DELIVERING ON A VISION

ANNUAL REPORT 2006

aeroplan

AEROPLAN
AIR CANADA
CLASSIC PLUS
FLIGHT REWARDS
400 NON-AIR REWARDS
CHOICE
NEW PARTNERS
DINING
SPA

TO OUR UNITHOLDERS

In 2006, Aeroplan focused on creating value and laying the foundation for our future growth. Thanks to achievements made in all facets of our business, the year was one of our most successful.

There are many successes to celebrate including the unveiling of our ClassicPlus Flight Rewards, which offers members unrestricted access to available seat inventory across the Air Canada and Air Canada Jazz networks in both Economy and Executive Class. ClassicPlus augments our existing ClassicFlight Rewards, which continue to represent a commitment of 8% of Air Canada and Air Canada Jazz seat capacity on every route, every month. Aeroplan's industry-leading ClassicFlight fixed mileage grid remains a core component of Aeroplan's value proposition to members.

In 2006, Aeroplan issued more than 1.4 million round trip flight rewards. With the newly introduced ClassicPlus Flight Rewards, all unsold capacity over and above the 8% dedicated to ClassicFlight Rewards is offered to members at variable mileage levels. The number of miles required to redeem for ClassicPlus Flight Rewards vary in a way similar to airline pricing, and are influenced by factors such as origin, destination, season, day and time of travel–minus Aeroplan's volume discount as the airline's largest purchaser of seats–and is calculated on a real-time basis.

In addition to the millions of seats now available to our members with the introduction of ClassicPlus Flight Rewards, we also continue to focus on new and innovative non-air reward choices for our members. For example, last year we introduced an innovative series of flexible prepaid reward cards that can be used towards purchases made in the following categories: dining, spa, sports, entertainment, getaways, house and home, sommelier and fashion. They are the first of their kind in the industry. We introduced more than 400 non-air rewards in 2006 and it is clear that we are on the right track as such rewards continue to be embraced by our members. In fact, this past year, 11.2% of Aeroplan Miles redeemed were for specialty rewards, electronics, and other merchandise, up from 8.2% in 2005. Looking at it another way, members redeemed 731 non-air rewards per day in 2006 almost double the 382 non-air rewards issued per day during the previous year.

At the same time that we introduced ClassicPlus Flights, we also announced two changes to expiration policies as they pertain to member participation in the Aeroplan program. These changes will enhance the program's long-term appeal for members and partners and contribute to its continued financial strength.

During 2006, we announced many new partnerships and fulfilled three of the ten key market segments we identified during the IPO: home improvement, insurance and real estate.

Starting in early 2007, Aeroplan members can earn 1 Aeroplan Mile for every $2 spent at more than one thousand Home Hardware stores right across Canada. Home improvement is one of our key strategic verticals as it represents a significant component of consumer spending. Home Hardware's vast network of stores from coast to coast–in small towns as well as major urban centres–allows Aeroplan members across Canada to take advantage of this great offer.

With respect to insurance, Aeroplan's multi-year agreements with ING Canada and Sun Life Financial offer mileage accumulation options to our members on a variety of insurance products. ING, a provider of property and casualty insurance in the country, is offering an interesting proposition for Aeroplan members through its insurance subsidiaries: ING Insurance Company of Canada, ING Novex, Nordic, belairdirect and Trafalgar. Sun Life Financial, an international financial services organization, is offering members access to exclusive programs through Sun Life Assurance Company of Canada and Clarica.

In terms of the real estate sector, the partnership between Aeroplan and Homeserve Technologies offers Aeroplan members the opportunity to earn Aeroplan Miles on various moving services through a newly developed home program called Aeromove. Aeromove will provide a one-stop shopping channel for members to access essential moving services, including those offered by participating Aeroplan partners whose products and services are linked to the moving process.

Last fall we also announced the formation of a multi-year partnership with Uniprix, the second largest retail drug store chain in Quebec. The Uniprix offering enables Aeroplan members to earn 1 Aeroplan Mile for every $1 spent on all eligible products at participating Uniprix locations. We are excited about this partnership as retail pharmacy is a key industry segment and source of household spending. We anticipate building a successful relationship with Uniprix to serve our members in Quebec, while at the same time continuing to examine opportunities to expand this category for our members across Canada.

There was good news for our unitholders as we increased our monthly cash distributions twice in 2006. First, on May 29th, we announced a 7.2% increase in monthly cash distributions to unitholders. Approximately four months later, we announced a 12% increase bringing monthly cash distributions to unitholders to 7 cents per unit—equivalent to $0.84 annually. The latter increase commenced with the distribution payable to unitholders of record on December 29, 2006.

In connection with the fund's issued and outstanding units, our parent, ACE Aviation Holdings, announced two special distributions of units to its shareholders. The first one, which was announced in February 2006, saw ACE distribute approximately 20.2 million fund units, representing in the aggregate approximately 10.1% of Aeroplan on a fully diluted basis. Following this distribution, the public float increased to 49.4 million fund units and ACE's ownership in Aeroplan decreased from 85.4% to 75.3%. Most recently, at the end of December 2006, ACE announced a second conversion and distribution of 50 million units and a conversion of 60 million Aeroplan units to fund units, increasing the number of units in the public float and reducing its overall direct and indirect ownership in Aeroplan to 50.3%.

Turning to the future, we intend to grow our business both organically and by actively pursuing the potential acquisition of other frequent flyer or loyalty coalition programs. Our plans to grow Aeroplan have not changed as a result of the Canadian government's announcement regarding the tax treatment of income trusts proposed to commence in 2011. We have a strong financial position, which should allow us to finance an acquisition through either debt or equity or some combination of both. At the same time, we will continue to work closely with our advisors to evaluate what needs to be done from a tax and corporate perspective over the next four years to ensure we continue to maximize the value of Aeroplan for our investors.

As part of our commitment to corporate social responsibility, we unveiled the Beyond Miles program. Beyond Miles is an online donation program that enables our members to donate Aeroplan Miles to six outstanding not-for-profit organizations as well as Air Canada's Kids' Horizons program. Each of these organizations is committed to improving lives and enriching communities at home and abroad and they can now use Aeroplan Miles to offset one of the most significant costs of their work: travel to and from projects. For example, back in May, approximately twenty African and Canadian grandmothers traveled to Toronto, courtesy of Aeroplan's members, to join 300 other grandmothers participating in the Stephen Lewis Foundation's Grandmothers' Gathering, being held in advance of the World AIDS Conference. Aeroplan and its partners, American Express and CIBC, launched the Beyond Miles program by contributing twelve million Aeroplan Miles to the participating organizations. And, in the time since the program's launch, more than 35 million miles have been donated by Aeroplan members. We are extremely proud of this program.

Finally, I would also like to highlight that last year Aeroplan was honoured with the Freddie Industry Impact Award for leading the way as the first frequent flyer program to transform itself into a successful, publicly-traded loyalty management enterprise. We are extremely proud to be recognized by this, our second such award, which is granted on a deserved rather than an annual basis. The Freddie Awards encourage consumers to rank airline and hotel programs from their perspective and the Industry Impact Award identifies programs that have made significant contributions to change in the industry. This award is a tribute to the employees of Aeroplan, ACE and Air Canada, whose shared vision led us to create the Aeroplan Income Fund.

And it is to our employees as well as our board of directors, members, partners and unitholders that we would like to offer our thanks for their contribution to our business in 2006. We look forward to growing the business with all of our stakeholders in 2007 and beyond.

RUPERT DUCHESNE
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

Aeroplan Income Fund (the "Fund") earns income from its interest in Aeroplan Limited Partnership ("Aeroplan"). During 2006, the Fund's interest in Aeroplan increased from 14.4% at December 31, 2005 to 24.7% (March) and to 49.7% at the end of December. The Fund accounts for its investment in Aeroplan under the equity method and records its proportionate share of Aeroplan's net earnings, calculated on the same basis as if they had been consolidated since March 3, 2006, taking into account the increases in ownership as step acquisitions from the date on which they occurred. As a result, the audited consolidated financial statements (the "financial statements") with accompanying notes therein have been presented for both the Fund and Aeroplan. In addition, the following management's discussion and analysis presents a discussion of the financial condition and results of operations for both the Fund and Aeroplan.

The following management's discussion and analysis of financial condition and results of operations of the Fund and Aeroplan (the "MD&A") is prepared as at February 7, 2007 and should be read in conjunction with the accompanying audited consolidated financial statements of Aeroplan for the years ended December 31, 2006 and 2005 and the notes therein, the audited consolidated financial statements of the Fund for the year ended December 31, 2006 and the period from inception, May 12, 2005 to December 31, 2005 and the notes therein.

The Fund is entirely dependent upon the operations and financial condition of Aeroplan. The earnings and cash flows of Aeroplan are affected by certain risks. For a description of those risks, please refer to the **RISKS AND UNCERTAINTIES AFFECTING THE BUSINESS** section.

CAUTION REGARDING FORWARD-LOOKING INFORMATION

Forward-looking statements are included in this MD&A. These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, dependency on top three partners, Air Canada or travel industry disruptions, reduction in activity, usage and accumulation of Aeroplan Miles, greater than expected redemptions for rewards, industry competition, supply and capacity costs, unfunded future redemption costs, seasonal nature of the business, as well as the other factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent Aeroplan's expectations as of February 7, 2007, and are subject to change after such date. However, Aeroplan disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

GLOSSARY

Aeroplan Miles—the miles issued by Aeroplan since January 1, 2002;

Air Canada Miles—the miles issued by Air Canada prior to January 1, 2002;

Aeroplan Mile Revenue—is recognized upon redemption of Aeroplan Miles by members based on the cumulative average selling price of the accumulated Aeroplan Miles issued since January 1, 2002 and includes Breakage;

Aeroplan Program—the loyalty marketing program operated by Aeroplan;

Average cost of rewards per Mile—For any reporting period, equals the cost of rewards for the period divided by the number of Aeroplan Miles redeemed for rewards during the period;

Breakage—Estimated Aeroplan Miles sold which are not expected to be redeemed. By its nature, Breakage is subject to estimates and judgement. Management's current best estimate of Breakage is 17% of Aeroplan Miles sold. Breakage is recognized as revenue over the estimated life of a mile, currently 30 months, which represents the average period elapsed between the sale of a mile and its redemption for rewards;

Broken Miles—Unexpired miles issued, but not expected to be redeemed;

GAAP—Generally accepted accounting principles in Canada;

Change in Future Redemption Costs—Change in the estimated future redemption cost liability for any quarter (for interim periods) or fiscal year (for annual reporting purposes). For purposes of this calculation, the opening balance of the future redemption cost liability is revalued by retroactively applying to all prior periods the latest available Average cost of rewards per Mile, experienced during the most recent quarter (for interim periods) or fiscal year (for annual reporting purposes). It is calculated by multiplying the change in estimated unbroken Aeroplan Miles outstanding between periods by the Average cost of rewards per Mile for the period;

Future Redemption Costs—Total estimated liability of the future costs of rewards for Aeroplan Miles which have been sold and remain outstanding, net of Breakage and valued at the latest available Average cost of rewards per Mile, experienced during the most recent quarter (for interim periods) or fiscal year (for annual reporting purposes);

Gross Billings—Gross proceeds from the sale of Aeroplan Miles;

Maintenance capital expenditures—represent expenditures incurred to sustain operations or Aeroplan's productive capacity;

Investment capital expenditures—represent expenditures related to new program and service initiatives associated to future growth and expansion and are not recorded as a reduction from Distributable Cash, as these expenditures are intended to be funded from cash on hand. Capital expenditures classified under Maintenance and Investment are intended to provide additional information and should not be considered in isolation or as a substitute for amounts calculated in accordance with GAAP. *(This definition is included for purposes of explaining what Aeroplan considers Investment capital expenditures, in the event that they are incurred. Since no Investment capital expenditures were incurred during the year, there is no reference to Investment capital expenditures in this MD&A)*;

Tier management fee—Fee charged to Air Canada to administer Air Canada's top tier (Super Elite, Elite or Prestige) membership program;

Total Miles—All redeemable miles (including Broken but unexpired miles), whether issued by Aeroplan or by Air Canada (prior to January 1, 2002).

AEROPLAN INCOME FUND

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario on May 12, 2005 pursuant to the Fund Declaration of Trust and has been established to acquire and hold, directly or indirectly, investments in Aeroplan, a loyalty marketing business.

On March 3, 2006, ACE Aviation Holdings Inc. ("ACE"), Aeroplan's parent company, transferred 20,204,165 Aeroplan units to the Fund which were exchanged for Fund units pursuant to an investors' liquidity agreement dated June 29, 2005. The 20,204,165 were then distributed to ACE's shareholders. On March 31, 2006, ACE, exchanged an additional 500,000 Aeroplan units for Fund units and transferred them to a trustee in order to fund grants to employees under the Initial Long-Term Incentive Plan.

On October 5, 2006, ACE's shareholders approved a plan of arrangement giving the board of directors of ACE the authority, from time to time, to make one or more special distributions of the securities of subsidiaries or investee entities of ACE to the shareholders by way of reduction of capital. The plan of arrangement provided for an initial distribution of Fund units to eligible ACE shareholders before the end of 2006, subject to the prior receipt of an advance income tax ruling or opinion from the Canada Revenue Agency confirming that the distribution will be treated as a return of capital.

On December 28, 2006, after having received the above-mentioned advance income tax ruling, ACE exchanged 50,000,000 Aeroplan units for an equivalent amount of Fund units which were distributed to ACE's shareholders of record on January 10, 2007. As a result of these transactions, at December 31, 2006, the Fund held 49.7% of Aeroplan, compared to 14.4% at December 31, 2005, with ACE holding the remaining 50.3% at December 31, 2006, compared to 85.6% at December 31, 2005.

In addition, on January 10, 2007, as mentioned in note 17 of Aeroplan's financial statements, ACE transferred 60,000,000 Aeroplan units to the Fund in exchange for Fund units pursuant to the investors' liquidity agreement between the parties. As a result, ACE holds 60,012,667 of the Fund. Consequently, the Fund holds approximately 79.7% of Aeroplan and ACE holds approximately 20.3% of Aeroplan directly and approximately 30.0% indirectly (through the ownership of 37.6% of the Fund) for a total of approximately 50.3%.

As a result of the March 3, 2006 transaction, the Fund changed its basis of accounting for its investment in Aeroplan from the cost method to the equity method. The December 28, 2006 transaction increased the Fund's ownership in Aeroplan and is accounted for as a step-by step purchase. Under the equity method, net earnings are calculated on the same basis as if the two entities had been consolidated. The difference between the purchase price and the net book value of Aeroplan's assets is allocated to the fair value of identifiable assets, including finite and indefinite life intangible assets, and any remaining difference is allocated to goodwill. Management has identified the commercial partners' contracts and technology as finite life intangibles and the trade name as an indefinite life intangible, and obtained an independent valuation of their value for purposes of including the amortization of finite life intangibles in the determination of the Fund's share of Aeroplan's net earnings for the year. The independent valuation has been updated to include the December 28, 2006 and January 10, 2007 transactions.

During the quarter ended September 30, 2006, an independent valuation of the identifiable assets of Aeroplan at March 3, 2006 was obtained. This valuation was updated for the December 28, 2006 and January 10, 2007 transactions. The value of the identifiable assets and their estimated useful life is detailed as follows:

	March 3, 2006	Dec. 28, 2006	Fund's proportionate share			
(in millions)	$	$	March 3, 2006 24,7% $	Dec 28, 2006 25% $	Total 49,7% $	Estimated useful life (years)
Fair value of Aeroplan	2,480.0	3,400.0	612.6	850.0	1,462.6	
Net book value of Aeroplan	(992.0)	(1,000.0)	(245.0)	(250.0)	(495.0)	
Purchase price discrepancy, allocated as follows:	**3,472.0**	**4,400.0**	**857.6**	**1,100.0**	**1,957.6**	
Finite life assets						
Commercial partners' contracts	1,220.0	1,600.0	301.3	400.0	701.3	15 and 25
Technology	39.0	40.0	9.6	10.0	19.6	5
	1,259.0	1,640.0	310.9	410.0	720.9	
Indefinite life assets						
Trade name	260.0	280.0	64.2	70.0	134.2	Indefinite
Goodwill	1,953.0	2,480.0	482.5	620.0	1,102.5	Indefinite
	2,213.0	2,760.0	546.7	690.0	1,236.7	
	3,472.0	**4,400.0**	**857.6**	**1,100.0**	**1,957.6**	

The Fund's proportionate share of Aeroplan's net earnings since March 3, 2006 of $17.8 million includes an $11.9 million amortization charge for the year ended December 31, 2006, for finite life intangibles (commercial partner contracts and technology).

During the last quarter of 2006, the estimated useful life of the technology was revised from 10 to 5 years. This change was applied prospectively and resulted in an additional amortization charge of $73,000.

Distributions declared by Aeroplan accruing to the Fund since March 3, 2006 in the amount of $33.9 million reduce the carrying value of the Fund's investment in Aeroplan.

On January 10, 2007, ACE transferred 60,000,000 Aeroplan units to the Fund in exchange for an equivalent number of Fund units pursuant to an investors' liquidity agreement between the parties. ACE now owns 60,012,667 units of the Fund. As a result, the Fund holds 79.7% of Aeroplan and ACE holds 20.3% of Aeroplan directly and approximately 30.0% indirectly (through the ownership of 37.6% of the Fund) for a total of approximately 50.3%. Following this exchange, commencing in 2007, the Fund will consolidate the results of Aeroplan in its financial statements.

The Fund is entirely dependent on distributions from Aeroplan to make its own distributions and to pay for its expenses.

On May 29, 2006, the Trustees approved an increase in distributions to unitholders from $0.0583 to $0.0625 per unit, commencing with the distribution declared for the month of July, 2006, following a decision to increase distributions to its limited partners by Aeroplan Holding GP Inc.'s (the "GP") board of directors in the same amount.

On October 16, 2006, the Trustees approved an increase in distributions to unitholders from $0.0625 to $0.0700 per unit, commencing with the distribution declared for the month of December, 2006, following a decision to increase distributions to its limited partners by Aeroplan GP's board of directors in the same amount. The amount of distributions remains subject to review throughout the year and any changes to the monthly distribution amounts are subject to the approval of the Trustees.

As at December 31, 2006, the Fund's assets consisted primarily of distributions receivable in the amount of $7 million, offset by an equivalent amount of distributions payable, and its investment in Aeroplan of $1,375.6 million.

Distributions

The Fund intends to make monthly distributions to its unitholders within 15 days of the end of each month, after receiving equivalent distributions from Aeroplan. The monthly distributions which were generated from Aeroplan's operations amounted to $0.0583 per unit until June of 2006; $0.0625 per unit from July to November of 2006; and $0.0700 per unit for December of 2006.

Distributions declared to the unitholders of record on the last business day of the month during the years ended December 31, 2006 and 2005 amounted to approximately $37.3 million and $10.2 million, respectively as follows:

	2006		2005	
Record date	Amount $	Amount per Unit $	Amount $	Amount per Unit $
January	1,676,125	0.0583	–	–
February	1,676,125	0.0583	–	–
March	2,883,178	0.0583	–	–
April	2,883,178	0.0583	–	
May	2,883,178	0.0583	–	–
June	2,883,178	0.0583	–	–
July	3,090,885	0.0625	1,788,250	0.0622
August	3,090,885	0.0625	1,676,125	0.0583
September	3,090,885	0.0625	1,676,125	0.0583
October	3,090,885	0.0625	1,676,125	0.0583
November	3,090,885	0.0625	1,676,125	0.0583
December	6,961,792	0.0700	1,676,125	0.0583
	37,301,179	**0.7323**	**10,168,875**	**0.3537**

The percentage of the distributions attributable to return of capital will approximate 60% for 2006 compared to 84% for 2005 and taxable income (representing taxable income generated from Aeroplan's operations) will approximate 40% for 2006 compared to 16% for 2005.

The different proportions of taxable income and return of capital between the years result from higher net earnings and lower tax deductions (permanent and timing differences between the calculation of net income for accounting purposes and taxable income) as a proportion of taxable income during 2006.

Distributions from the Fund's investment in units of Aeroplan and distributions payable by the Fund to its unitholders are recorded when declared.

Units

As at December 31, 2006, the Fund had 99,454,165 units issued and outstanding for an aggregate amount of $1,392.2 million, compared to 28,750,000 units and $285.3 million at December 31, 2005.

Earnings Per Unit

The Fund's earnings per unit amounted to $0.4077 and $0.3538 for the years ended December 31, 2006 and 2005, respectively.

Critical Accounting Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management of the Fund will regularly review its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of an accounting policy which requires significant judgment by management.

Investments

The valuation of the Fund's investment in Aeroplan will be regularly reviewed by management to ensure that any decline in market value that is considered other than temporary will be reflected in the related carrying value of the investment. In making the assessment, several factors will have to be considered including the amount by which the carrying value exceeds the market value, the value of Aeroplan's underlying intangibles, the duration of any market value decline and Aeroplan's expected future cash flows and earnings.

