

STRENGTH IN NUMBERS

Annual Report 2008



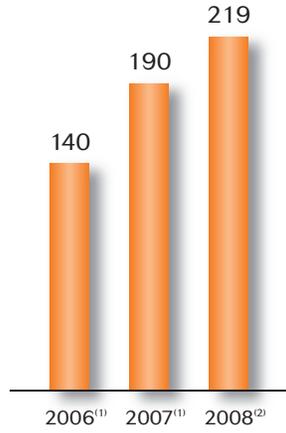




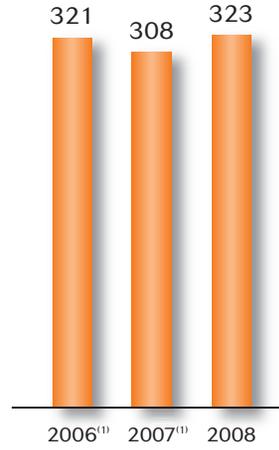
OUR NUMBERS SPEAK FOR THEMSELVES

Chairman's Letter	4
President & CEO's Letter	6
Corporate Social Responsibility	10
Management's Discussion & Analysis	13
Financial Statements & Notes	59
Corporate Information	97

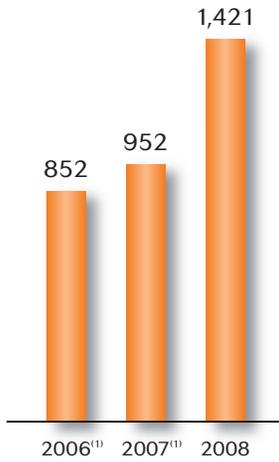
Operating Income
(\$ Millions)



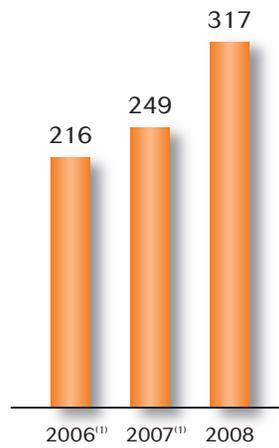
Cash Flow from Operations
(\$ Millions)



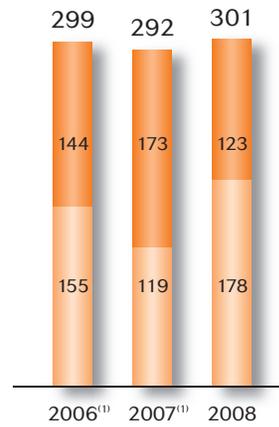
Gross Billings
(\$ Millions)



Adjusted EBITDA⁽³⁾
(\$ Millions)



Free Cash Flow⁽³⁾
(\$ Millions)



■ Dividends/Distributions
■ Free Cash Flow

(1) 2006 and 2007 results presented for comparative purposes are those of the Partnership.

(2) After deducting \$88 million of amortization of accumulation partners' contracts and technology.

(3) Calculated in accordance with the definitions included on pages 19 & 20.

Chairman's Letter

2008 was a busy year and a good one for Groupe Aeroplan. It was marked by the strength of our operational success and also the next stage of our evolution as a public company: the completion of a plan of arrangement that provided for the reorganization of Aeroplan Income Fund's trust structure into a public corporation named Groupe Aeroplan Inc.

The conversion, which was overwhelmingly approved at our last meeting of shareholders, became effective June 25, 2008. We believe that our new corporate structure will give us better access to capital markets as we execute on our growth strategy for the long-term benefit of our shareholders. Subsequent to our reorganization, we continue to be listed on the Toronto Stock Exchange and, as of April 2008, Groupe Aeroplan is now included in the S&P / TSX 60 Index.

Also as part of our evolution, last spring ACE Aviation Holdings sold the balance of its investment and retains no further ownership interest in, or director appointment rights with respect to, the Corporation. We no longer have a controlling shareholder and are thus fully independent with respect to governance.

Governance remains a key priority for the board of directors and management of Groupe Aeroplan and transparency and accountability are essential ingredients of the governance and management framework guiding the Corporation. As directors, we act on behalf of all shareholders and it is our responsibility to ensure there is appropriate transparency in the Corporation's decision-making process and to report the outcomes of those decisions through a number of public channels that include this annual report. The board and management team of Groupe Aeroplan are committed to the highest standards of reporting and accountability and to identifying, evaluating and enacting risk mitigation policies as we roll out our global loyalty strategy.



In 25 years, Aeroplan
Canada members have
accumulated approximately
821 billion miles or . . .

3.7 million trips to the moon.

Safeguarding your interests as shareholders is one of our top priorities. To assist us in carrying out this mandate, the board is pleased to welcome two new directors, the Honourable Michael M. Fortier and Mr. David H. Laidley. They both bring extensive business experience and a wealth of knowledge that will be of strategic value to Groupe Aeroplan as we continue to grow.

I want to express my appreciation to the board of directors, executive team and employees for their performance and commitment. It is a pleasure to work with a group of people so dedicated to the common goal of ensuring Groupe Aeroplan's continued success.

ROBERT E. BROWN

President & CEO's Letter

The value of a loyalty program is based on the strength of its numbers such as accumulation, redemption, members, partners, consumer data, program statistics, return on investment and financial performance. Specifically, the power of a loyalty program rests on how well it can drive the growth of miles accumulated by members from a strong and diverse group of commercial partners.

We use our partners' return on investment and their ability to better understand the behaviour of their consumers to measure our success. On this basis, I am pleased to report that 2008 was an important and successful year for Groupe Aeroplan.

During the year we focused our key organic growth initiatives on making our core operations even stronger by (i) increasing the opportunity for, and frequency of, member engagement; and (ii) providing analysis and insight into consumer behaviour for our growing network of accumulation partners and name brand consumer packaged goods customers.

The benefits of Groupe Aeroplan's successful execution in these two areas are proven. In each of the regions we operate, we demonstrate day-in and day-out that our members are very engaged in our programs. In addition, the quality and breadth of our reward offerings further stimulates a change in behaviour as members accelerate and compound accumulation to shorten the time it takes to redeem for their next reward. In just six years, our UK program, Nectar, has returned over £1 billion to members through rewards and in Canada over 16 million rewards have been issued since the inception of Aeroplan twenty-five years ago, including 2 million rewards in 2008 alone. Clearly, our members love to accumulate and redeem and we encourage this behaviour by continuing to develop unique and meaningful ways to increase program participation.



In the UK, we have more than 10 million active Nectar members, representing over . . .

50% of households in the United Kingdom.

Active member participation in our programs, in turn, allows us to collect, and then translate, comprehensive consumer data into valuable insight that our partners use to attract, retain and better market to customers. Groupe Aeroplan recognizes that competency in data analysis is critical to the success of any loyalty program and this is an important component of our international expansion strategy. Last spring our LMG Insight & Communication business launched “Self-Serve”, an industry leading data analytics tool that provides retailers and consumer packaged goods companies with desktop access to insight from point-of-sale and loyalty card data. We have been successful in contracting with some of Sainsbury’s largest, most important suppliers and, as a result, the total number

of Self Serve subscribers on board in the UK is significantly ahead of expectations. Our plans to launch this platform in North America are well underway. As retail competition increases globally, we believe LMG Insight & Communication's advanced data analysis tools and understanding of consumer information generated through loyalty programs will play an important part in our success by adding value and strengthening our partnerships.

Whereas most loyalty programs can help retain current customers, Groupe Aeroplan's programs provide significant added value by also driving an increase in existing customers' share of wallet and attracting new consumers through the door. The more a partner benefits from one of our loyalty programs, the more it wants to expand its program offering and encourage members to spend. Our proven ability to change consumer behaviour, together with our active membership bases and advanced data analysis capabilities, provide compelling reasons for businesses to partner with us.

During 2008, we signed up many important retail partners, including Expedia in the UK and Sobeys, Dumoulin/Audiotronic, Direct Energy and Primus in Canada. Our new relationship with Sobeys, the second largest grocer in Canada, represents a major milestone for Aeroplan Canada: the expansion of its offering into grocery, the most important everyday spend category. The addition of these well-known Canadian businesses to other name brands such as Esso and Home Hardware, has helped Aeroplan Canada establish a solid position in retail. Air Miles Middle East, in which we acquired a controlling interest in January 2008, continued to sign up several new partners last year and now has a total partner network that exceeds 130. We continue to look at other opportunities to expand our footprint in the Gulf region.

With respect to our core financial partners – CIBC, American Express and HSBC – we saw significant activity from each of them – as they continue to leverage the benefits of Groupe Aeroplan's coalition loyalty programs. CIBC leads the highly competitive premium credit card market in Canada with the CIBC Aerogold VISA as it has for many

years and recently added the CIBC Aerogold VISA INFINITE to its premium card offering. In addition, CIBC is driving growth by using the Aeroplan Canada program to attract new customers to its chequing and mortgage products. American Express continues to demonstrate its marketing prowess with our loyalty programs in both Canada and the UK, offering a suite of co-branded personal and business cards. In the Middle East, our Air Miles program is partnered with HSBC, one of the world's largest banks.

In addition to retail and financial partners, we continue to look at opportunities to develop the travel side of our programs in the UK and Middle East. In Canada, we have a highly developed travel sector, which includes Air Canada and the Star Alliance, as well as hotels and rental cars. Air Canada continues to be an important part of our offering, although with the expansion of our business in Canada and abroad, travel represents a lower proportion of our consolidated gross billings. Air Canada is a great partner and we remain confident in the strength of our relationship.

Whether they are in Canada, the UK or the Middle East, in travel, retail or financial, our partners are benefitting from the effect of our expanding coalition networks. As such, it is clear to us that the potential for organic growth in the core business by strengthening our core offerings, is very real. As we enrich the scope of existing commercial relationships and sign up new partners in other sectors, our focus continues to be on providing a high return on investment to our partners through our brands, active members and data analysis.

