

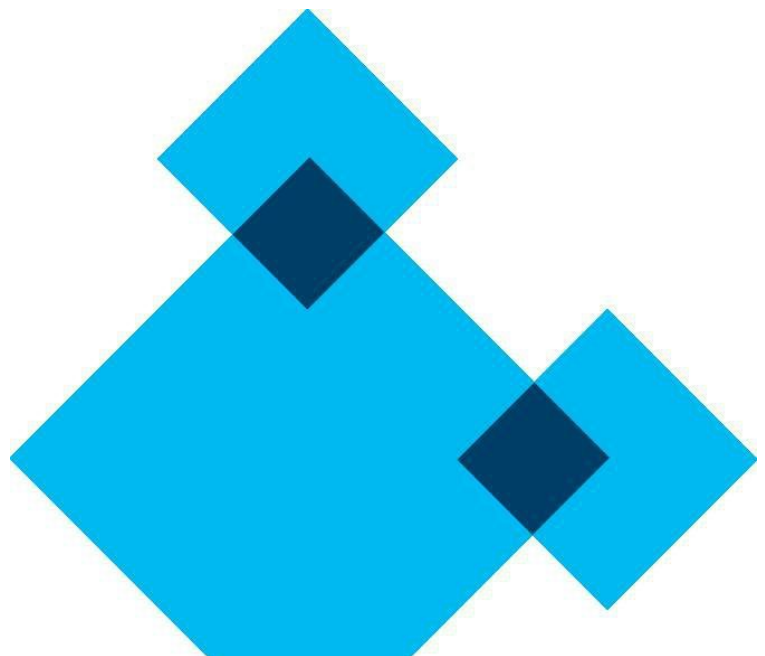


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# AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2014 and 2013

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## MANAGEMENT'S REPORT

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The accompanying consolidated financial statements of Aimia Inc. are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, which are International Financial Reporting Standards ("IFRS"). The consolidated financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

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

February 26, 2015

*(signed) "Rupert Duchesne"*

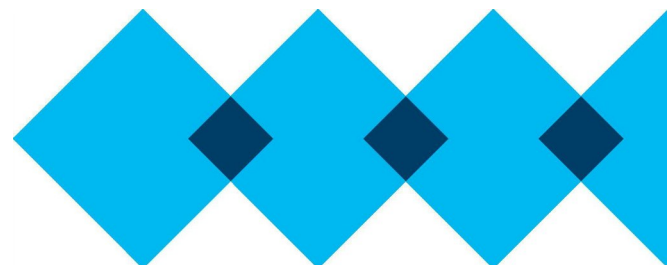
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RUPERT DUCHESNE  
Group Chief Executive

*(signed) "David L. Adams"*

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DAVID L. ADAMS  
Executive Vice President and Chief Financial Officer





February 26, 2015

## **Independent Auditor's Report**

**To the Shareholders of  
Aimia Inc.**

We have audited the accompanying consolidated financial statements of Aimia Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013 and the consolidated statements of operations, comprehensive income, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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"PwC" refers to PricewaterhouseCoopers LLP/s.r.l./s.e.n.c.r.l., an Ontario limited liability partnership.



We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aimia Inc. and its subsidiaries as at December 31, 2014 and 2013 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

*PricewaterhouseCoopers LLP<sup>1</sup>*

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<sup>1</sup> CPA auditor, CA public accountancy permit n° A113048



## CONSOLIDATED STATEMENTS OF OPERATIONS

|  |                   | Years Ended December 31, |                    |
|--|-------------------|--------------------------|--------------------|
| <i>(in millions of Canadian dollars, except share and per share amounts)</i>               |                   | 2014                     | 2013               |
| <b>Revenue</b>   | Notes 15, 19 & 25 | \$ 2,468.8               | \$ 1,673.5         |
| <b>Cost of sales</b>   |                   |                          |                    |
| Cost of rewards and direct costs   | Notes 10 & 16     | 1,606.1                  | 1,301.7            |
| Depreciation and amortization  |                   | 51.2                     | 43.5               |
| Amortization of accumulation partners' contracts,<br>customer relationships and technology |                   | 133.0                    | 84.4               |
|  |                   | <b>1,790.3</b>           | <b>1,429.6</b>     |
| <b>Gross margin</b>  |                   | <b>678.5</b>             | <b>243.9</b>       |
| <b>Operating expenses</b>  |                   |                          |                    |
| Selling and marketing expenses   |                   | 462.2                    | 432.7              |
| General and administrative expenses  | Notes 3, 10 & 16  | 225.6                    | 457.1              |
| Impairment of goodwill   | Note 13           | —                        | 19.1               |
|  |                   | <b>687.8</b>             | <b>908.9</b>       |
| <b>Operating loss</b>  |                   | <b>(9.3)</b>             | <b>(665.0)</b>     |
| Financial income   | Notes 7 & 16      | 15.1                     | 35.6               |
| Financial expenses   | Notes 7 & 16      | (48.9)                   | (53.7)             |
| Net financial expenses   |                   | <b>(33.8)</b>            | <b>(18.1)</b>      |
| Share of net loss of equity-accounted investments  | Note 4            | (9.6)                    | (6.6)              |
| <b>Loss before income taxes</b>  |                   | <b>(52.7)</b>            | <b>(689.7)</b>     |
| <b>Income tax (expense) recovery</b>   |                   |                          |                    |
| Current  | Notes 15 & 20     | (11.7)                   | 95.2               |
| Deferred   | Notes 15 & 20     | 26.7                     | 101.8              |
|  |                   | <b>15.0</b>              | <b>197.0</b>       |
| <b>Net loss for the year</b>   |                   | <b>\$ (37.7)</b>         | <b>\$ (492.7)</b>  |
| <b>Net earnings (loss) attributable to:</b>  |                   |                          |                    |
| Equity holders of the Corporation  |                   | (40.3)                   | (498.3)            |
| Non-controlling interests  |                   | 2.6                      | 5.6                |
| <b>Net loss for the year</b>   |                   | <b>\$ (37.7)</b>         | <b>\$ (492.7)</b>  |
| <b>Weighted average number of shares</b>   |                   | <b>173,513,715</b>       | <b>172,514,527</b> |
| <b>Loss per common share</b>   |                   |                          |                    |
| Basic and fully diluted  | Note 8            | <b>\$ (0.35)</b>         | <b>\$ (2.95)</b>   |



## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| (in millions of Canadian dollars)   | Years Ended December 31, |            |
|---|--------------------------|------------|
|   | 2014                     | 2013       |
| <b>Net loss for the year</b>  | \$ (37.7)                | \$ (492.7) |
| <b>Other comprehensive income (loss):</b>                                       |                          |            |
| <i>Items that may be reclassified subsequently to net earnings (loss)</i>       |                          |            |
| Foreign currency translation adjustments on consolidation of foreign operations | 31.9                     | 37.5       |
| Change in fair value of available-for-sale investments, net of tax              | Notes 27 & 29<br>33.9    | 21.9       |
| <i>Items that will not be reclassified subsequently to net earnings (loss)</i>  |                          |            |
| Defined benefit plans actuarial gains (losses), net of tax                      | Notes 19 & 29<br>(14.4)  | 4.3        |
| <b>Other comprehensive income for the year</b>                                  | 51.4                     | 63.7       |
| <b>Comprehensive income (loss) for the year</b>                                 | \$ 13.7                  | \$ (429.0) |
| <b>Comprehensive income (loss) attributable to:</b>                             |                          |            |
| Equity holders of the Corporation   | 11.0                     | (434.6)    |
| Non-controlling interests   | 2.7                      | 5.6        |
| <b>Comprehensive income (loss) for the year</b>                                 | \$ 13.7                  | \$ (429.0) |



## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| As at   |               | December 31,      | December 31,      |
|---|---------------|-------------------|-------------------|
| <i>(in millions of Canadian dollars)</i>                              |               | 2014              | 2013              |
| <b>ASSETS</b>   |               |                   |                   |
| <i>Current assets</i>   |               |                   |                   |
| Cash and cash equivalents   | Note 2        | \$ 567.6          | \$ 449.1          |
| Restricted cash   | Note 2        | 28.8              | 33.7              |
| Short-term investments  | Note 2        | 51.3              | 60.7              |
| Income taxes receivable   | Notes 15 & 20 | 43.2              | 109.5             |
| Accounts receivable   | Notes 9 & 16  | 480.2             | 413.6             |
| Inventories   | Note 2        | 8.9               | 10.2              |
| Prepaid expenses  |               | 67.1              | 58.3              |
| Cash held in escrow   | Notes 3 & 6   | 5.8               | 5.7               |
|   |               | <b>1,252.9</b>    | <b>1,140.8</b>    |
| <i>Long-term assets</i>   |               |                   |                   |
| Cash held in escrow   | Notes 3 & 6   | —                 | 3.7               |
| Long-term investments   | Note 5        | 395.4             | 360.6             |
| Equity-accounted investments  | Note 4        | 115.5             | 105.4             |
| Property and equipment  | Notes 12 & 13 | 34.5              | 26.9              |
| Intangible assets   | Note 13       | 1,567.6           | 1,674.1           |
| Goodwill  | Note 13       | 2,038.9           | 2,027.1           |
|   |               | <b>\$ 5,404.8</b> | <b>\$ 5,338.6</b> |
| <b>LIABILITIES AND EQUITY</b>   |               |                   |                   |
| <i>Current liabilities</i>  |               |                   |                   |
| Accounts payable and accrued liabilities                              | Note 14       | \$ 487.3          | \$ 482.8          |
| Customer deposits   |               | 73.2              | 77.2              |
| Deferred revenue  | Note 15       | 1,628.6           | 1,748.0           |
| Current portion of long-term debt                                     | Note 17       | —                 | 150.0             |
|   |               | <b>2,189.1</b>    | <b>2,458.0</b>    |
| <i>Long-term liabilities</i>  |               |                   |                   |
| Provisions  | Note 16       | 50.0              | 50.0              |
| Long-term debt  | Note 17       | 646.4             | 644.9             |
| Pension and other long-term liabilities                               | Notes 18 & 19 | 61.3              | 46.0              |
| Deferred income taxes   | Notes 15 & 20 | 89.6              | 121.1             |
| Deferred revenue  | Note 15       | 1,589.7           | 1,245.7           |
|   |               | <b>4,626.1</b>    | <b>4,565.7</b>    |
| <b>Total equity attributable to equity holders of the Corporation</b> | Note 23       | <b>772.0</b>      | <b>768.9</b>      |
| <b>Non-controlling interests</b>                                      |               | <b>6.7</b>        | <b>4.0</b>        |
| <b>Total equity</b>   |               | <b>778.7</b>      | <b>772.9</b>      |
|   |               | <b>\$ 5,404.8</b> | <b>\$ 5,338.6</b> |
| <b>Contingencies and commitments</b>                                  |               |                   |                   |
|   | Notes 21 & 24 |                   |                   |

Approved by the Board of Directors

*(signed) Roman Doroniuk*

Roman Doroniuk  
Director

*(signed) Joanne Ferstman*

Joanne Ferstman  
Director



## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| For the years ended December 31, 2013 and 2014                                    | Common shares outstanding | Share capital | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Contributed surplus | Total attributable to the equity holders of the corporation | Non-controlling interests | Total equity |
|---|---------------------------|---------------|-----------------------------|---|---------------------|---|---------------------------|--------------|
| <i>(In millions of Canadian dollars, except share amounts)</i>                    |                           |               |                             |   |                     |   |                           |              |
| <b>Balance, December 31, 2012</b>   | 172,257,314               | \$ 1,683.5    | \$ (1,542.7)                | \$ (24.6)                                     | \$ 1,218.4          | \$ 1,334.6  | \$ (9.9)                  | \$ 1,324.7   |
| <b>Total comprehensive income (loss) for the year</b>                             |                           |               |                             |   |                     |   |                           |              |
| Net earnings (loss) for the year  |                           |               | (498.3)                     |   |                     | (498.3)   | 5.6                       | (492.7)      |
| Other comprehensive income:   |                           |               |                             |   |                     |   |                           |              |
| Foreign currency translation adjustments on consolidation of foreign subsidiaries |                           |               |                             | 37.5  |                     | 37.5  | —                         | 37.5         |
| Change in fair value of available-for-sale investments, net of tax                | Notes 27 & 29             |               |                             | 21.9  |                     | 21.9  |                           | 21.9         |
| Defined benefit plans actuarial gains, net of tax                                 | Notes 19 & 29             |               | 4.3                         |   |                     | 4.3   |                           | 4.3          |
| Total comprehensive income (loss) for the year                                    | —                         | —             | (494.0)                     | 59.4  | —                   | (434.6)   | 5.6                       | (429.0)      |
| <b>Transactions with owners, recorded directly in equity</b>                      |                           |               |                             |   |                     |   |                           |              |
| Common shares issued upon exercise of stock options                               | Note 23                   | 633,082       | 9.2                         |   | (2.2)               | 7.0   |                           | 7.0          |
| Quarterly dividends, common and preferred   | Note 22                   |               | (126.9)                     |   |                     | (126.9)   |                           | (126.9)      |
| Acquisition of non-controlling interest   | Note 28                   |               | (17.6)                      |   |                     | (17.6)  | 8.3                       | (9.3)        |
| Shares released from stock-based compensation plans                               | Note 23                   | 80,000        | 1.1                         |   | (1.1)               | —   |                           | —            |
| Accretion related to other stock-based compensation plans                         |                           |               |                             |   | 6.4                 | 6.4   |                           | 6.4          |
| Total contributions by and distributions to owners                                | 713,082                   | 10.3          | (144.5)                     | —   | 3.1                 | (131.1)   | 8.3                       | (122.8)      |
| <b>Balance, December 31, 2013</b>   | 172,970,396               | \$ 1,693.8    | \$ (2,181.2)                | \$ 34.8                                       | \$ 1,221.5          | \$ 768.9  | \$ 4.0                    | \$ 772.9     |
| <b>Total comprehensive income (loss) for the year</b>                             |                           |               |                             |   |                     |   |                           |              |
| Net earnings (loss) for the year  |                           |               | (40.3)                      |   |                     | (40.3)  | 2.6                       | (37.7)       |
| Other comprehensive income (loss):  |                           |               |                             |   |                     |   |                           |              |
| Foreign currency translation adjustments on consolidation of foreign subsidiaries |                           |               |                             | 31.8  |                     | 31.8  | 0.1                       | 31.9         |
| Change in fair value of available-for-sale investments, net of tax                | Notes 27 & 29             |               |                             | 33.9  |                     | 33.9  |                           | 33.9         |
| Defined benefit plans actuarial losses, net of tax                                | Notes 19 & 29             |               | (14.4)                      |   |                     | (14.4)  |                           | (14.4)       |
| Total comprehensive income (loss) for the year                                    | —                         | —             | (54.7)                      | 65.7  | —                   | 11.0  | 2.7                       | 13.7         |
| <b>Transactions with owners, recorded directly in equity</b>                      |                           |               |                             |   |                     |   |                           |              |
| Common shares issued upon exercise of stock options                               | Note 23                   | 1,083,737     | 15.1                        |   | (3.0)               | 12.1  |                           | 12.1         |
| Common shares repurchased   | Note 23                   | (2,069,790)   | (18.3)                      |   | (11.5)              | (29.8)  |                           | (29.8)       |
| Preferred shares issued, net of issue costs                                       | Note 23                   |               | 147.0                       |   |                     | 147.0   |                           | 147.0        |
| Quarterly dividends, common and preferred   | Note 22                   |               | (143.3)                     |   |                     | (143.3)   |                           | (143.3)      |
| Accretion related to other stock-based compensation plans                         |                           |               |                             |   | 6.1                 | 6.1   |                           | 6.1          |
| Total contributions by and distributions to owners                                | (986,053)                 | 143.8         | (143.3)                     | —   | (8.4)               | (7.9)   | —                         | (7.9)        |
| <b>Balance, December 31, 2014</b>   | 171,984,343               | \$ 1,837.6    | \$ (2,379.2)                | \$ 100.5                                      | \$ 1,213.1          | \$ 772.0  | \$ 6.7                    | \$ 778.7     |





## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   |         | Years Ended December 31, |                 |
|---|---------|--------------------------|-----------------|
| <i>(in millions of Canadian dollars)</i>                  |         | 2014                     | 2013            |
| <b>CASH FLOWS FROM (USED IN)</b>                          |         |                          |                 |
| <b>Operating activities</b>                               |         |                          |                 |
| Net loss for the year                                     |         | \$ (37.7)                | \$ (492.7)      |
| Adjustments for:  |         |                          |                 |
| Depreciation and amortization                             |         | 184.2                    | 127.9           |
| Stock-based compensation                                  | Note 23 | 8.3                      | 19.4            |
| Share of net loss of equity-accounted investments         | Note 4  | 9.6                      | 6.6             |
| Net financial expenses                                    | Note 7  | 33.8                     | 18.1            |
| Income tax recovery                                       | Note 20 | (15.0)                   | (197.0)         |
| Impairment of goodwill                                    | Note 13 | —                        | 19.1            |
| Changes to operating assets and liabilities               | Note 29 | 147.6                    | 682.3           |
| Other   |         | (0.5)                    | 2.6             |
|   |         | <b>368.0</b>             | <b>679.0</b>    |
| Cash generated from operating activities                  |         | <b>330.3</b>             | <b>186.3</b>    |
| Interest received   |         | 17.7                     | 15.7            |
| Distributions received from equity-accounted investments  | Note 4  | 17.0                     | 14.0            |
| Interest paid   |         | (50.9)                   | (47.2)          |
| Income taxes received (paid)                              | Note 20 | 54.4                     | (18.8)          |
| Net cash from operating activities                        |         | <b>368.5</b>             | <b>150.0</b>    |
| <b>Investing activities</b>                               |         |                          |                 |
| Business acquisitions, net of cash acquired               | Note 3  | (0.8)                    | (11.0)          |
| Cash held in escrow                                       | Note 6  | 0.3                      | (5.6)           |
| Investments in equity-accounted investments               | Note 4  | (27.3)                   | (9.9)           |
| Short-term investments                                    |         | 55.4                     | 24.8            |
| Long-term investments                                     | Note 5  | (45.7)                   | (36.0)          |
| Additions to property, equipment, software and technology |         | (81.5)                   | (54.4)          |
| Net cash used in investing activities                     |         | <b>(99.6)</b>            | <b>(92.1)</b>   |
| <b>Financing activities</b>                               |         |                          |                 |
| Quarterly dividends                                       | Note 22 | (143.3)                  | (126.9)         |
| Acquisition of non-controlling interest                   | Note 28 | —                        | (9.3)           |
| Issuance of common shares                                 | Note 23 | 12.1                     | 7.0             |
| Issuance of preferred shares                              | Note 23 | 150.0                    | —               |
| Issue costs   | Note 23 | (4.0)                    | —               |
| Repurchase of common shares                               | Note 23 | (28.3)                   | —               |
| Repayment of long-term debt                               | Note 17 | (150.0)                  | —               |
| Net cash used in financing activities                     |         | <b>(163.5)</b>           | <b>(129.2)</b>  |
| Net change in cash and cash equivalents                   |         | <b>105.4</b>             | <b>(71.3)</b>   |
| Translation adjustment related to cash                    |         | 13.1                     | 22.4            |
| Cash and cash equivalents, beginning of year              |         | 449.1                    | 498.0           |
| <b>Cash and cash equivalents, end of year</b>             | Note 2  | <b>\$ 567.6</b>          | <b>\$ 449.1</b> |

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## THESE FINANCIAL STATEMENTS CONTAIN THE FOLLOWING NOTES:

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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## 1. STRUCTURE OF THE CORPORATION

Aimia Inc. (“Aimia” or the “Corporation”) was incorporated on May 5, 2008 under the *Canada Business Corporations Act* and is the successor to Aeroplan Income Fund, following the completion of the reorganization of Aeroplan Income Fund from an income trust structure to a corporate structure by way of a court-approved plan of arrangement on June 25, 2008.

The registered and head office of Aimia is located at 525 Viger Avenue West, Suite 1000, Montreal, Quebec, Canada, H2Z 0B2.