In addition, as a result of the application of the equity method of accounting for the investment, the Fund must evaluate Aeroplan's finite life intangibles for purposes of recording its proportionate share of amortization in arriving at the proportion of Aeroplan's net earnings to be recorded in the Fund's net earnings. Management has relied on independent valuations of Aeroplan's finite and indefinite life intangibles and has estimated the useful life of the finite life intangibles. Management will monitor the value of the intangibles and technology to determine whether any impairment in their carrying value has occurred or whether their estimated life has changed.

Guarantees

The Fund has guaranteed, through Aeroplan Trust (the "Trust", wholly-owned by the Fund and a limited partner of Aeroplan), borrowings under Aeroplan's credit facilities with its banking syndicate, described in the **Credit Facilities** section of this document. This guarantee is supported by first ranking security over all of the present and future assets of the Trust, including a first ranking pledge of all securities held by the Trust in Aeroplan and Aeroplan Holding GP Inc. (Aeroplan's general partner).

As at December 31, 2006, Aeroplan had authorized credit facilities of $475.0 million and borrowings of $300.0 million.

AEROPLAN LIMITED PARTNERSHIP

OVERVIEW

Aeroplan is Canada's premier loyalty marketing company. Aeroplan provides its commercial partners with loyalty marketing services designed to attract and retain customers and stimulate demand for such partners' products and services. Aeroplan's objective is to offer its commercial partners superior value relative to other marketing alternatives through access to Aeroplan's base of members and the design and execution of marketing programs aimed at increasing revenue, market share, and customer loyalty. The Aeroplan Program is one of Canada's longest standing loyalty programs. It was founded in 1984 by Air Canada, Canada's largest domestic and full-service international airline, to manage the airline's frequent flyer program. Aeroplan benefits from its unique strategic relationship with Air Canada in addition to its contractual arrangements with leading commercial partners including AMEX, Bell Canada, CIBC, Future Shop, Imperial Oil (Esso), Star Alliance member airlines and numerous hotel chains and car rental companies.

During the year ended December 31, 2006, commercial partnership agreements were signed with XM Canada, ING Canada Inc., Sun Life Financial Canada, SWISS, South African Airways, Le Méridien hotel chain, Homeserve forming the Aeromove Home and Move Program, Club Intrawest, Intrawest's Vacation Ownership Division, Uniprix, DaimlerChrysler, Home Hardware, Accor hotels (Sofitel and Novotel), Pepsi-QTG Canada, and C.S.T. Consultants, a Registered Education Savings Plan provider. In addition, during the last quarter of 2006, Aeroplan and CIBC announced an amendment to their commercial agreement to include a 50% multiplier for every dollar spent (1.5 Aeroplan Miles earned) at grocery stores, gas stations and drug stores in Canada and abroad for Aerogold cardholders. Reward choices were also expanded by enabling members to use their Aeroplan Miles through a series of new and flexible reward cards across Canada and the United States at establishments where the American Express Card is welcome, as well as for purchases made online, by mail and by phone. Members simply present the card at the time of payment, as they would a credit card to exchange the Aeroplan Miles for their chosen rewards.

On October 16, 2006, in order to improve reward travel choices and provide greater flexibility to make travel arrangements, Aeroplan introduced ClassicPlus Flight rewards, which offer Aeroplan members unrestricted access to available seat inventory across the entire Air Canada and Air Canada Jazz networks in both Economy and Executive Class and may be booked until two hours prior to a flight's departure should seats remain available. ClassicPlus Flight rewards offer flexibility for reward travel, complementing Aeroplan's existing ClassicFlight and exclusive Star Alliance Flight Rewards. Together, Aeroplan's flight products provide global reward travel options to more than 850 destinations.

ClassicPlus Flight rewards replace the Avenue product. The existing ClassicFlight Rewards have not changed and continue to be a core element of Aeroplan's value proposition to members. These rewards will continue to represent 8% of Air Canada and Air Canada Jazz seat capacity on every route, every month. ClassicPlus Flight Rewards are currently not available to a limited number of destinations that do not support electronic tickets. However, electronic ticketing is now available throughout Canada and most of Air Canada's transborder and international destinations, with all destinations planned for electronic ticketing in the near future.

With ClassicPlus Flight rewards, all capacity available over and above the 8% ClassicFlight Rewards capacity, is offered to members at variable mileage levels. Aeroplan uses a new and innovative availability and booking tool to source seat inventory and to calculate mileage levels on a real-time basis. The number of miles required to redeem for ClassicPlus Flight rewards is based on actual airline ticket prices – minus Aeroplan's negotiated discounts as the airline's largest purchaser of seats – and therefore will vary in a way similar to airline pricing, depending on factors such as origin, destination, seasonality, time and day of travel.

In addition, also on October 16, 2006, Aeroplan announced the implementation of program changes – principally related to mileage expiry and mileage accumulation – effective January 1, 2007 and July 1, 2007. The changes have been designed to encourage members' active participation in the program through accumulation and redemption.

Starting January 1, 2007, miles that are unused after 7 years (84-months) in a member's account will expire, and will be deducted from the total balance in the member's account. All Aeroplan Miles issued prior to January 1, 2007 are considered as having been accumulated on December 31, 2006 for the purpose of the 7 year period, resulting in a potential expiry date of December 31, 2013.

Effective October 16, 2006, expired Aeroplan Miles may be reinstated for an administrative fee of $30 plus $0.01 per restored mile.

From July 1, 2007, the terms of the mileage expiry policy will be changed to require members to transact with the program, through either one accumulation or one redemption, at least once in a consecutive 12-month period, failing which accumulated miles in the account will be expired.

Aeroplan offers its approximately five million active members the ability to accumulate Aeroplan Miles throughout its partner network through purchases of products and services. Aeroplan sells Aeroplan Miles to its extensive network of over 60 commercial partners, representing over 100 brands in the financial services, travel services and consumer products and services industries. Today, financial services partners generate the majority of Aeroplan's Gross Billings. In 2006, approximately 70 billion Aeroplan Miles (63 billion for 2005) were accumulated by members representing an equivalent of over $50 billion in estimated consumer spending. Once members have accumulated a sufficient number of Aeroplan Miles, they can redeem such Aeroplan Miles for air travel and other rewards. Upon the redemption of Aeroplan Miles by its members, Aeroplan incurs the cost to acquire the desired rewards.

Historically, Aeroplan has experienced higher reward redemption activity in the first six months and greater mile accumulation in the last six months of the year.

STRATEGY

Aeroplan's strategic vision and mission are:

– To become a leading player in loyalty management operating internationally.
– To offer a comprehensive line of loyalty products and services designed to foster and nurture profitable, loyal relationships between corporations and their clientele.

The Program's vision and mission are:

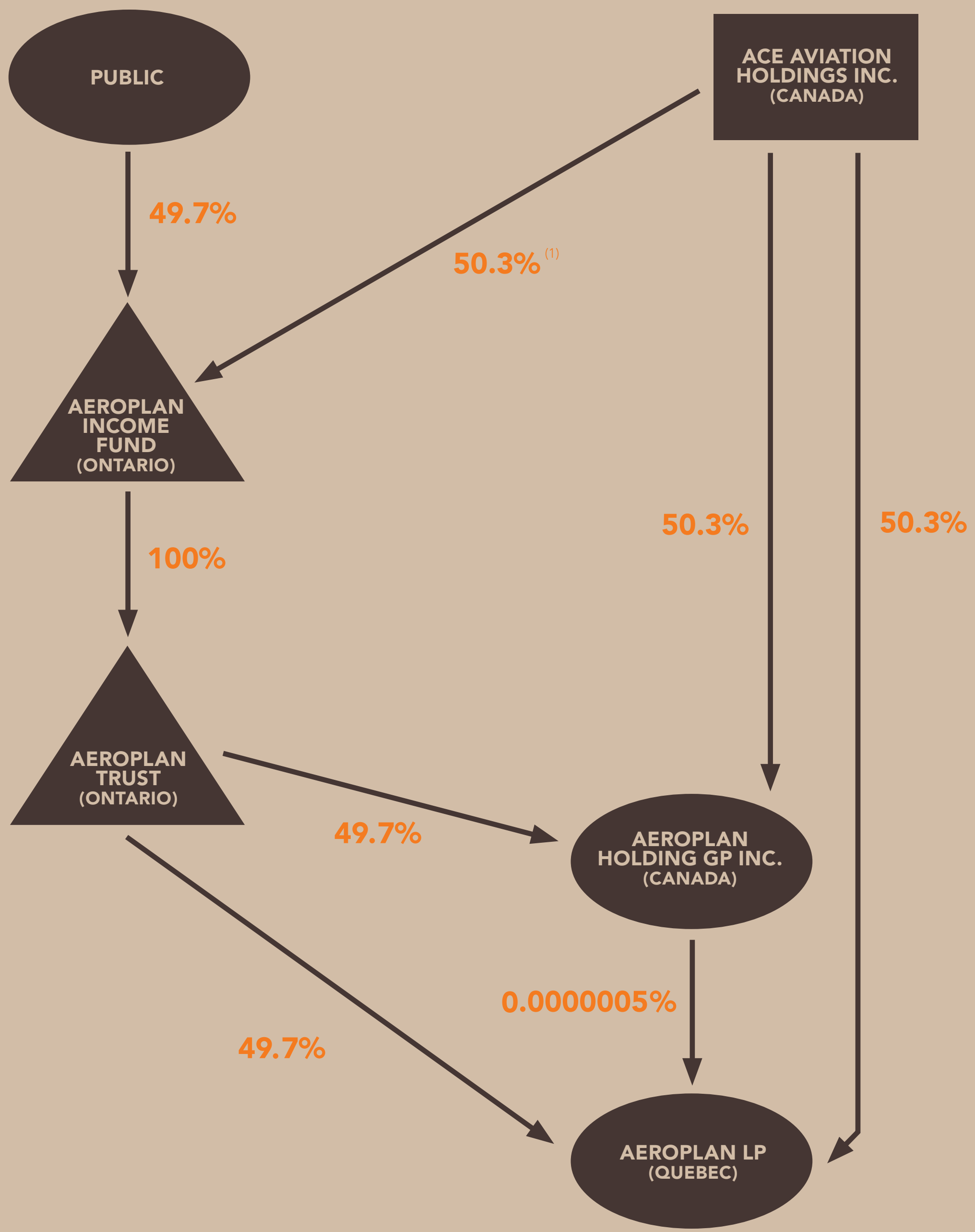
– To build Aeroplan's membership into the most engaged group of Canadian consumers and to harness this power on behalf of Aeroplan's commercial partners as their premier marketing lever.
– To engage Aeroplan's members by creating diverse, unique and meaningful ways to accumulate and use Aeroplan Miles with Aeroplan's commercial partners.

Management believes that Aeroplan is well positioned to capitalize on its strong brand and value-added service offerings. Aeroplan's objective is to increase profitability by leveraging its market position and strong base of members and commercial partners.

The strategy is executed through the following initiatives:

- **enhancing partner value proposition;**
- **increasing member engagement in the Aeroplan Program by providing new mileage accumulation opportunities and offering a wider range of rewards;**
- **recruiting new members by increasing brand awareness and continuously expanding and diversifying offered rewards;**
- **adding new travel-related value-added services and rewards;**
- **improving productivity and operating efficiency to more effectively manage customer service resources through continuous process and technology enhancements;**
- **seeking potential strategic acquisitions and partnerships;**
- **continuous Aeroplan Program improvement through product and services innovation;**
- **active management of the Aeroplan Program (including potential amendments if necessary) and operational and profitability levers to optimize financial performance.**

The following chart summarizes the organizational structure as at December 31, 2006:



(1) On January 10, 2007, 50,000,000 Fund units held by ACE were distributed to ACE shareholders. On the same date, ACE exchanged 60,000,000 Aeroplan units and 60,000,000 shares of Aeroplan Holding GP Inc. for an equivalent number of Fund units. Following these transactions, ACE currently owns 40,545,835 units of Aeroplan (20.3%) and 60,012,667 Fund units (37.6%).

PERFORMANCE INDICATORS

Operating income

Revenue

Aeroplan derives its Gross Billings primarily from the sale of Aeroplan Miles to commercial partners. A key characteristic of Aeroplan's business is that the gross proceeds received by Aeroplan at the time of the sale of Aeroplan Miles to its partners, known as "Gross Billings", are deferred and recognized as revenue for GAAP purposes upon the redemption of Aeroplan Miles by the members. Based upon past experience, management anticipates that a number of Aeroplan Miles sold will never be redeemed by members. This is known as "Breakage". For those Aeroplan Miles that Aeroplan does not expect will be redeemed by members, Aeroplan recognizes revenue on a straight-line basis over the average estimated life of an Aeroplan Mile, currently estimated at 30 months.

In addition, Aeroplan derives service fees for managing Air Canada's tier membership program for its most frequent flyers. Other revenue, consisting primarily of charges to members for various services, is recognized when the services are performed.

Cost of Rewards and Operating Expenses

Aeroplan's cost of rewards consists of the cost to purchase airline seats or other products or services in order to deliver rewards chosen by members upon redemption of their Aeroplan Miles. At that time, Aeroplan incurs and recognizes the costs of the chosen rewards. The total cost of rewards varies with the number of Aeroplan Miles redeemed and the cost of the individual rewards purchased by Aeroplan in connection with such redeemed Aeroplan Miles.

The Average cost of rewards per Mile is an important measurement metric since a small fluctuation may have a significant impact in overall costs due to the high volume of miles redeemed.

Operating expenses incurred by Aeroplan include contact centre operations, consisting primarily of salaries and wages, as well as advertising and promotion, information technology and systems and other general corporate expenses.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

EBITDA adjusted for certain factors particular to Aeroplan's business, such as changes in deferred revenue and future redemption costs ("Adjusted EBITDA"), is used by management to evaluate performance, to measure compliance with debt covenants and to make decisions relating to distributions to unitholders. Management believes Adjusted EBITDA assists investors in comparing Aeroplan's performance on a consistent basis without regard to depreciation and amortization, which are non-cash in nature and can vary significantly depending on accounting methods and non-operating factors such as historical cost.

Change in deferred revenue is calculated as the difference between Gross Billings less Aeroplan Miles revenue recognized as a result of reward redemption activity and recognition of Breakage.

Future redemption costs represent management's estimated future cost of rewards in respect of Aeroplan Miles sold which remain outstanding and unbroken at the end of any given period. Future redemption costs are revalued at the end of any given period by taking into account the most recently determined average unit cost per Aeroplan Mile redeemed for that period (cost of rewards/Aeroplan Miles redeemed) and applying it to the total unbroken Aeroplan Miles outstanding at the end of that period. As a result, future redemption costs and the change in future redemption costs must be calculated at the end of any given period and for that period. The simple addition of sequential inter-period changes to arrive at a cumulative change for a particular period may result in inaccurate results depending on the fluctuation in the average unit cost per Aeroplan Mile redeemed for the period in question.

Adjusted EBITDA is not a measurement based on GAAP, and is not considered an alternative to operating income or net income in measuring performance. For a reconciliation with GAAP, please refer to the SELECTED ANNUAL INFORMATION AND RECONCILIATION OF ADJUSTED EBITDA AND DISTRIBUTABLE CASH included in the OPERATING AND FINANCIAL RESULTS section. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows.

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance. It should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. For reconciliation to cash flows from operating activities please refer to the RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO DISTRIBUTABLE CASH included in the OPERATING AND FINANCIAL RESULTS section. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to cash available for distributions as reported by such entities.

Aeroplan intends to make equal monthly distributions to its partners of record on the last business day of each month, net of estimated cash amounts required for interest expense and maintenance capital expenditures and other obligations of Aeroplan, within 7 days of the end of each month. In accordance with the limited partnership agreement, priority distributions are to be made to the Trust and the Fund in order to cover their operating expenses. A priority distribution of $0.5 million was paid to the Fund in December of 2006. The Fund used the proceeds of the distribution to reimburse Aeroplan for the operating expenses paid by Aeroplan on the Fund's behalf. No priority distributions were declared by Aeroplan in 2005 since no significant operating expenses were incurred by the Trust and the Fund.

During the years ended December 31, 2006 and 2005, Aeroplan declared distributions to its partners totalling $146.5 million and $381.7 million ($311.0 million to ACE immediately prior to the Initial Public Offering) and $70.7 million (after the Initial Public Offering), respectively.

Of the 100,545,835 Aeroplan units held by ACE at December 31, 2006, 40,000,000 units were subordinated in favour of the Fund until December 31, 2006. Distributions on the subordinated units will only be paid by Aeroplan to the extent that Aeroplan has met and paid its distributable cash target to the Fund as the holder of non-subordinated units at the end of each quarter, as defined in the limited partnership agreement. At December 31, 2006, the distributions payable to ACE for the fourth quarter of 2006, related to the subordinated units, amounted to $7.8 million and are expected to be paid during the first quarter of 2007.

On October 13, 2006, Aeroplan Holding GP Inc.'s (the "GP") board of directors approved an increase in distributions to be declared by Aeroplan to its partners from $0.0625 to $0.0700 per unit, commencing with the distribution declared for the month of December, 2006.

Distributions payable to Aeroplan's limited partners are recorded when declared.

The board of directors will periodically review cash distributions in order to take into account Aeroplan's current and prospective performance.

CAPABILITY TO DELIVER RESULTS

Capital Resources

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

Non-capital Resources

Aeroplan's critical non-capital resources are its brand, its strong member base, its relationship with its commercial partners, its long-term relationship with Air Canada, its technology and its employees.

Leading Market Position and Brand

Aeroplan's leading market position and strong brand make it highly attractive to existing and potential commercial partners. Management believes that Aeroplan's brand is associated with an attractive base of Canadian consumers in terms of household income and spending habits. According to a survey commissioned by Aeroplan in 2005, Aeroplan is most often identified by members as their preferred loyalty program in Canada.

Strong Base of Members

Aeroplan benefits from a growing base of approximately five million active members with attractive demographics who have demonstrated a strong willingness to collect Aeroplan Miles over other loyalty program points and are generally willing to change their purchasing behaviour in order to earn more Aeroplan Miles.

Relationship with Commercial Partners

Aeroplan has over 60 commercial partners, representing over 100 brands, including leading financial services, travel services and consumer products and services companies. The terms of these contractual arrangements typically range from 2 to 5 years and are longer with certain financial services partners. Management believes that commercial partners benefit from Aeroplan's members sustained purchasing behaviour, which translates into a recurring flow of Gross Billings for Aeroplan.

Long-Term Strategic Relationship with Air Canada

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

In addition, Air Canada is one of Aeroplan's leading commercial partners purchasing a high volume of Aeroplan Miles yearly for the purpose of awarding Aeroplan Miles to its customers. Over 70% of the tickets sold by Air Canada for travel within Canada earn Aeroplan Miles. Aeroplan is Air Canada's exclusive loyalty marketing provider based in Canada.

Technology

Aeroplan relies on a number of sophisticated systems in order to operate the contact centres, manage and analyze the member data base and redeem rewards (directly and through the website). Through the use of technology, Aeroplan is able to increase operational efficiency, facilitate reward redemption for its members and offer value-added services to its commercial partners.

Employees

Aeroplan benefits from a strong and experienced employee base, which is focused on driving Aeroplan's growth and enhancing its franchise through value-added service offerings to its members and commercial partners.

2006 HIGHLIGHTS

- Gross Billings of $851.9 million for the year compared to $754.8 million for 2005, representing year over year growth of 12.9%.
- Operating income of $140.5 million, compared to $101.9 million for 2005, or a 37.8% increase.
- Net earnings of $143.5 million, compared to $100.3 million for 2005, representing an increase of 43.1%.
- Increase in earnings per unit of 34.5% compared to 2005 ($0.7187 vs $0.5343).
- Adjusted EBITDA of $216.4 million compared to $168.1 million for 2005, or an increase of 28.7%.
- Distributable Cash of $199.4 million compared to $152.2 million for 2005, representing an increase of 31.0%.

OPERATING AND FINANCIAL RESULTS

Certain of the following financial information of Aeroplan has been derived from, and should be read in conjunction with, the audited consolidated financial statements for the years ended December 31, 2006, 2005 and 2004 and the related notes.

