. We expect Gross Billings from outside Canada to continue to represent a significant portion of Groupe Aeroplan's consolidated Gross Billings for the foreseeable future. As a result, we are subject to the risks of doing business internationally, including changes in foreign laws and regulations and general changes in economic and geopolitical conditions.

Legal Proceedings

From time to time, Groupe Aeroplan becomes involved in various claims and litigation as a result of carrying on its business. Please see "*Guarantees (Off-Balance Sheet Arrangements) and Contingent Liabilities*". Our businesses are susceptible to various claims and litigation, including class action claims, in the course of operating their business or with respect to the interpretation of existing agreements. Any future claims or litigation could also have a material adverse effect on our business and results from operations.

Reliance on Key Personnel

Groupe Aeroplan's success depends on the abilities, experience, industry knowledge and personal efforts of senior Management and other key employees, including the ability to retain and attract skilled employees. The loss of the services of such key personnel could have a material adverse effect on our business, financial condition or future prospects. Groupe Aeroplan's growth plans may also put additional strain and demand on senior Management and key employees and produce risks in both productivity and retention levels. In addition, we may not be able to attract and retain additional qualified Management as needed in the future.

Labour Relations

Aeroplan Canada's contact center employees are unionized. The collective agreement for these employees is effective from November 15, 2009 and will expire November 14, 2012. No strikes or lock-outs may lawfully occur during the term of the collective agreement, nor during the negotiations of its renewal until a number of pre-conditions have been satisfied. There can be no assurance that the collective agreement will be renewed without labour conflict or action or that there will not be a labour conflict that could lead to a dispute or to an interruption or stoppage in Aeroplan Canada's contact center service or otherwise adversely affect the ability of Aeroplan Canada to conduct its operations, any of which could have an adverse effect on our business, results from operations and financial condition.

Pension Liability

The transfer of over 800 contact centre employees from Air Canada to Aeroplan Canada was fully effected on June 14, 2009. As part of the transfer of the employees, Aeroplan Canada 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. 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. The funding requirements of the defined benefit pension plan resulting from valuations of its assets and liabilities, depends on a number of factors, including actual returns on pension plan assets, long-term interest rates, plan demographic and pension regulations. Changes in these factors could cause actual future contributions to significantly differ from our current estimates and could require us to make contributions in the future and, therefore, could have a negative effect on our liquidity and results of operations.

Technological Disruptions and Inability to use Third-Party Software

Groupe Aeroplan's ability to protect the data and contact centres of our coalition loyalty programs and those of our clients against damage from fire, power loss, telecommunications failure and other disasters is critical. In order to provide many of our services, we must be able to store, retrieve, process and manage large databases and periodically expand and upgrade their capabilities. While we have in place, and continue to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any damage to data and contact centres, any failure of telecommunication links that interrupts operations or any impairment of the ability to use licensed software could adversely affect the ability to meet our Commercial Partners', clients' and members' needs and their confidence in utilizing our services or programs in the future.

In addition, proper implementation and operation of technology initiatives is fundamental to the ability to operate a profitable business. We continuously invest in new technology initiatives to remain competitive, and our continued ability to invest sufficient amounts to enhance technology will affect our ability to operate successfully.

Failure to Protect Intellectual Property Rights

Third parties may infringe or misappropriate our trademarks or other intellectual property rights or may challenge the validity of trademarks or other intellectual property rights, which could have a material adverse effect on our business, financial condition or operating results. The actions that are taken to

protect trademarks and other proprietary rights may not be adequate. Litigation may be necessary to enforce or protect intellectual property rights, trade secrets or determine the validity and scope of the proprietary rights of others. Groupe Aeroplan cannot ensure that we will be able to prevent infringement of intellectual property rights or misappropriation of proprietary information. Any infringement or misappropriation could harm any competitive advantage that we currently derive or may derive from proprietary rights. Third parties may assert infringement claims against our businesses. Any such claims and any resulting litigation could result in significant liability for damages. An adverse determination in any litigation of this type could require us to design around a third party's patent or to license alternative technology from another party. In addition, litigation may be time-consuming and expensive to defend and could result in the diversion of time and resources. Any claims from third parties may also result in limitations on the ability to use the intellectual property subject to these claims.