As a result of our efforts, 2008 was a strong year for Groupe Aeroplan. With just under 8 per cent growth in Aeroplan Canada and our first year of consolidating the results of Groupe Aeroplan Europe, our gross billings exceeded \$1.4 billion. Redemption levels for the full year remained well within expectations in both Canada and Europe, and were lower than we anticipated during the fourth quarter. Together, these positive factors contributed to \$317 million in consolidated Adjusted EBITDA, an increase of \$63 million; and a \$100 million improvement

in free cash flow to \$177 million – this is *after* distributions and dividends of \$123 million and includes the effect of a \$63 million acceleration of payments to Air Canada for the purchase of reward seats.

Notwithstanding our solid performance, like many other publicly traded companies that have intangible assets, we had to record a one-time, non-cash goodwill and other intangibles impairment charge of \$1.2 billion in the fourth quarter. Most of the goodwill had originally been recorded at the Groupe Aeroplan level following the exchange by ACE Aviation Holdings of Aeroplan Limited Partnership units for Aeroplan Income Fund units, as part of ACE's strategy to crystallize value and sell their participation in Aeroplan in the open market. Accordingly, approximately \$2.4 billion of the pre-impairment balance of goodwill had not originated from any acquisition related activities.

In terms of our outlook for 2009, current market conditions make it difficult to predict performance for the year. We remain focused, however, on the execution of our longer term growth strategy to expand our business and to secure our position as the leading global loyalty company. Specifically we are focused on four significant areas:

- (i) expanding the Canadian program by growing and strengthening our core offerings with our existing partners and members, launching additional new partners in other categories and engaging our members to transact with more partners;
- (ii) leveraging Nectar's scalable business model through the expansion of its partner base;
- (iii) expanding LMG Insight & Communication internationally; and
- (iv) utilizing our assets and capabilities to (a) develop partnerships and greenfield coalition loyalty programs in new markets, (b) selectively pursuing small to medium-sized acquisitions of existing retail coalition programs, and (c) investing in frequent flyer programs. The current economic climate may bring opportunities for expansion in our current geographies and beyond, which we believe will provide a solid return on capital.

In 2009, the Aeroplan Canada program will celebrate its 25th anniversary, marking a quarter of a century in the loyalty business. Given our in-depth industry experience, we understand that every component of a loyalty program is inextricably linked and, when well executed, provides valuable benefits for all stakeholders. We believe Groupe Aeroplan is in a solid position and our numbers speak for themselves. Our strategy is sound and we have many growth opportunities that we are pursuing. With our new status as a corporation and an investment grade rating, we believe we have a strong platform for future growth and expansion as we establish ourselves as the global leaders in loyalty.

I would like to take this opportunity to thank our board, our management team and all of our employees for their efforts in 2008. We made great progress executing against our stated growth plans and could not have done it without you.

RUPERT DUCHESNE

Corporate Social Responsibility

In 2008, Groupe Aeroplan reaffirmed its commitment to Corporate Social Responsibility (CSR) by developing a new CSR framework that focuses on community investment, environmental stewardship and employee leadership and engagement. Built from best practices around the world, we believe that responsible leadership is a catalyst for positive change.

From conducting business ethically, sustainably and respectfully, taking responsibility for the impact of our activities and actively engaging our stakeholders to foster collective action, we strive to develop innovative solutions that achieve positive, meaningful and lasting results to ensure the continued success of Groupe Aeroplan and our communities in the future.

Groupe Aeroplan in the community

Caring for the community is just one way in which we show our commitment to being a socially responsible corporation. In Canada, Aeroplan's Beyond Miles program enables members to donate Aeroplan Miles to seven outstanding not-for-profit organizations including Air Canada's Kids' Horizons, Engineers Without Borders-Canada, Médecins Sans Frontières-Canada, Schools Without Borders, the Stephen Lewis Foundation, Veterinarians Without Borders-Canada and our newest addition, War Child Canada. In 2008, over 35 million miles were donated by Aeroplan Members to Beyond Miles partners. In addition, Aeroplan's charitable pooling program, which allows members to use miles to support individuals, families or local grassroots charities in need, attracted almost 13 million Aeroplan Miles from members. Aeroplan itself contributed 15 million miles to Beyond Miles and other humanitarian and community causes.

In the UK, Nectar's Children in Our Community program is committed to supporting disadvantaged children across the country by enabling members to donate points online to a leading children's charity, Action for Children.



Nearly 10 thousand metric tons of CO₂, were offset through Aeroplan's Carbon Offset program which is equivalent to . . .

1,500 cars being pulled off the road for one full year.

During Ramadan and the month of December, Air Miles Middle East matched all miles donated by members and raised money for charities All As One, the Al Noor Training Centre and Médecins Sans Frontières.

Supporting the environment

The environment is also a priority at Groupe Aeroplan. From the creation of the loyalty industry's first carbon offset program, to recycling and waste management initiatives, Groupe Aeroplan is committed to minimizing its ecological impact and protecting the environment. In 2008, Groupe Aeroplan offset its entire corporate carbon footprint, including emissions from corporate air travel, through its contribution to carbon credits. We continue our efforts to print only when necessary, use enhanced recycling services, and increase the use of teleconference technology to reduce travel.

Green it Up was launched in 2007 by Aeroplan to help employees and members reduce their collective impact on the environment. Last year, Aeroplan and its green coalition of partners; CIBC, American Express and Avis, celebrated *Green it Up's* first anniversary by matching all Aeroplan Miles redeemed for carbon offsets by 50 per cent. For the year, Aeroplan and its members redeemed nearly 20 million miles for almost 10 thousand metric tons in carbon credits, the equivalent of pulling 1,500 large cars off the road for one year.

At Nectar, more than 11,000 mobile phones were recycled and we launched a 'Points on Bags' program with our grocery partner, Sainsbury's, that enables members to receive 1 point for each bag they re-use in-store. Also, employees are rewarded for choosing public transit in Canada and incentivized with a tax-free bike scheme in the UK.

Groupe Aeroplan employees making a difference

We are also committed to investing in our employees and believe it is important to foster a culture of employee engagement in local communities around the world. We are proud of the charitable efforts of our employees – whether it is fundraising or actively volunteering for worthwhile causes, our employees recognize that they can make a difference.

In the UK, the Groupe Aeroplan Europe Charity Fund lent support to employees' fundraising activities to nine different charities involved in homelessness, children's health and international development.

In Canada Aeroplan's Tangerine Community Days, give employees the opportunity to volunteer in their communities for four hours of paid-work time, twice a year. In 2008, our employees dedicated more than 1,400 hours focusing on the environment and helping families in need during the holiday season. In addition, Aeroplan offers employees a chance to get involved with Beyond Miles charitable partners through employee engagement trips. These trips are designed to inspire the employee and raise awareness of the important projects our Beyond Miles partners are working on around the world. In 2008, seven employees participated in experiences in locations across Canada and as far away as Zambia with Engineers Without Borders and Médecins Sans Frontières-Canada.

At Groupe Aeroplan, CSR is supported by the board of directors and all levels of management and is propelled by the engagement of our employees. Our commitment meets the aspirations of our loyalty program members and the interests of our commercial partners. We are excited about our partnership approach to CSR and convinced that it will strengthen the success of our coalitions and lead to a healthier and more prosperous tomorrow.

Management's Discussion & Analysis

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

Groupe Aeroplan Inc. (together with its direct and indirect wholly-owned subsidiaries, where the context requires, "Groupe Aeroplan" or the "Company") was incorporated on May 5, 2008 under the laws of Canada as a wholly-owned subsidiary of Aeroplan Income Fund (the "Fund"). The Company entered into an arrangement agreement dated May 8, 2008 with, among other parties, the Fund, pursuant to which the parties proposed to implement an arrangement under the Canada Business Corporations Act (the "Arrangement"). The Arrangement involved the exchange, on a one-for-one basis of units of the Fund for common shares of Groupe Aeroplan. As a result of the Arrangement, the holders of units of the Fund became the sole shareholders of Groupe Aeroplan which became the sole owner of all outstanding fund units. The effective date of the Arrangement was June 25, 2008. The arrangement has been accounted for as a continuity of interest of the Fund since Groupe Aeroplan continued to operate the business of the Fund and there have been no ownership changes. On December 29 and 30, 2008, Groupe Aeroplan completed the reorganization of its corporate structure which began with the closing of the Arrangement on June 25, 2008. As a result of this reorganization, Aeroplan Limited Partnership (the "Partnership") was liquidated and dissolved and the Fund and Aeroplan Trust were wound-up.

Groupe Aeroplan earns income from its interest in Aeroplan Canada Inc. ("Aeroplan" or "Aeroplan Canada") the successor to the Partnership following the December 2008 reorganization) and from its other subsidiaries in Europe and the Middle East managed by Groupe Aeroplan Europe. The following management's discussion and analysis of financial condition and results of operations (the "MD&A") presents a discussion of the financial condition and results of operations for Groupe Aeroplan.

The MD&A is prepared as at February 26, 2009 and should be read in conjunction with the accompanying audited consolidated financial statements of Groupe Aeroplan for the years ended December 31, 2008 and 2007 and the notes therein.