SELECTED ANNUAL INFORMATION AND RECONCILIATION OF ADJUSTED EBITDA AND DISTRIBUTABLE CASH

(in thousands, except miles, unit and per unit information)	Years ended December 31 2006	2005	2004	Year over year % Δ 2006 over 2005	2005 over 2004
Number of Aeroplan Miles issued (in billions)	**69.7**	**62.6**	**58.2**	**11.3**	**7.6**
Number of Total Miles redeemed (in billions)	**57.8**	**52.2**	**45.7**	**10.7**	**14.2**
Number of Aeroplan Miles redeemed (in billions)	**49.3**	**40.4**	**29.3**	**22.0**	**37.9**
Gross Billings from the sale of Aeroplan Miles	**$ 851,851**	**$ 754,786**	**$ 692,275**	**12.9**	**9.0**
Aeroplan Miles revenue	709,269	582,883	423,949	21.7	37.5
Tier management, contact centre management and marketing fees from Air Canada	10,121	12,666	54,261	(20.1)	(76.7)
Other revenue	49,997	44,352	39,756	12.7	11.6
Total revenue	769,387	639,901	517,966	20.2	23.5
Cost of rewards	(465,254)	(397,042)	(273,631)	17.2	45.1
Gross margin	304,133	242,859	244,335	25.2	(0.6)
Operating expenses, excluding depreciation and amortization	(149,406)	(132,459)	(139,386)	12.8	(5.0)
Depreciation and amortization	(14,260)	(8,491)	(4,425)	67.9	91.9
Operating income	**$ 140,467**	**$ 101,909**	**$ 100,524**	**37.8**	**1.4**
Depreciation and amortization	14,260	8,491			
Change in deferred revenue					
Gross Billings from the sale of Aeroplan Miles	851,851	754,786			
Aeroplan Miles revenue	(709,269)	(582,883)			
Change in future redemption costs [1] (Δ in Net Aeroplan Miles outstanding x Average cost of rewards per Mile for the period)	(80,915)	(114,165)		(29.1)	
Adjusted EBITDA	**$ 216,394**	**$ 168,138**		**28.7**	
Net Interest Income (Expense)	4,941	(666)		841.9	
Maintenance Capital Expenditures	(21,923)	(15,284)		43.4	
Distributable Cash	**$ 199,412**	**$ 152,188**		**31.0**	
Weighted average number of units [2]	**199,707,713**	**187,739,727**	**175,000,000**		
Distributable Cash per unit	**$ 0.9985**	**$ 0.8106**		**23.2**	
Net earnings, in accordance with GAAP	**$ 143,529**	**$ 100,304**	**$ 100,803**	**43.1**	
Earnings per unit, in accordance with GAAP	**$ 0.7187**	**$ 0.5343**	**$ 0.5760**	**34.5**	
Total assets	**$ 824,383**	**$ 674,221**	**$ 344,631**	**22.3**	**95.6**
Total long-term liabilities	**$ 967,921**	**$ 944,183**	**$ 529,762**	**2.5**	**78.2**
Total monthly distributions declared, post offering	**$ 146,460**	**$ 70,740**		**107.0**	
Total monthly distributions declared per unit, post offering	**$ 0.7323**	**$ 0.3768**		**94.4**	
Distributions declared, pre-offering	**–**	**$ 311,000**	**$ 601,453**		**(48.3)**

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

(2) The weighted average number of units, used in the distributable cash and earnings per unit calculation, has been established by restating Aeroplan's outstanding units to 175,000,000 for the periods presented up to June 28, 2005.

RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO DISTRIBUTABLE CASH

(in thousands)	Years ended December 31 2006	2005
Cash flows from operations	**$ 320,977**	**$ 320,364**
Changes in non-cash working capital items	(17,579)	(38,727)
Stock-based compensation	(3,621)	–
Funding of stock-based compensation plans	2,473	–
Change in future redemption costs	(80,915)	(114,165)
Maintenance Capital Expenditures	(21,923)	(15,284)
Distributable cash	**$ 199,412**	**$ 152,188**
Distributions declared	**$ 146,460**	**$ 70,740**
Payout ratio – Distributions declared / Distributable cash	**73%**	**46%**
Cumulative Distributable cash since IPO (June 29, 2005)*	**$ 282,532**	**$ 83,120**
Cumulative distributions declared since IPO	**$ 217,200**	**$ 70,740**
Cumulative payout ratio since inception	**77%**	**85%**

* Distributable cash has been calculated since June 29, 2005 in order to calculate the cumulative payout ratio on a comparable basis of measurement from the date distributions started to be declared.

Aeroplan's distributions are determined by the GP's board of directors (the "Board of Directors") as general partner of Aeroplan and by the trustees of the Fund (the "Trustees") on the basis of performance, taking into account anticipated future cash requirements. Monthly distributions have increased from the initial $0.0583 per unit at the time of the Initial Public Offering to $0.0625 per unit in July 2006 and on October 16, 2006 an increase to $0.0700 per unit commencing December 2006, was announced. In order to ensure Aeroplan's continued financial strength, while gaining experience as an independent public entity and providing a reasonable return to its partners and unitholders, the Board of Directors and the Trustees of the Fund have considered it financially prudent not to distribute 100% of Distributable Cash in order to provide for periods of unusually high redemption activity and unforeseen events, should they occur. The Board of Directors and the Trustees of the Fund will monitor Aeroplan's performance throughout the year and any changes to the monthly distribution amounts are subject to their approval.

OPERATING RESULTS AND PERFORMANCE INDICATORS IN % TERMS

(as a % of total revenue)	Years ended December 31 2006	2005
Aeroplan Miles revenue	**92.2**	**91.1**
Tier management, contact centre management and marketing fees from Air Canada	1.3	2.0
Other revenue	6.5	6.9
Total revenue	**100.0**	**100.0**
Cost of rewards	(60.5)	(62.1)
Gross margin	39.5	37.9
Operating expenses, excluding depreciation and amortization	(19.4)	(20.7)
Depreciation and amortization	(1.9)	(1.3)
Operating income	**18.2**	**15.9**

(as a % of Gross Billings)	Years ended December 31 2006	2005
Gross Billings from the sale of Aeroplan Miles	**100.0**	**100.0**
Aeroplan Miles revenue	83.3	77.2
Cost of rewards	54.6	52.6
Operating expenses, excluding depreciation and amortization	17.5	17.6
Operating income	**16.5**	**13.5**
Adjusted EBITDA	**25.4**	**22.3**
Distributable Cash	**23.4**	**20.2**

YEAR ENDED DECEMBER 31, 2006 COMPARED TO YEAR ENDED DECEMBER 31, 2005

Gross Billings from the sale of Aeroplan Miles for 2006 amounted to $851.9 million compared to $754.8 million for 2005, representing continued solid growth for an increase of $97.1 million or 12.9%. This increase is attributable to the following factors:

– an increase of 7.1 billion Aeroplan Miles sold as a result of higher purchases from commercial partners. The overall increase reflects the positive momentum experienced by the travel industry in general, which has positively affected Air Canada and its affiliates; as well as growth in consumer spending which translates into increased volume from the financial commercial partners,
– the positive contribution of Air Canada's annual top tier status determination related to the tier membership program, administered by Aeroplan, which generally takes place in February. This year, a higher number of members reached Elite and Super Elite status and chose Aeroplan Miles as part of their tailored benefit package, rather than other benefits. This one-time increase was a first quarter event; and
– a 1.4 % increase in the average selling price per Aeroplan Mile as a result of contractual price increases and the evolving mix of products within certain partners.

Gross Billings from the sale of Aeroplan Miles are accounted for as deferred revenue until such Aeroplan Miles are redeemed. Miles redeemed are recognized as revenue at the cumulative average selling price of the accumulated miles issued since January 1, 2002.

Redemption activity

Total Miles redeemed for 2006 under the Aeroplan Program amounted to 57.8 billion, compared to 52.2 billion for 2005, representing an increase of 10.7%. This increase was driven by higher general redemption activity by members and by the continued expansion of non-air rewards.

Of the 57.8 billion Total Miles (calculated on a first-in, first-out basis on a member account basis for air redemptions) redeemed during 2006, 85.3% or 49.3 billion represented Aeroplan Miles with the balance representing Air Canada Miles (issued by Air Canada prior to January 1, 2002). By comparison, during 2005, only 77.4% or 40.4 billion of the 52.2 billion Total Miles redeemed were Aeroplan Miles. As the percentage of Aeroplan Miles redeemed increases, it translates into a corresponding increase in revenue recognition and cost of rewards.

Given the large volume of miles issued and redeemed, slight fluctuations in the average unit cost or selling price of a mile will have a significant impact on results.

Revenue recognized from the redemption and sale of Aeroplan Miles, including *Breakage*, amounted to $709.3 million for 2006 compared to $582.9 million for 2005, representing an increase of $126.4 million or 21.7%. This increase is mainly attributable to:

– Program growth, combined with a higher proportion of Aeroplan Miles (issued by Aeroplan on or after January 1, 2002) redeemed during the period, including the positive impact of higher non-air reward redemption activity, for a total of $103.7 million,
– a higher cumulative average revenue recognized per Aeroplan Mile redeemed, representing $11.0 million, primarily attributable to an increase in the cumulative average selling price of an Aeroplan Mile as a result of contractual price increases; and
– revenue recognized from Breakage for 2006 amounted to $125.1 million (calculated at 17%) compared to $113.4 million (calculated at 17%) for 2005, representing an increase of $11.7 million or 10.3%. The increase in revenue recognized from Breakage is mainly attributable to the increase in outstanding Aeroplan Miles as a result of growth in Gross Billings over the last 30 months compared to the 30 months ended December 31, 2005.

Revenue from tier management, contact centre management and marketing fees from Air Canada decreased to $10.1 million from $12.7 million or 20.1%. During 2005, this fee was contracted at a fixed amount whereas for 2006 and subsequent years, it is billed on the basis of actual costs incurred plus a profit margin.

Other revenue, consisting primarily of charges to members for the mileage transfer program and services rendered including booking, change and cancellation fees, and other miscellaneous amounts, amounted to $50.0 million for 2006 compared to $44.4 million for 2005, representing a $5.6 million or 12.7% increase. This favourable change is due to higher booking fees, as a result of price increases introduced in the fourth quarter of 2005; the higher volume of cancellation and change fees, and to the introduction of the mileage transfer program during the second quarter of 2005.

Total revenue amounted to $769.4 million for 2006 compared to $639.9 million for 2005, representing an increase of $129.5 million or 20.2%.

Cost of rewards amounted to $465.3 million for 2006 compared to $397.0 million for 2005, representing an increase of $68.3 million or 17.2%. This increase is mainly attributable to the following factors:

- a higher proportion of Aeroplan Miles (issued by Aeroplan on or after January 1, 2002) redeemed, representing $41.4 million and higher general redemption activity as a result of program growth, accounting for $43.6 million for a total of $85.0 million, including an increase of 67.6% in non-air reward redemption activity compared to 2005;
- partially offset by a lower redemption cost per Aeroplan Mile redeemed for air travel rewards, representing $18.2 million, and an unfavourable variance of $1.3 million attributable to non-air rewards, for a total of $16.9 million. The lower costs are attributable to changes to the redemption mix of air rewards.

Gross margin improved by 1.6% during 2006, reaching 39.5% of total revenue, mainly as a result of the reduction in the Average cost per Aeroplan Mile redeemed experienced during the year.

Operating expenses, excluding depreciation and amortization, amounted to $149.4 million for 2006 compared to $132.5 million in 2005, representing an increase of $16.9 million or 12.8%. The increase resulted primarily from higher net compensation costs of $7.0 million, as a consequence of increases in headcount and average salaries, stock based compensation and separation costs recognized during the year for certain executives, partially offset by compensation cost savings experienced in the contact centres; higher professional, consulting, advisory and other expenses of $7.9 million, including public company costs and securities laws compliance; increased information technology maintenance costs as development projects are deployed into service; higher advertising and promotion costs of $2.0 million as a result of promotional activities, mainly related to the launch of ClassicPlus Flight rewards.

Depreciation and amortization increased by $5.8 million or 67.9%, reflecting higher capitalized software carrying values subject to amortization, as projects previously under development were deployed into service.

Operating income amounted to $140.5 million for 2006 compared to $101.9 million for 2005, representing an increase of $38.6 million or 37.8% mainly attributable to the higher proportion of Aeroplan Miles redeemed and higher reward redemption activity with improved margin.

Net interest income for 2006, consists of interest revenue of $20.0 million earned on cash and cash equivalents and short-term investments on deposit, offset by interest on long-term debt of $15.1 million on the borrowings under the term facility described under Credit Facilities. During 2006, Aeroplan recognized $1.9 million of amortization of deferred financing charges related to the long-term debt. The credit facilities were entered into on June 29, 2005 and until that date excess cash was transferred to Air Canada. As a result the amount for 2005 only includes interest on long-term debt in the amount of $6.3 million incurred and $5.6 million of interest income earned on cash and cash equivalents.

Adjusted EBITDA for 2006 amounted to $216.4 million or 25.4% (as a % of Gross Billings) and *Distributable Cash* generated amounted to $199.4 million or 23.4% (as a % of Gross Billings), compared to $168.1 million or 22.3% (as a % of Gross Billings) and $152.2 million or 20.2% (as a % of Gross Billings), respectively for 2005. Although Distributable Cash was negatively affected by the $16.9 million increase in operating expenses and $6.6 million increase in maintenance capital expenditures, mainly related to the software development required for ClassicPlus Flight rewards, it was positively impacted by the increase in Gross Billings and the experienced reduction in the Average cost of rewards per Aeroplan Mile during the period and the corresponding favourable effect on the change in future redemption costs. Adjusted EBITDA and Distributable Cash are non-GAAP measures, for additional information on these measures, please refer to the PERFORMANCE INDICATORS section.

QUARTER ENDED DECEMBER 31, 2006 COMPARED TO QUARTER ENDED DECEMBER 31, 2005

Gross Billings from the sale of Aeroplan Miles for the three months ended December 31, 2006 amounted to $226.7 million compared to $196.6 million for the three months ended December 31, 2005, representing an increase of $30.1 million or 15.3%. This increase is attributable to two main factors:

– an increase of 1.8 billion or 10.9% Aeroplan Miles sold as a result of higher purchases from commercial partners. The overall increase reflects the positive momentum experienced by the travel industry in general, which has positively affected Air Canada and its affiliates; as well as growth in consumer spending and credit and charge card usage, which translates into increased volume from the financial commercial partners; and
– a 4.0 % increase in the average selling price per Aeroplan Mile as a result of contractual price increases and the evolving mix of products within certain partners.

Gross Billings from the sale of Aeroplan Miles are accounted for as deferred revenue until such Aeroplan Miles are redeemed. Miles redeemed are recognized as revenue at the cumulative average selling price of the accumulated Aeroplan Miles issued since January 1, 2002.

Redemption activity

Total Miles redeemed for the quarter ended December 31, 2006 under the Aeroplan Program amounted to 15.6 billion as compared to 11.4 billion for the quarter ended December 31, 2005, representing an increase of 36.8%. Higher redemption activity by members, driven in part by the introduction of ClassicPlus Flight rewards during the quarter, and the continued expansion of non-air rewards, which provide members with a wider variety of redemption choices, explain the increase.

Of the 15.6 billion Total Miles (calculated on a first-in, first-out basis on a member account basis for air redemptions) redeemed during the quarter ended December 31, 2006, 86.5% or 13.5 billion represented Aeroplan Miles issued by Aeroplan with the balance representing Air Canada Miles. By comparison, during the quarter ended December 31, 2005, only 82.3% or 9.4 billion of the 11.4 billion Aeroplan Miles redeemed were issued by Aeroplan. As the percentage of Aeroplan Miles redeemed and issued increases, it translates into a corresponding increase in revenue recognition and cost of rewards.

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

Revenue recognized from the redemption and sale of Aeroplan Miles, including *Breakage*, amounted to $193.6 million for the quarter ended December 31, 2006 compared to $138.6 million for the quarter ended December 31, 2005, representing an increase of $55.0 million or 39.6%. This increase is mainly attributable to:

– Program growth, combined with a higher proportion of Aeroplan Miles (issued by Aeroplan on or after January 1, 2002) redeemed during the quarter, including the positive impact of higher non-air reward redemption activity, which increased by 66.7% compared to the fourth quarter of 2005, for a total of $48.2 million,
– a higher cumulative average revenue recognized per Aeroplan Mile redeemed, representing $3.7 million, primarily attributable to an increase in the cumulative average selling price of an Aeroplan Mile as a result of higher contracted rates; and
– revenue recognized from Breakage for the quarter ended December 31, 2006 amounted to $32.5 million (calculated at 17%) compared to $29.4 million (calculated at 17%) for the quarter ended December 31, 2005, representing an increase of $3.1 million or 10.5%. The increase in revenue recognized from Breakage is mainly attributable to the increase in outstanding Aeroplan Miles as a result of growth in Gross Billings over the last 30 months compared to the 30 months ended December 31, 2005.

Revenue from tier management, contact centre management and marketing fees from Air Canada decreased to $3.5 million from $4.7 million or 25.5%. During 2005, this fee was contracted at a fixed amount whereas for 2006 it is billed on the basis of actual costs incurred plus a profit margin.

Other revenue, consisting primarily of charges to members for services rendered including the mileage transfer program, booking, change and cancellation fees, and other miscellaneous amounts, amounted to $11.3 million for the quarter ended December 31, 2006 compared to $10.7 million for the quarter ended December 31, 2005, representing a $0.6 million or 5.6% increase.

Total revenue amounted to $208.4 million for the quarter ended December 31, 2006 compared to $154.0 million for the quarter ended December 31, 2005, representing an increase of $54.4 million or 35.3%.

Cost of rewards amounted to $120.2 million for the quarter ended December 31, 2006 compared to $83.5 million for the quarter ended December 31, 2005, representing an increase of $36.7 million or 44.0%. This increase is mainly attributable to the following factors:

– a higher proportion of Aeroplan Miles (issued by Aeroplan on or after January 1, 2002) redeemed, representing $5.8 million, and higher general redemption activity as a result of program growth and the introduction of ClassicPlus Flight rewards during the quarter, accounting for $30.3 million for a total of $36.1 million;
– and the combination of a lower redemption cost per Aeroplan Mile redeemed for air travel rewards of $2.7 million and higher redemption costs attributable to non-air rewards of $3.3 million, for a total combined rate increase of $0.6 million.

The higher Average redemption costs for ClassicPlus were offset during the quarter by $5.6 million of favourable pricing adjustments for 2006 ($4.5 million of which related to the first nine months of 2006) received and recorded during the quarter, representing $2.7 million.

Cost of rewards for the quarter ended December 31, 2005 was particularly low due to changes in the redemption mix of rewards with a higher redemption volume of the less expensive Classic rewards.

Gross margin decreased by 3.5% during the fourth quarter of 2006, representing 42.3% of total revenue, mainly as a result of the lower proportion of breakage revenue to total revenue, compared to the fourth quarter of 2005. Breakage revenue has no cost of rewards attributable to it.

Operating expenses, excluding depreciation and amortization, amounted to $47.5 million for the quarter ended December 31, 2006 compared to $37.0 million in 2005, representing an increase of $10.5 million or 28.4%. The increase resulted primarily from higher net compensation costs of $1.9 million, resulting from general increases in headcount and average salaries, and stock based compensation, partially offset by compensation cost savings experienced in the contact centres; higher advertising and promotion and technology related costs of $11.0 million as a result of the launch of ClassicPlus Flight rewards, offset by $2.4 million of lower costs incurred for the quarter related to professional, advisory and other services.

Depreciation and amortization remained stable with an increase of $0.1 million or 3.3%.

Operating income amounted to $37.3 million for the quarter ended December 31, 2006 compared to $30.2 million for the quarter ended December 31, 2005, representing an increase of $7.1 million or 23.5% mainly attributable to the higher proportion of Aeroplan Miles redeemed and higher reward redemption activity as a result of the introduction of ClassicPlus Flight rewards.

Net interest income for the quarter ended December 31, 2006, consists of interest revenue of $5.7 million earned on cash and cash equivalents and short-term investments on deposit; offset by interest on long-term debt of $4.0 million on the borrowings under the term facility, compared to $3.1 million and $3.1 million, respectively for the comparative period. The differences are explained by higher average amounts on deposit and higher interest rates. During the fourth quarter of 2006 and 2005, Aeroplan recognized $0.5 million of amortization of deferred financing charges related to the long-term debt.

Adjusted EBITDA for the quarter amounted to $57.0 million or 25.1% (as a % of Gross Billings) and *Distributable Cash* generated amounted to $53.0 million or 23.4% (as a % of Gross Billings), compared to $51.2 million or 26.1% (as a % of Gross Billings) and $47.2 million or 24.0% (as a % of Gross Billings), respectively for the fourth quarter of 2005. Although Distributable Cash was negatively affected by the $10.5 million increase in operating expenses, it was positively impacted by the increase in Gross Billings and the change in Future Redemption Costs. Adjusted EBITDA and Distributable Cash are non-GAAP measures, for additional information on these measures, please refer to the PERFORMANCE INDICATORS section.

SUMMARY OF QUARTERLY RESULTS

This section includes sequential quarterly data for the eight quarters ended December 31, 2006.