Aimia, a global leader in loyalty management, through its subsidiaries, operates in three regional business segments: Canada, the United States and Asia-Pacific (“US & APAC”) and Europe, Middle-East and Africa (“EMEA”).

In Canada, Aimia owns and operates the Aeroplan Program, a premier coalition loyalty program. In EMEA, Aimia owns and operates the following coalition loyalty programs: Nectar UK, Nectar Italia, and Air Miles Middle East through a 60% ownership interest. Aimia's EMEA segment also provides data driven analytics and insights services in the UK and internationally to retailers and their suppliers, through ISS and its 50% participation in i2c, a joint venture with Sainsbury's. In addition, Aimia develops analytical tools to provide services to clients globally to collect, analyze and derive actionable insight from their customer data which is used to improve marketing return-on-investment. In each of the regions, Aimia provides proprietary loyalty services, including loyalty program strategy, design, launch and operation. In addition, Aimia has strengthened its product offering through the acquisition of Smart Button in the US, which offers clients a turnkey, feature rich, software as a service loyalty solution.

Aimia also holds a 48.9% interest in, and jointly controls with Grupo Aeromexico, PLM, owner and operator of Club Premier, a Mexican coalition loyalty program. Additionally, Aimia holds investments in Travel Club, a coalition loyalty program in Spain, Think Big, the owner and operator of BIG, AirAsia and Tune Group's loyalty program, and China Rewards, a Chinese based retail coalition loyalty program start-up, as well as a minority interest in Cardlytics, a US-based private company operating in card-linked marketing for electronic banking.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### BASIS OF PREPARATION

#### *Statement of Compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and by all Aimia entities.

These consolidated financial statements were authorized for issue by the Corporation's Board of Directors on February 26, 2015.

#### *Basis of Measurement*

These consolidated financial statements have been prepared on the historical cost basis except for the following balance sheet items:

- Investments in equity instruments are measured at fair value;
- Liabilities for cash-settled share-based payment arrangements are measured at fair value;
- Accrued pension benefit liability is recognized as the net total of the fair value plan assets, less the present value of the defined benefit obligation;
- Contingent considerations related to business acquisitions are measured at fair value.

#### *Functional and Presentation Currency*

These consolidated financial statements are presented in Canadian Dollars, which is the Corporation's functional currency.

#### *Use of Estimates and Judgments*

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported as assets, liabilities, income and expenses in the financial statements. Actual results could differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which they occur and in any future periods affected.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following note:

- Revenue recognition and cost of rewards and direct costs (*Note 2*).

Information about assumptions and estimation uncertainties described below with a significant risk of resulting in material adjustments within the next year are included within the following notes:

- Breakage (*Notes 2 and 15*);
- Income Taxes (*Notes 2 and 20*);
- Impairment considerations on long-lived assets and goodwill, particularly future cash flows and cost of capital (*Notes 2 and 13*);
- Provisions (*Note 16*);
- Contingent Liabilities (*Note 21*).

## PRINCIPLES OF CONSOLIDATION

### *Subsidiaries*

Subsidiaries are entities over which the Corporation has control. The Corporation controls an entity when the Corporation is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries' financial statements are included in the consolidated financial statements from the date of commencement of control until the date that control ceases. Subsidiaries' accounting policies have been changed, when necessary, to align with the policies adopted by Aimia.

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation had the following significant operating subsidiaries at December 31, 2014:

| Name   | Nature of business     | Reporting segment | Country of incorporation and place of business | Proportion of ownership held directly by Aimia Inc. (%) | Proportion of ownership by the group (%) |
|--|------------------------|-------------------|--|---|--|
| Aimia Canada Inc.                                | Coalition Loyalty      | Canada            | Canada   | 100   |  |
| Aimia Proprietary Loyalty Canada Inc.            | Proprietary Loyalty    | Canada            | Canada   |   | 100                                      |
| Aimia Coalition Loyalty UK Limited               | Coalition Loyalty      | EMEA              | United Kingdom                                 |   | 100                                      |
| Nectar Italia S.r.l. ("Nectar Italia") (Note 28) | Coalition Loyalty      | EMEA              | Italy  |   | 100                                      |
| Rewards Management Middle East Free Zone LLC     | Coalition Loyalty      | EMEA              | United Arab Emirates                           |   | 60                                       |
| Aimia Loyalty Analytics UK Limited               | Analytics and Insights | EMEA              | United Kingdom                                 |   | 100                                      |
| Aimia Proprietary Loyalty U.K. Limited           | Proprietary Loyalty    | EMEA              | United Kingdom                                 |   | 100                                      |
| Aimia Proprietary Loyalty U.S. Inc.              | Proprietary Loyalty    | US & APAC         | United States                                  |   | 100                                      |
| Excellence in Motivation, Inc.                   | Proprietary Loyalty    | US & APAC         | United States                                  |   | 100                                      |
| Smart Button Associates Inc.                     | Proprietary Loyalty    | US & APAC         | United States                                  |   | 100                                      |
| Aimia Proprietary Loyalty Australia Pty Ltd.     | Proprietary Loyalty    | US & APAC         | Australia                                      |   | 100                                      |
| Aimia Proprietary Loyalty Singapore Pte Ltd.     | Proprietary Loyalty    | US & APAC         | Singapore                                      |   | 100                                      |
| Aimia Proprietary Loyalty (NZ) Limited           | Proprietary Loyalty    | US & APAC         | New Zealand                                    |   | 100                                      |
| Aimia Proprietary Loyalty (HK) Limited           | Proprietary Loyalty    | US & APAC         | Hong Kong                                      |   | 100                                      |
| Aimia Proprietary Loyalty Sendirian Berhad       | Proprietary Loyalty    | US & APAC         | Malaysia                                       |   | 100                                      |

## Investments in Associates and Joint Arrangements (Note 4)

Associates are entities over which the Corporation has significant influence. Joint arrangements are entities over which the Corporation has joint control and are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

Investments in associates and joint ventures are accounted for using the equity method and are initially recognized at cost. The Corporation's investment includes goodwill identified on acquisition. The consolidated financial statements include the Corporation's share of the income and expenses and equity movements of equity accounted investees, after aligning with the accounting policies of the Corporation, from the date that joint control or significant influence commences until the date that joint control or significant influence ceases. When the Corporation's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation or has made payments on behalf of the investee.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Corporation had the following significant investments in joint arrangements at December 31, 2014:

| Name                          | Nature of business     | Nature of investment | Reporting segment | Country of incorporation and place of business | % of ownership interest | Measurement method |
|-------------------------------|------------------------|----------------------|-------------------|--|-------------------------|--------------------|
| PLM Premier, S.A.P.I. de C.V. | Coalition Loyalty      | Joint venture        | Corporate         | Mexico   | 48.9                    | Equity             |
| Insight 2 Communication LLP   | Analytics and Insights | Joint venture        | EMEA              | United Kingdom                                 | 50.0                    | Equity             |
| Think Big Digital Sdn Bhd     | Coalition Loyalty      | Joint venture        | Corporate         | Malaysia                                       | < 20.0                  | Equity             |

## REVENUE RECOGNITION, AND COST OF REWARDS AND DIRECT COSTS

Aimia derives its cash inflows primarily from the sale of "Loyalty Units", which are defined as the miles, points or other loyalty program reward units issued under the respective programs operated by Aimia's subsidiaries, to their respective Accumulation Partners and from services rendered or to be rendered to customers, which are referred to as Gross Billings. Loyalty Units issued for promotional purposes, at a discount or no value, are also included in Gross Billings at their issue price. These Gross Billings are deferred and recognized as revenue upon the redemption of Loyalty Units. Revenue recognized per Loyalty Unit redeemed is calculated, on a weighted average basis, separately for each program. The amount of revenue recognized related to Breakage is based on the number of Loyalty Units redeemed in a period in relation to the total number expected to be redeemed, which factors in the Corporation's estimate for Breakage. Breakage represents the estimated 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' future redemption practices.

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 Aimia to estimate and monitor the appropriate Breakage estimates of several programs it operates on a regular basis.

Changes in Breakage are accounted for at the operating segment 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 (*Note 15*).

Management's consolidated weighted average Breakage estimate at December 31, 2014 is 12% (December 31, 2013: 12%), calculated based on the total Loyalty Units outstanding under the Corporation's loyalty programs. This Breakage estimate is based on the results of the application of the model in 2014.

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

In addition, Aimia derives proprietary loyalty service fees related to direct marketing, sales promotion and the design, development and administration of loyalty programs. These proprietary loyalty service fees are included in Gross Billings and recognized as revenue when the amount, stage of completion and costs for the service can be measured

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

reliably and it is probable that the economic benefits associated with the service will be realized. Other revenue, which consists of charges to members for various services, loyalty industry related business know-how, trademarks and expertise, royalties earned with respect to the Air Miles and Nectar trademarks, 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 in accordance with the substance of the agreements in the case of royalties. Other revenue also includes analytics and insights service fees from services and tools licensed to clients to collect, analyze and derive actionable insight from their customer data which is used to improve marketing return-on-investment. These analytics and insights service fees are included in Gross Billings and are recognized as revenue when the services are rendered.

Cost of rewards representing the amount paid by Aimia to Redemption Partners is accrued when the member redeems the Loyalty Units. Direct costs consist of those costs directly attributable to the delivery of proprietary loyalty and analytics and insights services and include reward fulfillment, technology, commissions and in certain cases labour.

## EMPLOYEE FUTURE BENEFITS

### *Defined Benefit Plan for Aeroplan Contact Centre Employees*

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

For the funded defined benefit plan, the deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognized as a liability or an asset in the balance sheet. However, any excess of assets is recognized only to the extent that it represents a future economic benefit which is available in the form of refunds from the plan or reductions in future contributions to the plan. When these criteria are not met, such excess is not recorded but is disclosed in the notes. Impacts of minimum funding requirements in relation to past service are considered when determining pension obligations.

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

The discount rate on the benefit obligation is equal to the yield at the measurement date on high quality corporate bonds that have maturity dates approximating the terms of Aimia's obligations.

Past-service costs are recognized immediately in earnings.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions attributable to the defined benefit plan, post-retirement benefits, and adjustments resulting from minimum funding requirements, are recognized immediately in other comprehensive income, and reported in retained earnings. Actuarial gains and losses arising from other future post-employment benefits are recognized immediately in earnings.

## **Defined Contribution**

Substantially all Aimia employees, excluding the Aeroplan contact centre agents, participate in the Corporation's various defined contribution pension plans, which provide pension benefits based on the accumulated contributions and fund earnings. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in earnings in the periods during which services are rendered by employees.

## **Short-Term Employee Benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay such an amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## **Termination Benefits**

Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary separation in exchange for these benefits.

The Corporation recognizes termination benefits at the earlier of the following dates: (a) when the Corporation can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 - *Provisions, contingent liabilities and contingent assets*, and involves the payment of termination benefits.

## **LEASE PAYMENTS**

All of the Corporation's leases are operating leases. The leased assets are not recognized in the Corporation's statement of financial position since the Corporation does not assume substantially all risks and rewards of ownership of the leased assets.

Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Liabilities for onerous leases are recognized when the Corporation believes that unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received under the lease.

## INCOME TAXES

Income tax expense includes current and deferred tax and is recognized in earnings except to the extent that it relates to a business combination, or to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or recoverable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Aimia provides for deferred income taxes using the liability method of tax allocation. Under this method, deferred income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement carrying values and the tax base 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. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## GOVERNMENT ASSISTANCE

Research and development tax credits received and receivable from the Canadian Federal and Québec Provincial governments are accounted for as government assistance and are recognized by the Corporation when there is a reasonable assurance that the entity will comply with relevant conditions and that the tax credits will be received. The tax credits are recognized as a reduction of the related expense or cost of the asset acquired that they are intended to compensate. The Corporation has recognized an amount of \$2.2 million as a reduction of selling and marketing expenses for the year ended December 31, 2014 (2013: \$1.9 million).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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## FOREIGN CURRENCY TRANSACTIONS

Monetary assets and liabilities denominated in foreign currencies are translated into each of Aimia's entities' functional currency at rates of exchange in effect at the date of the balance sheet. Gains and losses are included in income for the year. Non-monetary assets, non-monetary liabilities, revenues and expenses arising from transactions denominated in foreign currencies are translated at rates of exchange in effect at the date of the transaction.

## FOREIGN OPERATIONS

All of Aimia's foreign operations have a functional currency different from the presentation currency. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated at the rates of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rates for the year. Translation gains or losses are recognized in other comprehensive income and included in accumulated other comprehensive income.

When a foreign operation is disposed of, the relevant amount in the cumulative amount of foreign currency translation adjustments is transferred to earnings as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation adjustments.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Aimia has classified its financial instruments as follows:

| Financial instrument   | Fair value through profit and loss | Loans and receivables | Classification     |                  |                             |
|--|------------------------------------|-----------------------|--------------------|------------------|-----------------------------|
|  |                                    |                       | Available-for-sale | Held-to-maturity | Other financial liabilities |
| <b>Measured at amortized cost</b>                                  |                                    |                       |                    |                  |                             |
| Cash and cash equivalents, restricted cash, short-term investments |                                    | X                     |                    |                  |                             |
| Accounts receivable  |                                    | X                     |                    |                  |                             |
| Long-term investments in corporate and government bonds            |                                    |                       |                    | X                |                             |
| Accounts payable and accrued liabilities                           |                                    |                       |                    |                  | X                           |
| Long-term debt   |                                    |                       |                    |                  | X                           |
| <b>Measured at fair value</b>                                      |                                    |                       |                    |                  |                             |
| Investments in equity instruments <sup>(a)</sup>                   |                                    |                       | X                  |                  |                             |
| Contingent consideration payable                                   | X                                  |                       |                    |                  |                             |

(a) These investments are not subject to significant influence.

Financial assets classified as fair value through profit and loss are measured at fair value with changes in those fair values recognized in non-operating income. Financial assets classified as held-to-maturity, loans and receivables, or other financial liabilities, are measured at amortized cost using the effective interest method of amortization. Financial assets classified as available-for-sale are measured at fair value with changes in fair value recognized in other comprehensive income.

Aimia may, from time to time, enter into forward exchange contracts and currency swaps to manage the risk associated with acquisitions of foreign assets in order to mitigate the impact of currency fluctuations. Under Aimia's practices, derivative financial instruments are used only for risk management purposes and are not entered into for speculative purposes. Derivative instruments are recorded at fair value. Changes in the fair values of derivative instruments are recognized in non-operating income (expense).

For financial instruments measured at amortized cost, transaction costs or fees, premiums or discounts earned or incurred are recorded, at inception, net against the fair value of the financial instrument and amortized in non-operating income (expense).

### **Impairment of Financial Assets (Including Receivables)**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Corporation considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Corporation uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in earnings and reflected in an allowance account against receivables or other financial assets. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through earnings.

## **Transaction Costs**

Transaction costs related to financial assets classified as fair value through profit and loss are expensed as incurred. Transaction costs related to held-to-maturity financial assets, loans and receivables and other liabilities are considered as part of the carrying value of the asset or liability and are then amortized over the expected life of the instrument using the effective interest rate method. Transaction costs related to available-for-sale assets are capitalized on initial recognition. If the available-for-sale asset has fixed or determinable payments, the transaction costs are amortized to net income using the effective interest method. If the available-for-sale financial asset does not have fixed or determinable payments, the transaction costs are recognized in net income when the asset is derecognized or becomes impaired.

## **Financial Income and Expenses**

Financial income includes interest income on cash equivalents, short term investments, loans and notes receivable, and long-term investments in corporate and government bonds. Interest income is recognized as it accrues in earnings, using the effective interest method. Financial income also includes the gain or loss related to the fair value

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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adjustment of the Air Canada warrants and dividends received or receivable from available-for-sale equity investments.

Financial expenses include interest expense on borrowings, unwinding of the discount on provisions, impairment losses recognized on financial assets and other interest and bank charges. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in earnings using the effective interest method.

## SHARE CAPITAL

Common shares and preferred shares that are not redeemable or are redeemable only at the Corporation's option are classified as equity. Incremental costs directly attributable to the issue of common and preferred shares and share options are recognized as a deduction from equity, net of any tax effects.

Dividends payable by Aimia to its common and preferred shareholders, which are determined at the discretion of the Board of Directors and in accordance with the terms of each series of preferred shares (*Notes 22 and 23*), are recorded when declared. Dividends on common and preferred shares are recognized as distributions within equity.

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from share capital for the shares' assigned value, any excess being allocated to contributed surplus to the extent that contributed surplus was created by a net excess of proceeds over cost on cancellation or resale of shares of the same class, and any discount being assigned to contributed surplus. Repurchased shares are cancelled.

## CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of funds in current operating bank accounts, term deposits and fixed income securities with an original term to maturity of three months or less. The weighted average effective interest rate earned on cash and cash equivalents held at December 31, 2014 was 0.4% (2013: 0.2%). At December 31, 2014 and 2013, cash and cash equivalents consisted of funds in current operating bank accounts.

## RESTRICTED CASH

Restricted cash represents amounts held in trust as required by statute for travel programs in Ontario and Québec, and contractual obligations requiring the segregation of cash for purposes of fulfillment obligations in connection with certain loyalty programs managed by the Corporation.

## SHORT-TERM INVESTMENTS

Short-term investments consist of fixed income securities with an original term to maturity of less than one year and greater than three months. Short-term investments also include investments in corporate and government bonds with

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

a remaining term to maturity of less than one year. The weighted average effective interest rate earned on short-term investments held at December 31, 2014 was 3.1% (2013: 1.6%).

## LONG-TERM INVESTMENTS

Long-term investments include investments in corporate and government bonds which consist of fixed income securities quoted in an active market with an original and remaining term to maturity of more than one year. These bonds have a remaining term to maturity varying between 1.0 year and 5.5 years and yield an effective interest rate of 3.0% at December 31, 2014 (2013: 3.1%).

Long-term investments also include investments in equity instruments (*Note 5*).

## INVENTORIES

Inventories are stated at the lower of cost and net realizable value. Cost is determined principally using average cost and specific identification methods. Inventories consist mainly of merchandise on hand required to fulfill redemptions for various loyalty and marketing programs.

For the year ended December 31, 2014, cost of rewards and direct costs included cost of merchandise of \$274.7 million (2013: \$270.9 million).

## PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated impairment losses and amortized over their estimated useful lives, using the straight-line method, as follows:

|                                   |  |
|-----------------------------------|--|
| Furniture, fixtures and equipment | 3 to 10 years  |
| Computer hardware                 | 3 to 5 years   |
| Leasehold improvements            | Over the lesser of the term of the lease or 15 years |

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

Accumulation Partners' contracts, customer relationships and other intangibles are considered long-lived assets with finite lives.

Accumulation Partners' contracts and customer relationships are recorded at cost less accumulated impairment losses and are amortized using the straight-line method over their estimated lives, typically 5 - 25 years.

The average remaining amortization period of individually significant Accumulation Partners' contracts is 10.8 years as at December 31, 2014. The amortization period reflects contract terms and renewals.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Other intangibles, which include non-competition restrictions agreed to by the vendors, pursuant to certain acquisition agreements, and the right to use proprietary intangible assets, are recorded at cost less accumulated impairment losses and are amortized using the straight-line method over their estimated lives, 3 - 5 years.

Software and technology are recorded at cost less accumulated impairment losses and amortized using the straight-line method over 3 to 7 years. Internally generated software under development includes costs paid to third parties such as consultants' fees, other costs directly attributable to preparing the assets for their intended use and borrowing costs on qualifying assets for which the commencement date for capitalization is more than one year after development starts. Amortization will commence upon completion of development once the software is available for use.