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

CAUTION REGARDING FORWARD-LOOKING INFORMATION

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

Forward-looking statements, by their nature, are based on assumptions and are subject to important risks and uncertainties. Any forecasts or forward-looking predictions or statements cannot be relied upon due to, amongst other things, changing external events and general uncertainties of the business and its corporate structure. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, risks related to the business and the industry, dependency on top Accumulation Partners, Air Canada or travel industry disruptions, Air Canada liquidity issues, Airline industry changes and increased airline costs, reduction in activity, usage and accumulation of Aeroplan Miles, retail market/economic downturn, greater than expected redemptions for rewards, industry competition, supply and capacity costs, unfunded Future Redemption Costs, failure to safeguard databases and consumer privacy, consumer privacy legislation, changes to the Aeroplan and Nectar Programs, seasonal nature of the business, other factors and prior performance, regulatory matters, VAT appeal, reliance on key personnel, labour relations and pension liability, technological disruptions and inability to use third party software, failure to protect intellectual property rights, currency fluctuations, interest rate and currency fluctuations, leverage and restrictive covenants in current and future indebtedness, dilution of Groupe Aeroplan shareholders, uncertainty of dividend payments, level of indebtedness – refinancing risk, managing growth as well as the other factors identified throughout this MD&A. The forward-looking statements contained in this discussion represent Groupe Aeroplan's expectations as of February 26, 2009, and are subject to change after such date. However, Groupe Aeroplan disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

GLOSSARY

“Aeroplan Miles” – the miles, points or other loyalty program reward units issued by Groupe Aeroplan’s subsidiaries under the respective programs operated by each of the entities;

“Air Canada Miles” – the miles issued by Air Canada under the Aeroplan Program prior to January 1, 2002;

“Accumulation Partners” – means Commercial Partners that purchase loyalty marketing services, including Aeroplan Miles;

“Aeroplan Mile Revenue” – consists of Redemption of Aeroplan Miles and Breakage;

“Aeroplan Program” – the loyalty marketing program owned and 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 the consolidated weighted average estimated breakage factor is 17% (2007: 16%). Breakage is recognized as revenue over the estimated life of a mile, currently 30 months for the Aeroplan Program, which represents the average period elapsed between the sale of a mile and its redemption for rewards. The estimated life of a point issued under the Nectar Program is 15 months;

“Broken Miles” – Miles issued, but not expired and not expected to be redeemed;

“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;

“Commercial Partners” – means Accumulation Partners and Redemption Partners;

“Expired Miles” – miles that have been removed from members’ accounts and are no longer redeemable;

“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 Average Cost of Rewards per Mile, experienced during the most recent quarter (for interim periods) or fiscal year (for annual reporting purposes);

“GAAP” – Generally accepted accounting principles in Canada;

“Gross Billings” – Gross proceeds for the sale of Aeroplan Miles;

“Groupe Aeroplan Europe” – means the division of Groupe Aeroplan that operates the businesses in the Europe and Middle East segment, including Nectar, LMG Insight & Communication and Air Miles Middle East;

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

“Maintenance Capital Expenditures” – represent expenditures incurred to sustain operations or Productive Capacity;

“miles” – the miles issued under the Aeroplan Program by either Aeroplan or Air Canada or the points or other loyalty program reward units issued by Groupe Aeroplan’s subsidiaries under the respective programs operated by such entities;

“**Mileage Expiry Policy**” – means the rules and conditions under the Aeroplan Program pursuant to which: (i) 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 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 an expiry date of December 31, 2013 and, (ii) from July 1, 2007, members must transact with the Aeroplan Program, through either one accumulation or one redemption, at least once in the prior consecutive 12-month period, failing which accumulated miles in the account will be expired. Expired miles may be reinstated for an administrative fee of \$30 plus \$0.01 per restored mile;

“**Nectar**” or the “**Nectar Program**” – the loyalty marketing program operated by Groupe Aeroplan Europe;

“**Productive Capacity**” – Encompasses Groupe Aeroplan’s and its subsidiaries’ leading market positions and brands; strong base of members; relationship with Commercial Partners; and technology and employees;

“**Redemption of Aeroplan Miles**” – means the triggering event used to recognize revenue on the redemption of Aeroplan Miles by members based on the cumulative average selling price of the accumulated Aeroplan Miles issued since January 1, 2002;

“**Redemption Partners**” – means Commercial Partners that offer air travel and other rewards to members upon redemption of miles;

“**Total Miles**” – All redeemable miles (including Broken but not Expired Miles), whether issued by Aeroplan or by Air Canada (prior to January 1, 2002) under the Aeroplan Program, or by Aeroplan’s subsidiaries under the respective programs operated by such entities.

OVERVIEW

Groupe Aeroplan is the owner of the Aeroplan Program, Canada’s premier loyalty program and Nectar, the United Kingdom’s leading coalition loyalty program.

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 its 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, CIBC, Home Hardware, Imperial Oil (Esso), Star Alliance member airlines, Sobeys and numerous hotel chains and car rental companies.

Aeroplan offers its over four million active members the ability to accumulate Aeroplan Miles throughout its Accumulation Partner network through purchases of products and services. Aeroplan sells loyalty marketing services to its extensive network of Accumulation Partners, representing brands in credit and charge card, airline, and other industries. Today, credit and charge card partners generate the majority of Aeroplan’s Gross Billings. Once members have accumulated a sufficient number of Aeroplan Miles, they can redeem through Aeroplan such Aeroplan Miles for air travel and other attractive rewards offered by Redemption Partners. 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.

January 1, 2007 marked the implementation of the first of the program changes announced in October 2006. These changes are principally related to mileage expiry and mileage accumulation. The changes have been designed to encourage members’ active participation in the Aeroplan 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 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.

From July 1, 2007, pursuant to the terms of the Mileage Expiry Policy, as announced in October 2006, members must transact with the Aeroplan Program, through either one accumulation or one redemption, at least once in the prior consecutive 12-month period, failing which, accumulated miles in the account will be expired. Prior to July 1, 2007, miles expired in those accounts that had no activity (accumulation or redemption) for the prior 36-months.

Expired miles may be reinstated for an administrative fee of \$30 plus \$0.01 per restored mile.

In December 2007, the Fund announced that it had acquired LMG, a leading loyalty marketing and consumer-driven insight and analysis company and owner and operator of the Nectar Program in the United Kingdom. At the time of the acquisition LMG was primarily engaged in the operation of multi-partner coalition loyalty programs and the provision of related analytical services to retailers and their suppliers. Following the acquisition, the LMG operations were folded into Groupe Aeroplan Europe, which currently operates in the following principal areas:

- Nectar;
- LMG Insight & Communication; and
- Air Miles Middle East.

Groupe Aeroplan Europe also owns certain rights, trademarks and other intellectual property of the Air Miles brand and receives royalty income from these assets.

The Nectar Program is the United Kingdom's leading loyalty program and only significant coalition loyalty program. It was launched in September 2002 and enables its over 10 million active members to earn points for making everyday household purchases at leading retailers and service providers. Current Accumulation Partners include household names such as Sainsbury's, BP, American Express, EDF and Ford. Members can then redeem these points with Redemption Partners for rewards ranging from merchandise and shopping discounts to free flights and admissions to leisure attractions. The Nectar Program enables Accumulation Partners to improve customer loyalty, influence customer buying behaviour, improve marketing effectiveness and obtain customer data and analytics. Redemption Partners are able to access a discrete distribution channel and a large pool of customers.

The LMG Insight & Communication business was established in 2007 to provide analytical services to retailers and their suppliers. The business combines customer data, usually, but not exclusively, generated through a loyalty card program, and electronic point of sale data generated when specific goods and services are purchased including their price, location and time of purchase at retailers purchase points. This data is then analysed and the insight generated used to enhance decision making in the pricing, ranging, assortment, supply and promotion of products for resale by large retail companies.

Air Miles Middle East, the leading coalition loyalty programme in the UAE, Qatar and Bahrain, is managed by Rewards Management Middle East ("RMME"). The Air Miles Middle East business model is very similar to that of the Nectar Program. Accumulation partners in the program include domestic businesses such as Damas and the grocery retailer, Spinney's, as well as international companies such as HSBC, Bridgestone, Adidas and Hertz. On January 17, 2008, the Company increased its interest in RMME from the 20% held as at December 31, 2007 to 60%.

On June 19, 2008, unitholders of the Fund voted, and approved, the reorganization of the Fund's income trust structure into a corporation named "Groupe Aeroplan Inc.", by way of the Arrangement. The Arrangement was completed and effective June 25, 2008. As a result of the Arrangement, the unitholders became the sole shareholders of the Company and the Company became the sole owner of all outstanding units of the Fund. On December 29 and 30, 2008, Groupe Aeroplan completed the reorganization of its corporate structure which began with the closing of the Arrangement on June 25, 2008. As a result of this reorganization, the Partnership was liquidated and dissolved and the Fund and Aeroplan Trust were wound-up.

The Arrangement has been accounted for as a continuity of interests of the Fund since Groupe Aeroplan continued to operate the business of the Fund and there have been no ownership changes. The comparative figures are those of the Fund.

STRATEGY

Groupe Aeroplan's strategic vision and mission are:

To become the global leader in loyalty management; operating customer loyalty programs, providing exceptional insight into customer behaviour and delivering multi-channel communications to individual consumers.

Groupe Aeroplan intends to increase profitability by leveraging Aeroplan Canada and Groupe Aeroplan Europe's market positions and strong base of members and Commercial Partners. The strategy in Aeroplan and Nectar is executed through the following initiatives:

- enhancing partner value proposition;
- increasing member engagement in the Aeroplan and Nectar Programs by providing new mileage accumulation opportunities and offering a wider range of redemption opportunities;
- recruiting and activating new members by increasing brand and partnership awareness and continuously expanding and diversifying offered rewards;
- adding new travel-related and innovative value-added products, services and rewards.

Groupe Aeroplan is also well positioned to capitalize on Aeroplan and Nectar's strong brands and value-added service offerings and to pursue development beyond the Aeroplan and Nectar Programs by:

- developing start-up customer loyalty programs in new geographic markets;
- seeking to acquire interests in frequent flyer programs and customer loyalty programs in new geographic markets;
- extending the range of services to loyalty program clients to enable them to leverage the data generated through such programs.

PERFORMANCE INDICATORS

Operating income

Revenue

Groupe Aeroplan derives its Gross Billings primarily from the sale of Aeroplan Miles to Accumulation Partners. A key characteristic of the business is that the gross proceeds received for the sale of Aeroplan Miles to 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 Groupe Aeroplan does not expect will be redeemed by members, Groupe Aeroplan recognizes revenue on a straight-line basis over the average estimated life of an Aeroplan Mile, currently estimated at 30 months for the Aeroplan Program and 15 months for the Nectar Program.