UNAUDITED	2006				2005			
(in thousands, except per unit amounts)	Q4 $	Q3 $	Q2 $	Q1 $	Q4 $	Q3 $	Q2 $	Q1 $
Gross Billings	**226,728**	**211,245**	**212,376**	**201,502**	**196,568**	**195,533**	**185,824**	**176,861**
Total revenue	**208,404**	**178,391**	**182,534**	**200,058**	**154,022**	**156,266**	**157,065**	**172,548**
Cost of rewards	120,160	107,741	112,470	124,883	83,474	101,739	100,226	111,603
Gross margin	88,244	70,650	70,064	75,175	70,548	54,527	56,839	60,945
Operating expenses, excluding depreciation and amortization	47,451	34,464	34,948	32,438	37,012	32,254	29,788	33,405
Depreciation and amortization	3,479	3,155	3,884	3,742	3,367	1,759	1,706	1,659
Operating income	37,314	33,031	31,232	38,995	30,169	20,514	25,345	25,881
Net earnings	**38,469**	**34,320**	**31,755**	**38,985**	**29,729**	**19,431**	**25,362**	**25,782**
Adjusted EBITDA	**56,975**	**53,359**	**51,470**	**54,390**	**51,239**	**40,252**	**40,799**	**37,571**
Distributable Cash	**52,996**	**50,664**	**44,348**	**51,099**	**47,231**	**35,889**	**37,066**	**33,722**
Distributable Cash per unit	**0.2655**	**0.2533**	**0.2217**	**0.2555**	**0.2362**	**0.1794**	**0.2111**	**0.1927**
Earnings per unit, in accordance with GAAP	**0.1927**	**0.1716**	**0.1588**	**0.1949**	**0.1486**	**0.0972**	**0.1445**	**0.1473**

LIQUIDITY AND CAPITAL RESOURCES

Since January 1, 2002, Aeroplan has consistently generated positive cash flows from operations. Cash generated from the sale of Aeroplan Miles to commercial partners other than Air Canada and its affiliates in excess of that required to pay Aeroplan's obligation to deliver non-Air Canada rewards and its operating expenses was historically transferred to Air Canada in accordance with corporate practices. Subsequent to the initial public offering on June 29, 2005, Aeroplan manages its own cash. At December 31, 2006, Aeroplan had $166.9 million of cash and cash equivalents and $452.8 million of short-term investments (consisting of commercial paper with maturity dates ranging between January and March of 2007) on hand, for a total of $619.7 million. The Aeroplan Miles redemption reserve described under **Aeroplan Miles Redemption Reserve** of $400.0 million is included in this amount.

The following table provides an overview of Aeroplan's cash flows for 2006 and 2005:

(in thousands of dollars)	Years ended December 31 2006 $	2005 $
Cash from operating activities	321.0	320.4
Cash from (used in) investing activities	(375.7)	(114.3)
Cash from (used in) financing activities	(144.2)	159.8
Cash and cash equivalents, end of year	**166.9**	**365.9**

Operating Activities

Cash from operations is generated primarily from the collection of Gross Billings of Aeroplan Miles and is reduced by the cash required to provide the rewards when Aeroplan Miles are redeemed and by operating and interest expenses.

Cash from operating activities was $321.0 million and $320.4 million for 2006 and 2005, respectively.

The increase of $0.6 million for the year, is primarily attributable to higher net earnings for the year partly offset by the funding of stock-based compensation plans, the net effect of the changes in non-cash working capital, which result from timing differences related to collections and payments, and the changes in depreciation and amortization and stock-based compensation, which are of a non cash nature.

Investing Activities

Aeroplan's investment activities for 2006 and 2005 related to the purchase of short-term investments of $353.8 million and $99.0 million, respectively. In addition, Aeroplan invested in maintenance capital expenditures of $21.9 million and $15.3 million for 2006 and 2005, respectively, related to software development and technology initiatives designed to improve reward redemption processes, including the ClassicPlus Flight rewards project, and operating efficiencies through automation. Anticipated capital expenditures, mainly related to software development and technology initiatives for 2007, are expected to relate mostly to maintenance capital expenditures and to approximate $20 million.

Financing Activities

Cash flows used in financing activities, related to the payment of distributions amounted to $144.2 million for 2006. By comparison, $159.8 million from financing activities was generated during 2005 as a result of the borrowings under the credit facility; the issuance of partnership units to the Fund; partly offset by the distribution on reorganization and the payment of the working capital note to ACE issued concurrently with the initial public offering; distributions paid to the partners subsequent to the initial public offering; deferred financing costs incurred in connection with the credit facility; and offering costs paid on behalf of the Fund.

Liquidity

Aeroplan anticipates that total capital requirements for the next twelve months of $188.0 million, including $168.0 million in respect of anticipated cash distributions, based on the current distribution rates, and approximately $20.0 million of maintenance capital expenditures, will be funded from operations, available cash on deposit and, to the extent required, from the Aeroplan Miles Redemption Reserve described below and bank borrowings, if necessary.

Aeroplan Miles Redemption Reserve

In conjunction with the issuance of units to the Fund and the credit facilities concluded on June 29, 2005, Aeroplan established the Aeroplan Miles redemption reserve ("the Reserve"). As at December 31, 2006, the Reserve amounted to $400.0 million and was included in cash and cash equivalents and short-term investments.

The amount held in the Reserve, as well as the types of securities in which it may be invested (high quality commercial paper), are based on policies established by management, which are reviewed periodically.

The Reserve may be used to supplement cash flows generated from operations in order to pay for rewards in the event of unusually high redemption activity associated with Aeroplan Miles.

Management is of the opinion that the Reserve, combined with other liquidities on hand, is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of business.

To date, Aeroplan has not had to use the funds held in the Reserve.

At December 31, 2006, the Reserve represented 39.6% of the Future Redemption Cost liability.

The deferred revenue presented in the balance sheet represents accumulated unredeemed Aeroplan Miles valued at their weighted average selling price and unamortized Breakage. The estimated Future Redemption Cost liability of those Aeroplan Miles, calculated at the current Average cost of rewards per Mile redeemed, amounts to $1,010 million.

Deferred Charges

Deferred financing costs incurred in connection with the Credit Facilities described below amounting to $7.1 million are amortized over the term of the debt facility to which they relate. In July 2005, Aeroplan established a Fund unit ownership plan which expired in December 2005. It allowed eligible employees to invest up to 5% of their salary for the purchase of Fund units on the secondary market. Aeroplan matched on a dollar-for-dollar basis the investments made by the employees under this plan and purchased the units on the secondary market on behalf of the participants. Units purchased in 2005, under this plan, vested on December 15, 2006. Aeroplan's cost of units under this plan was deferred and charged to earnings as compensation expense over the vesting period, until December 15, 2006.

Credit Facilities

On June 29, 2005, Aeroplan entered into a credit agreement for the following facilities:

(in thousands)	Authorized $	Drawn at December 31 2006 $
Revolving term facility	75,000	–
Term facility	300,000	300,000
Acquisition facility	100,000	–
Total	**475,000**	**300,000**

The term and the acquisition facilities mature on June 29, 2009, or earlier at the option of Aeroplan and bear interest at rates ranging from Canadian prime rate and U.S. base rate to Canadian prime rate and U.S. base rate plus 0.75% and the Bankers' Acceptance rate and LIBOR plus 1.0% to 1.75%. Borrowings under the term facility consist of Bankers' Acceptances with a 90 day term and an effective interest rate of 5.3% at December 31, 2006 (4.4% at December 31, 2005).

During the year, the term of the revolving term facility was extended to mature on June 29, 2009 from June 29, 2008.

The outstanding credit facilities are secured by substantially all the present and future assets of Aeroplan, subject to the priority guarantee granted to First Data Loan Company, Canada as described in Other under the section **GUARANTEES (OFF-BALANCE SHEET ARRANGEMENTS) AND CONTINGENT LIABILITIES**.

The credit facilities are subject to Aeroplan's ability to maintain financial covenants related to leverage and debt service ratios of ≤ 2.75 and interest coverage of ≥ 3.0, as well as other affirmative and negative covenants.

At December 31, 2006, Aeroplan's financial covenants were as follows:

Ratio	Result	Test
Leverage	**1.17**	≤ 2.75
Debt service [a]	**(1.00)**	≤ 2.75
Interest coverage [b]	**N/A**	≥ 3.00

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

(b) this ratio is not applicable since Aeroplan has earned more interest from cash and cash equivalents and short-term investments than it has incurred on the long-term debt.

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

GUARANTEES (OFF-BALANCE SHEET ARRANGEMENTS) AND CONTINGENT LIABILITIES

Air Canada Miles (issued prior to January 1, 2002)

Pursuant to an amendment to the CPSA, entered into between Aeroplan and Air Canada, on October 13, 2006, Air Canada's revised obligation for the cost of air rewards related to the redemption of Air Canada Miles earned by members prior to January 1, 2002, has changed to 112.4 billion miles from 103.4 billion miles. In addition, Aeroplan has also agreed to indemnify Air Canada, its affiliates and representatives from any claims arising out of any changes made at any time by Aeroplan to the Aeroplan Program to the extent such changes are implemented to address fluctuations in Breakage related to the liability attached to miles issued prior to January 1, 2002.

In accordance with the CPSA, as amended, Air Canada is responsible for the cost of the redemption for air rewards of up to a maximum of 112.4 billion miles accumulated by members prior to January 1, 2002. As of December 31, 2006, 98.2 billion of those miles had been redeemed.

In the unlikely event that Air Canada is unable to meet its obligation, Aeroplan may be required to honour Air Canada's redemption obligation, which based on Aeroplan's current annual Average redemption cost per Mile for 2006, would amount to approximately $135.0 million at December 31, 2006, compared to $223.0 million at December 31, 2005.

Also under the CPSA, Aeroplan is responsible for any redemptions for air rewards of Air Canada Miles issued prior to January 1, 2002, in excess of the 112.4 billion miles. While on the basis of current estimates, Aeroplan does not expect such redemptions to exceed 112.4 billion; the maximum potential redemption cost of meeting this obligation if all 23.3 billion estimated Broken but unexpired Air Canada Miles were to be redeemed, amounts to $219.0 million at December 31, 2006 and $254.0 million at December 31, 2005.

As a result, the total maximum potential redemption cost to Aeroplan for the total outstanding and unbroken Air Canada Miles is estimated to be $354.0 million and $477.0 million at December 31, 2006 and December 31, 2005, respectively.

Aeroplan Miles (issued after January 1, 2002)

In addition, Aeroplan may be required to provide rewards to members for unexpired Aeroplan Miles accounted for as Breakage on the Miles issued after December 31, 2001 for which no obligation has been recorded as the revenue has been recognized or deferred for such Breakage. The maximum exposure for such obligations is estimated to be $440.0 million at December 31, 2006 and $364 million at December 31, 2005. The exposure has been calculated on the basis of the actual prices with reward suppliers, including Air Canada, and management's estimates of the mix of the various types of awards that members may select, based on past experience.

Other

From time to time, Aeroplan becomes involved in various claims and litigation as part of its 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 Aeroplan's financial position and results of operations.

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

In connection with a merchant services agreement dated September 30, 2004, entered into with First Data Loan Company, Canada in the name of Aeroplan and Air Canada and other ACE subsidiaries, Aeroplan has jointly and severally guaranteed in favour of First Data Loan Company, Canada, the obligations of the other parties to the agreement, in the event that such entities were unable to fulfill their obligations related to airline and tour tickets sold in advance and charged to the credit cards processed under the agreement. The maximum exposure related to this guarantee at December 31, 2006 and December 31, 2005 was $205.2 million and $155.2 million respectively.

TRANSACTIONS WITH RELATED PARTIES

Aeroplan is controlled by ACE, Aeroplan's and Air Canada's parent company. Air Canada, including its affiliates, is one of Aeroplan's largest partners, representing 29% and 27% of Aeroplan Miles billed for 2006 and 2005, respectively. Air Canada, including other Star Alliance partners, is Aeroplan's largest supplier of rewards and services. For 2006, 89.7% of total reported cost of rewards was paid to Air Canada, compared to 93.2% for 2005. Selling, general and administrative expenses where Air Canada was the supplier of services represented 47.5% and 56.0% of total reported operating expenses for 2006 and 2005.

The decreasing proportions are explained by the increasing trend in redemption of non-air rewards by members, in the case of cost of rewards and reduced dependence over time on Air Canada as a service provider, in the case of operating expenses.

The commercial relationship between Aeroplan and Air Canada and its affiliates is governed by several arrangements and agreements.

At December 31, 2006, distributions payable to ACE (to be paid in the first quarter of 2007) amounted to $12.0 million ($14.8 million at December 31, 2005), of which $7.8 million is, in respect of fourth quarter distributions, related to the 40 million subordinated Aeroplan units owned by ACE ($7.0 million at December 31, 2005). The subordination period ended on December 31, 2006.

SUMMARY OF CONTRACTUAL OBLIGATIONS

As at December 31, 2006, estimated future minimum payments under Aeroplan's contractual obligations are as follows:

(in millions)	Total $	2007 $	2008 $	2009 $	2010 $	2011 $	After Five Years $
Operating leases	3.2	1.6	1.6	–	–	–	–
Special payments under GSA	13.1	1.9	1.9	1.9	1.9	1.9	3.6
Term credit facility	300.0	–	–	300.0	–	–	–
Purchase obligation under the CPSA	3,997.4	296.1	296.1	296.1	296.1	296.1	2,516.9
Total	**4,313.7**	**299.6**	**299.6**	**598.0**	**298.0**	**298.0**	**2,520.5**

CRITICAL ACCOUNTING ESTIMATES

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

The significant accounting policies of Aeroplan are described in note 2 to the December 31, 2006 audited consolidated financial statements of Aeroplan. The policies which Aeroplan believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

Revenue Recognition

Aeroplan Miles Revenue – Breakage

Aeroplan earns revenue from the sale of Aeroplan Miles to commercial partners based on individual contracts with each commercial partner. Since the earnings process is not complete at the time an Aeroplan Mile is sold, the Gross Billings from the sale of Aeroplan Miles are deferred and recognized as revenue when Aeroplan Miles are redeemed by members. For those Aeroplan Miles that Aeroplan has estimated will go unredeemed by members, Aeroplan recognizes revenue over the estimated average life of an Aeroplan Mile, currently estimated at 30 months.

Management's estimate of the number of Aeroplan Miles sold that will never be redeemed by members, known as "Breakage", is currently estimated at 17% of Aeroplan Miles sold. In developing this estimate, management takes into consideration that the issuance and redemption of Aeroplan Miles is influenced by the type of commercial partners and their volume of transactions, the types of rewards offered, the overall health of the Canadian economy, the nature and extent of promotional activity in the marketplace and the extent of competing loyalty programs.

Management's estimate of Broken Aeroplan Miles directly impacts the amount of Breakage revenue recognized. Breakage revenue is included in the financial statements with earned revenue from the sale of Aeroplan Miles and represented $125.1 million and $113.4 million for the years ended December 31, 2006 and 2005, respectively. Management monitors factors affecting Breakage and from time to time may use independent third party experts to assist in the determination of the appropriate level of Breakage, including the average life of an Aeroplan Mile, at least every two years or earlier if such monitoring indicates that a significant change in Breakage may have occurred. The first such assessment was completed during 2004 on the basis of data accumulated until the end of 2003. This exercise resulted in a change of estimate of Breakage from 19% of Aeroplan Miles sold to 17% of Aeroplan Miles sold as a result of changes to the Aeroplan Program, including the increase in non-air rewards offered and the ease of redemption of Aeroplan Miles.

During 2006, in accordance with its policy to review Breakage every two years, management, assisted by independent experts, completed its review of the estimated Breakage factor used to determine the number of Total Miles sold which are not expected to be redeemed, on the basis of data accumulated until the end of 2005. While there can be no assurance that the Breakage factor will remain constant in the future, based on the results, which include the impact of the program changes described under **OVERVIEW** , the Breakage factor has remained unchanged at 17%. Since the potential impact of the introduction of ClassicPlus Flight rewards was not considered in the studies, they will be updated in 2007. Management estimates that a 1% change in Breakage related to the Aeroplan Miles issued after January 1, 2002, would have a total impact on revenue and net earnings for the period in which the change occurred, of $24.4 million with $17.1 million relating to prior years and $7.3 million relating to the current year. A 1% reduction in Breakage related to the Air Canada Miles, would have an unfavourable impact on cost of rewards and net earnings for the period in which the change occurred, of $29.3 million.

Impairment of Long Lived Assets

Software is tested for impairment whenever circumstances indicate that its carrying value may not be recoverable based on undiscounted cash flows from its direct use and disposition. Any loss is measured as the amount by which the assets' carrying values exceed fair values.

Valuation of Goodwill

Goodwill is not amortized but is tested for impairment annually, or more frequently should events or circumstances change indicating that the asset may be impaired. The impairment test is performed in two steps. First, the carrying amount of Aeroplan, including goodwill, is compared to its fair value. Fair value is determined on the basis of discounted cash flows. If the fair value exceeds its carrying value, goodwill is not considered to be impaired and therefore the second step of the impairment test is not performed. The second step is performed when the carrying value of the Partnership exceeds its fair value. In such a case, the implied fair value of the goodwill, as determined in the same manner as the value of goodwill determined in a business combination, is compared to the carrying value of the goodwill to measure the amount of the impairment loss, if any.

FINANCIAL INSTRUMENTS

Fair values–The carrying amounts reported on the balance sheet for cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the immediate or short term maturities of these financial instruments.

Credit risk–In accordance with its investment policy, Aeroplan invests the Reserve and excess cash, included in short-term investments and cash and cash equivalents in commercial paper or corporate bonds with a minimum rating of R-1 (high) or AA(low) and term deposits, subject to certain thresholds to reduce undue exposure to any one issuer.

Interest rate exposure–Aeroplan is exposed to fluctuations in interest rates under the terms of the outstanding credit facility which bears interest at variable rates and has been borrowed in the form of Bankers' Acceptances. Due to the short-term nature of the underlying Bankers' Acceptances (typically 90 days), the carrying value of the long-term debt approximates fair value.

Aeroplan invests the Reserve and excess cash on hand in high quality instruments with similar terms to maturity as the underlying instruments related to the credit facility, with an objective to mitigate the interest rate exposure.

INCOME TAXES

The tax attributes of the Partnership's net assets flow directly to the partners. As a result of the reorganization, the net temporary which took place immediately prior to the Initial Public Offering, differences between the tax bases and the financial statement carrying amounts of Aeroplan's assets and liabilities which accrued to Air Canada and approximated $1.8 billion at December 31, 2004, reflecting future tax deductions in excess of future taxable amounts were reduced by approximately $960.0 million and were transferred to ACE for no consideration. At December 31, 2006 the tax bases of Aeroplan's assets and liabilities related to temporary differences exceeded their financial statement carrying amounts by approximately $699.7 million compared to $773.5 million at December 31, 2005. These differences will translate into higher deductions for tax purposes than for accounting purposes and will be used to reduce taxable income in future years.

DISCLOSURE CONTROLS AND PROCEDURES

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

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have concluded that the Partnership's disclosure controls and procedures are effective based upon an evaluation of these controls and procedures conducted at December 31, 2006.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for designing such internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No changes were made in Aeroplan's internal control over financial reporting during the year ended December 31, 2006, that have materially affected, or are reasonably likely to materially affect, Aeroplan's internal control over financial reporting.

CEO AND CFO CERTIFICATIONS

Aeroplan files certifications, signed by the CEO and CFO, with the Canadian Securities Administrators upon filing of Aeroplan's and the Fund's annual financial statements and MD&A. In those filings, the CEO and CFO certify, as required by Multilateral Instrument 52-109, the appropriateness of the financial disclosures, the effectiveness of Aeroplan's disclosure controls and procedures, and the design of internal controls over financial reporting to provide reasonable assurance as its reliability and the preparation of financial statements for external purposes in accordance with GAAP. Aeroplan's CEO and CFO also certify the appropriateness of the financial disclosures in its interim filings with Securities Regulators, and that they have caused disclosure controls and procedures to be designed.

The Audit, Finance and Risk Committee reviewed this MD&A, and the audited consolidated financial statements, and the Board of Directors and the Trustees approved these documents prior to their release.

OUTLOOK

Management is committed to deliver its 2007 business plan including continued expansion of commercial partners, available rewards and operating efficiency through investments in technological solutions.

The percentage of the distributions attributable to return of capital will approximate 60% for 2006 compared to 84% for 2005 and taxable income (representing taxable income generated from Aeroplan's operations) will approximate 40% for 2006 compared to 16% for 2005.

The different proportions of taxable income and return of capital between the years result from higher net earnings and lower tax deductions (permanent and timing differences between the calculation of net income for accounting purposes and taxable income) as a proportion of taxable income during 2006.

The amount of distributions remains subject to review throughout the year and any changes to the monthly distribution amounts are subject to the approval of the Board of Directors.

On October 31, 2006, the Minister of Finance (Canada) announced proposed tax legislation rendering income trusts taxable commencing in 2011. In the event the Fund becomes a taxable entity, income taxes payable will reduce net earnings and will affect Distributable Cash by an equivalent amount. Management with the help of professional advisors, is in the process of evaluating the future corporate structure and optimal timing of transition.

RISKS AND UNCERTAINTIES AFFECTING THE BUSINESS

The results of operations and financial condition of Aeroplan are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of the management of Aeroplan. The following section summarizes certain of the major risks and uncertainties that could materially affect future business results going forward.

RISKS RELATED TO AEROPLAN AND THE INDUSTRY

Dependency on Top Three Partners

Aeroplan's top three commercial partners were responsible for 91% of Gross Billings for the year ended 2006. A decrease in sales of Aeroplan Miles to any of Aeroplan's significant partners for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services Aeroplan provides could have a material adverse effect on Gross Billings. Subject to the minimum number of Aeroplan Miles to be purchased by Air Canada under the CPSA, Air Canada can change the number of Aeroplan Miles awarded per flight without Aeroplan's consent, which could result in a significant reduction in Gross Billings. Aeroplan cannot ensure that its contracts with these, or other, partners will be renewed on similar terms, or at all when they expire.