RISKS RELATED TO GROUPE AEROPLAN

Interest Rate and Currency Fluctuations

Groupe Aeroplan may be exposed to fluctuations in interest rates under its borrowings. Increases in interest rates may have an adverse effect on the earnings.

Groupe Aeroplan's results are sensitive to fluctuations in the Canada/U.S. dollar exchange rate and to the exchange rate from pound sterling (GBP) to Canadian dollars. Aeroplan Canada incurs expenses in U.S. dollars for such items as air, car rental and hotel rewards issued to redeeming Aeroplan members, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of Groupe Aeroplan. Substantially all of Groupe Aeroplan Europe's revenues and expenses are denominated in pounds sterling (GPB) rendering its results and their impact on Groupe Aeroplan's consolidated statements sensitive to fluctuations in the Canadian dollar exchange rate. Carlson Marketing's activities are principally located outside Canada, including the United States, Europe and the Asia Pacific region. Financial results are sensitive to the changing value of the Canadian dollar and foreign operations are sensitive to the fluctuations of other currencies, including the United States dollar, British pound sterling and the Australian dollar.

Leverage and Restrictive Covenants in Current and Future Indebtedness

The ability of Groupe Aeroplan to pay dividends, make distributions or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness (including the credit facilities). The degree to which Groupe Aeroplan is leveraged has important consequences to Shareholders, including: (i) that Groupe Aeroplan's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited; (ii) that a significant portion of cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; (iii) that certain borrowings will be at variable rates of interest, which exposes Groupe Aeroplan to the risk of increased interest rates; and (iv) that Groupe Aeroplan may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

In addition, the credit facilities contain a number of financial and other restrictive covenants that require Groupe Aeroplan to meet certain financial ratios and financial condition tests and limit the ability to enter into certain transactions. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the credit facilities, including any possible hedge contracts with the lenders, were to be accelerated, there can be no assurance that the assets of Groupe Aeroplan would be sufficient to repay in full that indebtedness.

Groupe Aeroplan may need to refinance its available credit facilities or other debt and there can be no assurance that it will be able to do so or be able to do so on terms as favourable as those presently in place. If Groupe Aeroplan is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on Groupe Aeroplan's financial position, which may result in a reduction

or suspension of payments of dividends to Shareholders. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive than the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of Groupe Aeroplan to pay dividends.

Uncertainty of Dividend Payments

Payment of dividends are dependent upon operating cash flows generated by subsidiaries of Groupe Aeroplan, financial requirements of Groupe Aeroplan and the satisfaction of solvency tests on the payment of dividends pursuant to the Canada Business Corporations Act.

Managing Growth

We regularly review potential acquisitions of businesses we believe may be complementary to ours. As part of any acquisition we conduct customary due diligence with the goal of identifying and evaluating material risks. Notwithstanding our review, we may be unsuccessful in identifying all such risks or realizing the intended synergies of any given acquisition and our results of operation and financial condition could be adversely impacted. In addition, our inability to effectively manage growth could have a material adverse impact on our business, operations and prospects.

Credit Ratings

Groupe Aeroplan has been assigned issuer credit ratings of BBB with a stable trend by DBRS and BBB− by S&P. The Notes have also been assigned credit ratings of BBB with a stable trend by DBRS and BBB– by S&P. There can be no assurance that the credit ratings assigned to Groupe Aeroplan and the Notes will remain in effect for any given period of time or that the ratings will not be withdrawn or revised by either or both of the rating agencies at any time. The interest rate payable pursuant to Groupe Aeroplan's credit facilities and the Notes will be subject to adjustment from time to time if any of DBRS or S&P downgrade (or subsequently upgrade) their ratings. Additionally, Groupe Aeroplan's access to capital markets could be adversely affected by changes to the debt credit ratings assigned by independent rating agencies such as DBRS and S&P.

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.