In addition, Groupe Aeroplan derives service fees for managing Air Canada's tier membership program for its most frequent flyers. Other revenue which consists of charges to members for various services and royalties earned with respect to the AirMiles trademark and loyalty industry related business know how and expertise, is recognized when the services are performed or the royalties are earned.

Cost of Rewards and Operating Expenses

Cost of rewards consists of the cost to purchase airline seats or other products or services from Redemption Partners in order to deliver rewards chosen by members upon redemption of their Aeroplan Miles. At that time, the costs of the chosen rewards are incurred and recognized. The total cost of rewards varies with the number of Aeroplan Miles redeemed and the cost of the individual rewards purchased in connection with such redeemed Aeroplan Miles.

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

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

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

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

Change in deferred revenue is calculated as the difference between Gross Billings 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 Cost of Rewards per Mile redeemed for the period in question.

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

Adjusted EBITDA is not a measurement based on GAAP, is not considered an alternative to operating income or net income in measuring performance, and is not comparable to similar measures used by other issuers. For reconciliation to GAAP, please refer to the *SUMMARY OF CONSOLIDATED OPERATING RESULTS AND RECONCILIATION OF EBITDA, ADJUSTED EBITDA, ADJUSTED NET EARNINGS AND FREE CASH FLOW* included in the *Operating and Financial Results* section. Adjusted EBITDA should not be used as an exclusive measure of cash flow because it does not account for the impact of working capital growth, capital expenditures, debt repayments and other sources and uses of cash, which are disclosed in the statements of cash flows.

Adjusted Net Earnings

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

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

Standardized Free Cash Flow ("Free Cash Flow")

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

Free Cash Flow is defined as cash flows from operating activities, as reported in accordance with GAAP, less adjustments for:

- (a) total capital expenditures as reported in accordance with GAAP; and
- (b) dividends, when stipulated, unless deducted in arriving at cash flows from operating activities.

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

CAPABILITY TO DELIVER RESULTS

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

Capital Resources

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

Non-capital Resources

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

Leading Market Position and Brands

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

Strong Bases of Members

Groupe Aeroplan benefits from growing bases of over 4 million and over 10 million active members in Canada and the U.K. respectively, with attractive demographics who have demonstrated a strong willingness to collect Aeroplan Miles over other loyalty program points.

Relationship with Commercial Partners

On a combined basis, the Aeroplan and Nectar Programs have over 85 Commercial Partners, representing over 170 brands, including leading financial services, travel services, retailers and consumer products and services companies. The terms of these contractual arrangements typically range from 2 to 5 years and are longer with Air Canada and certain financial services partners. Management believes that Commercial Partners benefit from members sustained purchasing behaviour, which translates into a recurring flow of Gross Billings.

Long-Term Strategic Relationship with Air Canada

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

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

Technology

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

Employees

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

THE ARRANGEMENT

On June 19, 2008, unitholders of the Fund voted, and approved, the reorganization of the Fund, by way of a plan of arrangement under the Canada Business Corporations Act (the "CBCA"), into a corporation pursuant to an arrangement agreement dated May 8, 2008 between Groupe Aeroplan and the Fund. The Arrangement was completed and effective June 25, 2008. The purpose of the Arrangement was to convert the Fund's income trust structure into a corporate structure. On December 29 and 30, 2008, Groupe Aeroplan completed the reorganization of its corporate structure which began with the closing of the Arrangement on June 25, 2008. As a result of this reorganization, the Partnership was liquidated and dissolved and the Fund and Aeroplan Trust were wound-up.

The Arrangement resulted in unitholders receiving Groupe Aeroplan common shares in exchange for Fund units on a one-for-one basis and has been accounted for as a continuity of interests of Aeroplan Income Fund since Groupe Aeroplan will continue to operate the business of the Fund and there have been no ownership changes. The comparative figures are those of the Fund.

In addition and also approved pursuant to the Arrangement, Groupe Aeroplan reduced its capital maintained in respect of its common shares by an amount of \$1,500,000,000. This reduction has been applied first, in the amount of \$216,994,000, to reduce the accumulated deficit, with the balance of \$1,283,006,000 credited to contributed surplus.

As a corporation, Groupe Aeroplan is subject to Canadian federal and provincial corporate income tax on its taxable income for the period beginning on the effective date of the Arrangement. Groupe Aeroplan intends to utilize its current tax attributes to partially offset its taxable income post-conversion and expects to become entitled to scientific research and experimental development tax incentives relating to qualifying expenditures incurred in connection with information technologies going forward, which should reduce the impact of the corporate income tax exposure. It is anticipated that Groupe Aeroplan will pay cash taxes at an effective cash tax rate of approximately 16-19% on its consolidated earnings before tax for its 2008 taxation year, which reflects the impact from the effective date of the Arrangement, and 22-26% for the 2009 taxation year. In addition, Groupe Aeroplan will also become liable for provincial capital tax which is expected to range between \$1.5 million - \$2.5 million per year until 2011 when the provincial capital tax rate will be eliminated.

The dividend policy of Groupe Aeroplan is \$0.125 per common share per quarter, and on October 21, 2008, Groupe Aeroplan declared its first dividend payable in respect of the quarter ended September 30, 2008. Dividends payable by Groupe Aeroplan to its shareholders are recorded when declared.

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

Effective June 25, 2008, Groupe Aeroplan established the Groupe Aeroplan Long Term Incentive Plan which permits the granting of options or other incentive rights to officers, senior executive and other employees of Groupe Aeroplan and its subsidiaries to provide an opportunity for these individuals to participate in the growth and development of Groupe Aeroplan. As a result of the Fund's conversion pursuant to the Arrangement, holders of incentive rights under the existing Ongoing LTIP and Omnibus Plan will receive Groupe Aeroplan common shares rather than units of the Fund upon vesting of their respective incentive rights.

The last remaining time-based incentive units granted under the Initial LTIP in June 2005 vested on June 29, 2008.

Costs associated with the conversion approximated \$4.3 million and were expensed as incurred.

ACQUISITION OF LMG

On December 20, 2007, consistent with Aeroplan's strategic objective *to become a leading player in loyalty management operating internationally*, it acquired all of the outstanding shares of LMG for a total consideration of £355.1 million (\$715.4 million), including acquisition related costs of £8.1 million (\$16.0 million). In addition, an amount of £27.1 million (\$53.7 million) has been placed in escrow as contingent consideration, pending the outcome of outstanding Value Added Tax ("VAT") litigation.

The acquisition of LMG was financed through excess cash on hand, funds from the *Aeroplan Miles Redemption Reserve*, and drawings under the existing and new bridge credit facilities, the issuance of 288,937 Fund units, with a market value of \$6.4 million, and notes payable to certain shareholders, in the amount of £8.7 million (\$17.4 million) which were repaid in the current year.

In connection with the acquisition, Aeroplan purchased derivative instruments consisting of forward contracts and a currency swap. The forward contracts, in the aggregate amount of £123.4 million at an average exchange rate of 2.073, entered into on various dates, ranging from December 13 to December 17, 2007 and matured on December 19, 2007, were designated as an accounting cash flow hedge of the forecasted acquisition of LMG. The gain of \$11.1 million was applied on the acquisition date as a reduction of the purchase price. Aeroplan also entered into a currency swap for a 5 year term to December 19, 2012, swapping floating interest on £240.0 million at the 3-month sterling LIBOR rate, for floating interest on \$500.0 million at the 3-month CDOR rate. The currency swap does not meet the criteria for hedge accounting treatment, and is classified as held for trading and accordingly, changes in the fair value of the currency swap are recognized in non-operating income as foreign exchange.

Aeroplan accounted for the acquisition under the purchase method of accounting. As permitted by Canadian accounting standards, at the time of the acquisition transaction, a preliminary estimate of the purchase price allocation was performed. The final valuation was completed during the fourth quarter of 2008. The purchase price allocation has been adjusted mainly to reflect the impact of the application of the breakage tool on the Nectar Program and the resulting impact on deferred revenue, accumulation partners' contracts and goodwill. Other adjustments relate to certain accrued liabilities and the alignment of the calculation of future income taxes resulting from the acquisition.

The table below details the final purchase price allocation compared to that reported at December 31, 2007 and the underlying differences as follows:

		As previously reported December 31, 2007	Adjustment	Final purchase price allocation December 31, 2008
Purchase price				
Cash	£ 335,159	\$ 675,671	\$ -	\$ 675,671
Fund units issued	3,194	6,400	-	6,400
Notes payable	8,668	17,369	-	17,369
Transaction costs	8,069	16,000	-	16,000
	355,090	715,440	-	715,440
Net identifiable assets acquired:				
Current assets and liabilities				
Cash and cash equivalents		130,442	530	130,972
Short-term investments		49,560	10	49,570
Accounts receivable		134,790	-	134,790
Accounts payable and accrued liabilities		(214,261)	(7,763)	(222,024)
Income taxes payable		(3,857)	510	(3,347)
Deferred revenue		(252,529)	(57,196)	(309,725)
Note receivable		61,021	-	61,021
Property and equipment		625	-	625
Investment in RMMEL		5,441	-	5,441
Intangible assets				
Finite life				
Accumulation partners' contracts (5 to 25 years)		162,003	(66,224)	95,779
Software and technology (3 to 5 years)		42,638	-	42,638
Indefinite life				
Trade names (Indefinite)		161,093	-	161,093
Goodwill ^(a)		477,798	124,144	601,942
Future income taxes		(39,324)	5,989	(33,335)
		715,440	-	715,440

(a) Goodwill arising from the acquisition is not tax deductible.

Cash deposited in escrow, in the amount of \$48.5 million (£27.1 million), represents contingent consideration. In the event that the VAT litigation is decided in favour of the Company, this contingent consideration will be distributed to the former shareholders with a corresponding amount recorded as an increase to goodwill.