Many factors are considered in determining the useful life of an intangible asset, including:

- the expected usage of the asset and whether the asset could be managed efficiently by another management team;
- typical product life cycles for the asset and public information on estimates of useful lives of similar assets that are used in a similar way;
- technical, technological, commercial or other types of obsolescence;
- the stability of the industry in which the asset operates and changes in the market demand for the products or services output from the asset;
- expected actions by competitors or potential competitors;
- the level of maintenance expenditure required to obtain the expected future economic benefits from the asset and the ability and intention to reach such a level;
- the period of control over the asset and legal or similar limits on the use of the asset, such as the expiry dates of related leases; and
- whether the useful life of the asset is dependent on the useful life of other assets of the entity.

## TRADE NAMES AND GOODWILL

Trade names, which are considered intangible assets with indefinite lives, are recorded at cost less accumulated impairment losses, 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. These intangible assets have an indefinite useful life as there is no foreseeable limit to the period over which the asset is expected to generate cash flows.

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition and it is measured net of accumulated impairment losses. Goodwill is not amortized, but instead tested for impairment annually, or more frequently, should events or changes in circumstances indicate that the goodwill may be impaired.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## Acquisitions

Aimia measures goodwill as the fair value of the consideration transferred including, when elected, the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in earnings. Aimia elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities incurred by Aimia in connection with a business combination are expensed as incurred.

## IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of Aimia's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

Goodwill that forms part of the carrying amount of the investment in the jointly controlled entity accounted for using the equity method is not recognized separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in the jointly controlled entity is tested for impairment as a single asset when there is objective evidence that the investment may be impaired.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGUs that include goodwill are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis beyond the highest of:

- the fair value less costs of disposal; and
- value in use of the individual asset, if determinable.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

## PROVISIONS

The amount recognized as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. When the effect of the time value of money is material, provisions are determined by discounting the best estimate of expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

## STOCK-BASED COMPENSATION PLANS

### *Omnibus Plan*

The Omnibus Plan was established in order to attract and/or retain employees. Vesting conditions varied at the time of grant but were typically time and performance based, with shares, which were held in a trust for the benefit of the eligible employees, vesting at the end of the third calendar year following the year of grant. Aimia purchased the shares on the secondary market, which were accounted for as an acquisition of treasury shares. Dividends declared by Aimia on any shares granted under this plan, could be invested in additional shares, which vested concurrently with the shares granted. Forfeited shares and accumulated dividends thereon accrued to Aimia. The trust was consolidated with Aimia's financial statements. The fair value of Aimia's shares, at the grant date, was charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. Aimia's cost of the shares held was presented as a reduction of share capital. Effective June 25, 2008, except for outstanding commitments to certain individuals which were completely fulfilled in 2013, the Omnibus Plan was replaced by the Aimia Long-Term Incentive Plan.

### *Deferred Share Unit Plan*

The Deferred Share Unit Plan (the "DSU Plan") was established as a means of compensating directors and designated employees of Aimia and of promoting share ownership and alignment with the shareholders' interests. Directors of Aimia are automatically eligible to participate in the DSU Plan while employees may be designated from time to time, at the sole discretion of the Board of Directors.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

Vesting conditions may be attached to DSUs at the Board of Directors' discretion. To date, DSUs granted to designated employees vest over 4 years or immediately, while those granted to directors vest immediately. DSUs are paid out in cash upon termination of service.

Upon termination of service, DSU Plan participants are entitled to receive for each DSU credited to their account, a payment in cash equivalent to the value on the date of termination of service of an Aimia common share and accrued dividends from the time of grant.

The fair value of DSUs, at the date of grant to DSU Plan participants, is recognized as compensation expense over the vesting period, with a credit to accounts payable and accrued liabilities and other long-term liabilities. In addition, the DSUs are fair valued at the end of every reporting period and at the settlement date. Any changes in the fair value of the liability are recognized as compensation expense in earnings.

## *Long-Term Incentive Plan*

The Aimia Long-Term Incentive Plan (the "Plan"), which upon the Fund's conversion to a corporation effectively replaced the Initial Long-Term Incentive Plan, the On-Going Long-Term Incentive Plan, and the Omnibus Plan, was established to provide an opportunity for officers, senior executives and other employees of Aimia and its subsidiaries to participate in the successful growth and development of Aimia. Stock options and/or performance share units ("PSUs") may be granted to eligible employees. These grants are established annually on the basis of qualitative and quantitative criteria. The maximum number of shares reserved and available for grant and issuance under the Plan is limited to 16,381,000 common shares. The vesting conditions of options and PSUs issued, may include time and performance criteria, and are determined at the time of grant. In the case of options, the option term cannot exceed ten years, whereas the vesting period of PSUs shall end no later than December 31 of the calendar year which is three years after the calendar year in which the award is granted. The fair value of stock options, at the date of grant to the eligible employees, is recognized as compensation expense and a credit to contributed surplus over the applicable vesting period using the graded method of amortization. The fair value of PSUs, at the date of grant to PSU participants, is recognized as compensation expense over the vesting period using the graded method of amortization, with a credit to accounts payable and accrued liabilities and other long-term liabilities as PSUs have historically been settled in cash. In addition, PSUs are fair valued at the end of every reporting period. All awards are made at the discretion of the Board of Directors and are subject to board approval, as are any performance vesting criteria and targets that apply to awards made. The amount recognized as an expense is adjusted for forfeitures to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

When the stock options are exercised, the Corporation issues new shares. The proceeds received, net of any directly attributable transaction costs together with the related portion previously recorded in contributed surplus, are credited to share capital.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## EARNINGS PER COMMON SHARE

Earnings per common share are calculated by dividing the earnings attributable to common share holders of the Corporation by the weighted average number of common shares outstanding for the period. As applicable, shares held under the various stock-based compensation plans reduce the weighted average diluted number of Aimia's outstanding shares from the date they are contributed into the respective plans.

Diluted earnings per common share are determined using the treasury stock method to evaluate the dilutive effects of stock options, convertible instruments and equivalents, when applicable.

## SEGMENT REPORTING

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Aimia's other segments. All operating segments' operating results are reviewed regularly by Aimia's Group Chief Executive and Group Chief Operating Officer to make decisions about the allocation of resources to the respective segments and assess their individual performance (*Note 25*).

Segment results that are reported to the Group Chief Executive and Group Chief Operating Officer include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items include global shared services, share-based compensation and holding companies.

## CHANGES IN ACCOUNTING POLICIES

The Corporation has adopted the following revised standards as detailed below:

### *IAS 32 Amendment, Clarification of Offsetting Requirements*

IAS 32 - *Financial Instruments: Presentation* was amended to clarify certain requirements for offsetting financial assets and liabilities. The Corporation determined that the adoption of the amended standard had no impact on its consolidated financial statements.

### *IFRS 2 Amendment, Definitions of Vesting Conditions*

IFRS 2 - *Share-based Payment* was amended to clarify the definition of vesting conditions applicable to share-based payment transactions with a grant date on or after July 1, 2014. The Corporation determined that the adoption of the amended standard had no impact on its consolidated financial statements.

### *IFRS 3 Amendment, Accounting for Contingent Consideration in a Business Combination*

IFRS 3 - *Business Combinations* was amended to clarify that a contingent consideration in a business acquisition that is not classified as equity is measured at fair value through profit or loss. Consequential amendments were also made

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

to the following standards under IFRS: IAS 37, IAS 39 and IFRS 9. The amendment was effective for business combinations with an acquisition date on or after July 1, 2014 and had no impact on the Corporation's consolidated financial statements as it already complied with this treatment.

## FUTURE ACCOUNTING CHANGES

The following standards and amendments have been published and their adoption is mandatory for future accounting periods.

- A. In November 2009, the IASB issued IFRS 9 - *Financial Instruments*. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments with fair value measurement adjustments for such instruments recognized either through profit or loss or through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent that they do not clearly represent a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. In addition, the standard includes guidance on financial liabilities and derecognition of financial instruments.

In July 2014, the IASB issued the final version of IFRS 9 - *Financial Instruments*. The new standard will replace IAS 39 - *Financial Instruments: Recognition and Measurement*. The final amendments made in the new version include guidance for the classification and measurement of financial assets and a third measurement category for financial assets, fair value through other comprehensive income. The standard also contains a new expected loss impairment model for debt instruments measured at amortized cost or fair value through other comprehensive income, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts. The standard is effective for annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exception. Early application is permitted. Restatement of prior periods in relation to the classification and measurement, including impairment, is not required. At this time, the Corporation is still evaluating the impact of these changes but does not anticipate that they will have a significant impact, if any, on its consolidated financial statements.

- B. In November 2013, the IASB issued an amendment to clarify the application of IAS 19- *Employee Benefits* to plans that require employees or third parties to contribute towards the cost of benefits. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. The amendment is effective for years beginning on or after July 1, 2014 with early adoption permitted. At this time, the Corporation does not anticipate that this amendment will have an impact on its consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- C. In December 2013, the IASB issued Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle which include the following amendments which are effective for years beginning on or after July 1, 2014:
- IFRS 8- *Operating Segments*: Amended to require disclosure of judgments made by management in aggregating segments and the reconciliation of segment assets to the entity's assets if reported.
  - IAS 24- *Related Party Disclosures*: Amended to revise the definition of related party and clarify certain disclosures.
  - IFRS 3- *Business Combinations*: Amended to clarify the scope exemption for joint arrangements.

At this time, the Corporation does not anticipate that these changes will have a significant impact, if any, on its consolidated financial statements.

- D. In May 2014, the IASB issued IFRS 15 - *Revenue from Contracts with Customers*. IFRS 15 replaces all previous revenue recognition standards, including IAS 18 - *Revenue*, and related interpretations such as IFRIC 13 - *Customer Loyalty Programmes*. The standard sets out the requirements for recognizing revenue. Specifically, the new standard introduces a comprehensive framework with the general principle being that an entity recognizes revenue to depict the transfer of promised goods and services in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduces more prescriptive guidance than was included in previous standards and may result in changes in classification and disclosure in addition to changes in the timing of recognition for certain types of revenues. The new standard is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. At this time, management is reviewing the impact that this standard will have on its consolidated financial statements.
- E. In September 2014, the IASB issued Annual Improvements to IFRSs 2012-2014 Cycle. The following is a summary of the relevant and key clarifications and amendments:
- IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* was amended to clarify that a change in disposal method should not be considered to be a new plan of disposal but a continuation of the original plan. There is therefore no interruption of the application of the requirements in this standard. The amendment also clarifies that changing the disposal method does not change the date of classification.
  - IAS 19 - *Employee Benefits* was amended to clarify that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated rather than where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

These amendments must be applied in annual periods beginning on or after January 1, 2016, with earlier application permitted.

This publication also includes the following amendments which are to be applied retrospectively for annual periods beginning on or after January 1, 2016 with early application permitted:

- IFRS 7 - *Financial Instrument: Disclosures* was amended to clarify that offsetting disclosures are not required in the condensed interim financial statements.
- IAS 34 - *Interim Financial Reporting* was amended to clarify the meaning of 'elsewhere in the interim financial report' and states that the required interim disclosures must be either in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report.

At this time, the Corporation does not anticipate that these changes will have a significant impact, if any, on its consolidated financial statements.

- F. In September 2014, the IASB issued amendments to IFRS 10 - *Consolidated Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* to address inconsistencies between the standards. Specifically, the amendment clarifies that a full gain or loss is recognized when the transaction involves a business combination and a partial gain is recognized when the transaction involves assets that do not constitute a business. The amendment is effective for annual periods beginning on or after January 1, 2016 with early adoption permitted.
- G. In December 2014, the IASB issued amendments to clarify IAS 1- *Presentation of Financial Statements* and guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment is effective for annual periods beginning on or after January 1, 2016. At this time, the Corporation does not anticipate that these changes will have a significant impact on its consolidated financial statements.

## COMPARATIVE INFORMATION

Certain comparative figures may have changed as a result of the rounding of financial information in millions of Canadian dollars.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 3. BUSINESS ACQUISITIONS

### A) SMART BUTTON ASSOCIATES, INC.

On July 17, 2013, Aimia purchased all outstanding common shares of Smart Button, which offers clients a turnkey, feature rich, software as a service loyalty solution, for a total purchase price of \$19.8 million (US\$19.0 million). Of this amount, \$9.6 million (US\$9.2 million) was paid with cash on hand on the acquisition date, \$4.2 million (US\$4.0 million) represents the fair value of a contingent consideration payable upon the achievement of a revenue target in 2015 (*Note 27*) and \$6.0 million (US\$5.8 million) was placed in escrow. Of the amount placed in escrow, \$4.2 million (US\$4.0 million) represents deferred compensation payable to certain selling shareholders (*Note 6*).

The deferred compensation is accrued on a straight line basis over the vesting periods as compensation expense in the general and administrative expenses of Aimia's consolidated financial statements and was excluded from the total consideration to be allocated.

| Purchase price                         |             |
|--|-------------|
| <b>Total consideration</b>             | <b>19.8</b> |
| Deferred compensation                  | (4.2)       |
| <b>Total consideration to allocate</b> | <b>15.6</b> |

In order to complete the transaction, Aimia incurred approximately \$0.6 million (US\$0.5 million) of acquisition-related costs during the third quarter of 2013 which were included in general and administrative expenses.

The final allocation was completed during the fourth quarter of 2013.

| Recognized amounts of identifiable assets acquired and liabilities assumed |             |
|--|-------------|
| Cash and cash equivalents  | 0.7         |
| Technology   | 10.1        |
| Customer relationships   | 1.3         |
| Other intangibles  | 0.9         |
| Other identifiable assets  | 0.9         |
| Deferred income taxes  | (4.8)       |
| Other identifiable liabilities   | (1.1)       |
| <b>Total identifiable net assets (liabilities)</b>                         | <b>8.0</b>  |
| Goodwill   | 7.6         |
| <b>Total</b>   | <b>15.6</b> |

### B) OTHER

During the year ended December 31, 2013, Aimia acquired the remaining 60% interest of a privately-owned company based in Indonesia, and reported in the APAC region, for cash consideration of \$2.1 million (US\$2.0 million).



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 4. EQUITY-ACCOUNTED INVESTMENTS

| As at   | December 31, | December 31, |
|---|--------------|--------------|
|   | 2014         | 2013         |
| Investment in PLM Premier, S.A.P.I. de C.V. <sup>(a)</sup>          | 87.6         | 97.2         |
| Other equity-accounted investments in joint ventures <sup>(b)</sup> | 20.2         | 4.1          |
| Equity-accounted investments in associates <sup>(c)</sup>           | 7.7          | 4.1          |
| <b>Total</b>  | <b>115.5</b> | <b>105.4</b> |

(a) During the years ended December 31, 2014 and 2013, Aimia received distributions from PLM of \$15.2 million (US\$13.7 million) and \$14.0 million (US\$13.7 million), respectively.

(b) On February 6, 2014 and on December 23, 2014, Aimia invested \$17.1 million (RM\$51.1 million) and \$3.7 million (RM \$11.0 million) respectively in Think Big. An additional \$3.6 million (RM\$10.9 million) will be invested if certain milestones are achieved by December 31, 2015.

On April 3, 2013 and October 15, 2014, Aimia invested additional amounts of \$5.5 million (US\$5.5 million) and \$0.6 million (US\$0.5 million) respectively in Prismah to fund operating activities. Furthermore, at December 31, 2014, Aimia and Multiplus S.A. decided to wind up the joint arrangement in Prismah and expect this to be completed by March 31, 2015.

(c) On April 10, 2014, Aimia acquired a 25% stake in Travel Club, a coalition loyalty program in Spain, for a total cash consideration of \$3.9 million (€2.6 million).

During the years ended December 31, 2014 and 2013, Aimia made investments of \$1.6 million (US\$1.5 million) and \$4.3 million (US\$4.2 million), respectively, in China Rewards, a Chinese based retail coalition loyalty program start-up.

| Share of net earnings (loss) of equity-accounted investments | Years Ended December 31, |              |
|--|--------------------------|--------------|
|  | 2014                     | 2013         |
| Investment in PLM Premier, S.A.P.I. de C.V.                  | (2.3)                    | (3.7)        |
| Other equity-accounted investments in joint ventures         | (4.3)                    | (1.3)        |
| Equity-accounted investments in associates                   | (3.0)                    | (1.6)        |
| <b>Total</b>   | <b>(9.6)</b>             | <b>(6.6)</b> |

### A) INVESTMENT IN PLM PREMIER, S.A.P.I. DE C.V.

Presented below is the summarized financial information for PLM, excluding amounts relating to identifiable assets and goodwill recognized on a step basis. The information reflects the amounts presented in the financial statements of PLM adjusted for differences in accounting policies between the Corporation and PLM.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## Summarized balance sheet

| As at                           | December 31,   |                |
|---------------------------------|----------------|----------------|
|                                 | 2014           | 2013           |
| Cash and cash equivalents       | 59.7           | 28.9           |
| Other current assets            | 64.9           | 69.6           |
| Total current assets            | 124.6          | 98.5           |
| Total non current assets        | 69.0           | 64.8           |
| <b>Total assets</b>             | <b>193.6</b>   | <b>163.3</b>   |
| Total current liabilities       | (146.0)        | (126.5)        |
| Total non-current liabilities   | (139.5)        | (99.4)         |
| <b>Total liabilities</b>        | <b>(285.5)</b> | <b>(225.9)</b> |
| <b>Net assets (liabilities)</b> | <b>(91.9)</b>  | <b>(62.6)</b>  |

## Summarized statement of comprehensive income

|  | Years Ended December 31, |         |
|--|--------------------------|---------|
|  | 2014                     | 2013    |
| <b>Revenue</b>                         | <b>127.8</b>             | 111.1   |
| Cost of rewards and operating expenses | (128.8)                  | (105.9) |
| Depreciation and amortization          | (1.3)                    | (0.6)   |
| <b>Operating income (loss)</b>         | <b>(2.3)</b>             | 4.6     |
| Net financing income                   | 13.3                     | 3.7     |
| Income tax recovery (expense)          | (3.3)                    | 0.2     |
| <b>Net earnings</b>                    | <b>7.7</b>               | 8.5     |
| Other comprehensive loss               | (6.0)                    | (5.4)   |
| <b>Comprehensive income</b>            | <b>1.7</b>               | 3.1     |

## Reconciliation of summarized financial information to the carrying amount and Aimia's share of net earnings

|   | 2014          | 2013   |
|---|---------------|--------|
| <b>PLM net assets (liabilities), beginning of year</b>                        | <b>(62.6)</b> | (37.0) |
| Net earnings for the year   | 7.7           | 8.5    |
| Other comprehensive loss for the year   | (6.0)         | (5.4)  |
| Distributions declared during the year  | (31.0)        | (28.7) |
| <b>PLM net assets (liabilities), end of year</b>                              | <b>(91.9)</b> | (62.6) |
| Interest in PLM @ 48.9%   | (44.9)        | (30.6) |
| Net book value of identifiable assets and goodwill recognized on a step basis | 132.5         | 127.8  |
| <b>Carrying value, end of year</b>  | <b>87.6</b>   | 97.2   |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Years Ended December 31, |       |
|--|--------------------------|-------|
|  | 2014                     | 2013  |
| <b>Net earnings for the year</b>   | <b>7.7</b>               | 8.5   |
| Share of net earnings of PLM @ 48.9%   | 3.8                      | 4.2   |
| Amortization expense related to identifiable assets recognized on a step basis | (6.1)                    | (7.9) |
| <b>Aimia's share of PLM net earnings (loss)</b>                                | <b>(2.3)</b>             | (3.7) |

## 5. LONG-TERM INVESTMENTS

|  | December 31, | December 31, |
|--|--------------|--------------|
|  | 2014         | 2013         |
| Investments in equity instruments <sup>(a)(b)</sup>                          | 137.4        | 90.9         |
| Investment in corporate and government bonds <i>(Note 11)</i> <sup>(c)</sup> | 258.0        | 269.7        |
| <b>Total</b>   | <b>395.4</b> | 360.6        |

(a) Includes the investments in Cardlytics and Air Canada Class B shares *(Note 10)*.

(b) During the year ended December 31, 2014, a fair value gain of \$24.2 million was recorded in other comprehensive income related to the investment in Cardlytics *(Note 27)*.