Air Canada or Travel Industry Disruptions

Aeroplan's members' strong demand for air travel creates a significant dependency on Air Canada in particular and the airline industry in general. Any disruptions or other material adverse changes in the airline industry, whether domestic or international, affecting Air Canada or a Star Alliance member airline, could have a material adverse impact on Aeroplan's business. This could manifest itself in Aeroplan's inability to fulfill member's flight redemption requests or to provide sufficient accumulation opportunities. As a result of airline or travel services industry disruption, such as those which resulted from the terrorist attacks on September 11, 2001, or as might result from political instability, other terrorist acts or war, some members could determine that air travel is too dangerous or, given new airport regulations, too burdensome. Consequently, members might forego redeeming points for air travel and therefore might not participate in the Aeroplan Program to the extent they previously did which could adversely affect Aeroplan's revenue from the Aeroplan Program. A reduction in member use of the Aeroplan Program could impact Aeroplan's ability to retain its current partners and members and to attract new partners and members.

Reduction in Activity Usage and Accumulation of Aeroplan Miles

A decrease in Gross Billings from any of Aeroplan's partners for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services Aeroplan provides, or a decrease in the accumulation of Aeroplan Miles by members could have a material adverse effect on Aeroplan's Gross Billings and revenue.

Greater than Expected Redemptions for Rewards

A significant portion of Aeroplan's profitability is based on its estimate of the number of Aeroplan Miles that will never be redeemed by the member base. The percentage of Aeroplan Miles that are not expected to be redeemed is known as "Breakage" in the loyalty industry. Management's current estimate of Breakage is based on two independent studies conducted in 2006 on behalf of Aeroplan. Breakage may decrease from the current estimate of 17% as the Aeroplan Program grows and a greater diversity of rewards become available. If actual redemptions are greater than Aeroplan's current estimates, its profitability could be adversely affected due to the cost of the excess redemptions. Furthermore, the actual mix of redemptions between air and non-air rewards could adversely affect Aeroplan's profitability. Total "Broken" Miles still outstanding, amounted to 70.0 billion miles as at December 31, 2006 and include 46.7 billion Aeroplan Miles. Responsibility to provide rewards for these 70.0 billion "Broken" Miles rests with Aeroplan should such "Broken" Miles ever be redeemed. While Management believes that a material portion of these estimated Broken Aeroplan Miles will not be redeemed, there can be no such assurances.

Industry Competition

Competition in the loyalty marketing industry is intense and Aeroplan expects it to increase. New competitors may target Aeroplan's partners and members, as well as draw rewards from Aeroplan's rewards suppliers. The continued attractiveness of the Aeroplan Program will depend in large part on Aeroplan's ability to remain affiliated with existing partners or add new partners, that are desirable to consumers and to offer rewards that are both attainable and attractive to consumers. With respect to Aeroplan's database marketing services, Aeroplan's ability to continue collecting detailed transaction data on consumers is critical in providing effective marketing strategies for its partners. Many of Aeroplan's current competitors may have greater financial, technical, marketing and other resources than Aeroplan. Aeroplan cannot ensure that it will be able to compete successfully against its current and potential competitors, including in connection with technological advancements by such competitors.

Market Growth

The markets for the services that Aeroplan offers may fail to expand or may contract and this could negatively impact Aeroplan's growth and profitability. Loyalty and database marketing strategies are relatively new to retailers, and Aeroplan cannot guarantee that merchants will continue to use these types of marketing strategies. Additionally, downturns in the economy or the performance of retailers may result in a decrease in the demand for loyalty marketing and Aeroplan's products and services.

Supply and Capacity Costs

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

If, upon the renegotiation of the rates charged to Aeroplan under the CPSA which takes place every three years beginning in the second quarter of 2007 or upon the expiry of the CPSA, Aeroplan is unable to negotiate new rates or a replacement agreement with Air Canada on similarly favourable terms or if Air Canada sharply reduces its seat capacity, Aeroplan may be required to pay more for seat capacity from Air Canada than the currently negotiated rates under the CPSA or to purchase seat capacity from other airlines. Seat capacity from other airlines could be more expensive than comparable seat capacity under the CPSA, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming members. As a result, Aeroplan would experience higher air travel redemption costs, while at the same time member satisfaction with the Aeroplan Program may be adversely affected by requiring travel on other carriers on certain routes.

Airline Industry Changes and Increased Airline Costs

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

The airline industry has been subject to a number of increasing costs over the last several years, including increases in the cost of fuel and insurance, and increased airport user fees and air navigation fees. These increased costs may be passed on to consumers, increasing the cost of redeeming Aeroplan Miles for air travel rewards. This may negatively impact consumer incentive to participate in the Aeroplan Program.

Unfunded Future Redemption Costs

Aeroplan derives most of its Gross Billings from the sale of Aeroplan Miles to its commercial partners. The earnings process is not complete at the time an Aeroplan Mile is sold as Aeroplan incurs most of its costs on the redemption of the Aeroplan Mile. Based on historical data, the estimated period between the issuance of an Aeroplan Mile and its redemption is currently 30 months; however, Aeroplan has no control over the timing of the redemption of Aeroplan Miles or the number of Aeroplan Miles redeemed. Aeroplan currently uses Gross Billings (deferred revenue) in the fiscal year from the issuance of Aeroplan Miles to pay for the redemption costs incurred in the year. As a result, if Aeroplan were to cease to carry on business, or if redemption costs incurred in a given year were in excess of the revenues received in the year from the issuance of Aeroplan Miles, Aeroplan would face unfunded future redemption costs, which could increase Aeroplan's need for working capital and, consequently, affect distributions to unitholders. In recognition of that fact, Aeroplan has established a cash reserve equal to $400 million. See Aeroplan Miles Redemption Reserve. There can be no assurance that this cash reserve will be sufficient to cover all actual unfunded future redemption costs that may arise in the future.

Failure to Safeguard Aeroplan's Database and Consumer Privacy

As part of the Aeroplan Program, Aeroplan maintains a member database which contains member information including account transactions. Although Aeroplan has security procedures, it may still be vulnerable to potential unauthorized access to, or use or disclosure of member data. If Aeroplan experiences a security breach, Aeroplan's reputation may be negatively affected. An increased number of members may opt out from receiving marketing materials. The use of Aeroplan's marketing services by partners could decline in the event of any publicized compromise of security. Any public perception that Aeroplan released consumer information without authorization could subject Aeroplan to complaints and investigation by the Privacy Commissioner of Canada and/or provincial privacy commissioners and adversely affect Aeroplan's relationships with members and partners.

Consumer Privacy Legislation

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

The Federal Privacy Act and Canadian provincial private sector legislation generally require organizations to obtain a consumer's consent to collect, use or disclose personal information. Under the Federal Privacy Act, which took effect on January 1, 2001, the nature of the required consent depends on the sensitivity of the personal information. Both the federal and provincial privacy laws permit personal information to be used only for the purposes for which it was collected. Under Canadian privacy legislation, Aeroplan members are permitted to voluntarily "opt out" from receiving various types of marketing material. Heightened consumer awareness of, and concern about, privacy may result in an increase in the number of customers "opting out". This would mean that Aeroplan's marketing services would only potentially reach a smaller pool of members.

Seasonal Nature of the Business, Other Factors and Prior Performance

Aeroplan has historically experienced considerably lower Gross Billings from the sale of Aeroplan Miles in the first and second quarters of the calendar year and higher Gross Billings from the sale of Aeroplan Miles in the third and fourth quarters of the calendar year. In addition, Aeroplan has historically experienced greater redemptions and therefore costs for rewards, in the first and second quarters of the calendar year and lower redemptions and related costs for rewards in the third and fourth quarters of the calendar year. This pattern results in significantly higher operating cash flow and margins in the third and fourth quarters for each calendar year compared to the first and second quarters.

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

Regulatory Matters

Aeroplan's business is subject to several types of regulation, including legislation relating to privacy, transportation, competition, advertising and sales, and lotteries, gaming and publicity contests. As well, an increasing number of laws and regulations pertain to the Internet. These laws and regulations relate to liability for information retrieved from or transmitted over the Internet, online content regulation, user privacy, taxation and the quality of products and services. Moreover, the applicability to the Internet of existing laws governing intellectual property ownership and infringement, copyright, trademark, trade secret, obscenity, libel, employment, personal privacy and other issues is uncertain and developing. In addition, Air Canada, one of Aeroplan's leading commercial partners, and several other Aeroplan partners operate in the highly regulated airline industry. Changes in regulations affecting Aeroplan, Air Canada, one of Aeroplan's other major partners or the airline industry generally, or the implementation of additional limitations or adverse regulatory decisions affecting such entities may have a material adverse effect on Aeroplan's business, results from operations and financial condition.

Reliance on Key Personnel

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

Labour Relations

Call centre agents are currently covered by a collective agreement between the CAW and Air Canada in place until 2009. While Aeroplan enjoys positive relations with the unionized call centre agents, if Air Canada faces labour disturbances resulting in work stoppages or other action instigated from within the larger bargaining unit, this could have a material adverse effect on Aeroplan's business. Furthermore, if at the expiration of the applicable collective agreement, the relevant parties are unable to renegotiate the collective agreement with the CAW, it could result in work stoppages and other labour disturbances which would similarly have a material adverse effect on Aeroplan's business. In addition, if the GSA is terminated by Air Canada, it could have a material adverse effect on Aeroplan's business in the event that Aeroplan is unable to hire a sufficient number of call centre agents during the six month termination period under the GSA.

Technological Disruptions and Inability to Use Third-Party Software

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

In addition, proper implementation and operation of technology initiatives is fundamental to Aeroplan's ability to operate a profitable business. Aeroplan continuously invests in new technology initiatives to remain competitive, and its continued ability to invest sufficient amounts to enhance technology will affect Aeroplan's ability to operate successfully. An inability to invest in technological initiatives would have a material adverse effect on Aeroplan's business, results from operations and financial condition.

Failure to Protect Aeroplan's Intellectual Property Rights

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

Interest Rate and Currency Fluctuations

Aeroplan may be exposed to fluctuations in interest rates under its borrowings. Increases in interest rates may have an adverse effect on the earnings of Aeroplan. In addition, Aeroplan's financial results are sensitive to the changing value of the Canadian dollar. In particular, Aeroplan is affected by fluctuations in the Canada/U.S. dollar exchange rate. The Corporation incurs expenses in U.S. dollars for such items as air, car rental and hotel rewards issued to redeeming Aeroplan members, while a substantial portion of its revenues are generated in Canadian dollars. A significant deterioration of the Canadian dollar relative to the U.S. dollar would increase the costs of the Company and could have an adverse effect on the Company's business, results from operations and financial condition. In addition, the Company may be unable to appropriately hedge the risks associated with fluctuations in exchange rates.

Leverage and Restrictive Covenants in Current and Future Indebtedness

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

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

Aeroplan may need to refinance its available credit facilities or other debt and there can be no assurance that Aeroplan will be able to do so or be able to do so on terms as favourable as those presently in place. If Aeroplan is unable to refinance these credit facilities or other debt, or is only able to refinance these credit facilities or other debt on less favourable and/or more restrictive terms, this may have a material adverse effect on Aeroplan's financial position, which may result in a reduction or suspension of cash distributions to Unitholders. In addition, the terms of any new credit facility or debt may be less favourable or more restrictive than the terms of the existing credit facilities or other debt, which may indirectly limit or negatively impact the ability of the Fund to pay cash distributions.

Economic Downturn

Aeroplan derives its revenues principally from the sale of Aeroplan Miles to its partners which is, ultimately dependant on consumer spending. Cyclical deviations in the economy, a prolonged recession or an increase in interest rates could have a material adverse effect on members spending with Aeroplan partners or the use of credit or charge cards. This could decrease Aeroplan's attractiveness to its commercial partners and their participation in the Aeroplan Program. These factors, individually or in combination, could have a material adverse effect on Aeroplan's business, results from operations and financial condition.

RISKS RELATED TO THE STRUCTURE OF THE FUND

Dependence on Aeroplan

The Fund is an unincorporated open-ended trust which will be entirely dependent on the operations and assets of Aeroplan through the indirect ownership of 49.7% of Aeroplan at December 31, 2006. Cash distributions to unitholders will be dependent on, among other things, the ability of the Trust to make cash distributions in respect of the Trust units, which, in turn, is dependent on Aeroplan making cash distributions. The ability of Aeroplan or the Trust to make cash distributions or other payments or advances will be subject to applicable laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of those entities.

Cash Distributions Are Not Guaranteed and Will Fluctuate with the Business Performance

Although the Fund intends to distribute cash distributions received in respect of the Trust Units, less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Aeroplan's business or ultimately distributed to the Fund. The actual amount distributed in respect of the Units is not guaranteed and will depend upon numerous factors, including Aeroplan's profitability and its ability to sustain Adjusted EBITDA margins and the fluctuations in Aeroplan's working capital and capital expenditures, all of which are susceptible to a number of risks.

Unitholder Liability

The Fund Declaration of Trust provides that no unitholder shall be subject to any liability whatsoever to any person in connection with a holding of Units. However, in jurisdictions outside the Provinces of Ontario, Québec and Alberta, there remains a risk, which is considered by the Fund to be remote in the circumstances, that a unitholder could be held personally liable, despite such statement in the Fund Declaration of Trust, for the obligations of the Fund to the extent that claims are not satisfied out of the assets of the Fund. The affairs of the Fund are conducted to seek to minimize such risk wherever possible.

Dilution of Existing Unitholders and Limited Partnership Unitholders
The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units for that consideration and on those terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Additional Units will be issued by the Fund in connection with the indirect exchange of the LP Units held by ACE. In addition, Aeroplan is permitted to issue additional LP Units for any consideration and on any terms and conditions.

Control of Aeroplan
At December 31, 2006, ACE owned 100,545,835 units of Aeroplan representing 50.3% of the voting interests in Aeroplan. Voting control enables ACE to determine all matters requiring securityholder approval.

Under a securityholders' agreement entered into on June 29, 2005, ACE has the ability to nominate a majority of the members of the Board of Directors. ACE effectively, through its representation on the Board of Directors, has sufficient voting power to prevent a change in control of Aeroplan. The Fund has a majority interest in Aeroplan following the January 10, 2007 exchange and distribution transactions completed by ACE, and minority representation on the Board of Directors.

The interests of ACE may conflict with those of Fund unitholders.

Future Sales of Units by or for ACE
ACE holds 50.3% of the outstanding units of Aeroplan which, pursuant to the investor liquidity agreement, can be liquidated at any time, subject to certain conditions thereby causing the issuance of additional units of the Fund. ACE has also been granted certain registration rights by the Fund. If ACE liquidates substantial amounts of units in the public market, the market price of the Fund units could fall. The perception among the public that these sales will occur could also produce such effect.

Restrictions on Potential Growth
The payout by Aeroplan of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of those funds could limit the future growth of Aeroplan and its cash flow.

Restrictions on Certain Unitholders and Liquidity of Units
The Fund Declaration of Trust imposes various restrictions on unitholders. Non-resident unitholders are prohibited from beneficially owning more than 49.9% of the units. These restrictions may limit (or inhibit the exercise of) the rights of certain Unitholders, including non-residents of Canada and U.S. persons, to acquire units, to exercise their rights as unitholders and to initiate and complete take-over bids in respect of the Units. As a result, these restrictions may limit the demand for units from certain unitholders and thereby adversely affect the liquidity and market value of the units held by the public.

Proposed Changes to the Canadian Federal Income Tax Treatment of Income Trusts

On October 31, 2006, the Minister of Finance (Canada) announced new tax proposals concerning the taxation of income trusts and other flow-through entities and tabled a Notice of ways and means motion to amend the Income Tax Act in that regard (the "October Proposal"). The October Proposal was followed on December 21, 2006 by the release of draft legislation by the Department of Finance (Canada) (the "draft legislation" and, together with the October Proposal, the "2006 Proposed Amendments") concerning the distribution tax on publicly traded income trusts and partnerships. The 2006 Proposed Amendments, if enacted as currently drafted, will subject the Fund to trust level taxation as of January 1, 2011, which will reduce the amount of cash available for distributions to unitholders. Based on the proposed rate of such tax, the Fund estimates that the enactment of the 2006 Proposed Amendments will, commencing on January 1, 2011, reduce the amount of cash available to the Fund for distribution to its unitholders by an amount equal to 31.5% multiplied by the amount of pre-tax income (other than taxable dividends) distributed by the Fund and there can be no assurance that the Fund will be able to maintain the level of distributions commencing in 2011. There can be no assurance that the Fund will be able to retain the benefit of the deferred application of the new tax regime until 2011. If the Fund is deemed to have undergone "undue expansion", as described in the Guidelines on Normal Growth issued by the Department of Finance (Canada) on December 15, 2006, during the period from and including November 1, 2006 to December 31, 2010, the 2006 Proposed Amendments would become effective on a date earlier than January 1, 2011. Loss of the benefit of the deferred application of the new tax regime until 2011 could have a material and adverse effect on the value of units.

On December 15, 2006, the Department of Finance (Canada) issued a press release that provides guidance on what the Department of Finance means by normal growth (the "Normal Growth Guidelines"). The Department of Finance indicated that an income trust or other flow-through entity will not lose the benefit of the deferred application of the new tax regime to 2011 if the aggregate amount of new equity (which will include units and debt that is convertible into units and potentially other substitutes for such equity) issued by it before 2008 does not exceed the greater of $50.0 million and an objective "safe harbour" amount equal to 40% of the trust's market capitalisation as of the end of trading on October 31, 2006 (measured in terms of the value of a trust's issued and outstanding publicly-traded units (not including debt, options or other interests that were convertible into units of the trust)) ("October 31, 2006 Market Capitalisation"). The "safe harbour" for the intervening years up to 2011 will be as follows:

Time Period	Safe Harbour Amount
November 1, 2006 to December 31, 2007	40% of October 31, 2006 Market Capitalisation
2008	20% of October 31, 2006 Market Capitalisation
2009	20% of October 31, 2006 Market Capitalisation
2010	20% of October 31, 2006 Market Capitalisation

As the above-noted table illustrates, in the aggregate, a publicly traded income trust or other flow-through entity can incrementally increase its equity capital by 100% of its October 31, 2006 Market Capitalisation. The Fund's October 31, 2006 Market Capitalisation was approximately $ 792 million.

Nature of Distributions

The after-tax return for any units owned by unitholders which are subject to Canadian income tax will depend, in part, on the composition for tax purposes of distributions paid by the Fund (portions of which may be fully or partially taxable or may be tax deferred). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax return to Unitholders. The 2006 Proposed Amendments would, if enacted, apply a tax on certain income earned by a specified investment flow through trust ("SIFT Trust"), as well as treat the taxable distributions received by investors from such entity as taxable dividends. As currently drafted, the 2006 Proposed Amendments do not change the tax treatment of distributions that are paid as a return of capital by SIFT Trust but there can be no assurance that the final legislation implementing the 2006 Proposed Amendments will maintain such tax treatment. As currently drafted, the 2006 Proposed Amendments will not apply to income trusts, the units of which were publicly traded as of October 31, 2006, such as the Fund, until January 1, 2011, subject to issues of "undue expansion" discussed further herein.

ADDITIONAL INFORMATION

Additional information relating to the Fund and to Aeroplan, including the Fund's Annual Information Form, is available on SEDAR at **www.sedar.com** or on Aeroplan's website at **www.aeroplan.com** under About Aeroplan–Investor Relations.

AEROPLAN INCOME FUND

AUDITORS' REPORT

To the Unitholders of Aeroplan Income Fund

We have audited the consolidated statements of financial position of Aeroplan Income Fund as at December 31, 2006 and December 31, 2005 and the consolidated statements of operations and cash flows for the year ended December 31, 2006 and for the period from May 12, 2005 to December 31, 2005. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

February 7, 2007

PricewaterhouseCoopers LLP

Chartered Accountants

MANAGEMENT'S REPORT

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

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

February 7, 2007

RUPERT DUCHESNE
President and Chief Executive Officer

PIERRE DUHAMEL
Executive Vice President and Chief Financial Officer

CONSOLIDATED STATEMENTS OF EARNINGS AND ACCUMULATED DEFICIT

(in thousands of dollars, except unit and per unit amounts)	note	For the year ended December 31 2006	May 12 to December 31 2005
Earnings			
Distributions earned, prior to March 3, 2006, under cost accounting		$ 3,352	$ 10,169
Proportionate share of Aeroplan's net earnings from March 3, 2006	3	17,800	–
		21,152	10,169
Operating expenses		(495)	–
Interest income		28	4
Net earnings for the period		**20,685**	**10,173**
Distributions declared	4	(37,301)	(10,169)
Accumulated earnings (deficit), beginning of period		4	–
Accumulated earnings (deficit), end of period		**$ (16,612)**	**$ 4**
Weighted average number of units		**50,739,017**	**28,750,000**
Earnings per unit			
Basic		**$ 0.4077**	**$ 0.3538**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (in thousands of dollars, except unit and per unit amounts)	**note**	**2006**	**2005**
Assets			
Current assets			
Cash		$ 32	$ 4
Distribution receivable	4	6,962	1,676
		6,994	1,680
Investment in Aeroplan, at equity (at cost in 2005)	3	1,375,588	285,250
		$ 1,382,582	**$ 286,930**
Liabilities and Unitholders' equity			
Current liabilities			
Distribution payable	4	$ 6,962	$ 1,676
		6,962	1,676
Unitholders' equity			
Unitholders' capital	5	1,392,232	285,250
Accumulated earnings (deficit)		(16,612)	4
		1,375,620	285,254
		$ 1,382,582	**$ 286,930**
Guarantees	6		

Approved by the Trustees

(signed)

ROMAN DORONIUK
Trustee

(signed)

PIERRE MARC JOHNSON
Trustee

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars, except unit and per unit amounts)	For the year ended December 31 2006	May 12 to December 31 2005
Cash flows from (used in)		
Operating activities		
Net earnings for the period	$ 20,685	$ 10,173
Items not affecting cash		
Distributions earned	(3,352)	–
Proportionate share of Aeroplan's net earnings from March 3, 2006	(17,800)	–
Distributions received from Aeroplan	32,511	–
Changes in non-cash working capital items		
Distributions receivable	–	(1,676)
	32,044	8,497
Investing activities		
Investment in Aeroplan	–	(287,500)
	–	(287,500)
Financing activities		
Distributions paid to unitholders	(32,016)	(8,493)
Issue of units	–	287,500
	(32,016)	279,007
Net change in cash	28	4
Cash, beginning of period	4	–
Cash, end of period	**$ 32**	**$ 4**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006

1. DESCRIPTION OF THE FUND

Aeroplan Income Fund (the "Fund") is an unincorporated, open-ended trust established under the laws of the Province of Ontario on May 12, 2005 pursuant to the Fund Declaration of Trust. The Fund qualifies as a "mutual fund trust" for the purposes of the Income Tax Act (Canada). The principal and head office of the Fund is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2. The Fund has been established to acquire and hold, directly or indirectly, investments in Aeroplan Limited Partnership ("Aeroplan") and its general partner Aeroplan Holding GP Inc. ("General Partner"), a customer loyalty marketing company, and such other investments as the Trustees may determine.