ACQUISITION OF RM MEL

At December 31, 2007, Groupe Aeroplan, through an indirect wholly-owned subsidiary, held a 20% interest in RM MEL, a loyalty management company that operates the Air Miles programs in the United Arab Emirates, Qatar, and Bahrain. Groupe Aeroplan accounted for its investment in this company subject to significant influence, under the equity method of accounting.

On January 17, 2008, Groupe Aeroplan acquired an additional 40% participation in RM MEL for a consideration of AED 40.7 million (\$11.4 million). The acquisition of RM MEL was financed with cash on hand. As a result of this transaction, Groupe Aeroplan holds 60% of RM MEL and accordingly, as of January 17, 2008, has changed its basis of accounting for its investment from the equity method to consolidation.

Aeroplan accounted for the acquisition under the purchase method of accounting. As permitted by Canadian accounting standards, at the time of the acquisition transaction, a preliminary estimate of the purchase price allocation was performed. The final valuation was completed during the fourth quarter of 2008. The purchase price allocation has been adjusted to reflect a reduction of the breakage rate and the resulting impact on deferred revenue and goodwill.

The table below details the final purchase price allocation compared to that reported at March 31, 2008 and the underlying differences as follows:

	AED	As previously reported	Adjustment	Final purchase price allocation
Purchase price				
Cash	40,000	\$ 11,200	\$ -	\$ 11,200
Transaction costs	714	200	-	200
	<u>40,714</u>	<u>11,400</u>	<u>-</u>	<u>11,400</u>
Carrying amount of original 20% interest		5,393	-	5,393
Total amount to be allocated		<u>16,793</u>	<u>-</u>	<u>16,793</u>
Net identifiable assets acquired:				
Current assets and liabilities				
Cash and cash equivalents		7,710	-	7,710
Accounts receivable		8,292	-	8,292
Accounts payable and accrued liabilities		(7,089)	-	(7,089)
Income taxes payable		(11)	-	(11)
Deferred revenue		(17,958)	(4,000)	(21,958)
Property and equipment		417	-	417
Intangible assets				
Finite life				
Accumulation partners' contracts (10 to 25 years)		20,570	-	20,570
Indefinite life				
Minority interest		(4,772)	1,600	(3,172)
Goodwill ^(a)		9,634	2,400	12,034
Total allocated		<u>16,793</u>	<u>-</u>	<u>16,793</u>

(a) Goodwill arising from the acquisition is not tax deductible.

IMPAIRMENT OF LONG-LIVED ASSETS AND GOODWILL

	Accumulation Partners' contracts		Software & technology		Trade names		Goodwill	
	Reporting unit		Reporting unit		Reporting unit		Reporting unit	
	Aeroplan	Europe and Middle East	Aeroplan	Europe and Middle East	Aeroplan	Europe and Middle East	Aeroplan	Europe and Middle East
Balance – December 31, 2007	\$1,434,637	\$ 160,575	\$ 77,901	\$ 42,262	\$ 275,000	\$ 159,671	\$2,517,237	\$ 477,453
Adjustment ⁽¹⁾	-	(66,224)	-	-	-	-	-	76,782
Additions	-	20,570	17,862	7,560	-	-	-	19,134
Amortization	(64,422)	-	(19,786)	(10,568)	-	-	-	-
Impairment charge	-	(64,804)	-	(10,000)	-	(21,497)	(841,395)	(223,004)
Foreign exchange translation adjustment	-	(1,934)	-	(4,285)	-	(9,029)	-	(50,205)
Balance – December 31, 2008	1,370,215	48,183	75,977	24,969	275,000	129,145	1,675,842	300,160

(1) During the last quarter of 2008, Groupe Aeroplan adjusted the purchase price allocation relating to the December 2007 acquisition of LMG and the January 2008 acquisition of RMMEL, primarily to reflect the impact of the breakage model on the Nectar and RMMEL programs (note 5 and 6). This resulted in an increase to goodwill of \$126.5 million. Goodwill has been reduced by the benefit of VAT input tax credits, in the aggregate amount of £27.8 million (\$49.8 million) relating to the VAT appeal, recorded during the current year (note 18).

At December 31, 2008, Groupe Aeroplan performed impairment tests of its amortizable property and equipment and amortizable intangibles consisting of accumulated partner contracts and software and technology; its trade name; and its goodwill. As a result of these impairment tests, Aeroplan recorded impairment losses reflecting the decline in expected future cash flows reflecting the current economic conditions which generally is expected to result in a tightening of general consumer spending and travel and increased discount rates used in determining fair values reflecting current market conditions and uncertainties.

For amortizable assets, management determined the undiscounted cash flows for the assets of the LMG reporting unit were below the carrying value of the net assets of the reporting unit. Management determined the fair value of the group of assets at the reporting unit level as well as the fair value of accumulation partners' contracts and software and technology. The resulting impairment loss was allocated on a pro rata basis to reduce the carrying value of the amortizable assets except for the accumulated partners' contracts and software and technology which were reduced to their respective fair values. Fair value of the group of assets was determined using a discounted cash flow model as explained below for goodwill step 1 impairment testing. The fair value of accumulated partners' contracts and software and technology was determined using the income approach valuation technique. The impairment loss related to amortizable assets of LMG was \$74.8 million which has been included in impairment of long-lived assets and intangibles. In addition, the trade names of LMG were written down to their fair value.

The impairment loss related to goodwill for the Aeroplan and LMG reporting units was computed as follows:

Step I Impairment Test:

Groupe Aeroplan determined that the discounted cash flow method ("DCF") was the most appropriate approach to determine the respective fair value of the reporting units. Financial projections of future cash flows for the period from 2009 to 2011 (the "Forecast Period") served as the basis of the DCF as well as a terminal value. The discounted future cash flow analysis resulted in a fair value of the reporting units below the carrying value of the net assets by \$841.4 million for Aeroplan and by \$319.3 million for LMG.

Step II Impairment Test:

In Step II of the impairment test, the estimated fair value of the reporting units, determined in Step I, was allocated to its assets and liabilities, based on their fair values, in order to arrive at the fair value of goodwill for each of the respective reporting units. The step II impairment test concluded that the fair value of goodwill at Aeroplan was impaired by \$841.4 million, and accordingly, an impairment charge of that amount was recorded against goodwill in the fourth quarter of 2008 to reduce the carrying value to fair value. Similarly, for LMG, the step II impairment test concluded that goodwill was impaired by \$223.0 million.

The circumstances that led to the impairment of these assets are the loss of market capitalization resulting from the downturn of the capital markets caused by the global credit market crisis, and the global economic recession which generally results in a tightening of general consumer spending and travel.

CURRENCY SWAP

In connection with the December 2007 acquisition of LMG, Aeroplan entered into a currency swap arrangement to mitigate its exposure to currency rate fluctuations arising on the subsidiary's future profits. The currency swap is for a 5 year term to December 19, 2012, swapping floating interest on £240.0 million at the 3-month sterling LIBOR rate, for floating interest on \$500.0 million at the 3-month CDOR rate. The currency swap does not meet the criteria for hedge accounting treatment, and accordingly, changes in the fair value of the currency swap are recognized in non-operating income as foreign exchange. At December 31, 2008, the swap had a fair value of \$68.5 million (2007: \$21.7 million).

2008 HIGHLIGHTS

- Gross Billings of \$1,420.5 million;
- Operating income of \$219.1 million;
- Net loss of \$965.2 million;
- Earnings (loss) per share of \$(4.84);
- Adjusted net earnings before impairment of \$275.0 million
- Adjusted EBITDA of \$316.9 million;
- Free cash flow of \$177.5 million.

OPERATING AND FINANCIAL RESULTS

Certain of the following financial information of Groupe Aeroplan has been derived from, and should be read in conjunction with, the audited consolidated financial statements for the years ended December 31, 2008, 2007 and 2006, and the related notes.

As a result of the different ownership percentages of the Partnership held throughout 2007 and 2006, which have resulted in different bases of accounting (from cost to consolidation), figures presented for 2008 are not comparative to the corresponding periods in 2007. Since the underlying operating entities are Aeroplan and Groupe Aeroplan Europe and their subsidiaries, and Groupe Aeroplan is completely dependent upon their results, in order to provide a meaningful analysis, Groupe Aeroplan's year to date operating income, net earnings, and earnings per share have been adjusted to remove the effect of certain consolidation amounts (i.e. by adding back amortization of Accumulated Partners' contracts and technology and future income taxes), to arrive at comparable results to those previously reported for the Partnership.