During the year ended December 31, 2013, Aimia made additional investments in Cardlytics totaling \$31.9 million (US \$31.0 million) and recorded a fair value gain of \$13.7 million in other comprehensive income related to the investment in Cardlytics *(Note 27)*.

(c) The investment in corporate and government bonds amounted to \$309.3 million at December 31, 2014 (December 31, 2013: \$310.5 million) of which \$51.3 million was classified as short-term investments (December 31, 2013: \$40.8 million) and \$258.0 million as long-term investments (December 31, 2013: \$269.7 million).

## 6. CASH HELD IN ESCROW

### A) ACQUISITION OF LMG

Cash held in escrow, in the amount of \$42.9 million (£27.1 million), representing contingent consideration related to the December 2007 acquisition of Aimia EMEA Limited (formerly Loyalty Management Group Limited or LMG), was released to the former shareholders of Aimia EMEA Limited on July 19, 2013 pursuant to the escrow agreement entered into at the time of the acquisition and based on the UK Supreme Court's final judgment issued on June 20, 2013 *(Note 16)*.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## B) ACQUISITION OF EIM

On September 24, 2012, pursuant to the acquisition agreement, an amount of \$5.5 million (US\$5.7 million) was placed in escrow, representing \$3.6 million (US\$3.8 million) to cover working capital adjustments and potential indemnification claims, and a contingent consideration of \$1.9 million (US\$1.9 million) payable upon the achievement of a performance target in 2013. Of the total amount of cash held in escrow, \$1.1 million (US\$1.1 million), or 20.1%, represented deferred compensation payable to certain selling shareholders within 30 days of the second anniversary of the acquisition provided that they remain employed with Aimia at such time.

On December 24, 2012, as a result of the completion of the working capital audit, an amount of US\$710,000 was released from escrow. Of this amount, US\$43,000 was released to Aimia as an adjustment to the original targeted working capital. Of the remaining amount, US\$134,000 (20.1% of the residual amount), representing deferred compensation, was paid to certain selling shareholders during the fourth quarter of 2014, and US\$533,000 was released to the selling shareholders.

On December 13, 2013, the amount of \$2.0 million (US\$1.9 million) related to the contingent consideration was released from escrow upon the achievement of the performance target. Of this amount, \$1.6 million (US\$1.5 million) was released to the selling shareholders and \$0.4 million (US\$0.4 million), representing deferred compensation, was paid to certain selling shareholders during the fourth quarter of 2014.

On March 24, 2014, an amount of \$1.8 million (US\$1.6 million), representing a portion of the amount placed in escrow to cover potential indemnification claims, was released from escrow. Of this amount, \$1.4 million (US\$1.3 million) was released to the selling shareholders and \$0.4 million (US\$0.3 million), representing deferred compensation, was paid to certain selling shareholders during the fourth quarter of 2014. During the year ended December 31, 2014, Aimia had filed claims for the balance of the indemnity escrow for which a settlement of \$1.4 million (US\$1.2 million) has been reached. This amount will be released to Aimia during the first quarter of 2015.

## C) ACQUISITION OF SMART BUTTON (NOTE 3)

On July 17, 2013, pursuant to the acquisition agreement, an amount of \$6.0 million (US\$5.8 million) was placed in escrow, representing \$1.8 million (US\$1.8 million) to cover working capital adjustments and potential indemnification claims and \$4.2 million (US\$4.0 million) related to deferred compensation payable to certain selling shareholders in two equal payments of US\$2.0 million on December 31, 2014 and December 31, 2015 provided that they remain employed with Aimia at such times.

On February 13, 2014, an amount of \$0.3 million (US\$0.3 million) was released from escrow and paid to the selling shareholders as a result of the completion of the working capital audit.

On December 31, 2014, the first half of the deferred compensation, representing an amount of \$2.3 million (US\$2.0 million), was released from escrow and paid to the selling shareholders as they were employed with Aimia on such date.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 7. FINANCIAL INCOME AND EXPENSES

|   | Years Ended December 31, |               |
|---|--------------------------|---------------|
|   | 2014                     | 2013          |
| Interest income on loans and receivables            | 5.1                      | 3.7           |
| Interest income on investments in bonds             | 9.4                      | 9.5           |
| Other financial income ( <i>Notes 10 &amp; 16</i> ) | 0.6                      | 22.4          |
| <b>Financial income</b>                             | <b>15.1</b>              | <b>35.6</b>   |
| Interest on long-term debt                          | (48.2)                   | (51.2)        |
| Other financial expenses ( <i>Note 16</i> )         | (0.7)                    | (2.5)         |
| <b>Financial expenses</b>                           | <b>(48.9)</b>            | <b>(53.7)</b> |
| <b>Net financial expenses</b>                       | <b>(33.8)</b>            | <b>(18.1)</b> |

## 8. LOSS PER COMMON SHARE

|   | Years Ended December 31, |             |
|---|--------------------------|-------------|
|   | 2014                     | 2013        |
| Net earnings (loss) attributable to equity holders of the Corporation | (40.3)                   | (498.3)     |
| Deduct: Dividends declared on preferred shares                        | (20.2)                   | (11.2)      |
| Net loss attributable to common shareholders                          | (60.5)                   | (509.5)     |
| Weighted average number of basic and diluted common shares            | 173,513,715              | 172,514,527 |
| Loss per common share – Basic and fully diluted                       | \$ (0.35)                | \$ (2.95)   |

## 9. ACCOUNTS RECEIVABLE

| As at             | December 31, |              |
|-------------------|--------------|--------------|
|                   | 2014         | 2013         |
| Trade receivables | 368.4        | 300.4        |
| Other receivables | 111.8        | 113.2        |
| <b>Total</b>      | <b>480.2</b> | <b>413.6</b> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 10. MAJOR ACCUMULATION PARTNERS AND SIGNIFICANT REDEMPTION PARTNER

Air Canada and three other major Accumulation Partners account for a significant percentage of Gross Billings. Since Aimia's revenues are recognized based on redemptions by members as opposed to the issuance of Loyalty Units to members by the Accumulation Partners, the information on major customers is based on total Gross Billings, which include proceeds from the sale of Loyalty Units and services rendered or to be rendered. Gross Billings for each Accumulation Partner represent the contracted amounts received or receivable from Accumulation Partners and customers during each period. Air Canada and the other Accumulation Partners accounted for a significant percentage of Gross Billings as follows:

|             | Operating segment | Years Ended December 31, |      |
|-------------|-------------------|--------------------------|------|
|             |                   | 2014                     | 2013 |
|             |                   | %                        | %    |
| Air Canada  | Canada            | 9                        | 10   |
| CIBC        | Canada            | 10                       | 23   |
| Sainsbury's | EMEA              | 14                       | 14   |
| TD          | Canada            | 19                       | 2    |

## FINANCIAL CARD AGREEMENTS

On September 16, 2013, Aimia entered into ten-year financial credit card agreements with each of TD Bank Group ("TD") and Canadian Imperial Bank of Commerce ("CIBC"), effective from January 1, 2014. Under these agreements TD became Aeroplan's primary financial services partner and credit card issuer, while CIBC continues to be an issuer of Aeroplan credit cards. The financial credit card agreement with TD includes a \$100.0 million upfront contribution payable by TD to Aimia to help fund program enhancements effective as of January 1, 2014. The contribution was received in full on January 2, 2014, and consequently recorded in deferred revenue. The contribution will be recognized as revenue over the term of the agreement in accordance with Aimia's accounting policy for the sale of Loyalty Units (*Note 2*).

On September 16, 2013, Aimia also entered into an asset purchase agreement with TD and CIBC. These agreements were subject to certain regulatory approvals and other closing conditions, all of which were fulfilled on December 27, 2013. Pursuant to this agreement, TD acquired on December 27, 2013 approximately half of the Aeroplan credit card portfolio from CIBC and CIBC retained the balance, comprised of Aeroplan cardholders who have broader banking relationships with CIBC. As a result, a payment of \$150.0 million in relation to the sale of approximately half of the Aeroplan card portfolio to TD, was made by Aimia to CIBC and recorded in general and administrative expenses during the fourth quarter of 2013. Concurrent with the asset purchase agreement, the parties entered into a migration agreement. Depending on the net migration of Aeroplan-branded credit card accounts between CIBC and TD over the first five years of the agreement (meaning the net amount of cardholders retained by CIBC who choose to move

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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to TD and the cardholders purchased by TD who choose to move to CIBC), TD, Aimia and CIBC have agreed to make payments of up to \$400.0 million. Aimia will be responsible for, or entitled to receive, up to \$100.0 million of these payments over five years. During the fourth quarter of 2013, a provision ("Migration Provision") totaling \$50.0 million was recorded, representing management's best estimate of the anticipated net migration of Aeroplan-branded credit card accounts between CIBC and TD over five years. In order to determine the Migration Provision, management uses an expected value model. There was no change to this provision during the year ended December 31, 2014 (*Note 16*). In accordance with the migration agreement, the payments relating to the net migration of the Aeroplan-branded credit card accounts are to be made within the first 45 days of each year, with the first payment being due in 2015.

On November 13, 2013, Aeroplan entered into agreements to extend its partnership with American Express, effective January 1, 2014, at the expiry of the existing agreements, for a 4 year term.

## CONTRACTUAL AND COMMERCIAL PRACTICES WITH AIR CANADA

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

|  | Years Ended December 31, |      |
|--|--------------------------|------|
|  | 2014                     | 2013 |
| Air Canada (and other Star Alliance Partners) <sup>(a)</sup> | %                        | %    |
|  | 41                       | 37   |

(a) For the year ended December 31, 2013, the cost of rewards provided by Air Canada (and other Star Alliance Partners) as a percentage of total cost of rewards and direct costs was 35% when excluding the impact of the final judgment of the VAT litigation (*Note 16*).

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

## CPSA

The amended and restated commercial participation services agreement dated June 9, 2004 between Air Canada and Aeroplan, as amended (the "CPSA"), which expires on June 29, 2020, covers the terms and conditions of the purchase of air travel rewards by Aeroplan from Air Canada and its affiliates, the purchase of Aeroplan Miles by Air Canada and its affiliates for issuance to members and the management of the tier membership program for certain Air Canada customers. Pursuant to the CPSA, Aeroplan is required to purchase annually a minimum number

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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of reward travel seats on Air Canada and its affiliates, which number is based on a function of the number of seats utilized in the three preceding calendar years. Based on the three years ended December 31, 2014, Aeroplan is required to purchase reward travel seats amounting to approximately \$460.5 million each year. While Air Canada can change the number of Aeroplan Miles under the Aeroplan Program awarded to members per flight without Aeroplan's consent, Air Canada is required to purchase, on an annual basis, a pre-established number of Aeroplan Miles under the Aeroplan Program at a specified rate. Aeroplan is required to perform certain marketing and promotion services for Air Canada, including contact centre services for the management of the frequent flyer tier membership program, for a fee based on actual costs, on a fully allocated basis, plus an administrative fee. Aeroplan's ability to respond to members' requests for future rewards will depend on Air Canada's ability to provide the requested number of seats.

## AIR CANADA WARRANTS AND CLASS B SHARES

In connection with the July 29, 2009 Air Canada club loan, which was repaid on August 3, 2010, Air Canada issued warrants to the lenders to purchase Air Canada Class A or Class B variable voting shares. Aeroplan received 1,250,000 warrants with an exercise price of \$1.51 each on July 29, 2009 and 1,250,000 warrants with an exercise price of \$1.44 each on October 19, 2009, exercisable at any time and expiring four years from the date of grant.

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

On July 24, 2013, Aimia exercised 1,250,000 warrants at a price of \$1.51 each and acquired a corresponding number of Air Canada Class B shares for cash consideration of \$1.9 million. The fair value of these warrants amounted to \$0.9 million on July 24, 2013. On October 16, 2013, Aimia exercised the remaining 1,250,000 warrants at a price of \$1.44 each and acquired a corresponding number of Air Canada Class B shares for cash consideration of \$1.8 million. The fair value of these warrants amounted to \$4.4 million on October 16, 2013. During the period between January 1, 2013 and the exercise dates of the warrants, a fair value gain of \$4.2 million was recorded in financial income.

The investment in Air Canada Class B shares is presented in long-term investments (*Note 5*) and is accounted for as an available-for-sale investment, measured at fair value with changes recognized in other comprehensive income (*Note 27*). At December 31, 2014, the fair value of Air Canada Class B shares amounted to \$29.7 million (December 31, 2013: \$18.5 million).

## 11. REDEMPTION RESERVE

Aeroplan maintains the Aeroplan Miles redemption reserve (the "Reserve"), which, subject to compliance with the provisions of the Corporation's 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



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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practicable, with available cash generated from operations. To date, Aimia has not used the funds held in the Reserve. At December 31, 2014, the Reserve amounted to \$300.0 million and was included in short-term investments 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 on policies established by management, which are reviewed periodically. At December 31, 2014, the Reserve was invested in corporate, federal and provincial bonds.

### 12. PROPERTY AND EQUIPMENT

| As at                      | December 31, 2014                         |                        |                              | December 31, 2013                         |                        |                              |
|----------------------------|---|------------------------|------------------------------|---|------------------------|------------------------------|
|                            | Furniture, Fixtures and Computer Hardware | Leasehold Improvements | Total Property and Equipment | Furniture, Fixtures and Computer Hardware | Leasehold Improvements | Total Property and Equipment |
| Cost                       | 56.1                                      | 29.9                   | 86.0                         | 45.2                                      | 22.7                   | 67.9                         |
| Accumulated depreciation   | (34.4)                                    | (17.1)                 | (51.5)                       | (27.7)                                    | (13.3)                 | (41.0)                       |
| <b>Net carrying amount</b> | <b>21.7</b>                               | <b>12.8</b>            | <b>34.5</b>                  | 17.5                                      | 9.4                    | 26.9                         |

Additions to furniture, fixtures and computer hardware amounted to \$10.4 million for the year ended December 31, 2014 (2013: \$9.7 million). Additions to leasehold improvements amounted to \$7.1 million for the year ended December 31, 2014 (2013: \$0.9 million).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## 13. PROPERTY AND EQUIPMENT, LONG-LIVED INTANGIBLES AND GOODWILL

|   | Property and Equipment | Accumulation Partners' Contracts and Customer Relationships | Software and Technology | Trade Names  | Other Intangibles <sup>(d)</sup> | Goodwill <sup>(e)</sup> |
|---|------------------------|---|-------------------------|--------------|----------------------------------|-------------------------|
| <b>Year ended December 31, 2013</b>                       |                        |   |                         |              |                                  |                         |
| Opening net carrying amount                               | 23.4                   | 1,207.6   | 107.5                   | 391.2        | 2.4                              | 2,007.4                 |
| Additions - Internally generated                          | —                      | —   | 51.7                    | —            | —                                | —                       |
| Additions - Purchased                                     | 10.6                   | —   | —                       | —            | —                                | —                       |
| Additions - Business combination (Note 3)                 | 0.3                    | 2.3   | 10.1                    | —            | 0.9                              | 9.7                     |
| Depreciation and amortization expense <sup>(a), (b)</sup> | (8.3)                  | (79.0)  | (40.4)                  | —            | (0.2)                            | —                       |
| Impairment charge <sup>(c)</sup>                          | —                      | —   | —                       | —            | —                                | (19.1)                  |
| Exchange differences and other                            | 0.9                    | 4.7   | 4.3                     | 11.0         | —                                | 29.1                    |
| <b>Closing net carrying amount</b>                        | <b>26.9</b>            | <b>1,135.6</b>  | <b>133.2</b>            | <b>402.2</b> | <b>3.1</b>                       | <b>2,027.1</b>          |
| <b>At December 31, 2013</b>                               |                        |   |                         |              |                                  |                         |
| Cost  | 67.9                   | 1,638.1   | 374.2                   | 402.2        | 10.5                             | 2,027.1                 |
| Less: accumulated depreciation and amortization           | 41.0                   | 502.5   | 241.0                   | —            | 7.4                              | —                       |
| <b>Closing Net carrying amount</b>                        | <b>26.9</b>            | <b>1,135.6</b>  | <b>133.2</b>            | <b>402.2</b> | <b>3.1</b>                       | <b>2,027.1</b>          |
| <b>Year ended December 31, 2014</b>                       |                        |   |                         |              |                                  |                         |
| Opening net carrying amount                               | 26.9                   | 1,135.6   | 133.2                   | 402.2        | 3.1                              | 2,027.1                 |
| Additions - Internally generated                          | —                      | —   | 59.7                    | —            | —                                | —                       |
| Additions - Purchased                                     | 17.5                   | —   | —                       | —            | —                                | —                       |
| Additions - Business combination (Note 3)                 | —                      | —   | —                       | —            | —                                | 1.0                     |
| Depreciation and amortization expense <sup>(a), (b)</sup> | (10.4)                 | (126.8)   | (46.6)                  | —            | (0.4)                            | —                       |
| Exchange differences and other                            | 0.5                    | 4.2   | 2.2                     | 3.1          | (1.9)                            | 10.8                    |
| <b>Closing net carrying amount</b>                        | <b>34.5</b>            | <b>1,013.0</b>  | <b>148.5</b>            | <b>405.3</b> | <b>0.8</b>                       | <b>2,038.9</b>          |
| <b>At December 31, 2014</b>                               |                        |   |                         |              |                                  |                         |
| Cost  | 86.0                   | 1,643.8   | 439.0                   | 405.3        | 1.5                              | 2,038.9                 |
| Less: accumulated depreciation and amortization           | 51.5                   | 630.8   | 290.5                   | —            | 0.7                              | —                       |
| <b>Closing Net carrying amount</b>                        | <b>34.5</b>            | <b>1,013.0</b>  | <b>148.5</b>            | <b>405.3</b> | <b>0.8</b>                       | <b>2,038.9</b>          |

(a) Includes depreciation and amortization as well as amortization of Accumulation Partners' contracts, customer relationships and technology.

(b) Depreciation and amortization expense is included in cost of sales in the consolidated statement of operations.

(c) Impairment charge is included in operating expenses in the consolidated statement of operations.

(d) Includes non-competition restrictions agreed to by the vendors, pursuant to certain acquisition agreements for the years ended December 31, 2014 and 2013, and the right to use proprietary intangible assets for the year ended December 31, 2013.

(e) The closing net carrying amounts at December 31, 2014 and 2013 were net of accumulated impairment losses since January 1, 2010 of \$82.6 million (US\$71.0 million) and \$75.9 million (US\$71.0 million), respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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## GOODWILL AND TRADE NAMES

For the purpose of impairment testing, goodwill is allocated to Aimia's operating divisions which represent the lowest level within Aimia at which goodwill is monitored for internal management purposes, and is lower in the hierarchy than Aimia's operating segments.

The aggregate carrying amounts of goodwill and trade names allocated by CGU or group of CGUs are as follows:

| As at                           | December 31,   |                |
|---------------------------------|----------------|----------------|
|                                 | 2014           | 2013           |
| <b>Goodwill</b>                 |                |                |
| <b>Canada</b>                   |                |                |
| Aeroplan                        | 1,675.8        | 1,675.8        |
| Canada Proprietary Loyalty      | 15.9           | 15.9           |
| <b>EMEA</b>                     |                |                |
| EMEA group of CGUs              | 321.7          | 312.1          |
| <b>US &amp; APAC</b>            |                |                |
| US group of CGUs <sup>(a)</sup> | 23.4           | 21.2           |
| APAC Proprietary Loyalty        | 2.1            | 2.1            |
| <b>Total</b>                    | <b>2,038.9</b> | <b>2,027.1</b> |
| <b>Trade Names</b>              |                |                |
| Aeroplan                        | 275.0          | 275.0          |
| EMEA group of CGUs              | 130.3          | 127.2          |
| <b>Total</b>                    | <b>405.3</b>   | <b>402.2</b>   |

(a) For the year ended December 31, 2013, the US's CGUs were US Proprietary Loyalty and Smart Button and the carrying amount of goodwill attributed to each was \$13.4 million and \$7.8 million, respectively. As a result of reorganizational initiatives undertaken during the year ended December 31, 2014, the CGUs have been integrated and grouped for goodwill impairment testing.