The Fund is entirely dependent on distributions from Aeroplan to make its own distributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Principles of consolidation The consolidated financial statements include the accounts of the Fund and Aeroplan Trust (the "Trust"), its wholly-owned holding trust. All intercompany transactions have been eliminated.

Investment The investments in Aeroplan and the General Partner are accounted for under the equity method. The Fund records its proportionate share of Aeroplan's net earnings, calculated on the same basis as if they had been consolidated, since March 3, 2006. Distributions declared and paid by Aeroplan reduce the carrying value of the investment.

Distributions Distributions receivable from the Fund's investment in units of Aeroplan are recorded when declared. Distributions payable by the Fund to its unitholders are recorded when declared.

Income taxes The Fund is a mutual fund trust for income tax purposes. As a result, the Fund is only taxable on any amount not allocated to unitholders. These financial statements do not reflect any income taxes as the Fund is committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains and the Fund intends to comply with the provisions of the Income Tax Act that permit the deduction of distributions to unitholders from the Fund's taxable income and taxable capital gains.

On October 31, 2006, the Minister of Finance (Canada) announced proposed tax legislation rendering income trusts taxable commencing in 2011. In the event the Fund becomes a taxable entity, income taxes payable will reduce net earnings and will affect funds available for distributions by an equivalent amount.

Financial instruments Distributions receivable and distributions payable are reflected in the financial statements at their carrying values, which approximate fair value because of the short term maturity of these financial instruments.

Use of estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. INVESTMENT IN AEROPLAN & AEROPLAN HOLDING GP INC.

The Fund filed a prospectus dated June 22, 2005 relating to the initial public offering of 25,000,000 Fund Units for $250 million.

Concurrent with the closing, the Fund used the proceeds from the sale of its units to invest in limited partnership units of Aeroplan, through a newly constituted wholly-owned trust, the Trust. The Fund acquired indirectly 25,000,000 (12.5%) of the limited partnership units of Aeroplan in exchange for cash consideration of $250 million. Costs related to the offering of $18.0 million were paid by Aeroplan. The cost of the investment has been reduced by the Fund's proportionate share of these costs which amounted to $2.25 million. In addition, on June 30, 2005 as a result of the exercise by the underwriters of the over-allotment option related to the offering, the Fund purchased through the Trust an additional 3,750,000 Aeroplan units from ACE Aviation Holdings Inc. ("ACE"), Aeroplan's parent company for cash consideration of $37.5 million. Costs related to this sale amounting to $2.1 million were borne by ACE.

At December 31, 2005, the Fund owned 28,750,000 limited partnership units or 14.4% of Aeroplan at a net cost of $285.3 million, after deducting the Fund's proportionate share of costs of $2.25 million related to the initial public offering. In addition, the Fund held 28,750,000 common shares or 14.4% of the General Partner, which were acquired concurrent with the acquisition of the Aeroplan units.

On March 3, 2006 and March 31, 2006, ACE transferred 20,204,165 and 500,000 Aeroplan units to the Fund in exchange for Fund Units pursuant to the investors' liquidity agreement (the "Investors' Liquidity Agreement") dated June 29, 2005. The 20,204,165 Fund Units were then distributed to ACE's shareholders and the 500,000 Fund Units were contributed to a trust in order to fund grants to employees under Aeroplan's Initial Long-term Incentive Plan. On December 28, 2006, ACE exchanged 50,000,000 Aeroplan units for an equivalent amount of Fund Units which were distributed to ACE's shareholders of record on January 10, 2007. As a result of these transactions, at December 31, 2006, the Fund held 49.7% of Aeroplan, compared to 14.4% at December 31, 2005, with ACE holding the remaining 50.3% at December 31, 2006, compared to 85.6% at December 31, 2005.

During the quarter ended September 30, 2006, an independent valuation of the identifiable assets of Aeroplan at March 3, 2006 was obtained. This valuation has been updated for the December 28, 2006 transaction, which was accounted for as a step acquisition. The value of the identifiable assets and their estimated useful life is detailed as follows:

	March 3, 2006	Dec. 28, 2006	Fund's proportionate share			
			March 3, 2006 24,7%	Dec 28, 2006 25%	Total 49,7%	Estimated useful life
(in millions)	$	$	$	$	$	(years)
Fair value of Aeroplan	2,480.0	3,400.0	612.6	850.0	1,462.6	
Net book value of Aeroplan	(992.0)	(1,000.0)	(245.0)	(250.0)	(495.0)	
Purchase price discrepancy, allocated as follows:	**3,472.0**	**4,400.0**	**857.6**	**1,100.0**	**1,957.6**	
Finite life assets						
Commercial partners' contracts	1,220.0	1,600.0	301.3	400.0	701.3	15 and 25
Technology	39.0	40.0	9.6	10.0	19.6	5
	1,259.0	1,640.0	310.9	410.0	720.9	
Indefinite life assets						
Trade name	260.0	280.0	64.2	70.0	134.2	Indefinite
Goodwill	1,953.0	2,480.0	482.5	620.0	1,102.5	Indefinite
	2,213.0	2,760.0	546.7	690.0	1,236.7	
	3,472.0	**4,400.0**	**857.6**	**1,100.0**	**1,957.6**	

The Fund's proportionate share of Aeroplan's net earnings since March 3, 2006 of $17.8 million includes an $11.9 million amortization charge for the year ended December 31, 2006, for finite life intangibles (commercial partner contracts and technology).

During the last quarter of 2006, the estimated useful life of the technology was revised from 10 to 5 years. This change was applied prospectively and resulted in an additional amortization charge of $73,000.

The following table details the carrying value of the investment:

(in millions, except for unit amounts)		December 31 2006 $	December 31 2005 $
28,750,000	units of Aeroplan acquired on June 29, 2005, net of issue costs of $2.25 million	285.3	285.3
20,204,165	units exchanged by ACE and distributed to ACE shareholders on March 3, 2006	250.5	–
500,000	units exchanged by ACE and contributed to Aeroplan's Initial Long-term Incentive Plan on March 31, 2006	6.4	–
50,000,000	units exchanged by ACE on December 28, 2006 and distributed to ACE shareholders on January 10, 2007	850.0	–
	Proportionate share of Aeroplan's net earnings since March 3, 2006	17.8	–
	2006 priority distribution received	(0.5)	–
	Distributions declared by Aeroplan since March 3, 2006	(33.9)	–
		1,375.6	**285.3**

4. DISTRIBUTIONS

Distributions declared to the unitholders of record on the last business day of the month during the years ended December 31, 2006 and 2005 amounted to approximately $37.3 million and $10.2 million, respectively as follows:

	2006		2005	
Record date	Amount $	Amount per Fund Unit $	Amount $	Amount per Fund Unit $
January	1,676,125	0.0583	–	–
February	1,676,125	0.0583	–	–
March	2,883,178	0.0583	–	–
April	2,883,178	0.0583	–	
May	2,883,178	0.0583	–	–
June	2,883,178	0.0583	–	–
July	3,090,885	0.0625	1,788,250	0.0622
August	3,090,885	0.0625	1,676,125	0.0583
September	3,090,885	0.0625	1,676,125	0.0583
October	3,090,885	0.0625	1,676,125	0.0583
November	3,090,885	0.0625	1,676,125	0.0583
December	6,961,792	0.0700	1,676,125	0.0583
	37,301,179	**0.7323**	**10,168,875**	**0.3537**

The monthly distributions are dependent on Aeroplan's monthly distributions, which totalled $0.7323 per Fund Unit for 2006. In accordance with the limited partnership agreement, priority distributions are to be made to the Fund in order to cover the Fund's operating expenses. During 2006, the Fund received $0.5 million ($nil in 2005) as a priority distribution and reimbursed the amounts owed to Aeroplan in respect of its operating expenses paid by Aeroplan.

5. UNITS

The Fund may issue an unlimited number of units ("Fund Units") for the consideration of, and on the terms and conditions determined by, the Trustees. Each Fund Unit is transferable and represents an equal undivided beneficial interest in any distribution from the Fund. All Fund Units are of the same class and have equal rights and privileges.

Fund Units are redeemable at any time on demand by the unitholder. The redemption price per Fund Unit is equal to the lesser of 90% of the market price on the date of surrender of the unit for redemption and 100% of the closing market price on the redemption date.

The issued and outstanding Fund units are summarized as follows:

Number of units	Description	2006 $	2005 $
28,750,000	Issued for $10 each, net of issue costs of $2,250,000	285,250,000	285,250,000
20,204,165	Issued on March 3, 2006 for $12.40 each	250,531,646	–
500,000	Issued on March 30, 2006 for $12.90 each	6,450,000	–
50,000,000	Issued on December 28, 2006 for $17.00 each	850,000,000	–
99,454,165	**Total**	**1,392,231,646**	**285,250,000**

In connection with the initial public offering and the over-allotment option, the Fund issued 25,000,000 Fund Units on June 29, 2005 and 3,750,000 Fund Units on June 30, 2005 for $10 each. As a result, at June 30, 2005, the total number of Fund Units issued was 28,750,000 for total consideration of $285.3 million, net of $2.25 million representing the Fund's proportionate share of the $18.0 million of offering costs paid by Aeroplan.

Under the terms of the Investors' Liquidity Agreement dated June 29, 2005, the non-subordinated units held by ACE in Aeroplan are exchangeable for Fund Units on a one-to-one basis. The subordinated units of Aeroplan held by ACE became exchangeable after December 31, 2006. The Fund had reserved 171,250,000 Fund Units for the exercise of the exchange right, of which 100,545,835 remained available at December 31, 2006 for future exchanges (see note 8). The exchange right expires once all limited partnership units of Aeroplan held by ACE have been exchanged. ACE also has liquidity rights, which require the Trust, on a best efforts basis, to purchase a number of non-subordinated (exchangeable) Aeroplan units for a cash payment equal to the net proceeds of an offering of an equivalent number of Fund Units. The Investors' Liquidity Agreement also provides for registration and piggy-back rights subject to certain restrictions.

During the year, ACE exercised its exchange right in connection with the transactions described in note 3, and the Fund issued 20,204,165 Fund Units at $12.40 each (representing the closing price on March 3), 500,000 Fund Units at $12.90 each (representing the closing price on March 31) and 50,000,000 Fund Units at $17.00 each (representing the closing price on December 28), for a total number of Fund Units issued and outstanding at December 31, 2006 of 99,454,165 for total consideration of $1,392.2 million.

6. GUARANTEES

The Trust has guaranteed payment of Aeroplan's borrowings under its credit facilities. This guarantee is supported by first ranking security over all of the present and future assets of the Trust, including a first ranking pledge of all securities held by the Trust in Aeroplan and the General Partner. In addition, both the Trust and the Fund have agreed not to carry on any business, encumber or dispose of any assets, enter into any mergers, own any assets or incur any debt, other than the business of a holding trust or an income fund, and the ownership of securities of Aeroplan and the General Partner, and as otherwise permitted by their respective Declarations of Trust.

As at December 31, 2006 and 2005, Aeroplan had authorized credit facilities of $475.0 million, of which $300.0 million had been drawn.

7. CONTINGENT LIABILITIES

The Fund Declaration of Trust provides that the Trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration of Trust provides that each Trustee will be entitled to indemnification from the Fund in respect of the exercise of the Trustee's power and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of all unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his/her conduct was lawful. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in this statement of financial position with respect to these indemnifications.

8. SUBSEQUENT EVENT

On January 10, 2007, ACE transferred 60,000,000 Aeroplan units to the Fund in exchange for Fund Units pursuant to the Investors' Liquidity Agreement. ACE owns 60,012,667 units of the Fund. As a result, the Fund holds 79.7% of Aeroplan and ACE holds 20.3% of Aeroplan directly and approximately 30.0% indirectly (through the holding of 37.6% of the Fund) for a total of approximately 50.3%. Commencing January 10, 2007, the Fund will consolidate the results of Aeroplan in its financial statements.

AEROPLAN LIMITED PARTNERSHIP

AUDITORS' REPORT

To the Partners of Aeroplan Limited Partnership

We have audited the consolidated statements of financial position of Aeroplan Limited Partnership as at December 31, 2006 and December 31, 2005 and the consolidated statements of operations, partners' deficiency and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the partnership as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

February 7, 2007

PricewaterhouseCoopers LLP

Chartered Accountants

MANAGEMENT'S REPORT

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

In fulfilling its responsibilities, management of Aeroplan has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparation of the financial statements. The Audit, Finance and Risk Committee of the Board of Directors reviews Aeroplan's consolidated interim financial statements and recommends their approval by the Board of Directors.

February 7, 2007

RUPERT DUCHESNE
President and Chief Executive Officer

PIERRE DUHAMEL
Executive Vice President and Chief Financial Officer

CONSOLIDATED STATEMENTS OF OPERATIONS

For the years ended December 31 (in thousands of dollars, except unit and per unit amounts)	note	2006	2005
Operating Revenue			
Aeroplan Miles revenue			
Aeroplan Miles redeemed		$ 584,188	$ 469,482
Breakage		125,081	113,401
		709,269	582,883
Tier management, contact centre management and marketing fees from Air Canada	3	10,121	12,666
Other revenue		49,997	44,352
		769,387	639,901
Cost of rewards	3	465,254	397,042
Gross margin		304,133	242,859
Operating Expenses			
Selling, general and administrative	3	149,406	132,459
Depreciation and amortization		14,260	8,491
		163,666	140,950
Operating Income		140,467	101,909
Interest on long-term debt		(15,075)	(6,315)
Interest income		20,016	5,649
Amortization of deferred financing charges	7	(1,879)	(939)
Net earnings for the year		**$ 143,529**	**$ 100,304**
Weighted average number of units		**199,707,713**	**187,739,727**
Earnings per unit			
Basic		**$ 0.7187**	**$ 0.5343**

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31 (in thousands of dollars, except unit and per unit amounts)	**note**	**2006**	**2005**
Assets			
Current assets			
Cash and cash equivalents	6	$ 166,939	$ 365,874
Short-term investments	6	452,797	98,977
Accounts receivable		69,997	76,541
Prepaid expenses		2,413	2,300
		692,146	543,692
Deferred charges	7	4,321	6,399
Capital assets	5	1,638	1,834
Software	5	39,653	35,671
Goodwill		86,625	86,625
		$ 824,383	**$ 674,221**
Liabilities and Partners' Deficiency			
Current liabilities			
Accounts payable and accrued liabilities	3	$ 38,960	$ 32,755
Deferred revenue	10	798,558	679,714
Distributions payable	3	19,000	16,324
		856,518	728,793
Long-term debt	9	300,000	300,000
Deferred revenue	10	667,921	644,183
		1,824,439	1,672,976
Partners' deficiency	12	(1,000,056)	(998,755)
		$ 824,383	**$ 674,221**
Guarantees, contingencies and commitments	3, 8, 11 & 14		

Approved on behalf of AEROPLAN LIMITED PARTNERSHIP by Aeroplan Holding GP Inc., its general partner

(signed)

RUPERT DUCHESNE
Director

(signed)

ROMAN DORONIUK
Director

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

CONSOLIDATED STATEMENTS OF PARTNERS' DEFICIENCY

For the years ended December 31, 2006 and 2005
(in thousands of dollars, except unit and per unit amounts)

	note	Partners' capital	Accumulated Earnings	Contributed Surplus	Distributions [a]	Total
Balance, December 31, 2004		**$ –**	**$ 158,827**	**$ –**	**$(1,108,356)**	**$ (949,529)**
Net earnings for the year			100,304			100,304
Issuance of 25 million units to the Fund	12	232,000				232,000
Distributions, pre and concurrent with offering	1				(311,000)	(311,000)
Monthly distributions, post offering	12				(70,740)	(70,740)
Accretion related to officers' compensation in the form of ACE options	2			210		210
Balance, December 31, 2005		**$ 232,000**	**$ 259,131**	**$ 210**	**$(1,490,096)**	**$ (998,755)**
Net earnings for the year			143,529			143,529
Priority distribution to the Fund	12				(495)	(495)
Monthly distributions	12				(146,460)	(146,460)
Fund Units contributed by ACE and held by the initial long-term incentive plan	13	(3,461)		3,461		–
Fund Units held by other stock-based compensation plans	13	(2,473)				(2,473)
Accretion related to officers' compensation in the form of ACE options	2			112		112
Accretion related to initial long-term incentive plan				3,842		3,842
Accretion related to other stock-based compensation plans				644		644
Balance, December 31, 2006		**$ 226,066**	**$ 402,660**	**$ 8,269**	**$(1,637,051)**	**$(1,000,056)**

(a) Distributions includes a $506,903 deficit created on inception of the Partnership

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31 (in thousands of dollars, except unit and per unit amounts)	2006	2005
Cash flows from (used in)		
Operating activities		
Net earnings for the year	$ 143,529	$ 100,304
Items not affecting cash		
Depreciation & amortization	16,139	9,707
Stock-based compensation	3,621	–
Changes in non-cash working capital items and deferred revenue		
Related party accounts payable and/or receivable	4,080	53,992
Third party accounts receivable	6,544	(17,447)
Third party accounts payable and accrued liabilities	7,068	3,973
Deferred revenue	142,582	171,903
Other	(113)	(1,803)
Deferred compensation	–	(265)
Funding of stock-based compensation plans	(2,473)	–
	177,448	220,060
	320,977	320,364
Investing activities		
Increase in short-term investments	(353,820)	(98,977)
Additions to capital assets and software	(21,923)	(15,284)
	(375,743)	(114,261)
Financing activities		
Monthly distributions	(144,169)	(54,306)
Distribution to ACE as a result of reorganization	–	(125,000)
Payment of working capital note due to ACE	–	(186,000)
Repayment of revolving credit facility	–	(18,000)
Issue of partnership units, net of costs paid	–	234,467
Offering costs of the Fund paid	–	(2,250)
Deferred financing costs	–	(7,140)
Credit facilities drawn	–	318,000
	(144,169)	159,771
Net change in cash and cash equivalents	(198,935)	365,874
Cash and cash equivalents, beginning of year	365,874	–
Cash and cash equivalents, end of year	**$ 166,939**	**$ 365,874**
Interest paid	**$ 14,078**	**$ 6,443**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006
(Tables in thousands of dollars, except unit and per unit amounts)

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

Aeroplan Limited Partnership ("Aeroplan") is a limited liability partnership registered in the province of Québec. On June 17, 2005, the partnership carrying on the business changed its name from Aeroplan Limited Partnership to APLN Limited Partnership ("APLN"). On June 29, 2005, APLN and Aeroplan entered into an acquisition agreement pursuant to which Aeroplan acquired all of APLN's assets and assumed all of APLN's liabilities in exchange for the issuance of 175,000,000 limited partnership units, an acquisition promissory note of $125.0 million and a working capital note of $186.0 million. As both APLN and Aeroplan were under common control at the time of the transfer, the transaction was accounted for as a continuity of interests. The issuance of the acquisition promissory and working capital notes was accounted for as distributions to ACE Aviation Holdings Inc. ("ACE") of $311.0 million. The acquisition promissory note was settled on June 29, 2005. The working capital note, which was due October 31, 2005 or earlier at Aeroplan's option, was repaid in September 2005. In addition, on June 29, 2005, in conjunction with an initial public offering of the Aeroplan Income Fund (the "Fund"), a fund established to acquire and hold an interest in Aeroplan, the Partnership indirectly issued 25 million units to the Fund for cash consideration of $250.0 million. Costs of $18.0 million paid by Aeroplan have been applied against the Partners' capital account. APLN was liquidated resulting in its assets being distributed to ACE, and ACE holding the Aeroplan units directly.