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

	2008	2007 ⁽¹⁾	2006 ⁽²⁾	Year over year % Δ	
				2008 over 2007	2007 over 2006
<i>(in thousands, except share and per share information)</i>					
Gross Billings from the sale of Aeroplan Miles	\$ 1,420,548	\$ 952,165	\$ 851,851	49.2	11.7
Aeroplan Miles revenue	1,377,736	848,665	709,269	62.3	19.6
Other revenue	80,493	57,750	60,118	39.4	(3.9)
Total revenue	1,458,229	906,415	769,387	60.9	17.8
Cost of rewards	(859,082)	(540,061)	(465,254)	59.1	16.1
Gross margin	599,147	366,354	304,133	63.5	20.5
Selling, general and administrative expenses	(271,591)	(164,841)	(149,406)	64.8	10.3
Depreciation and amortization	(20,636)	(11,804)	(14,260)	74.8	(17.2)
Operating income before amortization of Accumulation					
Partners' contracts and technology	306,920	189,709	140,467	61.8	35.1
Depreciation and amortization	20,636	11,804	14,260	74.8	(17.2)
Foreign exchange gain (loss)	(2,301)	(2,875)	-	(20.0)	-
EBITDA⁽⁴⁾	325,255	198,638	154,727	63.7	28.4
Adjustments:					
Change in deferred revenue					
Gross billings from the sale of Aeroplan Miles	1,420,548	952,165	851,851		
Aeroplan Miles revenue	(1,377,736)	(848,665)	(709,269)		
Change in Future Redemption Costs ⁽³⁾					
(Change in Net Aeroplan Miles outstanding x Average					
Cost of Rewards per Mile for the period)	(51,202)	(52,916)	(80,915)		
Subtotal of Adjustments	(8,390)	50,584	61,667		
Adjusted EBITDA⁽⁴⁾	316,865	249,222	216,394	27.1	15.2
Net earnings (loss) in accordance with GAAP	(965,210)	(4,819)	143,529		
Weighted average number of shares (units)	199,392,420	190,023,236 ⁽⁷⁾	199,707,713		
Earnings (loss) per share (unit)	(4.84)	(0.03)	0.72		
Net earnings (loss) in accordance with GAAP	(965,210)	(4,819)	143,529		
Amortization of accumulation partners' contracts and technology	87,838	-	-		
Subtotal of Adjustments (from above)	(8,390)	50,584	61,667		
Effective tax rate (%) ⁽⁵⁾	(0.38)	-	-		
Tax on adjustments at the effective rate	32	-	-		
Adjusted net earnings before impairment charge⁽⁴⁾	274,970	45,765	205,196		
Adjusted net earnings before impairment charge per share (unit)	1.38	0.24	1.03		
Net earnings (loss) before impairment charge	195,490	(4,819)	143,529		
Earnings (loss) per share before impairment charge	0.98	(0.03)	0.72		
Cash flow from operations	323,079	308,245	320,977		
Maintenance Capital Expenditures	(22,558)	(16,325)	(21,923)		
Dividends / distributions	(122,981)	(173,000) ⁽⁶⁾	(144,169)		
Free cash flow⁽⁴⁾	177,540	118,920	154,885	49.3	(23.2)
Total assets	5,017,720	6,118,340	824,383		
Total long-term liabilities	1,428,503	1,579,297	967,921		
Total monthly dividends / distributions declared	108,983	168,000 ⁽⁶⁾	146,460		
Total monthly dividends / distributions declared per unit	0.55	0.84	0.73		

- (1) Has been derived by adding the results of the Partnership prior to March 14, 2007 to the results of the Fund for the year;
- (2) 2006 results presented for comparative purposes are those of the Partnership;
- (3) 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;
- (4) A non-GAAP measurement;
- (5) Effective tax rate calculated as follows: income tax expense per statement of operations / earnings before income taxes for the period;
- (6) Distributions paid and declared in 2007 are those of the Partnership.
- (7) Represents the weighted average number of units of the Fund

SEGMENTED INFORMATION

At December 31, 2008, the Company has two business segments: Canada which includes the operations of Aeroplan, and Europe and Middle East which includes Groupe Aeroplan Europe's operations in Europe and the Middle East.

The table below summarizes the relevant financial information by segment:

(in thousands, except miles information)

December 31,	2008			2007		
	Canada	Europe and Middle East	Consolidated	Canada	Europe and Middle East	Consolidated
Geographic segmentation						
Number of Aeroplan Miles issued (in billions)	84.1	-	-	78.1	-	-
Number of Total Miles redeemed (in billions)	67.0	-	-	66.0	-	-
Number of Aeroplan Miles redeemed (in billions)	62.8	-	-	59.1	-	-
Gross billings	\$ 1,025,184	\$ 395,364	\$ 1,420,548	\$ 952,165	\$ -	\$ 952,165
Aeroplan Miles revenue	953,537	424,200	1,377,737	665,816	-	665,816
Other revenue	55,450	25,043	80,493	44,347	-	44,347
Total revenue	1,008,987	449,243	1,458,230	710,163	-	710,163
Cost of rewards	567,599	291,483	859,082	415,954	-	415,954
Gross margin	441,388	157,760	599,148	294,209	-	294,209
Selling, general and administration expenses	175,383	96,208	271,591	133,318	-	133,318
Depreciation and amortization	85,877	22,597	108,474	67,739	-	67,739
Impairment charge	841,395	319,305	1,160,700	-	-	-
Adjusted EBITDA	278,897	37,968	316,865	249,222	-	249,222
Earnings (loss) before income taxes	(699,004)	(269,845)	(968,849)	117,314	-	117,314
Additions to capital assets	19,186	9,132	28,318	15,350	-	15,350
Goodwill	1,676,108	299,894	1,976,002	2,517,237	477,453	2,994,690
Deferred revenue	1,641,626	267,846	1,909,472	1,569,979	250,301	1,820,280
Total assets	4,785,482	232,238	5,017,720	5,370,727	747,613	6,118,340

OPERATING RESULTS AND PERFORMANCE INDICATORS IN % TERMS

(as a % of total revenue)

	2008	2007 ⁽¹⁾
Aeroplan Miles revenue	94.5	93.6
Other revenue	5.5	6.4
Total revenue	100.0	100.0
Cost of rewards	(58.9)	(59.6)
Gross margin	41.1	40.4
Selling, general and administrative expenses	(18.6)	(18.2)
Depreciation and amortization	(1.4)	(1.3)
Operating income before amortization of Accumulation Partners' contracts and technology	21.1	20.9

(1) Has been derived by adding the results of the Partnership prior to March 14, 2007 to the results of the Fund for the year.

(as a % of Gross Billings)

	2008	2007 ⁽¹⁾
Gross Billings from the sale of Aeroplan Miles	100.0	100.0
Aeroplan Miles revenue	97.0	89.1
Cost of rewards	60.5	56.7
Selling, general and administrative expenses	19.1	17.3
Operating income before amortization of Accumulation Partners' contracts and technology	21.6	19.9
Adjusted EBITDA	22.3	26.5
Adjusted Net Earnings (loss)	(62.4)	4.8
Free Cash Flow	12.5	12.5

(1) Has been derived by adding the results of the Partnership prior to March 14, 2007 to the results of the Fund for the year.

(as a % of Adjusted EBITDA)

	2008	2007 ⁽¹⁾
Free Cash Flow	56.0	47.7

(1) Has been derived by adding the results of the Partnership prior to March 14, 2007 to the results of the Fund for the year.

YEAR ENDED DECEMBER 31, 2008 COMPARED TO YEAR ENDED DECEMBER 31, 2007

Gross Billings from the sale of Aeroplan Miles for 2008 amounted to \$1,420.5 million compared to \$952.2 million for 2007 representing an increase of \$468.3 million or 49.2%. While the majority of this increase is attributable to the inclusion of the consolidated Groupe Aeroplan Europe results, Aeroplan Miles issued under the Aeroplan Program during the year increased by 7.7% over the prior year. This increase was driven by bonus miles issued related to the roll out of the conversion initiative to CIBC Aerogold VISA INFINITE credit cards, by growth in consumer spending through credit and charge cards issued by Aeroplan's Accumulation Partners, growth in retail activity and by continued strength in the travel segment.

Gross Billings from the sale of Aeroplan Miles are accounted for as deferred revenue until such Aeroplan Miles are redeemed. Aeroplan 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 2008 under the Aeroplan Program amounted to 67.0 billion compared to 66.0 billion for 2007, representing an increase of 1 billion or 1.5%. Of those 67.0 billion Total Miles (calculated on a first-in, first-out basis on each member's account basis for air redemptions) redeemed under the Aeroplan Program during the year, 93.7% or 62.8 billion represented Aeroplan Miles issued under the Aeroplan Program with the balance being Air Canada Miles.

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 includes the following components:

Revenue recognized from the redemption and sale of Aeroplan Miles, including Breakage, amounted to \$1,377.7 million for 2008 compared to \$848.7 million for 2007, representing an increase of \$529.0 million or 62.3%. This increase is mainly attributable to:

- the inclusion of the consolidated LMG results, accounting for \$416.1 million of the total increase in revenue from Aeroplan Miles redeemed. Miles revenue recognized during the year includes a positive fair value adjustment related to the LMG acquisition which was recognized over the year;
- Aeroplan Program growth, combined with a higher proportion of Aeroplan Miles redeemed, representing an increase of \$44.2 million;
- a higher cumulative average revenue recognized per Aeroplan Mile redeemed under the Aeroplan Program, 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 amounted to \$204.7 million for 2008 compared to \$139.7 million for 2007, representing an increase of \$65.0 million or 46.5%. The increase in revenue recognized from Breakage is partly attributable to the change in estimate in breakage rate accounting for \$41.8 million of the increase, the inclusion of the consolidated LMG results and the increase in Aeroplan Miles outstanding under the Aeroplan Program as a result of growth in Gross Billings over the last 30 months compared to the 30 month period ended December 31, 2007.

Other revenue consisting primarily of member based revenues (charges to members for services rendered including the mileage transfer program, booking, change and cancellation fees), marketing fees, and other miscellaneous amounts, amounted to \$80.5 million for 2008 compared to \$57.8 million for 2007, representing a increase of \$22.7 million or 39.4%. The inclusion of the consolidated LMG results accounts for the majority of this increase, and is primarily represented by royalties earned with respect to the Air Miles trade name and loyalty industry related business know how and expertise.

Cost of rewards amounted to \$859.1 million for 2008 compared to \$540.1 million for 2007, representing an increase of \$319.0 million or 59.1%. This increase is mainly attributable to the following factors:

- the inclusion of the consolidated LMG results for the year, accounting for \$291.5 million of the increase;
- increases in redemption activity and the proportionate allocation of total redemptions of Aeroplan Miles issued under the Aeroplan Program, representing a total increase of \$32.0 million partially offset by a lower redemption cost per Aeroplan Miles redeemed under the Aeroplan program of \$4.5 million.

Gross margin increased 0.7% during 2008, to represent 41.1% of total revenue.

Selling, general and administrative amounted to \$271.6 million for 2008 compared to \$164.8 million in 2007, representing an increase of \$106.8 million or 64.8%. This increase is primarily due to the inclusion of the consolidated LMG results, accounting for \$96.2 million of the increase. The Aeroplan Program incurred increased compensation and corporate costs of \$4.8 million, and increased IT related costs of \$2.0 million related to new initiatives and system implementation costs. Included in total costs are conversion related costs in the amount of \$3.8 million.