The recoverable amounts of Aimia's cash-generating units for the year ended December 31, 2014 were based on a fair value less costs of disposal calculation. The valuation technique is classified as level 3 in accordance with the fair value hierarchy described in *Note 27*.

Fair value less costs of disposal was determined by using an average of the discounted future cash flows generated from the continuing use of the units and a market approach derived using a multiplication of earnings. The calculation of the discounted future cash flows was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results, and on the financial budgets approved by management covering a 3 to 5 year term.
- Other key assumptions applied in the discounting of future cash flows include a terminal growth rate and discount rate. Rates were applied to each CGU based on the economic indicators within the region and

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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specific risks related to the respective businesses within these CGUs. The rates assumed for each CGU are presented in the following table:

| Segments                | Canada   |                            | EMEA               | US & APAC        |                          |
|-------------------------|----------|----------------------------|--------------------|------------------|--------------------------|
| Cash-Generating Units   | Aeroplan | Canada Proprietary Loyalty | EMEA Group of CGUs | US Group of CGUs | APAC Proprietary Loyalty |
|                         | %        | %                          | %                  | %                | %                        |
| <b>2014 Assumptions</b> |          |                            |                    |                  |                          |
| Terminal Growth Rate    | 2.5      | 2.5                        | 2.5                | 2.5              | 3.0                      |
| Discount Rate           | 11.5     | 15.8                       | 13.7               | 19.3             | 19.4                     |
| <b>2013 Assumptions</b> |          |                            |                    |                  |                          |
| Terminal Growth Rate    | 2.5      | 2.5                        | 2.5                | 2.5              | 3.0                      |
| Discount Rate           | 10.8     | 15.5                       | 13.6               | 19.0             | 19.2                     |

The key assumptions for the market approach include:

- Adjusted EBITDA projected on the basis of past experience, actual operating results and the 2015 long range plan. Adjusted EBITDA is a non-GAAP measure and represents earnings before interest, taxes, depreciation and amortization adjusted for certain factors particular to the business, such as changes in deferred revenue and Future Redemption Costs ("Adjusted EBITDA");
- Multipliers were determined on the basis of historical and publicly available information of comparable companies.

Based on the results of the impairment tests conducted in 2014, the carrying amounts of the units were determined to be lower than their recoverable amounts.

During the year ended December 31, 2013, an impairment charge of \$19.1 million (US\$18.0 million) was recorded against goodwill in the US Proprietary Loyalty CGU and related primarily to delays in the execution of management's business plan. As a result, projected Gross Billings and Adjusted EBITDA had been reduced, resulting in lower projected cash flows.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 14. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| As at   | December 31, | December 31, |
|---|--------------|--------------|
|   | 2014         | 2013         |
| Trade payables and redemption accruals        | 301.4        | 296.3        |
| Non-trade payables and other accrued expenses | 176.3        | 179.0        |
| Share-based compensation liability            | 6.1          | 6.2          |
| Restructuring liabilities                     | 3.5          | 1.3          |
| <b>Total</b>                                  | <b>487.3</b> | <b>482.8</b> |

## 15. DEFERRED REVENUE

A reconciliation of deferred revenue is as follows:

| As at                                     | Loyalty Units        |                      | Other                |                      | Total                |                      |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
|   | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2014 | December 31,<br>2013 | December 31,<br>2014 | December 31,<br>2013 |
| Opening balance                           | 2,931.7              | 2,188.1              | 62.0                 | 65.6                 | 2,993.7              | 2,253.7              |
| Loyalty Units issued –<br>Gross Billings  | 2,009.2              | 1,711.4              | —                    | —                    | 2,009.2              | 1,711.4              |
| Other – Gross Billings                    | —                    | —                    | 677.4                | 655.0                | 677.4                | 655.0                |
| Revenue recognized                        | (1,780.3)            | (1,018.8)            | (688.5)              | (654.7)              | (2,468.8)            | (1,673.5)            |
| Foreign currency and<br>other adjustments | 7.9                  | 51.0                 | (1.1)                | (3.9)                | 6.8                  | 47.1                 |
| <b>Ending balance</b>                     | <b>3,168.5</b>       | <b>2,931.7</b>       | <b>49.8</b>          | <b>62.0</b>          | <b>3,218.3</b>       | <b>2,993.7</b>       |
| Represented by:                           |                      |                      |                      |                      |                      |                      |
| Current portion <sup>(a)</sup>            | 1,579.6              | 1,687.3              | 49.0                 | 60.7                 | 1,628.6              | 1,748.0              |
| Long-term                                 | 1,588.9              | 1,244.4              | 0.8                  | 1.3                  | 1,589.7              | 1,245.7              |

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

## CHANGES IN THE BREAKAGE ESTIMATE

### Nectar Italia Program

During the fourth quarter of 2014, the Breakage estimate in the Nectar Italia Program was increased to reflect recent redemption levels in anticipation of the regulatory expiry of points on the fifth anniversary of the loyalty program, which will take place in the first quarter of 2015. The impact of the change in the Breakage estimate resulted in an increase of \$19.4 million to revenue from Loyalty Units and a corresponding decrease to deferred revenue during the three and twelve months ended December 31, 2014, of which \$13.4 million is attributable to the years prior to 2014,

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\$4.1 million to the nine months ended September 30, 2014 and \$1.9 million to the three months ended December 31, 2014.

## *Aeroplan Program*

During the second quarter of 2013, the Breakage estimate in the Aeroplan Program was revised from 18% to 11% due to the program enhancements announced on June 27, 2013, specifically to reflect the expectation of an increase in member engagement and the cancellation of the seven-year mileage redemption expiry. The impact of the change in the Breakage estimate resulted in a reduction of \$663.6 million to revenue from Loyalty Units and a corresponding increase to deferred revenue during the three and six months ended June 30, 2013, of which \$617.0 million is attributable to the years prior to 2013, \$25.1 million to the three months ended March 31, 2013 and \$21.5 million to the three months ended June 30, 2013.

As a result, Aimia recorded an income tax recovery of \$179.8 million during the three and six months ended June 30, 2013, of which \$167.5 million is attributable to the years prior to 2013, \$6.6 million to the three months ended March 31, 2013 and \$5.7 million to the three months ended June 30, 2013. Of the total amount, \$135.4 million was recorded as a current income tax recovery and \$44.4 million as a deferred income tax recovery.

## MEASUREMENT UNCERTAINTY

Aimia may be required to provide rewards to members for unexpired Loyalty Units accounted for as Breakage on the Loyalty Units issued to date for which the revenue has been recognized or deferred and for which no liability has been recorded. The potential redemption cost for such Loyalty Units is estimated to be \$862.9 million at December 31, 2014.

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.

Management has calculated that the cumulative effect of a 1% change in Breakage in each individual program would have a consolidated impact on revenue and earnings before income taxes of \$164.0 million for the period in which the change occurred, with \$144.2 million relating to prior years and \$19.8 million relating to the current year.

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## 16. PROVISIONS

|   | Migration<br>Provision<br>(Note 16A) | VAT Provision<br>(Note 16B) | Total        |
|---|--------------------------------------|-----------------------------|--------------|
| <b>Balance at December 31, 2012</b>     | —                                    | <b>159.5</b>                | <b>159.5</b> |
| Provision recorded during the year      | 50.0                                 | 3.2                         | 53.2         |
| Provision used during the year          | —                                    | —                           | —            |
| Provision reversed during the year      | —                                    | (161.3)                     | (161.3)      |
| Foreign exchange translation adjustment | —                                    | (1.4)                       | (1.4)        |
| <b>Balance at December 31, 2013</b>     | <b>50.0</b>                          | —                           | <b>50.0</b>  |
| Provision recorded during the year      | —                                    | —                           | —            |
| Provision used during the year          | —                                    | —                           | —            |
| Provision reversed during the year      | —                                    | —                           | —            |
| Foreign exchange translation adjustment | —                                    | —                           | —            |
| <b>Balance at December 31, 2014</b>     | <b>50.0</b>                          | —                           | <b>50.0</b>  |
| <b>Represented by:</b>                  |                                      |                             |              |
| Current portion                         | —                                    | —                           | —            |
| Long-term portion                       | <b>50.0</b>                          | —                           | <b>50.0</b>  |

### A) ASSET PURCHASE AGREEMENT (NOTE 10)

In relation to the asset purchase and migration agreements with TD and CIBC and the net migration of Aeroplan-branded credit card accounts between CIBC and TD, a provision totaling \$50.0 million was recorded in general and administrative expenses during the fourth quarter of 2013. At this time, the provision represents management's best estimate.

### B) VAT LITIGATION

Aimia EMEA Limited (formerly Loyalty Management Group Limited) was 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.

On October 7, 2010, the European Court of Justice ("ECJ") ruled against Aimia EMEA Limited and in favour of HMRC. The case was referred back to the UK Supreme Court for judgment based on the guidance of the ECJ. The hearing took place on October 24 and October 25, 2012. On March 13, 2013, the UK Supreme Court issued its judgment. While the ruling was in favour of Aimia EMEA Limited, the UK Supreme Court asked for further written submissions from both Aimia EMEA Limited and HMRC to fully determine the case.

For the three months ended March 31, 2013, \$2.1 million (£1.4 million) had been recorded in cost of rewards and \$1.1 million (£0.7 million) had been recorded in interest expense.

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On June 20, 2013, the UK Supreme Court issued its final judgment in favour of Aimia. As a result, an amount of \$161.3 million (£101.1 million) was reversed from the provision to net earnings during the second quarter of 2013. Of this amount, \$142.4 million (£89.3 million) related to cost of rewards and represented input tax credits relating to the supply of goods claimed historically and to date, \$17.3 million (£10.8 million) related to interest expense and \$1.6 million (£1.0 million) to operating expenses as it represented legal fees. At the same time, the accounts receivable of \$67.5 million (£42.3 million) which would have been due from certain Redemption Partners in the event of Aimia EMEA Limited losing the case was also released to cost of rewards.

Additionally, as set out in the agreement at the time of acquisition, an amount of \$7.2 million (£4.5 million) relating to a provision payable to certain employees in the event of a favourable judgment as well as an amount of \$43.2 million (£27.1 million) relating to the contingent consideration payable to the former shareholders of Aimia EMEA Limited were recorded in accounts payable and general and administrative expenses for the period ending June 30, 2013. The contingent consideration payable was settled on July 19, 2013 upon the release of the funds held in escrow to the former shareholders of Aimia EMEA Limited.

## 17. LONG-TERM DEBT

The following is a summary of Aimia's authorized and outstanding revolving facility and Senior Secured Notes:

|  | Authorized at<br>December 31, 2014 | Drawn at<br>December 31, 2014 | Drawn at<br>December 31, 2013 |
|--|------------------------------------|-------------------------------|-------------------------------|
| Revolving facility <sup>(a)</sup>            | 300.0                              | —                             | —                             |
| Senior Secured Notes Series 2 <sup>(b)</sup> | N/A                                | —                             | 150.0                         |
| Senior Secured Notes Series 3 <sup>(c)</sup> | N/A                                | 200.0                         | 200.0                         |
| Senior Secured Notes Series 4 <sup>(d)</sup> | N/A                                | 250.0                         | 250.0                         |
| Senior Secured Notes Series 5 <sup>(e)</sup> | N/A                                | 200.0                         | 200.0                         |
| Unamortized transaction costs <sup>(f)</sup> | N/A                                | (3.6)                         | (5.1)                         |
| <b>Total long-term debt</b>                  |                                    | <b>646.4</b>                  | <b>794.9</b>                  |
| Less: current portion <sup>(b)</sup>         |                                    | —                             | 150.0                         |
| <b>Long-term debt</b>                        |                                    | <b>646.4</b>                  | <b>644.9</b>                  |

- (a) On May 9, 2014, Aimia concluded an amendment to its existing credit facility with its lending syndicate, extending the term of its revolving facility by two years to April 23, 2018. Depending on the Corporation's credit ratings, the revolving facility bears interest at rates ranging between Canadian prime rate plus 0.20% to 1.50% and the Bankers' Acceptance and LIBOR rates plus 1.20% to 2.50%.

Letters of credit: Aimia has issued irrevocable letters of credit in the aggregate amount of \$54.4 million. This amount reduces the available credit under the revolving facility.

- (b) The Senior Secured Notes Series 2, in the principal amount of \$150.0 million and bearing interest at 7.9% per annum, matured on September 2, 2014 and were repaid with cash on hand.
- (c) On January 26, 2010, Aimia issued Senior Secured Notes Series 3 in the principal amount of \$200.0 million. These notes bear interest at 6.95% per annum, payable semi-annually in arrears on January 26th and July 26th of each year, commencing July 26, 2010 and mature on January 26, 2017.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- (d) On May 17, 2012, Aimia issued Senior Secured Notes Series 4 in the principal amount of \$250.0 million. These notes bear interest at 5.60% per annum, payable semi-annually in arrears on May 17th and November 17th of each year, commencing November 17, 2012, and mature on May 17, 2019. The proceeds from the notes issued were used to repay the funds drawn on the revolving facility and for general corporate purposes.
- (e) On November 22, 2012, Aimia issued Senior Secured Notes Series 5 in the principal amount of \$200.0 million. These notes bear interest at 4.35% per annum, payable semi-annually in arrears on January 22nd and July 22nd of each year, commencing January 22, 2013, and mature on January 22, 2018. The proceeds from the notes issued were used to finance the acquisition of the additional 20% equity participation in PLM and for general corporate purposes.
- (f) Long-term debt is presented net of unamortized transaction costs.

Each of the Senior Secured Notes Series 3, 4 and 5 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 Aimia'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                    | 1.87   | ≤ 3.00 |
| Debt service <sup>(a)</sup> | (0.70) | ≤ 2.00 |
| Interest coverage           | 10.95  | ≥ 3.00 |

- (a) This ratio takes into account Aimia's net debt, calculated as long-term debt less cash, restricted cash, short-term investments and long-term investments in corporate and government bonds.

## 18. PENSION AND OTHER LONG-TERM LIABILITIES

| As at  | December 31, | December 31, |
|--|--------------|--------------|
|  | 2014         | 2013         |
| Pension and other future benefits obligations ( <i>Note 19</i> )                     | 35.5         | 16.9         |
| Share-based compensation liability   | 12.9         | 15.9         |
| Contingent consideration payable related to business acquisitions ( <i>Note 3A</i> ) | 2.0          | 4.3          |
| Consideration payable related to business acquisitions ( <i>Note 3A</i> )            | —            | 1.6          |
| Other  | 10.9         | 7.3          |
| <b>Total</b>   | <b>61.3</b>  | <b>46.0</b>  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 19. EMPLOYEE BENEFITS

Total employee benefit expenses, including salary and wages, pension costs, share-based compensation, termination and other benefits, for the year ended December 31, 2014 amounted to \$414.1 million (2013: \$392.2 million).

### EMPLOYEE SHARE PURCHASE PLAN

The employee share purchase plan allows eligible employees to invest up to 5% of their salary for the purchase of Aimia's common shares on the secondary market. The corporate yearly contribution is charged to earnings as compensation expense over the period. For the years ended December 31, 2014 and 2013, Aimia's contributions to the plan were not significant.

### DEFINED CONTRIBUTION PLANS

Total employee pension costs, as recognized by Aimia under required defined contribution employee future benefit accounting practices, amounted to \$11.1 million for the year ended December 31, 2014 (2013: \$8.3 million).

### DEFINED BENEFIT PLAN

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

In June 2009, the Corporation implemented a defined benefit pension plan as a result of the termination of the GSA and the transfer of the contact centre agents. As part of the transfer of the employees, Aeroplan agreed to recognize the transferred employees' seniority and assume any excess pension obligation arising from the accumulation of service years post termination with Air Canada until retirement from Aeroplan.

On June 8, 2012, Aeroplan entered into an agreement with Air Canada through which Air Canada would transfer to the Aeroplan defined benefit pension plan all the pension plan assets and obligations related to pension benefits accrued by employees who were Air Canada customer sales and service agents prior to 2009 and who were transferred to Aeroplan in 2009. The transfer was subject to regulatory approval from the Office of the Superintendent of Financial Institutions ("OSFI") and as such, as of December 31, 2013, the financial statements did not reflect assets and obligations in relation to this plan.

Pursuant to the agreement, Air Canada agreed to pay Aeroplan a compensation amount of \$5.5 million in exchange for the transfer of the pension plan assets and obligations relating to the transferred employees. On June 18, 2012, the compensation amount was received and recorded in deferred revenue. A letter of credit in the corresponding amount was issued by Aeroplan in favour of Air Canada as security for the compensation amount. On November 23, 2012, the amount was contributed to Aeroplan's defined benefit pension plan.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

On May 29, 2014, the regulatory approval from OSFI was received and as a result the compensation amount of \$5.5 million was recognized in other revenue. Additionally, during the second quarter of 2014, a net defined benefit asset of \$1.1 million was recorded, with a corresponding offset recorded in other comprehensive income.

On July 31, 2014, pursuant to the pension asset transfer agreement, the Aeroplan defined benefit pension plan received a total of \$68.2 million from Air Canada, representing 95% of the estimated plan asset value at the transfer date. The balance of the transfer, representing the difference between the final value of the assets on the transfer date and the funds received on July 31, 2014, was received on August 26, 2014 and amounted to \$2.9 million. The letter of credit issued as security for the compensation amount expired upon the completion of the transfer of the plan assets to Aeroplan.

The defined benefit pension plan is registered with the Office of the Superintendent of Financial Institutions ("OSFI") and Canada Revenue Agency ("CRA"). The most recent actuarial valuation report for funding purposes was conducted as at December 31, 2013. Such report presents the Corporation's minimum funding requirements. The next required actuarial valuation will be conducted as at December 31, 2014 and will be completed and filed with regulatory authorities no later than June 30, 2015.

The pension plan governance responsibility, overseeing all aspects of the plan including investment decisions and contribution schedules, lies with the Corporation.

The pension fund investment has been delegated to independent managers. The Corporation has set up an investment committee to establish and review the Statement of Investment Policies and Procedures ("SIPP"), as applicable, and monitor managers' investment performance on a regular basis. The Corporation has also appointed experienced, independent professional experts such as actuaries, custodians and trustees. The Corporation has established a pension committee to administer the plan provisions, which is composed of members designated by the Corporation and the union.