ACE is the parent company of Air Canada and in 2005, up to its date of liquidation, APLN (then Aeroplan Limited Partnership) was wholly-owned, directly and indirectly, by ACE.

Aeroplan operates a premier loyalty program (the "Aeroplan Program") that provides its commercial partners with loyalty marketing services and offers its members the ability to accumulate Aeroplan Miles through its partner network. Accumulated Aeroplan Miles may be redeemed for air travel rewards from Air Canada and its Star Alliance partners and for other reward products and services.

The General Partner of Aeroplan is Aeroplan Holding GP Inc. (the "General Partner"), which holds an economic interest of 0.0000005%, or one unit.

For purposes of these financial statements, the term "the Partnership" refers collectively to APLN and Aeroplan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements are expressed in Canadian dollars and are prepared in accordance with accounting principles generally accepted in Canada.

Principles of consolidation

These financial statements include the accounts of Aeroplan and 1209233 Alberta Ltd., its wholly owned subsidiary, and the accounts of variable interest entities for which Aeroplan is the primary beneficiary. All inter-company and inter-entity balances and transactions are eliminated.

Partnership

These financial statements are those of a partnership and do not reflect the assets, liabilities, revenues and expenses of its partners.

Variable interest entities

Accounting Guideline 15 (AcG-15) relates to consolidation principles for certain entities that are subject to control on a basis other than ownership of voting interests. The purpose of AcG-15 is to provide guidance for determining when an enterprise includes the assets, liabilities and results of activities of such an entity (a "variable interest entity") in its consolidated financial statements.

An entity is classified as a variable interest entity ("VIE") under AcG-15 if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that will absorb a majority of the expected losses or will receive the majority of the expected residual returns or both, as a result of ownership, contractual or other financial interests in the VIE.

Management has reviewed its ownership, contractual, and financial interests in other entities and determined that other than the consolidation of the Initial Long-Term Incentive Plan, the On-Going Long-Term Incentive Plan and the Omnibus Plan, which came into effect during 2006 and are described under Stock-based compensation, this guideline does not impact the financial statements of Aeroplan.

Revenue recognition and cost of rewards

Aeroplan derives its revenues primarily from the sale of Aeroplan Miles to Air Canada, its affiliates and other commercial partners, which are referred to as Gross Billings. Aeroplan Miles 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 either upon the redemption of Aeroplan Miles by members or in accordance with the accounting policy for breakage. Revenue recognized per Aeroplan Mile redeemed is calculated on a weighted average basis. Breakage represents the estimated Aeroplan Miles 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 affect members' redemption practices. The estimated breakage factor used has been 17% since September 2004 and was 19% prior to September 2004. Aeroplan's policy is to review the breakage estimate with the assistance of two independent firms of experts every two years or earlier if monitoring of pertinent indicators by management suggests that a significant change in breakage may have occurred. In accordance with this policy, management received two reports on breakage in 2006. As these studies used data only up to December 31, 2005, which did not take into account the impact of the ClassicPlus Flight rewards program introduced in October of 2006, management will have these reports updated in 2007. Changes in the breakage factor are accounted for 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. Breakage is recognized rateably over a period of 30 months, the estimated average life of an Aeroplan Mile.

Aeroplan may sell Aeroplan Miles directly to members. Revenue from these sales to members is recognized at the time the member redeems Aeroplan Miles for rewards.

Cost of rewards representing the amount paid by Aeroplan to Air Canada or other providers of the reward is accrued when the member redeems the Aeroplan Miles.

Fees charged to Air Canada for the management of the frequent flyer tier membership program, for the management of the contact centre and for marketing services are recognized when the services are rendered.

Other revenue consists primarily of charges to members for services rendered to members including booking, change and cancellation fees, and other miscellaneous amounts. Revenue from these sources is recognized when the service is performed.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Employee future benefits

All of the contact centre agents are employees of Air Canada, contractually assigned to Aeroplan and as such, for the purpose of preparing these financial statements, are considered to be Aeroplan's employees. These agents and certain administrative employees are members of Air Canada-sponsored defined benefit pension plans. The pension costs related to these employees are accounted for under defined contribution provisions as applicable in these circumstances. In addition, these employees also participate in Air Canada-sponsored health, life and disability future benefit plans.

Substantially all Aeroplan employees, excluding the contact centre agents, participate in Aeroplan's defined contribution pension plans established in 2002 and 2005, which provide pension benefits based on the accumulated contributions and fund earnings.

The Partnership accounts for its employee future benefit costs following the standards on defined contribution plans. The cost of the future employee benefits includes the contributions required to be made by the Partnership in the period, the interest on any estimated present value of any contributions required to be made by Aeroplan in future years related to current services and the amortization of past service costs and any related interest on future contributions. Past service costs arising from plan amendments are amortized on a straight-line basis over the average remaining service period of employees active at the date of amendment.

These financial statements do not include the share of any of the underlying assets and liabilities related to the pension plans.

Income taxes

Aeroplan is a partnership carrying on business primarily in Canada and consequently is not directly subject to federal or provincial income taxes. The taxable income or loss of the Partnership is required to be allocated to the Partnership's partners. Management is of the opinion that any income tax liability arising from the activities of the wholly-owned subsidiary will not be significant.

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

Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars 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, 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.

Cash and cash equivalents

Cash and cash equivalents consist of current operating bank accounts, term deposits and fixed income securities with an original term to maturity of three months or less. The weighted average interest rate earned on investments at December 31, 2006 was 4.2% (2005 – 3.4%).

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. The weighted average interest rate earned on investments at December 31, 2006 was 4.3% (2005 – 3.5%).

Capital assets

Capital assets are stated at cost.

Capital assets are depreciated or amortized to estimated residual values using the straight-line method over the estimated service lives of the assets as follows:

Furniture and fixtures	3 to 10 years
Computer hardware	3 years
Leasehold improvements	Over the term of the lease

Capital assets are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable based on undiscounted cash flows from the direct use and disposition of the asset or group of assets. Any loss is measured as the amount by which the assets' carrying values exceed fair values.

Software

Software under development includes costs paid to third parties such as consultants' fees and other direct costs of development. Amortization will commence upon completion of development once the software is available for use.

Software is amortized to its estimated residual value using the straight-line method over 5 years, and is tested for impairment in the same manner as capital assets.

Goodwill

The goodwill originally arose as a result of the acquisition of Canadian Airlines by Air Canada in 2000 and it represents that portion of the total goodwill recorded at the time of the acquisition attributable to the Canadian Airlines "Canadian Plus" frequent flyer program.

Goodwill is not amortized but instead is tested for impairment annually, or more frequently should events or changes in circumstances indicate that the asset may be impaired. The impairment test is carried out in two steps. First, the carrying amount of the Partnership, including the goodwill, is compared with its fair value. Fair value is determined based on discounted cash flows. When the fair value of the Partnership exceeds its carrying amount, the goodwill is not considered to be impaired, and therefore the second step of the impairment test is unnecessary.

The second step is performed when the carrying amount of the Partnership exceeds its fair value. In such a case, the implied fair value of the goodwill, as determined in the same manner as the value of goodwill is determined in a business combination, is compared with its carrying amount in order to measure the amount of the impairment loss, if any.

Stock-based compensation

Management employee unit purchase plan. In July 2005, Aeroplan established a unit ownership plan, which remained in effect until December 2005 and allowed eligible employees to invest up to 5% of their salary for the purchase of units of Aeroplan Income Fund ("Fund Units") on the secondary market. Aeroplan matched, on a dollar-for-dollar basis, the investments made by the employees under this plan and purchased the Fund Units on the secondary market on behalf of the participants. Fund Units purchased in 2005 under this plan vested on December 15, 2006. Aeroplan's cost of Fund Units under this plan was deferred and charged to earnings as compensation expense over the vesting period.

The 2005 plan was replaced on January 1, 2006 by a similar plan allowing eligible employees to invest up to 5% of their salary for the purchase of Fund Units on the secondary market. Aeroplan's yearly contribution will be based on performance, measured as a function of distributions paid compared to target distributions established by the board of directors and will range between 33.33% and 100% of the employee contributions depending on whether such target distributions are met or exceeded by at least 15%. Aeroplan's cost of Fund Units under this plan was charged to earnings as compensation expense over the performance period, based on the estimated annual performance, with a corresponding reduction of deferred compensation.

Participation in ACE's stock-based compensation plan. An officer of Aeroplan participates in ACE's stock-based compensation plan. Compensation costs related to the 75,000 ACE options granted , which were exercisable at $20 each and had a total fair value of $570,000 at the grant date, are charged to compensation expense over the vesting period (4 years), with the corresponding equity contribution being accreted to contributed surplus.

Initial Long-Term Incentive Plan. Concurrent with the initial public offering, Aeroplan made certain commitments in connection with the granting of units of Aeroplan Income Fund ("Fund Units") to key employees, as a one-time special award to recognize their efforts in the creation of Aeroplan and completion of the offering and to provide them with incentive compensation under an Initial Long-Term Incentive Plan. On March 31, 2006, ACE transferred 500,000 Fund Units to a trust for the purpose of funding the Initial Long-Term Incentive Plan. Under the terms of the plan, 50% of the Fund Units granted are subject to vesting conditions based on Aeroplan's performance and the remaining 50% based on time. Performance based Fund Units vest at the end of each performance period if distributable cash targets established by the board of directors for each of the periods ended December 31, 2005, 2006 and 2007 are met, or on a cumulative basis at the end of the following performance period if such targets are met in that following performance period. Time based Fund Units vest at the end of the 3 year period ending on June 29, 2008. Compensation costs related to the Fund Units contributed by ACE are charged to compensation expense over the vesting period, as vesting conditions are met and based on the estimated annual performance, with the corresponding equity contribution being accreted to contributed surplus. Distributions declared by the Fund on the Fund Units granted ultimately accrue to the employees. Forfeited Fund Units, to the extent they were contributed by ACE, and accumulated distributions thereon accrue to ACE. The trust is a VIE with respect to Aeroplan, and as such, it is consolidated with the Aeroplan financial statements. Unvested Fund Units contributed by ACE are credited to contributed surplus at their aggregate value on March 30, 2006, the contribution date, with an equivalent reduction of partners' capital. Compensation expense under this plan is charged to earnings over the vesting period, with a corresponding increase to equity.

On-Going Long-Term Incentive Plan. Under the terms of the Aeroplan On-Going Long-Term Incentive Plan, eligible employees are entitled to yearly Fund Unit grants determined on the basis of a percentage of their annual base salary. The Fund Units, which are held in a trust for the benefit of the eligible employees, vest at the end of a three year period (the "Performance Cycle"), commencing January 1 of the year in respect of which they are granted, subject to achieving distributable cash targets, established by the board of directors for the Performance Cycle. Aeroplan will purchase the Fund Units on the secondary market. Distributions declared by the Fund on any Fund Units granted under this plan, may be invested in additional Fund Units, which will vest concurrently and proportionately with the Fund Units granted. Forfeited Fund Units and accumulated distributions thereon accrue to Aeroplan. The trust is a VIE entity with respect to Aeroplan, and as such, it is consolidated with the Aeroplan financial statements. Aeroplan's cost of Fund Units under this plan is presented as a reduction of partners' capital and charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. Estimated compensation costs relative to this plan are accrued on the basis of actual performance relative to targets.

Omnibus Plan. The Omnibus Compensation and Incentive Plan has been established in order to attract and/or retain employees. Vesting conditions vary at the time of grant but are typically time and performance based, with Units vesting 3 years after the grant. Distributions declared by the Fund on any Fund Units granted under this plan, may be invested in additional Fund Units, which will vest concurrently with the Fund Units granted. Forfeited Fund Units and accumulated distributions thereon accrue to Aeroplan. The trust is a VIE with respect to Aeroplan, and as such, it is consolidated with the Aeroplan financial statements. Aeroplan's cost of Fund Units under this plan is presented as a reduction of partners' capital and charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity.

Earnings per unit

The weighted average number of units, used in the earnings per unit calculation for the year ended December 31, 2005 has been established by restating the Partnership's outstanding units to 175,000,000 for the period ended June 29, 2005 and using the weighted average number of shares outstanding during the remainder of year. For 2006, Fund Units held under the various stock-based compensation plans reduce the weighted average number of Aeroplan's outstanding units from the date they are contributed into the plan.

Future accounting standard changes
The following is an overview of accounting standard changes that the Partnership will be required to adopt in future years.

The Accounting Standards Board of the Canadian Institute of Chartered Accountants has issued new standards dealing with financial instruments:

- Financial Instruments – Recognition and Measurement (S. 3855)
- Financial Instruments – Disclosures and Presentation (S. 3862 and S. 3863)
- Hedges (S.3865)
- Comprehensive Income (S. 1530)
- Capital disclosures (S.1535)

The key principles under these standards are that all financial instruments, including derivatives, are to be included on a company's balance sheet and measured, either at their fair values or, in certain circumstances when fair value may not be considered most relevant, at cost or amortized cost. Financial instruments intended to be held to maturity should be measured at amortized cost. Existing requirements for hedge accounting are extended to specify how hedge accounting should be performed. Also, certain unrealized gains and losses will be included in other comprehensive income. This provides an ability for certain gains and losses arising from changes in fair value to be temporarily recorded outside the income statement but in a transparent manner. The new standards relating to capital disclosures require the disclosure by the reporting entity of information that will enable users of financial statements to evaluate the entity's objectives, policies and processes for managing capital. The new standards are effective for the Partnership beginning January 1, 2007 and are applied prospectively, except for S.1535 which is effective for the Partnership beginning January 1, 2008. The standards do not permit restatement of prior years' financial statements; however, they provide detailed transitional provisions.

Management is in the process of evaluating the effect of the adoption of the new standards on Aeroplan's financial statements. A preliminary assessment indicates that amounts owed under the long-term debt will be presented net of unamortized deferred financing costs and any prepaid interest.

3. RELATED PARTY TRANSACTIONS

The transactions between Air Canada, other ACE affiliates and the Partnership described below are recorded at the exchange amount.

Contractual and commercial practices with Air Canada and other ACE affiliates
Air Canada and other ACE subsidiaries, as a group, are one of the largest Aeroplan commercial partners. Air-travel related rewards as well as certain management and business services are provided by Air Canada to the Partnership. The Partnership also provides Air Canada with certain services related to tier management, member redemption and marketing activities.

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

The related party transactions resulting from the application of the commercial and contractual practices were as follows:

As at December 31	2006 $	2005 $
Balance Sheet		
Accounts payable and accrued liabilities	5,741	4,894
Distributions payable to ACE	12,038	14,758

The following table summarizes the related party transactions resulting from the application of the commercial and contractual practices included in the statement of operations:

	2006 $	2005 $
Statement of Operations		
Revenue from tier management, contact centre management and marketing fees	10,121	12,666
Cost of rewards	417,531	369,219
Operating expenses	70,895	74,238

The following table represents Gross Billings charged to Air Canada and its affiliates for Aeroplan Miles issued to members compared to total Gross Billings charged to all commercial partners (including Air Canada and its affiliates):

	Gross Billings to Air Canada and its affiliates $	Gross Billings $
Year ended December 31, 2006	**243,712**	**851,851**
Year ended December 31, 2005	203,896	754,786

Cash Management

Since the inception of the Partnership to June 28, 2005, the Partnership's cash was managed through Air Canada's cash management system. All cash collected from Gross Billings and sources other than Air Canada and other ACE affiliates was transferred to Air Canada on a daily basis. Any payments to pay obligations related to operating and financing costs and capital expenditures other than obligations to Air Canada and other ACE affiliates were made through the Air Canada cash management system. Any excess cash for the periods presented has been reported in these financial statements as follows:

Prior to June 28, 2005, an amount of $231,957 of excess cash was generated of which $106,888 was used to settle amounts due to related parties for cost of rewards and services, resulting in accounts receivable as at that time of approximately $125,069 related to accumulated excess cash transfers to Air Canada in prior periods. This balance was subsequently repaid to Aeroplan and at December 31, 2005 there were no amounts related to excess cash transfers included in accounts receivable.

Since June 28, 2005 Aeroplan has managed its own cash and cash management transfers to Air Canada have ceased.

Air Canada collects credit card payments on Aeroplan's behalf. Amounts resulting from these transactions, $56.9 million in 2006 and $52.6 million in 2005, are settled through the inter-company accounts.

In addition, Air Canada acts as a clearing house for substantially all gross billing and reward purchasing transactions between Aeroplan and airlines other than Air Canada. Air Canada collects and pays the accounts receivable and accounts payable on Aeroplan's behalf. Net purchase amounts resulting from these transactions, $11.4 million in 2006 and $13.3 million in 2005, are settled through the inter-company accounts.

Under arrangements among certain commercial partners, Air Canada and the Partnership, Air Canada, on the Partnership's behalf, collected cash from the Partnership's Gross Billings to these commercial partners and applied it to amounts owed to those commercial partners under certain loan arrangements. A total of $43.6 million was included in the Partnership's cash flows until June 28, 2005 relating to these arrangements.

Guarantees

Aeroplan is jointly and severally liable for its own obligations and those of certain companies subject to common control by ACE, pursuant to a merchant services agreement entered into with First Data Loan Company, Canada, in the event that such entities were unable to fulfill their obligations related to airline and tour tickets sold in advance and charged to the credit cards processed under the agreement. The maximum exposure related to this guarantee, which ranks ahead of the security granted under the credit facilities described in note 9, at December 31, 2006 and December 31, 2005 was estimated to be $205.2 million and $155.2 million respectively.

Commercial and other agreements

The Partnership has entered into various agreements with Air Canada governing the commercial relationship between the Partnership and Air Canada. Inter-company transactions resulting from these agreements are measured at the exchange amount, being the amount agreed to between the parties. The aggregate effect of these transactions is disclosed in the tables above.

The following is a summary of the relevant financial terms related to these agreements.

Commercial Participation and Services Agreement ("CPSA")

This agreement, which was amended on October 13, 2006 and 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 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, 2006, the Partnership is required to purchase reward travel seats with an exchange amount of approximately $296.1 million each year ($222.9 million based on the three years ended December 31, 2005). Air Canada is also required to purchase a pre-established number of Aeroplan Miles at a specified rate. The Partnership 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.

Revenue earned and expenses incurred under this agreement are included in "Tier management, contact centre management and marketing fees" and "Cost of rewards", respectively in the tables above.

Aeroplan has also agreed to indemnify Air Canada, its affiliates and representatives from any claims arising out of any changes made at any time by Aeroplan to the Aeroplan Program to the extent such changes are implemented to address fluctuations in breakage related to the liability attached to miles issued prior to January 1, 2002.

Database Agreement
Pursuant to the Database Agreement, Aeroplan manages Air Canada's passenger information database.

The agreement allows for reciprocal access and use of each other's data bases for specific limited purposes at pre-established fees based on usage.

No fees were earned or charged under this agreement for 2006 and 2005.

This agreement expires on June 29, 2020 or automatically in the event the CPSA is terminated.

Master Services Agreement ("MSA")
Under this agreement, which expires concurrently with the CPSA on June 29, 2020, Air Canada has agreed to provide certain administrative services to Aeroplan in return for a fee. The fees paid under this agreement, which are included in operating expenses in the table above, amounted to $17.0 million and $16.6 million for the years ended December 31, 2006 and 2005, respectively.

The agreement may be terminated by Aeroplan with six months' prior written notice and by Air Canada with eighteen months' prior written notice. The agreement terminates automatically if the CPSA is terminated.

General Services Agreement ("GSA")
This agreement, which may be terminated by either party with six months prior written notice, provides Aeroplan with the services of certain unionized employees of Air Canada. Aeroplan is required to reimburse Air Canada for all salary and benefit costs incurred in connection with the assigned employees, including annual special payments detailed below to compensate Air Canada for the share of the unfunded pension deficiencies related to the assigned employees described in note 8.

The fees paid under this agreement, which are included in operating expenses in the table above, amounted to $51.6 million and $52.1 million for the years ended December 31, 2006 and 2005, respectively.

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

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

Trademark License Agreements
Air Canada and Aeroplan have each granted the other, under separate trademark license agreements, the non-exclusive, non-sublicensable, non-assignable right to use certain trademarks of Air Canada and Aeroplan for no consideration. These agreements can be terminated in the event the CPSA is terminated.

Leases
Aeroplan is party to real estate leases with Air Canada for its premises in Vancouver and Toronto. The leases are for five-year terms and at commercial rates, commencing January 1, 2004 with certain renewal and expansion rights (see note 14).

A lease with Air Canada for the Montréal premises was assigned to a third party on July 31, 2006 as a result of the sale of the building by Air Canada (see note 14).

4. MAJOR COMMERCIAL PARTNERS

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

	Air Canada and affiliates %	Commercial partner A %	Commercial partner B %
December 31, 2006	**29**	**50**	**12**
December 31, 2005	27	52	9

Due to the different nature of the businesses carried on by Aeroplan's commercial partners and the relative size of the major commercial partners, management considers any other concentration of credit risk not to be significant.