Depreciation and amortization amounted to \$20.6 million for 2008 compared to \$11.8 million in 2007.

Amortization of Accumulation Partners' contracts and technology amounted to \$87.8 million in 2008 and is primarily related to amortization recorded against the finite life intangibles at the consolidated Groupe Aeroplan level. As explained previously, in order to enable a meaningful performance comparison, these charges have not been considered in the analysis.

Operating income, after adding back the amortization of Accumulation Partners' contracts and technology referred to above, amounted to \$306.9 million for 2008 compared to \$189.7 million in 2007, representing an increase of \$117.2 million or 61.8%. This increase is mainly attributable to the inclusion of the consolidated LMG results, higher reward redemption activity, including a higher proportion of Aeroplan Miles redeemed, and the increase in gross margin.

Net interest expense for 2008, consists of interest revenue of \$22.0 million earned on cash and cash equivalents and short-term investments on deposit; offset by interest on long-term debt of \$38.0 million on the borrowings described under *Credit Facilities*, and other interest expense of \$13.7 million including interest on the currency swap of \$9.0 million described under *Currency Swap*.

Foreign exchange represents currency fluctuations associated with the financing structure for the LMG investment, and are primarily attributable to gains or losses on internal debt financing offset by fluctuations in the value of the currency swap.

Impairment charge As a result of the outcome of the long lived intangible assets and goodwill impairment tests performed in the fourth quarter of 2008, Groupe Aeroplan recorded an impairment charge, relating to those assets in the amount of \$1,160.7 million as described under *Impairment of Long-Lived Intangible Assets and Goodwill*. The impairment loss is attributable to the increased discount rates used in determining fair values and a decline in expected future cash flows of Groupe Aeroplan. These changes were triggered by the recent deterioration in the global capital markets conditions and the economic environment, which are generally expected to affect general consumer spending and travel.

Adjusted EBITDA for 2008 amounted to \$316.9 million or 22.3% (as a % of Gross Billings) while *Adjusted Net Earnings* before the impairment charge amounted to \$275.0 or 19.4% (as a % of Gross Billings) compared to \$249.2 million or 26.2% (as a % of Gross Billings) and \$45.8 million or 4.8% (as a % of Gross Billings), respectively for 2007. *Free Cash Flow* generated amounted to \$177.5 million or 12.5% (as a % of Gross Billings), compared to \$118.9 million or 12.5% (as a % of Gross Billings) for 2007. Adjusted EBITDA, Adjusted Net Earnings and Free Cash Flow are non-GAAP measures. For additional information on these measures, please refer to the *Performance Indicators* section.

QUARTER ENDED DECEMBER 31, 2008 COMPARED TO QUARTER ENDED DECEMBER 31, 2007

Gross Billings from the sale of Aeroplan Miles for the three months ended December 31, 2008 amounted to \$364.4 million compared to \$248.4 million for the three months ended December 31, 2007, representing an increase of \$116.0 million or 46.7%. While the majority of this increase is attributable to the inclusion of the consolidated LMG results, Aeroplan Miles issued under the Aeroplan Program during the three month period increased 4.4% over the comparable period of the prior year. This increase was driven by growth in consumer spending through credit and charge cards issued by Aeroplan's Accumulation Partners, by bonus miles issued related to the roll out of the conversion initiative to CIBC Aerogold VISA INFINITE credit cards, retail banking initiatives, continued strength in the travel segment and increased retail activity.

Gross Billings from the sale of Aeroplan Miles are accounted for as deferred revenue until such Aeroplan Miles are redeemed. Aeroplan 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 three months ended December 31, 2008 under the Aeroplan Program amounted to 14.5 billion compared to 15.4 billion for the three months ended December 31, 2007, representing a decrease of 0.9 billion or 5.8%. Of those 14.5 billion Total Miles (calculated on a first-in, first-out basis on a member account basis for air redemptions) redeemed during the three months ended December 31, 2008, under the Aeroplan Program, 95.2% or 13.8 billion represented Aeroplan Miles issued under the Aeroplan Program with the balance being Air Canada Miles.

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 includes the following components:

Revenue recognized from the redemption and sale of Aeroplan Miles, including Breakage, amounted to \$409.6 million for the three months ended December 31, 2008 compared to \$207.9 million for the three months ended December 31, 2007, representing an increase of \$201.7 million or 97.0%. This increase is mainly attributable to:

- the inclusion of the consolidated LMG results, accounting for \$166.3 million of the total increase in revenue from Aeroplan Miles redeemed;
- a reduction in the redemption rate partially offset by a higher proportion of Aeroplan Miles redeemed during the quarter, representing a decrease of \$4.8 million;
- revenue recognized from Breakage for the three months ended December 31, 2008 amounted to \$76.4 million compared to \$36.5 million for the three months ended December 31, 2007, representing an increase of \$39.9 million or 109.3%. The increase in revenue recognized from Breakage is partly attributable to the change in estimate in breakage rate accounting for \$41.8 million of the increase, the inclusion of the consolidated LMG results, and an increase in Aeroplan Miles outstanding under the Aeroplan program as a result of growth in Gross Billings over the last 30 months compared to the 30 months ended December 31, 2007.

Other revenue consisting primarily of member based revenues (charges to members for services rendered including the mileage transfer program, booking, change and cancellation fees), marketing fees, and other miscellaneous amounts, amounted to \$20.8 million for the three months ended December 31, 2008 compared to \$13.6 million for the three months ended December 31, 2007, representing an increase of \$7.2 million or 52.9%. The inclusion of the consolidated LMG results accounts for the majority of the increase, and is primarily represented by royalties earned with respect to the Air Miles trade name and loyalty industry related business know how and expertise.

Cost of rewards amounted to \$252.2 million for the three months ended December 31, 2008 compared to \$129.2 million for the three months ended December 31, 2007, representing an increase of \$123.0 million or 95.2%. This increase is mainly attributable to the following factors:

- the inclusion of the consolidated LMG results accounting for an increase of \$129.1 million;
- a slight decrease in redemption activity offset in part by an increase in the proportionate allocation of total redemptions of Aeroplan Miles issued under the Aeroplan Program, representing a small decrease of \$3.9 million;
- partially offset by a lower redemption cost per Aeroplan Mile redeemed under the Aeroplan Program, primarily related to non-air travel rewards, representing \$2.2 million.

Gross margin realized a small decrease of 0.3% compared to the comparable period of the previous year and represented 41.4% of total revenue.

Selling, general and administrative amounted to \$66.4 million for the three months ended December 31, 2008 compared to \$43.0 million in 2007, representing an increase of \$23.4 million or 54.4%. This increase is primarily due to the inclusion of the consolidated LMG results, accounting for \$23.9 million, offset by a reduction in the Aeroplan Program of \$0.5 million.

Depreciation and amortization amounted to \$6.5 million for the three months ended December 31, 2008 compared to \$3.1 million in the same period in 2007.

Amortization of Accumulation Partners' contracts and technology amounted to \$19.8 million for the three months ended December 31, 2008 and is primarily related to amortization recorded against the finite life intangibles at the consolidated Groupe Aeroplan level. As explained previously, in order to enable a meaningful performance comparison, these charges have not been considered in the analysis.

Operating income, after adding back the amortization of Accumulation Partners' contracts and technology referred to above, amounted to \$105.2 million for the three months ended December 31, 2008 compared to \$46.3 million for the three month period ended December 31, 2007, representing an increase of \$58.9 million or 127.2%. This increase is mainly attributable to the inclusion of the consolidated LMG results and the higher proportion of Aeroplan Miles redeemed.

Net interest expense for the three months ended December 31, 2008, consists of interest revenue of \$6.4 million earned on cash and cash equivalents and short-term investments on deposit; offset by interest on long-term debt of \$5.2 million on the borrowings described under *Credit Facilities* and other interest expense of \$5.8 million including net interest on the currency swap of \$1.6 million described under *Currency Swap*.

Foreign exchange represents currency fluctuations associated with the financing structure for the LMG investment, and are primarily attributable to gains or losses on internal debt financing offset by fluctuations in the value of the currency swap.

Adjusted EBITDA for the three months ended December 31, 2008 amounted to \$77.8 million or 21.4% (as a % of Gross Billings) while *Adjusted Net Earnings* before the impairment charge amounted to \$84.7 million or 23.2% (as a % of Gross Billings), compared to \$64.1 million or 25.8% (as a % of Gross Billings) and \$84.6 million or 34.0% (as a % of Gross Billings), respectively for the three month period ended December 31, 2007. *Free Cash Flow* generated amounted to \$42.5 million or 11.7% (as a % of Gross Billings) compared to \$21.3 million or 8.6% (as a % of Gross Billings) for the three month period ended December 31, 2007. Adjusted EBITDA, Adjusted Net Earnings, and Free Cash Flow 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, 2008.