The following table summarizes the information related to the defined benefit pension plan, which provides benefits upon retirement, termination or death based on the member's years of service and final average earnings for a specified period, and other employee benefits consisting of post-employment life insurance, health and dental care, offered to disabled employees and post-retirement life insurance and health benefits, established for the contact centre employees. The defined benefit pension plan is not subject to indexation clauses.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The change in pension and other benefits plan obligations and assets is as follows:

|   | Pension Benefits <sup>(a)</sup> |                      |               | Other Employee Future Benefits <sup>(a)</sup> |
|---|---------------------------------|----------------------|---------------|---|
|   | Present value of obligation     | Fair value of assets | Total         | Total   |
| At December 31, 2012  | (36.1)                          | 27.3                 | (8.8)         | (13.0)  |
| Current service cost  | (3.2)                           | —                    | (3.2)         | (0.5)   |
| Interest (expense) income                                     | (1.9)                           | 1.4                  | (0.5)         | (0.6)   |
| Remeasurement gain (loss)                                     | —                               | —                    | —             | (0.3)   |
| Administrative expenses                                       | —                               | (0.4)                | (0.4)         | —   |
| Impact on earnings  | (5.1)                           | 1.0                  | (4.1)         | (1.4)   |
| Remeasurements:   |                                 |                      |               |   |
| - Return on plan assets, excluding amounts in interest income | —                               | 4.9                  | 4.9           | —   |
| - Gain (loss) from change in demographic assumptions          | (1.1)                           | —                    | (1.1)         | (0.3)   |
| - Gain (loss) from change in financial assumptions            | 3.0                             | —                    | 3.0           | —   |
| - Experience gains (losses)                                   | (0.6)                           | —                    | (0.6)         | (0.1)   |
| Impact of remeasurements on other comprehensive income (loss) | 1.3                             | 4.9                  | 6.2           | (0.4)   |
| - Employer contribution                                       | —                               | 4.4                  | 4.4           | —   |
| - Participant contributions                                   | (1.7)                           | 1.7                  | —             | —   |
| - Benefits paid   | 0.6                             | (0.6)                | —             | 0.2   |
| At December 31, 2013  | <b>(41.0)</b>                   | <b>38.7</b>          | <b>(2.3)</b>  | <b>(14.6)</b>                                 |
| Current service cost  | (3.4)                           | —                    | (3.4)         | (0.5)   |
| Interest (expense) income                                     | (4.1)                           | 3.7                  | (0.4)         | (0.7)   |
| Remeasurement gain (loss)                                     | —                               | —                    | —             | (0.3)   |
| Administrative expenses                                       | —                               | (0.3)                | (0.3)         | —   |
| Impact on earnings  | (7.5)                           | 3.4                  | (4.1)         | (1.5)   |
| Remeasurements:   |                                 |                      |               |   |
| - Return on plan assets, excluding amounts in interest income | —                               | 3.9                  | 3.9           | —   |
| - Gain (loss) from change in demographic assumptions          | (0.5)                           | —                    | (0.5)         | 0.1   |
| - Gain (loss) from change in financial assumptions            | (13.8)                          | —                    | (13.8)        | (2.2)   |
| - Experience gains (losses)                                   | (8.4)                           | —                    | (8.4)         | 0.2   |
| - Impact of pension transfer                                  | (68.4)                          | 69.5                 | 1.1           | —   |
| Impact of remeasurements on other comprehensive income (loss) | (91.1)                          | 73.4                 | (17.7)        | (1.9)   |
| - Employer contribution                                       | —                               | 6.4                  | 6.4           | —   |
| - Participant contributions                                   | (1.7)                           | 1.7                  | —             | —   |
| - Benefits paid   | 1.8                             | (1.8)                | —             | 0.2   |
| <b>At December 31, 2014</b>                                   | <b>(139.5)</b>                  | <b>121.8</b>         | <b>(17.7)</b> | <b>(17.8)</b>                                 |

(a) Measured at December 31st of each year.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The defined benefit pension plan assets, which all have a quoted market price, consist of:

|                               | December 31, |              |             |              |
|-------------------------------|--------------|--------------|-------------|--------------|
|                               | 2014         |              | 2013        |              |
| Asset category <sup>(a)</sup> | \$           | %            | \$          | %            |
| Cash and cash equivalents     | 11.7         | 9.6          | 2.1         | 5.4          |
| Equity securities             |              |              |             |              |
| - Canadian equities           | 31.8         |              | 11.4        |              |
| - Foreign equities            | 45.7         |              | 14.8        |              |
|                               | 77.5         | 63.6         | 26.2        | 67.7         |
| Debt securities               |              |              |             |              |
| - Canadian government bonds   | 19.5         |              | 6.2         |              |
| - Canadian corporate bonds    | 11.3         |              | 3.7         |              |
| - Foreign corporate bonds     | 1.8          |              | 0.5         |              |
|                               | 32.6         | 26.8         | 10.4        | 26.9         |
| <b>Total</b>                  | <b>121.8</b> | <b>100.0</b> | <b>38.7</b> | <b>100.0</b> |

(a) Measured at December 31st of each year.

The defined benefit plan exposes the Corporation to a number of risks, the most significant of which are detailed below:

|                       |   |
|-----------------------|---|
| Asset volatility      | <p>The plan liabilities are calculated using a discount rate set with reference to corporate bond yields; if plan assets underperform this yield, this will create a deficit.</p> <p>The pension fund holds a significant proportion of equities, which are expected to outperform corporate bonds in the long-term while contributing to volatility and risk in the short-term.</p> <p>However, due to the long-term nature of plan liabilities, the Corporation believes that a level of continuing equity investment is an appropriate element of the plan's long-term strategy to manage the plan efficiently. Plan assets are invested in a diversified manner so to minimize the volatility risk.</p> |
| Change in bond yields | <p>As the discount rate assumption is based on corporate bond yields, a decrease in such yields will increase the defined benefit obligation. However, this increase will be partially offset by an increase in the value of the plan's bond holdings.</p>  |
| Life expectancy       | <p>The majority of the plan's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the plan's liabilities.</p> <p>The most up to date mortality tables are used to minimize this risk.</p>   |
| Inflation risk        | <p>The health care plan's benefit obligation is linked to inflation, and higher inflation will lead to higher liabilities. However, this increase is limited as the benefits are capped by a lifetime maximum.</p>  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

| December 31,                                  | Pension Benefits <sup>(b)</sup> |                             | Other Employee Future Benefits <sup>(b)</sup> |           |
|---|---------------------------------|-----------------------------|---|-----------|
|   | 2014                            | 2013                        | 2014  | 2013      |
|   | %                               | %                           | %   | %         |
| Discount rate                                 | 4.0                             | 4.9                         | 4.0   | 4.8       |
| Rate of compensation increase                 | 2.0 for 2013 and thereafter     | 2.0 for 2013 and thereafter | N/A   | N/A       |
| Dental & Health care inflation <sup>(a)</sup> | N/A                             | N/A                         | 4.5 & 8.5                                     | 4.5 & 8.5 |

(a) The health care inflation assumption was downgraded, in and after 2021, to 5% per annum.

(b) Assumptions are assessed at December 31st of each year.

The assumptions regarding future mortality is set based on actuarial advice in accordance with published statistics.

The assumption translates into a remaining average life expectancy in years for a pensioner retiring at age 65:

| December 31,   | Pension Benefits & Other Employee Future Benefits |      |
|--|---|------|
|  | 2014  | 2013 |
| <i>(in years)</i>  |   |      |
| Retiring at the end of the reporting period:             |   |      |
| - Male   | 21  | 22   |
| - Female   | 24  | 24   |
| Retiring 20 years after the end of the reporting period: |   |      |
| - Male   | 23  | 23   |
| - Female   | 25  | 25   |

The sensitivity of the defined benefit obligation to changes in significant assumptions is set out below:

| Impact on defined benefit obligation | Change in assumption | Pension Benefits       |                        | Other Employee Future Benefits |                        |
|--------------------------------------|----------------------|------------------------|------------------------|--------------------------------|------------------------|
|                                      |                      | Increase in assumption | Decrease in assumption | Increase in assumption         | Decrease in assumption |
|                                      |                      | %                      | %                      | %                              | %                      |
| Discount rate                        | 0.5%                 | Decrease by 9.1        | Increase by 10.6       | Decrease by 6.9                | Increase by 7.7        |
| Rate of compensation increase        | 0.5%                 | Increase by 0.7        | Decrease by 1.0        | N/A                            | N/A                    |
| Health care cost trend               | 1.0%                 | N/A                    | N/A                    | Increase by 5.6                | Decrease by 5.0        |
| Health care claims cost              | 10.0%                | N/A                    | N/A                    | Increase by 4.0                | Decrease by 4.1        |
| Life expectancy                      | 1 year               | Increase by 1.6        | Decrease by 1.7        | Increase by 1.0                | Decrease by 1.1        |

The sensitivity analysis have been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period. Each sensitivity analysis disclosed is based on changing one assumption while holding all other assumptions constant. In reality, one might expect interrelationships between the assumptions. The analysis above abstracts from these correlations between assumptions. When calculating the sensitivity of the

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

defined benefit obligation to variation in significant actuarial assumptions, the same method (projected unit credit method) has been applied as for calculating the liability recognized in the statement of financial position.

The duration of the defined benefits pension obligation at December 31, 2014 was 20.1 years (2013: 18.2 years). The duration of the other defined benefits obligation at December 31, 2014 was 16.0 years (2013: 14.4 years).

The expected maturity analysis of undiscounted pension and other benefits is presented below:

| December 31,      | Pension Benefits |             | Other Employee Future Benefits |             |
|-------------------|------------------|-------------|--------------------------------|-------------|
|                   | 2014             | 2013        | 2014                           | 2013        |
| Less than a year  | 2.5              | 1.4         | 0.4                            | 0.2         |
| Between 1-2 years | 2.8              | 1.3         | 0.4                            | 0.4         |
| Between 2-5 years | 10.2             | 4.0         | 1.9                            | 1.6         |
| Over 5 years      | 224.3            | 87.2        | 44.6                           | 42.9        |
| <b>Total</b>      | <b>239.8</b>     | <b>93.9</b> | <b>47.3</b>                    | <b>45.1</b> |

According to the most recent actuarial valuation performed at December 31, 2013 for funding purposes, the plan surplus amounts to \$8.6 million on a going-concern basis while there is a deficit of \$5.4 million on a solvency basis. As such, the Corporation is required to make annual special payments of \$3.7 million until December 31, 2018 to fund the plan deficit. The Corporation current service cost is equal to 9.74% of members' pensionable earnings.

The Corporation expects \$6.8 million in contributions to be paid to its benefit plan in 2015.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 20. INCOME TAXES

### Income Tax Expense

Income tax expense (recovery) for the year is as follows:

|   | December 31,  |                |
|---|---------------|----------------|
|   | 2014          | 2013           |
| <b>Current tax expense (recovery)</b>                         |               |                |
| Current tax expense (recovery) on profits (loss) for the year | 10.9          | (95.7)         |
| Adjustment in respect of prior years                          | 0.8           | 0.5            |
| <b>Total current tax expense (recovery)</b>                   | <b>11.7</b>   | <b>(95.2)</b>  |
| <b>Deferred tax expense (recovery)</b>                        |               |                |
| Origination and reversal of temporary differences             | (17.0)        | (81.6)         |
| Recognition of previously unrecognized deferred tax assets    | (9.7)         | (23.5)         |
| Change in Canadian tax rate                                   | —             | 3.3            |
| <b>Total deferred tax recovery</b>                            | <b>(26.7)</b> | <b>(101.8)</b> |
| <b>Income tax recovery</b>                                    | <b>(15.0)</b> | <b>(197.0)</b> |

Income taxes included in the statement of earnings differ from the statutory rate as follows:

|   | December 31, |        |        |         |
|---|--------------|--------|--------|---------|
|   | 2014         |        | 2013   |         |
|   | %            | \$     | %      | \$      |
| <b>Reconciliation of statutory tax rate</b>   |              |        |        |         |
| Income tax expense (recovery) at Canadian statutory tax rate:   | 26.56        | (14.0) | 26.48  | (182.6) |
| Adjusted for the effect of:   |              |        |        |         |
| Temporary differences for which no deferred income tax asset has been recorded                                | (12.14)      | 6.4    | (1.83) | 12.6    |
| Permanent differences - other   | (5.69)       | 3.0    | (0.68) | 4.7     |
| Foreign operations - subject to lower tax rates   | 2.85         | (1.5)  | 1.30   | (9.0)   |
| Recognition of previously unrecognized deferred tax assets  | 18.40        | (9.7)  | 3.41   | (23.5)  |
| Prior year adjustments  | (1.52)       | 0.8    | (0.07) | 0.5     |
| Effect of tax rate changes on deferred income taxes   | —            | —      | (0.48) | 3.3     |
| Effect of higher tax recovery due to loss carryback to prior periods  | —            | —      | 0.43   | (3.0)   |
| Income tax expense (recovery) as reported in the consolidated statements of operations and effective tax rate | 28.46        | (15.0) | 28.56  | (197.0) |



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

The applicable statutory tax rates are 26.56% in 2014 and 26.48% in 2013. The Corporation's applicable tax rate is the Canadian combined rates applicable in the jurisdictions in which the Corporation operates.

## Deferred income tax assets and liabilities

At December 31, 2014, no deferred tax liabilities were recognized for temporary differences of \$20.9 million (2013: \$14.3 million) related to investments in subsidiaries because Aimia controls whether the liability will be incurred and it is satisfied that it will not be incurred in the foreseeable future.

The amounts recognized in the consolidated balance sheet consist of:

|   | December 31, |              |
|---|--------------|--------------|
|   | 2014         | 2013         |
| Deferred tax liabilities - to be settled within 12 months | —            | —            |
| Deferred tax liabilities - to be settled after 12 months  | 89.6         | 121.1        |
|   | <b>89.6</b>  | <b>121.1</b> |

Movements in temporary differences during the year were as follows:

|  | Balance at<br>January 1,<br>2014 | Recognized<br>in Earnings<br>2014 | Recognized<br>in OCI<br>2014 | Recognized<br>in Equity<br>2014 | Balance at<br>December 31,<br>2014 |
|--|----------------------------------|-----------------------------------|------------------------------|---------------------------------|------------------------------------|
| <b>Deferred tax assets</b>   |                                  |                                   |                              |                                 |                                    |
| Eligible capital expenditures  | 148.4                            | (10.4)                            | —                            | —                               | 138.0                              |
| Losses available for carryforward  | 130.9                            | (2.7)                             | —                            | 0.8                             | 129.0                              |
| Deferred transaction costs   | 0.6                              | (0.5)                             | —                            | 1.0                             | 1.1                                |
| Pension and other long-term liabilities                                  | 5.9                              | 0.8                               | 5.2                          | —                               | 11.9                               |
| Other  | 0.5                              | 7.1                               | —                            | —                               | 7.6                                |
| <b>Deferred tax liabilities</b>  |                                  |                                   |                              |                                 |                                    |
| Accumulation Partners' contracts, customer relationships and trade names | (389.2)                          | 32.3                              | —                            | (0.7)                           | (357.6)                            |
| Software and technology  | (16.2)                           | 0.1                               | —                            | —                               | (16.1)                             |
| Long-term investments  | (2.0)                            | —                                 | (1.5)                        | —                               | (3.5)                              |
|  | <b>(121.1)</b>                   | <b>26.7</b>                       | <b>3.7</b>                   | <b>1.1</b>                      | <b>(89.6)</b>                      |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

|  | Balance at<br>January 1,<br>2013 | Arising on<br>acquisition<br>(Note 3) | Recognized<br>in Earnings<br>2013 | Recognized<br>in OCI<br>2013 | Recognized<br>in Equity<br>2013 | Balance at<br>December 31,<br>2013 |
|--|----------------------------------|---------------------------------------|-----------------------------------|------------------------------|---------------------------------|------------------------------------|
| <b>Deferred tax assets</b>   |                                  |                                       |                                   |                              |                                 |                                    |
| Eligible capital expenditures  | 157.1                            | —                                     | (8.7)                             | —                            | —                               | 148.4                              |
| Deferred revenue   | 1.7                              | —                                     | (1.7)                             | —                            | —                               | —                                  |
| Losses available for carryforward  | 37.5                             | —                                     | 91.3                              | —                            | 2.1                             | 130.9                              |
| Deferred transaction costs   | 1.4                              | —                                     | (0.8)                             | —                            | —                               | 0.6                                |
| Pension and other long-term liabilities <sup>(a)</sup>                   | 7.4                              | —                                     | —                                 | (1.5)                        | —                               | 5.9                                |
| Other  | 0.2                              | —                                     | 0.3                               | —                            | —                               | 0.5                                |
| <b>Deferred tax liabilities</b>  |                                  |                                       |                                   |                              |                                 |                                    |
| Accumulation Partners' contracts, customer relationships and trade names | (407.8)                          | (0.8)                                 | 21.8                              | —                            | (2.4)                           | (389.2)                            |
| Software and technology  | (12.4)                           | (4.0)                                 | 0.2                               | —                            | —                               | (16.2)                             |
| Long-term investments <sup>(a)</sup>                                     | (0.1)                            | —                                     | (0.6)                             | (1.3)                        | —                               | (2.0)                              |
|  | <b>(215.0)</b>                   | <b>(4.8)</b>                          | <b>101.8</b>                      | <b>(2.8)</b>                 | <b>(0.3)</b>                    | <b>(121.1)</b>                     |

(a) The amounts presented under the captions "Pension and other long-term liabilities" and "Long-term investments" were presented under the caption "Other" in the audited consolidated financial statements for the year ended December 31, 2013.

At December 31, 2014, Aimia had the following operating tax losses available for carryforward and temporary differences which may be used to reduce taxable income in future years:

| Country                           |              | Carryforward<br>period |
|-----------------------------------|--------------|------------------------|
| (i) Canada                        |              |                        |
| losses available for carryforward | 317.3        | 2033                   |
| (ii) United Kingdom               |              |                        |
| losses available for carryforward | 109.4        | Indefinite             |
| (iii) United States               |              |                        |
| losses available for carryforward | 2.5          | 2028                   |
|                                   | 2.2          | 2029                   |
|                                   | 9.3          | 2030                   |
|                                   | 28.4         | 2031                   |
|                                   | 22.2         | 2032                   |
|                                   | 31.9         | 2033                   |
|                                   | 10.0         | 2034                   |
|                                   | <u>106.5</u> |                        |

At December 31, 2014, Aimia had operating tax losses of \$134.7 million (included in (ii) and (iii) above) and other deductible temporary differences of \$163.4 million which may be used to reduce taxable income in future years and for which no deferred tax benefit has been recorded in the accounts.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## CANADA REVENUE AGENCY NOTICE OF REASSESSMENT

On August 30, 2013, Aimia received a notice of reassessment from the Canada Revenue Agency (“CRA”) with respect to the taxation year ended December 31, 2008. The reassessment relates to the timing of recognition for tax purposes of deferred revenues from Breakage. Aimia recognizes the deferred revenue from Breakage for tax purposes in the same manner as for accounting purposes. The CRA is of the view that Aimia should recognize for tax purposes all of its deferred revenue from Breakage in the year that it is billed. The impact of this reassessment is to increase taxable income at December 31, 2008 by \$222.5 million, representing the deferred Breakage revenue balance reflected in the accounts at December 31, 2008, with a corresponding increase in current income tax liability of \$54.0 million. Interest and penalties of \$24.0 million were also assessed.

This difference in income inclusion for tax purposes versus the method adopted for accounting purposes represents a temporary difference which would give rise to a deferred income tax recovery asset of \$43.0 million.

Management is of the view that there is a strong case to support its filed position and has contested the reassessment through the CRA administrative appeals procedures. On February 11, 2014, as required under the relevant tax laws, the Corporation issued a letter of credit to the CRA in the amount of \$41.3 million. This letter of credit acts as security for the reassessment and it will be released back to the Corporation upon the successful defence of its filing position.

Since management believes that it is more likely than not that its position will be sustained, no amounts related to this issue have been recorded in the financial statements as of December 31, 2014.

## REVENUE QUEBEC NOTICE OF ASSESSMENT

On August 28, 2014, Aimia received a notice of assessment from Revenue Quebec (“RQ”) with respect to the taxation year ended December 31, 2008. This assessment follows the same tax treatment for deferred breakage as assessed by the CRA resulting in an increase in taxable income at December 31, 2008 for Quebec tax purposes of \$222.5 million with a corresponding increase in current income tax liability of \$13.6 million. Interest and penalties of \$7.1 million were also assessed.

The difference in income inclusion for tax purposes versus the method adopted for accounting purposes represents a temporary difference which would give rise to a deferred income tax recovery asset of \$15.6 million.

The appeal filed by management contesting the similar reassessment issued by CRA has been recorded by RQ. On September 16, 2014, as required under tax laws, the Corporation deposited \$20.7 million with RQ to act as security for the assessment. This deposit will be repaid to the Corporation upon the successful defence of its filing position and is included in income taxes receivable.

Management believes that it is more likely than not that its position will be sustained.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 21. CONTINGENT LIABILITIES

Aimia 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, Aimia may provide guarantees and/or indemnifications to third parties to support the performance obligations of its subsidiaries under commercial contracts. At December 31, 2014, Aimia's maximum exposure under such guarantees was estimated to amount to \$224.5 million. No amount has been recorded in these financial statements with respect to the indemnification and guarantee agreements.

On July 2, 2009, Aimia 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. The motion was heard on May 9 and 10, 2011 and Aeroplan was added as a potential defendant. In a judgment dated March 6, 2012, the Superior Court of Quebec authorized the motion for the petitioner to bring a class action. That motion was the first procedural step before any class action could be instituted. A notice of the judgment authorizing the class action was published on April 6, 2013.