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

5. CAPITAL ASSETS AND SOFTWARE

As at December 31, 2006	Cost $	Accumulated depreciation and amortization $	Net $
Furniture, fixtures and computer hardware	1,419	948	471
Leasehold improvements	4,580	3,413	1,167
	5,999	**4,361**	**1,638**
Software [(a)]	66,981	27,956	39,025
Software under development	628	–	628
	67,609	**27,956**	**39,653**

(a) As a result of a review of the functionality of certain software assets, the estimated useful life of software with a carrying value of $2.1 million has been reduced, resulting in increased amortization in the amount of $0.8 million for the year.

As at December 31, 2005	Cost $	Accumulated depreciation and amortization $	Net $
Furniture, fixtures and computer hardware	1,400	720	680
Leasehold improvements	4,311	3,157	1,154
	5,711	**3,877**	**1,834**
Software [(b)]	41,522	14,180	27,342
Software under development	8,329	–	8,329
	49,851	**14,180**	**35,671**

(b) As a result of the development of new pricing software for ClassicPlus Flight rewards which became available for use in 2006, the estimated remaining useful life of the pricing software related to the Avenue product (which is no longer offered) was reduced from 44 months to 11 months, and resulted in increased amortization in the amount of $0.9 million for 2005.

6. AEROPLAN MILES REDEMPTION RESERVE

In conjunction with the issuance of Fund Units and the bank financing entered into on June 29, 2005, the Partnership established the Aeroplan Miles redemption reserve (the "Reserve"). As at December 31, 2006 and 2005, the Reserve amounted to $400.0 million and is included in cash and cash equivalents and short-term investments.

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

The Reserve may be used to supplement cash flows generated from operations in order to pay for rewards during unusually high redemption activity associated with Aeroplan Miles. Under the terms of the term facility, described in note 9, the Partnership was required to deposit the borrowed funds of $300.0 million into the Reserve. Any deposits of funds in non-Canadian dollar denominated investments are required to be hedged.

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

7. DEFERRED CHARGES

Deferred charges consist of deferred financing costs, as follows:

As at December 31	2006 $	2005 $
Deferred financing costs, net of amortization for the year of $1,879 (December 31, 2005 $939)	4,321	6,201
Deferred compensation costs, related to Aeroplan's matching obligation under the management employee Fund Unit purchase plan, net of compensation expense recognized for the year of $198 (December 31, 2005 $67)	–	198
	4,321	**6,399**

Deferred financing costs represent costs incurred in connection with the issuance of the revolving term, the term, and the acquisition credit facilities described in note 9. These costs are amortized over the respective term of the debt facility with which they are associated.

8. EMPLOYEE FUTURE BENEFITS

Total employee pension and other future benefit costs, as recognized by the Partnership under required defined contribution employee future benefit accounting practices, are as follows:

	2006		2005	
December 31	Pension benefits $	Other future benefits $	Pension benefits $	Other future benefits $
Contact centre employees	5,478	1,236	3,977	1,005
Other Aeroplan employees	994	–	765	–
	6,472	**1,236**	**4,742**	**1,005**

Pursuant to the adoption of the Air Canada Pension Plan Solvency Deficiency Funding Regulations on August 9, 2004, Air Canada was required to make certain special payments related to funding deficiencies of its registered pension plans. These special payments may be made over a ten-year period and are based on certain actuarial calculations to be made on a periodic basis. Under the GSA (note 3), Aeroplan has agreed to pay a portion of the special payments related to plans in which the assigned employees participate based on an estimate of the portion of the solvency deficiencies of Air Canada's pension plans attributable to the assigned employees at January 1, 2005. The amount included for the year ended December 31, 2006 was $2.0 million (December 31, 2005 — $0.9 million).

Maximum payments in respect of the special payments should not exceed $16.1 million over the period from January 1, 2005 to December 31, 2013. The obligation in respect of special payments survives early termination. In the event that the all the assigned employees become Aeroplan employees, Aeroplan shall assume all liabilities with respect to the assigned employees as of the transfer date.

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

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

Year	Amount $
2007	1,851
2008	1,851
2009	1,883
2010	1,883
2011	1,883
Thereafter	3,766
	13,117

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

9. LONG-TERM DEBT

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

	Authorized $	Drawn at December 31 2006 $	Drawn at December 31 2005 $
Revolving term facility [(a)]	75,000	–	–
Term facility [(b)]	300,000	300,000	300,000
Acquisition facility [(b)]	100,000	–	–
Total	**475,000**	**300,000**	**300,000**

(a) During the year, the term of the revolving term facility was extended to mature on June 29, 2009 from June 29, 2008, or earlier at the option of Aeroplan. It bears interest at rates ranging from Canadian prime rate and U.S. base rate to Canadian prime rate and U.S. base rate plus 0.75% and the Bankers' Acceptance rate and LIBOR plus 1.0% to 1.75%.

Letter of credit
Aeroplan has issued an irrevocable letter of credit in the amount of $190,000, in order to meet its obligations under one of the defined contribution pension plans. This amount reduces the available credit under the revolving credit facility.

(b) The term and the acquisition facilities mature on June 29, 2009, or earlier at the option of Aeroplan and bear interest at rates ranging from Canadian prime rate and U.S. base rate to Canadian prime rate and U.S. base rate plus 0.75% and the Bankers' Acceptance rate and LIBOR plus 1.0% to 1.75%. At December 31, 2006, borrowings under this facility were in the form of Bankers' Acceptances with a 90 day term (91 days at December 31, 2005) and an effective interest rate of 5.3% (4.4% at December 31, 2005). This facility was drawn in order to fund a portion of the $400.0 million Reserve, included in cash and cash equivalents and short-term investments. The remaining $100.0 million was funded from the proceeds of the offering described in note 1.

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

Borrowings under the credit facilities are secured by substantially all the present and future assets of Aeroplan, subject to the realization of any priority claims resulting from the joint and several guarantees under the agreement with First Data Loan Company, Canada as described in note 3.

The continued availability of the credit facilities are subject to Aeroplan's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants.

10. DEFERRED REVENUE

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

As at December 31	2006 $	2005 $
Opening balance	1,323,897	1,151,994
Aeroplan Miles issued–Gross billings	851,851	754,786
Revenue recognized for Aeroplan Miles redeemed and breakage	(709,269)	(582,883)
Ending balance	**1,466,479**	**1,323,897**
Represented by:		
Current portion [(a)]	**798,558**	**679,714**
Long-term	**667,921**	**644,183**

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

11. CONTINGENT LIABILITIES

Air Canada Miles issued prior to January 1, 2002
In accordance with the CPSA, as amended, Air Canada is responsible for the cost of the redemption for air rewards of up to a maximum of 112.4 billion Air Canada Miles accumulated by members prior to January 1, 2002. As of December 31, 2006, 98.2 billion of those Air Canada Miles had been redeemed.

In the unlikely event that Air Canada is unable to meet its obligation, Aeroplan may be required to honour Air Canada's redemption obligation, which based on Aeroplan's current annual average redemption cost per mile, would amount to approximately $135 million at December 31, 2006, compared to $223 million at December 31, 2005.

Also under the CPSA, Aeroplan is responsible for any redemptions for air rewards of Air Canada Miles issued prior to January 1, 2002, in excess of the 112.4 billion Air Canada Miles. While on the basis of current estimates, Aeroplan does not expect such redemptions to exceed 112.4 billion Air Canada Miles, the maximum potential redemption cost of meeting this obligation if all 23.3 billion estimated broken but unexpired Air Canada Miles were to be redeemed, amounts to $219.0 million at December 31, 2006 and $254.0 million at December 31, 2005.

As a result, the total maximum potential redemption cost to the Partnership for the total outstanding and unbroken Air Canada Miles issued prior to January 1, 2002 is estimated to be $354 million and $477 million at December 31, 2006 and December 31, 2005, respectively.

Management estimates that a 1% increase in breakage related to the Air Canada Miles issued before January 1, 2002, would have an impact on cost of rewards and net earnings of $29.3 million for the period in which the change occurred.

Aeroplan Miles issued after January 1, 2002
In addition, Aeroplan may be required to provide rewards to members for unexpired Aeroplan Miles accounted for as breakage on the Aeroplan Miles issued after December 31, 2001 for which the breakage revenue has been recognized or deferred and for which no liability has been recorded. The maximum potential redemption cost for such Aeroplan Miles is estimated to be $440 million at December 31, 2006 and $364 million at December 31, 2005. The potential redemption costs noted above have been calculated on the basis of the current average redemption cost on the basis of actual prices with reward suppliers, including Air Canada, and the experienced mix of the various types of awards that members have selected, based on past experience.

Management estimates that a 1% change in breakage related to the Aeroplan Miles issued after January 1, 2002, would have a total impact on revenue and net earnings of $24.4 million for the period in which the change occurred, with $17.1 million relating to prior years and $7.3 million relating to the current year.

Other
From time to time, Aeroplan becomes involved in various claims and litigation as part of its 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 Aeroplan's financial position and results of operations.

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

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

12. PARTNERS' CAPITAL

Aeroplan is authorized to issue an unlimited number of equally ranking class A units.

As at December 31	2006	2005
General Partner		
Aeroplan General Partner Inc., a wholly-owned subsidiary of ACE (prior to reorganization described in note 1)		
Number of units issued and fully paid		
Units outstanding – beginning of year [(a)]	–	100
Cancelled on reorganization described in note 1	–	(100)
Units outstanding – end of year	–	–
Aeroplan Holding GP Inc.		
Number of Units issued and fully paid		
Units outstanding – beginning of year	1	–
Issued during the period [(a)]	–	1
Units outstanding – end of year	1	1
Limited Partners		
APLN		
Number of units issued and fully paid		
Units outstanding – beginning of year	–	1,500,000,100
Cancelled on reorganization described in note 1	–	(1,500,000,100)
Units outstanding – end of year	–	–
Aeroplan		
Number of units issued and fully paid		
Units outstanding – beginning of year	200,000,000	–
Issued to APLN, which was liquidated into ACE (the parent company) during period for other consideration. One unit was originally issued and later cancelled and exchanged for 175,000,000 units	–	175,000,000
Issued to the Fund during the year for cash consideration of $232.0 million, net of costs of $18.0 million paid by Aeroplan	–	25,000,000
Units outstanding – end of year	200,000,001	200,000,001
Fund Units purchased to fund stock-based compensation plans (note 13)	(486,807)	–
Total units outstanding – end of year	**199,513,194**	**200,000,001**

(a) The 1 unit issued to the general partner during the year ended December 31, 2005 was issued for $1. For the years ended December 31, 2006 and 2005, the net earnings allocated to that unit is nominal.

On June 29 2005, the Fund completed an initial public offering of 25,000,000 Fund Units. Concurrent with the offering, 25,000,000 units of Aeroplan were issued indirectly to the Fund for net proceeds of $232.0 million, net of costs of 18.0 million paid by Aeroplan which have been charged to partners' capital. On closing of the offering, 87.5% of the outstanding limited partnership units of Aeroplan were held by ACE.

On June 30 2005, further to the exercise of the over allotment option, ACE transferred 3,750,000 units to the Fund. Issue costs related to the exercise of the over allotment option were borne by ACE.

On March 3, 2006, March 31, 2006 and December 28, 2006, ACE transferred 20,204,165, 500,000 and 50,000,000, respectively, Aeroplan units to the Fund in exchange for Fund Units pursuant to the investors' liquidity agreement. The 20,204,165 and the 50,000,000 Fund Units were then distributed to ACE's shareholders and the 500,000 Fund Units were transferred to a trust to fund grants under the Initial Long-Term Incentive Plan (notes 2 and 13). As a result, at December 31, 2006 the Fund held approximately 49.7% of Aeroplan and ACE held approximately 50.3%.

Distributions payable to Aeroplan's partners are recorded when declared. Aeroplan intends to make monthly distributions to its partners within 7 days of the end of each month. In accordance with the limited partnership agreement, priority distributions are to be made to the Fund in order to cover the Fund's operating expenses. A priority distribution of $495,000 was made on December 21, 2006. During 2006, Aeroplan declared $146.5 million in monthly distributions to its partners compared to $70.7 million declared in total monthly distributions to its partners, subsequent to the initial public offering, for the period from June 29, 2005 to December 31, 2005. In addition, during 2005, prior to and concurrent with the initial public offering distributions totalling $311.0 million were paid to ACE .

On May 29, 2006, the board of directors approved a first increase (since the initial public offering) in distributions to be declared by Aeroplan to its partners from $0.0583 to $0.0625 per unit, commencing with the distribution declared for the month of July, 2006. On October 13, 2006, the board of directors approved an increase in monthly distributions to be declared by Aeroplan to its partners from $0.0625 to $0.0700 per unit, commencing with the distribution declared for the month of December, 2006. The amount of distributions remains subject to review throughout the year and any changes to the monthly distribution amounts are subject to the approval of the board of directors.

Pursuant to the limited partnership agreement, 20% of Aeroplan's issued and outstanding units, which are held by ACE and which represent 40,000,000 units, were subordinated in favour of the Fund until December 31, 2006. Distributions on the subordinated units will only be paid by Aeroplan to the extent that Aeroplan has met and paid its distributable cash target to the Fund as the indirect holder of non-subordinated units at the end of each quarter after approval of the financial statements by the board of directors. At December 31, 2006 and December 31, 2005, the distributions payable to ACE related to the subordinated units amounted to $7.8 million and $7.0 million, respectively.

Under the terms of an investor liquidity agreement dated June 29, 2005, the non-subordinated units held by ACE in Aeroplan are exchangeable for Fund Units on a one-to-one basis. The Fund had reserved 171,250,000 Fund Units for the exercise of the exchange right. Subsequent to the March 3, 2006, March 31, 2006 and December 28, 2006 exchanges, 100,545,835 Fund Units remain available for future exchanges. The subordinated units of Aeroplan held by ACE are exchangeable after December 31, 2006. The exchange right expires once all units of Aeroplan held by ACE have been exchanged. In addition, ACE also has liquidity rights, pursuant to which it may require the Trust, on a best efforts basis, to purchase a number of non-subordinated Aeroplan units for a cash payment equal to the net proceeds of an offering of an equivalent number of Fund Units. The investor liquidity agreement also provides for registration and piggy-back rights subject to certain conditions.

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

13. STOCK-BASED COMPENSATION PLANS

The details of Fund Units held under stock-based compensation plans described in note 2 are as follows:

	December 31 2006		
	Initial LTIP	On-going LTIP	Omnibus plan
Number of Fund Units granted during the year	567,842	85,894	65,500
Number of Fund Units forfeited	(102,342)	–	–
	465,500	85,894	65,500
Number of Fund Units vested, during the year	(197,170)	–	–
Number of Fund Units outstanding, end of year	**268,330**	**85,894**	**65,500**
Weighted average remaining life (years)	**1.3**	**2.0**	**2.5**
Cost of units purchased during the year [(a)]	**$ –**	**$ 1,346**	**$ 1,127**
Weighted average fair value per Fund Unit on date of grant	**$ 12.90**	**$ 15.67**	**$ 17.21**
Compensation expense for the year	**$ 2,065** [(b)]	**$ 449**	**$ 195**

(a) The cost of Fund Units purchased under these plans is not materially different from their fair value at the date they were granted.

(b) Although the terms of the Initial LTIP had not been finalized at the end of 2005, Aeroplan had recorded in accounts payable and accrued liabilities $1.8 million of compensation expense relative to this plan in 2005.

Pursuant to the terms of the On-going and Omnibus plans, Fund Units are purchased on the open market of the Toronto Stock Exchange and are held by a trustee for the benefit of the eligible employees until their vesting. Unvested units of the Initial LTIP, which were contributed by ACE, are also held in escrow.

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

All other stock-based compensation charged to earnings is detailed as follows:

	2006 $	2005 $
Management employee unit purchase plan – 2005	198	67
Management employee unit purchase plan – 2006	298	–
Participation in ACE's stock-based compensation plan	112	210
Total other stock-based compensation	**608**	**277**

14. COMMITMENTS

The minimum lease payments owed to Air Canada and other parties related to the facilities leases described in note 3 until December 31, 2008 are as follows:

Year ending December 31	$
2007	1,614
2008	1,614
	3,228

15. INCOME TAXES

The tax attributes of the Partnership's net assets flow directly to the partners. As a result of the reorganization described in note 1, the net temporary differences between the tax bases and the financial statement carrying amounts of Aeroplan's assets and liabilities which accrued to Air Canada and approximated $1.8 billion at December 31, 2004, reflecting future tax deductions in excess of future taxable amounts were reduced by approximately $960.0 million and were transferred to ACE for no consideration. At December 31, 2006 the tax bases of Aeroplan's assets and liabilities related to temporary differences exceeded their financial statement carrying amounts by approximately $699.7 million compared to $773.5 million at December 31, 2005.

16. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts reported on the balance sheet for cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities approximate fair value due to the immediate or short-term maturities of these financial instruments.

Due to the short-term nature of the underlying Bankers' Acceptances (typically 90 days), the carrying value of the long-term debt approximates fair value.

Credit risk

In accordance with its investment policy, Aeroplan invests the Reserve and excess cash, included in short-term investments and cash and cash equivalents in commercial paper or corporate bonds with a minimum rating of R-1 (high) or AA(low) and term deposits, subject to certain thresholds to reduce undue exposure to any one issuer.

Interest rate exposure

Aeroplan is exposed to fluctuations in interest rates under the terms of the outstanding credit facility which bears interest at variable rates and has been borrowed in the form of Bankers' Acceptances.

Aeroplan invests the Reserve and excess cash on hand in instruments with similar terms to maturity as the underlying Bankers' Acceptances related to the credit facility, with an objective to mitigate the interest rate exposure.

17. SUBSEQUENT EVENTS

On January 10, 2007, ACE transferred 60,000,000 Aeroplan units to the Fund in exchange for an equivalent number of Fund Units pursuant to the investors' liquidity agreement, after which, ACE owns 60,012,667 Fund Units. As a result, the Fund owns approximately 79.7% of Aeroplan and ACE holds approximately 20.3% of Aeroplan directly and approximately 30.0% indirectly (through the holding of 37.6% of the Fund) for a total of approximately 50.3%.

18. COMPARATIVE FIGURES

Certain 2005 figures, presented for comparative purposes, have been reclassified to conform to the presentation adopted in 2006.

CORPORATE INFORMATION

Trustees and Board of Directors

Robert A. Milton
Chairman of the Board
Chairman, President and Chief Executive Officer, ACE Aviation Holdings Inc.

Bernard Attali[3]
Director
Senior Advisor, TPG Capital LLP

Robert E. Brown[2]
Director
President and Chief Executive Officer, CAE Inc.

Roman Doroniuk[1,4]
Director and Trustee
Consultant

Rupert Duchesne
Director
President and Chief Executive Officer, Aeroplan

Joanne Ferstman[1,2,3]
Director and Trustee
Executive Vice President and Chief Financial Officer, Dundee Corporation and Dundee Wealth Management

W. Brett Ingersoll[2,4]
Director
Managing Director, co-Head Private Equity, Cerberus Capital Management, L.P.

Pierre Marc Johnson[4]
Trustee
Senior Counsel, Heenan Blaikie LLP

John T. McLennan[2]
Trustee
Corporate Director

David I. Richardson[1]
Trustee
Corporate Director

Robert Warden[3]
Director
Managing Director, Cerberus Capital Management, L.P.

Marvin Yontef[2]
Director
Senior Partner, Stikeman Elliott LLP

Executive Team

Rupert Duchesne
President and Chief Executive Officer

Pierre Duhamel
Executive Vice President and Chief Financial Officer

Liz Graham
Vice President, Operations

André Hébert
Vice President, Technology and e-Business

Mark Hounsell
Vice President, General Counsel and Corporate Secretary

Craig Landry
Vice President, Rewards

Melissa Sonberg
Vice President, Corporate Services

Robert Shields
Vice President, Partnerships

Marc Trudeau
Vice President, Strategy and Business Development

(1) Member of the Audit, Finance and Risk Committee
(2) Member of the Governance and Corporate Matters Committee
(3) Member of the Human Resources and Compensation Committee
(4) Member of the Nominating Committee

Head Office
5100 de Maisonneuve
Boulevard West
Montreal, Quebec
Canada H4A 3T2

Investor Relations
50 Bay Street, 8th floor
Air Canada Centre
Toronto, Ontario
Canada M5J 2X3

Telephone: 416-352-3765
ir@aeroplan.com
www.aeroplan.com

Annual meeting
The annual meeting of unitholders of Aeroplan Income Fund will be held on March 27, 2007, at 2 p.m. EST at:
ICAO Conference Centre
999 University Street
Montreal, Quebec
Canada H3C 5H7

Aeroplan Customer Contact Centres
To book Aeroplan reward travel or to request general information about the Aeroplan program, please call 1-800-361-5373 between 7 a.m. and 11 p.m. EST.

Transfer Agent
CIBC Mellon Trust Company
Securities Level
199 Bay Street
Commerce Court West
Toronto, Ontario
Canada M5L 1G9

Telephone: 416-643-5500
1-800-387-0825
www.cibcmellon.com

Independent Auditors
PricewaterhouseCoopers LLP

Toronto Stock Exchange Symbol
AER.UN

2006 Unit Price Range

High	Low	Close
$17.55	$12.05	$16.97

DESIGN: **WWW.NOLIN.CA**
Printed in Canada

aeroplan

aeroplan.com