On October 1, 2013, the petitioner served and filed its class action proceeding seeking to nullify the changes made to the mileage expiry and accumulation rules of the Aeroplan Program announced on October 16, 2006, reimbursement of any amounts 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. The parties have agreed upon a timetable for procedural matters leading up to readiness for trial. Management does not expect a ruling on the merits for at least 2 years.

Management has filed a strong defence to this class action lawsuit and believes that it is more likely than not that its position will be sustained, consequently, no liability has been recognized in these financial statements. If the ultimate resolution of this class action lawsuit differs from this assessment and assumptions, a material adjustment to the financial position and results of operations could result.

From time to time, Aimia 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 Aimia's financial position and results of operations.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 22. DIVIDENDS

Quarterly dividends declared to common shareholders of Aimia during the years ended December 31, 2014 and 2013 were as follows:

|              | 2014 <sup>(a)</sup> |                  | 2013 <sup>(b)</sup> |                  |
|--------------|---------------------|------------------|---------------------|------------------|
|              | Amount              | Per common share | Amount              | Per common share |
| March        | 29.5                | 0.17             | 27.6                | 0.16             |
| June         | 31.3                | 0.18             | 29.3                | 0.17             |
| September    | 31.3                | 0.18             | 29.4                | 0.17             |
| December     | 31.0                | 0.18             | 29.4                | 0.17             |
| <b>Total</b> | <b>123.1</b>        | <b>0.71</b>      | 115.7               | 0.67             |

(a) On May 13, 2014, the Board of Directors of Aimia approved an increase to the common share dividend from \$0.17 to \$0.18 per share per quarter.

(b) On May 13, 2013, the Board of Directors of Aimia approved an increase to the common share dividend from \$0.16 to \$0.17 per share per quarter.

Quarterly dividends declared to preferred shareholders of Aimia during the years ended December 31, 2014 and 2013 were as follows:

|                 | 2014        |                     | 2013   |                     |
|-----------------|-------------|---------------------|--------|---------------------|
|                 | Amount      | Per preferred share | Amount | Per preferred share |
| <b>Series 1</b> |             |                     |        |                     |
| March           | 2.8         | 0.40625             | 2.8    | 0.40625             |
| June            | 2.8         | 0.40625             | 2.8    | 0.40625             |
| September       | 2.8         | 0.40625             | 2.8    | 0.40625             |
| December        | 2.8         | 0.40625             | 2.8    | 0.40625             |
| <b>Total</b>    | <b>11.2</b> | <b>1.62500</b>      | 11.2   | 1.62500             |
| <b>Series 3</b> |             |                     |        |                     |
| March           | 1.9         | 0.321100            | N/A    | N/A                 |
| June            | 2.4         | 0.390625            | N/A    | N/A                 |
| September       | 2.3         | 0.390625            | N/A    | N/A                 |
| December        | 2.4         | 0.390625            | N/A    | N/A                 |
| <b>Total</b>    | <b>9.0</b>  | <b>1.492975</b>     | N/A    | N/A                 |

On February 26, 2015, the Board of Directors of Aimia declared quarterly dividends of \$0.18 per common share, \$0.40625 per Series 1 preferred share and \$0.390625 per Series 3 preferred share (Note 23), in each case payable on March 31, 2015.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 23. CAPITAL STOCK

### A) CAPITAL STOCK

#### Authorized:

An unlimited number of common shares, voting, no par value;

An unlimited number of preferred shares, non-voting, non-participating, issuable in series, no par value.

#### COMMON SHARES:

| Issued and outstanding  | December 31, 2014  |                | December 31, 2013  |                |
|---|--------------------|----------------|--------------------|----------------|
|   | Number of shares   | \$             | Number of shares   | \$             |
| <b>Opening balance</b>  | <b>172,970,396</b> | <b>1,525.0</b> | <b>172,257,314</b> | <b>1,514.7</b> |
| Shares repurchased under the normal course issuer bid program | (2,069,790)        | (18.3)         | —                  | —              |
| Shares released from stock-based compensation plans           | —                  | —              | 80,000             | 1.1            |
| Common shares issued upon exercise of stock options           | 1,083,737          | 15.1           | 633,082            | 9.2            |
| <b>Closing balance</b>  | <b>171,984,343</b> | <b>1,521.8</b> | <b>172,970,396</b> | <b>1,525.0</b> |

#### PREFERRED SHARES:

| Issued and outstanding                 | December 31, 2014 |              | December 31, 2013 |              |
|--|-------------------|--------------|-------------------|--------------|
|  | Number of shares  | \$           | Number of shares  | \$           |
| <b>Opening balance</b>                 | <b>6,900,000</b>  | <b>168.8</b> | <b>6,900,000</b>  | <b>168.8</b> |
| Issuance of Preferred Shares, Series 3 | 6,000,000         | 147.0        | —                 | —            |
| <b>Closing balance</b>                 | <b>12,900,000</b> | <b>315.8</b> | <b>6,900,000</b>  | <b>168.8</b> |
| Represented by:                        |                   |              |                   |              |
| Preferred Shares, Series 1             | 6,900,000         | 168.8        | 6,900,000         | 168.8        |
| Preferred Shares, Series 3             | 6,000,000         | 147.0        | —                 | —            |

#### NORMAL COURSE ISSUER BID

On May 3, 2012, Aimia received approval from the Toronto Stock Exchange and announced the renewal of its Normal Course Issuer Bid ("NCIB") to repurchase up to 17,179,599 of its issued and outstanding common shares during the period from May 16, 2012 to no later than May 15, 2013.

On May 13, 2013, Aimia received approval from the Toronto Stock Exchange and announced the renewal of its NCIB to purchase up to 17,212,126 of its issued and outstanding common shares during the period from May 16, 2013 to no later than May 15, 2014.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

No shares were repurchased during the period from May 16, 2012 to May 15, 2014.

On May 13, 2014, Aimia received approval from the Toronto Stock Exchange for the renewal of its NCIB to purchase up to 15,530,762 of its issued and outstanding common shares during the period from May 16, 2014 to no later than May 15, 2015.

From May 16, 2014 to December 31, 2014, Aimia repurchased 2,069,790 common shares for a total consideration of \$29.8 million. Of this total, 1,964,790 common shares have been paid and cancelled during the period representing \$28.3 million. Share capital was reduced by \$18.3 million and the remaining \$11.5 million was accounted for as a reduction of contributed surplus (*Note 30*).

## PREFERRED SHARES, SERIES 1

On January 20, 2010 and January 26, 2010, pursuant to a prospectus supplement dated January 13, 2010, Aimia 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 Aimia 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%.

On February 26, 2015, the Board of Directors resolved that Aimia will not exercise its right to redeem all or any part of the outstanding Preferred Shares, Series 1 on March 31, 2015. As a result and subject to certain conditions, the holders of Preferred Shares, Series 1 will have the right to convert all or part of their Preferred Shares, Series 1, into Preferred Shares, Series 2 on a one-for-one basis. The dividend rate applicable to the Preferred Shares, Series 1 for the 5-year period from and including March 31, 2015, and the dividend rate applicable to the Preferred Shares, Series 2 for the 3-month period from and including March 31, 2015 will be announced by way of press release on March 2, 2015.

## PREFERRED SHARES, SERIES 3

On January 15, 2014, pursuant to a prospectus supplement dated January 8, 2014, Aimia issued 6,000,000 Cumulative Rate Reset Preferred Shares, Series 3 (the "Series 3 Preferred Shares"), including 1,000,000 Series 3 Preferred Shares that were issued upon the exercise in full of the underwriters' option to purchase additional shares, for total cash consideration of \$146.0 million, net of issue costs of \$4.0 million. Additionally, a related income tax recovery of \$1.0 million was recorded. Holders of the Series 3 Preferred Shares will be entitled to receive, as and

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

when declared, a cumulative quarterly fixed dividend yielding 6.25% annually for the initial five-year period, subject to a rate reset on March 31, 2019 and every five years thereafter at a rate equal to the 5-year Government of Canada bond yield plus 4.20%. The net proceeds of the issue were used by Aimia to supplement its financial resources and for general corporate purposes.

Holders of Series 3 Preferred Shares will have the right, at their option, to convert their shares into cumulative floating rate preferred shares, series 4 (the "Series 4 Preferred Shares"), subject to certain conditions, on March 31, 2019 and on March 31 every five years thereafter. Holders of the Series 4 Preferred Shares will be entitled to receive cumulative quarterly floating dividends at a rate equal to the three-month Government of Canada Treasury Bill yield plus 4.20%.

## B) STOCK-BASED COMPENSATION

### *Aimia Long-Term Incentive Plan*

The number of Aimia stock options granted to employees during the year, the related compensation expense recorded, and the assumptions used to determine stock-based compensation expense, using the binomial options pricing model, were as follows:

|   | December 31, |           |
|---|--------------|-----------|
|   | 2014         | 2013      |
| Compensation expense relating to the options granted (millions) | \$ 2.8       | \$ 2.5    |
| Number of stock options granted                                 | 2,727,740    | 2,145,425 |
| Weighted average fair value per option granted (\$)             | \$ 2.93      | \$ 3.30   |
| Aggregate fair value of options granted (millions)              | \$ 8.0       | \$ 7.1    |
| <b>Weighted average assumptions:</b>                            |              |           |
| Share price   | \$ 18.15     | \$ 15.67  |
| Exercise price  | \$ 18.15     | \$ 15.67  |
| Risk-free interest rate   | 1.76%        | 1.42%     |
| Expected volatility   | 26.57%       | 31.68%    |
| Dividend yield  | 3.85%        | 4.07%     |
| Expected option life (years)                                    | 5.25         | 5.25      |
| Vesting conditions - time (years)                               | 4            | 4         |

The volatility measured at the standard deviation of continuous compounded share returns is based on statistical analysis of daily share prices over the expected option life period.



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

A summary of the activity related to the employees participating in the Aimia Long-Term Incentive Plan is as follows:

|  | 2014              |                                 | 2013              |                                 |
|--|-------------------|---------------------------------|-------------------|---------------------------------|
|  | Number of Options | Weighted Average Exercise Price | Number of Options | Weighted Average Exercise Price |
| <b>Options outstanding - Beginning of year</b> | <b>7,090,723</b>  | <b>13.18</b>                    | <b>5,861,266</b>  | <b>12.04</b>                    |
| Granted  | 2,727,740         | 18.15                           | 2,145,425         | 15.67                           |
| Exercised                                      | (1,083,737)       | 11.13                           | (633,082)         | 11.07                           |
| Forfeited                                      | (751,150)         | 15.35                           | (282,886)         | 13.26                           |
| Expired  | (10,483)          | 12.02                           | —                 | —                               |
| <b>Options outstanding - end of year</b>       | <b>7,973,093</b>  | <b>14.96</b>                    | <b>7,090,723</b>  | <b>13.18</b>                    |
| <b>Options exercisable - end of year</b>       | <b>2,894,310</b>  | <b>12.77</b>                    | <b>2,410,525</b>  | <b>11.63</b>                    |

The weighted average share price at the date of exercise for the share options exercised in 2014 was \$18.54 (2013: \$16.77).

The details of options outstanding and exercisable at December 31, 2014 are as follows:

| Year granted | Options Outstanding |                                 | Options Exercisable |                                 | Expiration Date |
|--------------|---------------------|---------------------------------|---------------------|---------------------------------|-----------------|
|              | Number of Options   | Weighted Average Exercise Price | Number of Options   | Weighted Average Exercise Price |                 |
| 2008         | 125,000             | 15.07                           | 125,000             | 15.07                           | 2015            |
| 2008         | 15,000              | 7.52                            | 15,000              | 7.52                            | 2015            |
| 2009         | 79,574              | 8.47                            | 79,574              | 8.47                            | 2016            |
| 2009         | 18,855              | 9.55                            | 18,855              | 9.55                            | 2016            |
| 2009         | 56,500              | 9.17                            | 56,500              | 9.17                            | 2016            |
| 2010         | 379,027             | 10.85                           | 379,027             | 10.85                           | 2017            |
| 2010         | 136,623             | 11.35                           | 136,623             | 11.35                           | 2017            |
| 2011         | 896,031             | 12.79                           | 640,642             | 12.79                           | 2018            |
| 2011         | 149,000             | 12.41                           | 113,625             | 12.56                           | 2018            |
| 2012         | 1,521,509           | 12.50                           | 724,759             | 12.50                           | 2019            |
| 2012         | 120,000             | 14.52                           | 60,000              | 14.52                           | 2019            |
| 2012         | 182,500             | 14.20                           | 107,500             | 14.11                           | 2019            |
| 2013         | 1,619,118           | 15.62                           | 394,263             | 15.62                           | 2020            |
| 2013         | 113,238             | 15.41                           | 26,435              | 15.47                           | 2020            |
| 2013         | 46,027              | 18.55                           | 16,507              | 18.55                           | 2020            |
| 2014         | 2,515,091           | 18.15                           | —                   | —                               | 2021            |
|              | <b>7,973,093</b>    | <b>14.96</b>                    | <b>2,894,310</b>    | <b>12.77</b>                    |                 |

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The details of Aimia shares held under stock-based compensation plans described in *Note 2* are as follows:

| December 31,  | Omnibus Plan |               |
|---|--------------|---------------|
|   | 2014         | 2013          |
| <b>Number of shares outstanding - beginning of year</b> | —            | <b>80,000</b> |
| Number of shares granted during the year                | —            | —             |
| Number of shares forfeited during the year              | —            | —             |
| Number of shares vested during the year                 | —            | (80,000)      |
| <b>Number of shares outstanding - end of year</b>       | <b>—</b>     | <b>—</b>      |

Pursuant to the terms of the Omnibus plan, Aimia shares were purchased on the open market of the Toronto Stock Exchange and were held by a trustee for the benefit of the eligible employees until their vesting.

The details of Aimia's PSUs and DSUs described in *Note 2* are as follows:

| December 31,   | PSU              |                  | DSU            |                |
|--|------------------|------------------|----------------|----------------|
|  | 2014             | 2013             | 2014           | 2013           |
| <b>Number of units outstanding - beginning of year</b>     | <b>1,444,746</b> | <b>1,138,443</b> | <b>389,606</b> | <b>336,190</b> |
| Number of units granted during the year                    | 687,502          | 636,071          | 58,198         | 62,791         |
| Number of units forfeited during the year                  | (153,724)        | (75,088)         | —              | —              |
| Number of units settled during the year                    | (342,555)        | (254,680)        | (2,535)        | (9,375)        |
| <b>Number of units outstanding - end of year</b>           | <b>1,635,969</b> | <b>1,444,746</b> | <b>445,269</b> | <b>389,606</b> |
| Weighted average fair value per unit on date of grant (\$) | \$ 18.18         | \$ 15.63         | \$ 17.31       | \$ 16.03       |

The PSUs vest 3 years after the grant, subject to performance conditions. The DSUs vest over 4 years or immediately for eligible employees, while those granted to directors are not subject to vesting conditions. DSUs are payable only upon termination of service. At December 31, 2014, the intrinsic value of vested DSUs amounted to \$6.5 million (2013: \$7.6 million).

Total stock-based compensation expense for the years ended December 31, 2014 and 2013:

|   | Years Ended December 31, |             |
|---|--------------------------|-------------|
|   | 2014                     | 2013        |
| Stock options compensation                    | 5.0                      | 6.2         |
| PSU and DSU compensation                      | 3.3                      | 12.9        |
| Other share based payment compensation        | —                        | 0.3         |
| <b>Total stock-based compensation expense</b> | <b>8.3</b>               | <b>19.4</b> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 24. COMMITMENTS

### A) OPERATING LEASE COMMITMENTS

The minimum lease payments under various non-cancellable operating leases, not yet incurred at the end of the reporting period, are as follows:

| Year ending December 31, |              |
|--------------------------|--------------|
| 2015                     | 20.0         |
| 2016 to 2019             | 67.3         |
| Thereafter               | 72.0         |
| <b>Total</b>             | <b>159.3</b> |

During the year ended December 31, 2014, an expense of \$30.1 million was recognized as an expense in earnings in respect of operating leases (2013: \$24.0 million).

### B) OPERATING COMMITMENTS AND OTHER

Operating expenditures contracted for at the end of the reporting period but not yet incurred are as follows:

|                                     |       |
|-------------------------------------|-------|
| Technology infrastructure and other | 29.5  |
| Marketing support and other         | 267.2 |

Under the terms of certain contractual obligations with a major Accumulation Partner, Aimia is required to maintain certain minimum working capital amounts in accordance with pre-established formulae. At December 31, 2014, Aimia complied with all such covenants.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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## 25. SEGMENTED INFORMATION

At December 31, 2014, the Corporation had three reportable and operating segments: Canada, EMEA and US & APAC.

The segments are the Corporation's strategic business units. For each of the strategic business units, the Corporation's Group Chief Executive and Group Chief Operating Officer review internal management reports on a monthly basis. The segments have been identified on the basis of geographical regions and are aligned with the organizational structure and strategic direction of the organization. The US & APAC regions have been combined on the basis that they meet the aggregation criteria prescribed under IFRS 8 - *Operating Segments*.

The Canada segment derives its revenues primarily from the Aeroplan Program and from proprietary loyalty services. The US & APAC segment derives its revenues primarily from proprietary loyalty services. The EMEA segment derives its revenues primarily from loyalty programs, including the Nectar and Nectar Italia programs, operating in the United Kingdom and Italy, respectively, and from its interest in the Air Miles Middle East program. In addition, the EMEA segment also generates revenues from proprietary loyalty services and analytics and insights services, including ISS.

Accounting policies relating to each segment are identical to those used for the purposes of the consolidated financial statements. Management of global shared services and share-based compensation is centralized and, consequently, these expenses are not allocated to the operating segments with the exception of global product development costs which are fully included in the EMEA segment.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

|  | Years Ended December 31, |                           |                      |                      |                      |                      |                                |        |                     |       |                           |                              |
|--|--------------------------|---------------------------|----------------------|----------------------|----------------------|----------------------|--------------------------------|--------|---------------------|-------|---------------------------|------------------------------|
|  | 2014                     | 2013                      | 2014                 | 2013                 | 2014                 | 2013                 | 2014                           | 2013   | 2014                | 2013  | 2014                      | 2013                         |
| <b>Operating Segments</b>                      | <b>Canada</b>            |                           | <b>EMEA</b>          |                      | <b>US &amp; APAC</b> |                      | <b>Corporate<sup>(b)</sup></b> |        | <b>Eliminations</b> |       | <b>Consolidated</b>       |                              |
| Gross Billings from the sale of Loyalty Units  | 1,342.2 <sup>(f)</sup>   | 1,085.8                   | 667.0                | 625.6                | —                    | —                    | —                              | —      | —                   | —     | 2,009.2 <sup>(f)</sup>    | 1,711.4                      |
| Other Gross Billings                           | 198.0                    | 214.3                     | 105.2                | 78.5                 | 375.1                | 362.7                | —                              | —      | (0.9)               | (0.5) | 677.4                     | 655.0                        |
| Total Gross Billings                           | 1,540.2 <sup>(f)</sup>   | 1,300.1                   | 772.2 <sup>(c)</sup> | 704.1 <sup>(c)</sup> | 375.1 <sup>(c)</sup> | 362.7 <sup>(c)</sup> | —                              | —      | (0.9)               | (0.5) | 2,686.6 <sup>(c)(f)</sup> | 2,366.4 <sup>(c)</sup>       |
| Revenue from Loyalty Units                     | 1,085.8                  | 393.5 <sup>(g)</sup>      | 694.5 <sup>(i)</sup> | 625.3                | —                    | —                    | —                              | —      | —                   | —     | 1,780.3 <sup>(i)</sup>    | 1,018.8 <sup>(g)</sup>       |
| Revenue from proprietary loyalty services      | 155.8                    | 166.5                     | 24.1                 | 18.5                 | 379.8                | 362.3                | —                              | —      | —                   | —     | 559.7                     | 547.3                        |
| Other revenue                                  | 47.6                     | 47.4                      | 81.2                 | 60.0                 | —                    | —                    | —                              | —      | —                   | —     | 128.8                     | 107.4                        |
| Intercompany revenue                           | —                        | —                         | 0.3                  | 0.3                  | 0.6                  | 0.2                  | —                              | —      | (0.9)               | (0.5) | —                         | —                            |
| Total revenue                                  | 1,289.2                  | 607.4 <sup>(g)</sup>      | 800.1 <sup>(i)</sup> | 704.1                | 380.4                | 362.5                | —                              | —      | (0.9)               | (0.5) | 2,468.8 <sup>(i)</sup>    | 1,673.5 <sup>(g)</sup>       |
| Cost of rewards and direct costs               | 866.4                    | 689.1                     | 535.7                | 410.9 <sup>(j)</sup> | 204.0                | 201.7                | —                              | —      | —                   | —     | 1,606.1                   | 1,301.7 <sup>(j)</sup>       |
| Depreciation and amortization <sup>(a)</sup>   | 149.3                    | 98.8                      | 22.0                 | 16.6                 | 12.9                 | 12.5                 | —                              | —      | —                   | —     | 184.2                     | 127.9                        |
| Gross margin                                   | 273.5                    | (180.5) <sup>(g)</sup>    | 242.4 <sup>(i)</sup> | 276.6 <sup>(j)</sup> | 163.5                | 148.3                | —                              | —      | (0.9)               | (0.5) | 678.5 <sup>(i)</sup>      | 243.9 <sup>(g)(j)</sup>      |
| Operating expenses before the undernoted       | 246.7                    | 438.8 <sup>(h)</sup>      | 172.5                | 195.3 <sup>(j)</sup> | 172.6                | 164.8                | 88.6                           | 72.0   | (0.9)               | (0.5) | 679.5                     | 870.4 <sup>(h)(j)</sup>      |
| Share-based compensation                       | —                        | —                         | —                    | —                    | —                    | —                    | 8.3                            | 19.4   | —                   | —     | 8.3                       | 19.4                         |
| Impairment of goodwill                         | —                        | —                         | —                    | —                    | —                    | 19.1                 | —                              | —      | —                   | —     | —                         | 19.1                         |
| Total operating expenses                       | 246.7                    | 438.8 <sup>(h)</sup>      | 172.5                | 195.3 <sup>(j)</sup> | 172.6                | 183.9                | 96.9                           | 91.4   | (0.9)               | (0.5) | 687.8                     | 908.9 <sup>(h)(j)</sup>      |
| Operating income (loss) <sup>(k)</sup>         | 26.8                     | (619.3) <sup>(g)(h)</sup> | 69.9 <sup>(i)</sup>  | 81.3 <sup>(j)</sup>  | (9.1)                | (35.6)               | (96.9)                         | (91.4) | —                   | —     | (9.3) <sup>(i)</sup>      | (665.0) <sup>(g)(h)(j)</sup> |
| Additions to non-current assets <sup>(d)</sup> | 50.0                     | 33.1                      | 26.3                 | 17.7                 | 3.8                  | 3.6                  | 1.4                            | —      | N/A                 | N/A   | 81.5                      | 54.4                         |
| Non-current assets <sup>(d)</sup>              | 3,027.8                  | 3,131.1                   | 536.6 <sup>(e)</sup> | 516.7 <sup>(e)</sup> | 75.2 <sup>(e)</sup>  | 78.1 <sup>(e)</sup>  | 1.4                            | 2.2    | N/A                 | N/A   | 3,641.0 <sup>(e)</sup>    | 3,728.1 <sup>(e)</sup>       |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

- (a) Includes depreciation and amortization as well as amortization of Accumulation Partners' contracts, customer relationships and technology.
- (b) Includes expenses that are not directly attributable to any specific operating segment. Corporate also includes the financial position and operating results of our operations in India.
- (c) Includes third party Gross Billings of \$657.4 million in the UK and \$214.3 million in the US for the year ended December 31, 2014, compared to third party Gross Billings of \$573.2 million in the UK and \$227.2 million in the US for the year ended December 31, 2013. 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.
- (d) Non-current assets include amounts relating to goodwill, intangible assets and property and equipment.
- (e) Includes non-current assets of \$483.6 million in the UK and \$67.4 million in the US as of December 31, 2014, compared to non-current assets of \$463.5 million in the UK and \$69.1 million in the US as of December 31, 2013.
- (f) Includes a \$100.0 million upfront contribution received on January 2, 2014 from TD to help fund Aeroplan's program enhancements (*Note 10*).
- (g) Includes the impact of the change in the Breakage estimate in the Aeroplan Program (*Note 15*) which occurred in the second quarter of 2013 and resulted in a reduction of \$663.6 million to revenue from Loyalty Units, of which \$617.0 million is attributable to the years prior to 2013 and \$46.6 million to the six month period ended June 30, 2013.
- (h) Includes an expense totaling \$150.0 million recorded and paid upon the closing of the asset purchase agreement and a provision totaling \$50.0 million relating to the net migration of Aeroplan-branded credit card accounts between CIBC and TD (*Note 10*).
- (i) Includes the impact of the change in the Breakage estimate in the Nectar Italia Program (*Note 15*) which occurred in the fourth quarter of 2014 and resulted in an increase of \$19.4 million to revenue from Loyalty Units, of which \$13.4 million is attributable to the years prior to 2014, \$4.1 million to the nine month period ended September 30, 2014 and \$1.9 million to the three months ended December 31, 2014.
- (j) Includes a favourable impact of \$26.1 million (£16.4 million) resulting from the final judgment of the VAT litigation (*Note 16*). Of this amount, \$74.9 million (£47.0 million) was recorded as a reduction of cost of rewards and \$48.8 million (£30.6 million) as an increase to operating expenses.  
  
Prior to the issuance of the final ruling, Aimia had recorded an amount of \$2.1 million (£1.4 million) in cost of rewards, representing input tax credit accrued during the period from January 1, 2013 to March 31, 2013.
- (k) The reconciliation of the consolidated operating income (loss) to the consolidated earnings (loss) before income taxes for the years ended December 31, 2014 and December 31, 2013 is presented in the consolidated statements of operations.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 26. CAPITAL DISCLOSURES

Aimia's capital consists of cash and cash equivalents, short-term investments, long-term investments in corporate and government bonds, long-term debt and total equity attributable to the equity holders of the Corporation (excluding accumulated other comprehensive income).

Aimia'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, Aimia 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. Aimia 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, Aimia 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, 2014 and 2013 is calculated as follows:

|   | December 31, |              |
|---|--------------|--------------|
|   | 2014         | 2013         |
| Cash and cash equivalents                               | (567.6)      | (449.1)      |
| Short-term investments                                  | (51.3)       | (60.7)       |
| Long-term investments in corporate and government bonds | (258.0)      | (269.7)      |
| Long-term debt (including current portion)              | 646.4        | 794.9        |
| Share Capital   | 1,837.6      | 1,693.8      |
| Contributed surplus                                     | 1,213.1      | 1,221.5      |
| Deficit   | (2,379.2)    | (2,181.2)    |
| <b>Total capital</b>                                    | <b>441.0</b> | <b>749.5</b> |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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

- the leverage ratio, defined as debt to 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).

Aimia uses Adjusted EBITDA, Adjusted Net Earnings and Free Cash Flow as measurements to monitor operating performance. These measures, as presented, are not recognized for financial statement presentation purposes under IFRS, and do not have a standardized meaning. Therefore, they are not likely to be comparable to similar measures presented by other public entities.

Aimia 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, Aimia is required to maintain certain minimum working capital amounts in accordance with pre-established formulae. Aimia is in compliance with all such covenants.

Aimia has also established the Reserve, which at December 31, 2014 amounted to \$300.0 million and is included in short-term investments 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, Aimia 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.

## 27. FINANCIAL INSTRUMENTS

Aimia's financial instruments consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, long-term investments in corporate and government bonds, investments in equity instruments (not subject to significant influence), accounts payable and accrued liabilities, contingent consideration payable and long-term debt.

Aimia, 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.



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 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. Aimia is exposed to fluctuations in interest rates with respect to cash and cash equivalents, restricted cash and short-term investments, all of which bear interest at variable rates and are held or borrowed in the form of short-term deposits, Bankers' Acceptances and prime loans.

At December 31, 2014, the interest rate risk profile of Aimia's interest bearing financial instruments was as follows:

|   | December 31, |       |
|---|--------------|-------|
|   | 2014         | 2013  |
| <b>Variable rate instruments</b>                                      |              |       |
| Cash and cash equivalents, restricted cash and short-term investments | <b>647.7</b> | 543.5 |

For the year ended December 31, 2014, management has determined that a 1% variance in the interest rates on the cash and cash equivalents, restricted cash and short-term investments would have an impact of approximately \$6.5 million on earnings before income taxes. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for the year ended December 31, 2013.

## CREDIT RISK

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. At December 31, 2014, Aimia's credit risk exposure consists mainly of the carrying amounts of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and long-term investments in corporate and government bonds.

In accordance with its investment policy, Aimia invests the Reserve and excess cash, included in short-term investments, long-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-rating agencies. At December 31, 2014, the Reserve and excess cash are invested in bankers' acceptances, corporate, federal and provincial government bonds.

With respect to accounts receivable, Aimia is exposed to a concentration of credit risk on the Accumulation Partners, as identified in *Note 10*. 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, Aimia is directly affected by the financial and operational strength of Air Canada. In order to manage its exposure to credit risk and assess credit

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

quality, Aimia reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary. Historically, bad debts experienced by Aimia have been negligible.

## LIQUIDITY RISK

Aimia'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 the revolving facility. Aimia 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, 2014, Aimia had issued Senior Secured Notes in the amount of \$650.0 million maturing at various dates through May 17, 2019. In addition, Aimia had authorized and available credit facility of \$300.0 million under its revolving facility, maturing on April 23, 2018. The revolving facility is provided by a syndicate that consists of nine institutional lenders. It is Aimia's intention to renew or replace credit facilities as they come due or earlier if credit market conditions permit. Aimia also had outstanding letters of credit totaling approximately \$55.0 million (of which \$54.4 million were issued against the revolving facility) at December 31, 2014 issued as security in the normal course of business.

At December 31, 2014, maturities of the financial liabilities are as follows:

|  | Total          | 2015         | 2016        | 2017         | 2018         | 2019         | Thereafter |
|--|----------------|--------------|-------------|--------------|--------------|--------------|------------|
| Long-term debt including interest        | 780.9          | 37.4         | 37.4        | 230.5        | 218.6        | 257.0        | —          |
| Accounts payable and accrued liabilities | 487.3          | 487.3        | —           | —            | —            | —            | —          |
| Contingent consideration payable         | 4.0            | 2.0          | 2.0         | —            | —            | —            | —          |
| <b>Total</b>                             | <b>1,272.2</b> | <b>526.7</b> | <b>39.4</b> | <b>230.5</b> | <b>218.6</b> | <b>257.0</b> | <b>—</b>   |

## CURRENCY RISK

Aimia 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, 2014, Aimia held net financial assets denominated in pound sterling of approximately £105.2 million. A 1% variance in the pound sterling foreign exchange rate would result in an approximate variance of \$1.9 million in the net assets of Aimia and in other comprehensive income. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for the year ended December 31, 2013.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## FAIR VALUE OF FINANCIAL INSTRUMENTS

### 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.

|   | Hierarchy | December 31,<br>2014 | December 31,<br>2013 |
|---|-----------|----------------------|----------------------|
| <b>Financial assets</b>   |           |                      |                      |
| Air Canada Class B shares ( <i>Note 10</i> )                    | Level 1   | 29.7                 | 18.5                 |
| Investments in equity instruments (excluding Air Canada shares) | Level 3   | 107.7                | 72.4                 |
| <b>Financial liabilities</b>                                    |           |                      |                      |
| Contingent consideration payable ( <i>Note 3</i> )              | Level 3   | 4.0                  | 4.3                  |

The fair value of the investments in equity instruments, excluding Air Canada Class B shares, is determined using a market approach with a valuation technique based on the transaction price of recent transactions carried out by other investors involving similar instruments and adjusted for, as deemed necessary, changes in market conditions, the performance of the investee and the passage of time. During the year ended December 31, 2014, on the basis of the valuation related to an investment made by a third party, a fair value gain of \$24.2 million was recorded in other comprehensive income for the investment in Cardlytics. During the year ended December 31, 2013, a fair value gain of \$13.7 million was recorded in other comprehensive income on the basis of the valuation performed in connection with the additional investment made in Cardlytics on May 23, 2013 (*Note 5*).

The fair value of the Air Canada Class B shares is based on the quoted price of the publicly traded shares. During the year ended December 31, 2014, a fair value gain on the Air Canada Class B shares of \$11.2 million has been recorded in other comprehensive income, compared to a fair value gain of \$9.5 million for the year ended December 31, 2013.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The fair value of the contingent consideration payable related to the Smart Button acquisition (*Note 3*) was determined on the basis of management's best estimate and could represent a maximum of US\$5.0 million.

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 fair value of the borrowings is estimated as being the quoted market value for the publicly traded debt securities while the fair value of investments in corporate and government bonds is based on the quoted market price of the investments.

Aimia's long-term investments in corporate and government bonds and long-term debt, which are measured at amortized cost, and the fair value thereof, are as set out in the following table.

|   | Hierarchy | December 31, 2014 |            | December 31, 2013 |            |
|---|-----------|-------------------|------------|-------------------|------------|
|   |           | Carrying          | Fair Value | Carrying          | Fair Value |
| Investments in corporate and government bonds (including current portion) | Level 1   | 309.3             | 318.6      | 310.5             | 318.4      |
| Long-term debt (including current portion)                                | Level 1   | 646.4             | 699.4      | 794.9             | 846.6      |

### OFFSETTING FINANCIAL ASSETS AND LIABILITIES

| Financial liabilities                                   | Amounts offset    |                     |                       | Amounts not offset | Net   |
|---|-------------------|---------------------|-----------------------|--------------------|-------|
|   | Gross liabilities | Gross assets offset | Net amounts presented | Financial assets   |       |
| <b>December 31, 2014</b>                                |                   |                     |                       |                    |       |
| Accounts payable and accrued liabilities <sup>(a)</sup> | 551.0             | (63.7)              | 487.3                 | —                  | 487.3 |
| Provisions <sup>(b)</sup>                               | 50.0              | —                   | 50.0                  | (38.6)             | 11.4  |
| <b>December 31, 2013</b>                                |                   |                     |                       |                    |       |
| Accounts payable and accrued liabilities <sup>(a)</sup> | 545.5             | (62.7)              | 482.8                 | —                  | 482.8 |
| Provisions <sup>(b)</sup>                               | 50.0              | —                   | 50.0                  | (3.1)              | 46.9  |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

| Financial assets                      | Amounts offset |                 |              | Amounts not offset | Net   |
|---------------------------------------|----------------|-----------------|--------------|--------------------|-------|
|                                       | Gross assets   | Gross liability | Gross offset |                    |       |
| <b>December 31, 2014</b>              |                |                 |              |                    |       |
| Accounts receivable <sup>(a)(b)</sup> | 543.9          | (63.7)          | 480.2        | (38.6)             | 441.6 |
| <b>December 31, 2013</b>              |                |                 |              |                    |       |
| Accounts receivable <sup>(a)(b)</sup> | 476.3          | (62.7)          | 413.6        | (3.1)              | 410.5 |

(a) Under the terms of a contractual agreement with Air Canada, Aimia Canada Inc. has a right of offset in the normal course of business for amounts relating to Gross Billings and reward purchases as described under the section entitled *Contractual and Commercial Practices with Air Canada (Note 10)*.

(b) Under the terms of a contractual agreement with TD, Aimia Canada Inc. has a right of offset in the case of contract termination.

## 28. RELATED PARTIES AND NON-CONTROLLING INTERESTS

### A) RELATED PARTIES

#### ULTIMATE CONTROLLING PARTY

During the year ended December 31, 2014, shares of the Corporation were widely held and the Corporation did not have an ultimate controlling party.

#### TRANSACTIONS WITH DIRECTORS AND KEY MANAGEMENT PERSONNEL

Key management includes members of the Corporation's Executive Committee.

The post-employment executive defined contribution plan requires annual contributions of 15% of base salary, through co-payment by the Corporation and the executive, up to the annual maximum permitted under relevant legislation.

Key management of Aimia participate in the share-based award plans, the Aimia Long-term Incentive Plan (including stock options and performance share units) and DSU Plan. Directors participate in the DSU Plan.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The compensation paid or payable to directors and to key management for services is shown below:

|  | Years Ended December 31, |             |
|--|--------------------------|-------------|
|  | 2014                     | 2013        |
| Director compensation, and key management salaries and benefits <sup>(a)</sup> | 13.0                     | 11.3        |
| Post-employment benefits   | 0.5                      | 0.5         |
| Share-based compensation   | 3.6                      | 8.4         |
| Termination benefits   | 0.9                      | —           |
| <b>Total</b>   | <b>18.0</b>              | <b>20.2</b> |

(a) Salaries and benefits include short-term incentive compensation.

In addition to the above amounts, the Corporation is committed to pay incremental benefits to certain members of key management in the event of a termination without cause or termination resulting from a change in control.

## TRANSACTIONS WITH POST-EMPLOYMENT BENEFIT PLANS

Aimia offers post-employment benefits to its former employees by way of the defined contribution and defined benefit plans. The transactions with these plans are limited to contributions and payment of benefits.

## OTHER RELATED PARTY TRANSACTIONS

The EMEA segment recorded revenue of \$9.9 million relating to services rendered to i2c during the year ended December 31, 2014 (2013: \$7.1 million). At December 31, 2014, an amount of \$10.7 million was receivable from i2c (December 31, 2013: \$10.6 million).

The US & APAC segment recorded \$5.4 million in revenue related to consulting services rendered to PLM during the year ended December 31, 2014 (2013: \$5.2 million).

## B) NON-CONTROLLING INTERESTS

### NECTAR ITALIA

During the year ended December 31, 2013, Aimia acquired the remaining 25% of the issued shares of Nectar Italia for cash and contingent consideration totaling \$9.3 million. The carrying amount of the non-controlling interest in Nectar Italia on the date of acquisition was \$(8.3) million. As a result, the Corporation derecognized the non-controlling interest and recorded a decrease to retained earnings of \$17.6 million.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## 29. ADDITIONAL FINANCIAL INFORMATION

The following sections provide additional information regarding certain primary financial statement captions:

### A) STATEMENTS OF CASH FLOWS

#### CHANGES IN OPERATING ASSETS AND LIABILITIES

|  | Years Ended December 31, |              |
|--|--------------------------|--------------|
|  | 2014                     | 2013         |
| Restricted cash                          | 5.6                      | (4.3)        |
| Accounts receivable                      | (58.9)                   | (18.5)       |
| Inventories                              | 2.4                      | 5.5          |
| Prepaid expenses                         | (6.0)                    | (15.0)       |
| Accounts payable and accrued liabilities | (0.4)                    | 112.2        |
| Customer deposits                        | (9.4)                    | (3.5)        |
| Provisions                               | —                        | (91.9)       |
| Pension and other long-term liabilities  | 0.1                      | 9.3          |
| Deferred revenue                         | 214.2                    | 688.5        |
| <b>Total</b>                             | <b>147.6</b>             | <b>682.3</b> |

### B) STATEMENTS OF COMPREHENSIVE INCOME

#### INCOME TAX EFFECTS

The defined benefit plans actuarial losses for the year ended December 31, 2014 were net of a deferred income tax recovery of \$5.2 million compared to a deferred income tax expense of \$1.5 million for the year ended December 31, 2013.

The changes in fair value of the Air Canada Class B shares (*Note 27*) for the year ended December 31, 2014 were net of a deferred income tax expense \$1.5 million compared to a deferred income tax expense of \$1.3 million for the year ended December 31, 2013.

There is no income tax effect related to the fair value gains recorded on the investment in Cardlytics (*Note 27*) for the years ended December 31, 2014 and 2013.

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# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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## 30. SUBSEQUENT EVENTS

Subsequent to December 31, 2014, Aimia repurchased 1,365,000 common shares for a total consideration of \$18.9 million.