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2 ⁽¹⁾	Q1 ⁽¹⁾
<i>(in thousands, except per share amounts)</i>								
<i>(unaudited)</i>								
Gross Billings	\$ 364,437	\$ 355,603	\$ 357,858	\$ 342,650	\$ 248,380	\$ 236,877	\$ 238,931	\$ 227,977
Aeroplan Miles revenue	409,552	313,319	317,579	337,286	207,944	205,074	207,086	228,561
Other revenue	20,780	21,635	19,149	18,929	13,634	14,165	13,198	16,753
Total revenue	430,332	334,954	336,728	356,215	221,578	219,239	220,284	245,314
Cost of rewards	252,229	191,033	192,593	223,227	129,181	127,205	128,541	155,134
Gross margin	178,103	143,921	144,135	132,988	92,397	92,034	91,743	90,180
Selling, general and administrative expenses	66,426	71,027	69,627	64,511	43,017	40,713	41,707	39,403
Depreciation and amortization	6,494	4,472	4,998	4,672	3,059	3,230	2,811	2,704
Operating income before amortization of Accumulation Partners' contracts and technology	105,183	68,422	69,510	63,805	46,321	48,091	47,225	48,073
Amortization of Accumulation Partners' contracts and technology	19,836	22,636	22,688	22,678	18,112	18,112	-	-
Operating income	85,347	45,786	46,822	41,127	28,209	29,979	47,225	48,073
Net earnings (loss)	(1,073,752)	34,956	31,454	42,132	51,697	32,259	49,450	50,116
Adjusted EBITDA ⁽²⁾	77,814	80,026	77,327	77,580	64,131	64,519	65,171	59,980
Adjusted net earnings excluding impairment charge ⁽²⁾	84,661	63,229	60,822	69,229	84,561	63,569	64,585	59,319
Net earnings before impairment charge	86,948	34,956	31,454	42,132	51,697	32,259	49,450	50,116
EPS before impairment charge	0.44	0.18	0.16	0.21	0.27	0.17	0.26	0.26
Free cash flow ⁽²⁾	42,492	115,868	43,636	(24,456)	21,271	47,667	26,163	23,856
Earnings per share (unit), in accordance with GAAP – Groupe Aeroplan / Fund	(5.39)	0.18	0.16	0.21	0.26	0.16	(0.68)	0.16
Earnings per share (unit), in accordance with GAAP – Partnership	n/a	n/a	n/a	n/a	0.24	0.26	0.25	0.25

(1) Results presented for comparative purposes are those of the Partnership.

(2) A non-GAAP measurement.

FINANCING STRATEGY

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

LIQUIDITY AND CAPITAL RESOURCES

Since January 1, 2002, Groupe Aeroplan has consistently generated positive cash flows from operations. At December 31, 2008, Groupe Aeroplan had \$188.0 million of cash and cash equivalents and \$477.3 million of short-term investments (consisting of Bankers' Acceptances and term deposits maturing on various dates through to July 2009) on hand, for a total of \$665.3 million. The Aeroplan Miles redemption reserve described under *Aeroplan Miles Redemption Reserve* of \$400.0 million is included in this amount. Groupe Aeroplan's cash and cash equivalents and short-term investments do not include any asset-backed commercial paper.

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

December 31,

(in thousands of dollars)

	2008	2007
Cash from operating activities	\$ 323,079	\$ 252,417
Cash from (used in) investing activities	(416,091)	(64,799)
Cash from (used in) financing activities	(162,983)	268,354
Translation adjustment related to cash	(11,993)	-
Cash and cash equivalents, end of year	188,016	456,004

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 \$323.1 million and \$252.4 million for 2008 and 2007, respectively. Fluctuations year over year are primarily attributable to higher income levels and the inclusion of the consolidated LMG results, offset by the reduction in accounts payable and accrued liabilities as a result of the accelerated payment terms negotiated with Air Canada for air reward purchases, and a reduced level of deferred revenue accumulation.

INVESTING ACTIVITIES

Groupe Aeroplan's investment activities for 2008 were primarily attributable to the acquisition of RMMEL which was funded with cash on hand, the payment of accrued expenses related to the December 2007 acquisition of LMG, and the settlement of the notes payable to employees of LMG.

Anticipated capital expenditures, which are primarily related to Maintenance Capital Expenditures associated with software development initiatives for fiscal 2009, are expected to approximate \$30.0 million.

FINANCING ACTIVITIES

Cash flows used in financing activities related to the payment of distributions/dividends and the repayment of long-term debt.

For the period preceding the effective date of the Arrangement, distributions were determined by Aeroplan Holding GP Inc.'s board of directors as general partner of the Partnership and by the trustees of the Fund on the basis of performance, taking into account anticipated future cash requirements.

Following the conversion of the Fund's income trust structure to a corporate structure under the Arrangement, the dividend policy has been established at \$0.125 per common share per quarter. The dividend policy is subject to the discretion of the board of directors of Groupe Aeroplan and may vary depending on, among other things, Groupe Aeroplan's earnings, financial requirements, debt covenants, the satisfaction of solvency tests imposed by the CBCA for the declaration of dividends and other conditions existing at such future time.

LIQUIDITY

Groupe Aeroplan anticipates that total capital requirements for the next twelve months of \$130.0 million, including \$100.0 million in respect of anticipated cash dividends, and approximately \$30.0 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* where applicable (i.e. in periods of unusually high redemption activity) 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, and December 19, 2007, Aeroplan established the Aeroplan Miles redemption reserve (the "Reserve") in connection with the Aeroplan Program. As at December 31, 2008, 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 during periods of unusually high redemption activity associated with Aeroplan Miles under the Aeroplan Program.

Management is of the opinion that the Reserve is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of business. Management reviews the adequacy of the Reserve periodically and may adjust the level of the Reserve depending upon the outcome of this review.

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

At December 31, 2008, the Reserve as well as other assets held to comply with a contractual covenant with a major Accumulation Partner represented 45% of the consolidated 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, is approximately \$1,235 million.

CREDIT FACILITIES

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

<i>In thousands</i>	Authorized	Drawn at December 31, 2008
Revolving term facility	\$ 150,000	\$ -
Term facility	300,000	300,000
Acquisition facility	100,000	100,000
Bridge Facility	300,000	300,000
Less: Unamortized portion of discount	-	(1,479)
Less: Unamortized transaction costs	-	(1,552)
	<hr/> 850,000	<hr/> 696,969
Less: Current portion	-	(200,000)
Total	<hr/> 850,000	<hr/> 496,969

As at December 31, 2008, Groupe Aeroplan had authorized credit facilities of \$850.0 million and borrowings of \$696.9 million. Borrowings are recorded net of prepaid interest in the amount of \$1.5 million and unamortized transaction costs in the amount of \$1.6 million.

The revolving term, term, and acquisition facilities mature on December 19, 2010, or earlier at the option of Groupe Aeroplan, without penalty, and bear interest at rates ranging from Canadian prime rate and U.S. base rate plus 0.25% to Canadian prime rate and U.S. base rate plus 1.00% and the Bankers' Acceptance rate and LIBOR plus 1.25% to 2.00%. The revolving term facility was amended on December 19, 2007 to increase the maximum authorized borrowings under this facility from \$75 million to \$150 million.

The bridge facility, which was entered into on December 19, 2007, matures on June 19, 2009, or earlier at the option of Groupe Aeroplan, without penalty, and bears interest at rates ranging from Canadian prime rate plus 0.25% to Canadian prime rate plus 1.00% and the Bankers' Acceptance rate plus 1.25% to 2.00%. The total amount borrowed under this facility may, under certain conditions, at the option of Groupe Aeroplan, be extended to December 19, 2009 and an amount of \$100 million may be further extended to June 19, 2010.

At December 31, 2008, borrowings under the term and acquisition facilities were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 3.70%, while borrowings under the bridge facility were in the form of Bankers' Acceptances with a 30 day term and effective interest rate of 3.69%.

The outstanding credit facilities are secured by substantially all the present and future assets of Groupe Aeroplan.

The credit facilities are subject to Groupe Aeroplan's ability to maintain financial covenants related to leverage and debt service ratios of ≤ 3.0 and interest coverage of ≥ 3.0 , as well as other affirmative and negative covenants, including the limitation of distribution payments in any given fiscal year to 50% of adjusted free cash flow, as defined in the credit agreements.

At December 31, 2008, Groupe Aeroplan was in compliance with its financial covenants, as follows:

Ratio	Result	Test
Leverage	2.03	≤ 3.0
Debt service ^(a)	0.11	≤ 3.0
Interest coverage	13.83	≥ 3.0

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

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

In order to facilitate the refinancing of these credit facilities, in October 2008, Groupe Aeroplan obtained ratings from two rating agencies, DBRS and Standard & Poors of BBB stable and BBB- with a positive outlook, respectively. While there is no assurance that the credit facilities can be renewed or replaced, Groupe Aeroplan believes that its access to debt capital markets has been enhanced through the obtaining of these investment grade ratings.

INCOME TAXES

Prior to June 25, 2008, immediately prior to converting to a corporation, the Fund, as a publicly traded income trust, qualified for special income tax treatment that permitted a tax deduction for distributions paid to unitholders. For taxation purposes, the Fund was considered a specified investment flow-through ("SIFT") entity and was to become subject to tax commencing January 1, 2011. For accounting purposes, the Fund computed future income tax based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. The Fund was not subject to and did not recognize any current income taxes or future income tax assets or liabilities on temporary differences expected to reverse prior to 2011.

Effective June 25, 2008, upon conversion to a corporate structure, Groupe Aeroplan became subject to tax on taxable income earned from that date. Current income taxes recorded prior to June 25, 2008 relate to foreign operations of the subsidiary companies.

Groupe Aeroplan's provision for income taxes is made up as follows:

December 31, 2008	%	\$
Reconciliation of statutory tax rate:		
Income taxes expense (recovery) at Canadian statutory tax rate:	30.80	(298,405)
Adjusted for the effect of:		
Fund's earnings – distributed to unitholders and therefore not subject to tax	2.16	(20,879)
Permanent differences – goodwill impairment	(33.18)	321,509
Permanent differences – other	1.4	(13,748)
Foreign operations – subject to lower tax rates	(0.80)	7,884
Income tax expense (recovery), as reported in the consolidated statements of operations and effective tax rate	0.38	(3,639)

Future income taxes consist of the following future income tax assets (liabilities) relating to temporary differences for:

<i>December 31,</i>	<u>2008</u>	<u>2007</u>
Current assets		
Deferred revenue	\$ 36,004	\$ 27,422
Losses available for carryforward	23,107	-
Note receivable	3,522	4,833
Other	(3,722)	3,107
	<u>58,911</u>	<u>35,362</u>
Long-term liabilities		
Accumulation Partners' contracts and trade names	(366,614)	(374,880)
Eligible capital expenditures	190,613	170,709
	<u>(176,001)</u>	<u>(204,171)</u>
Software and technology	(19,162)	(14,263)
Deferred transaction costs	2,513	434
Other	(850)	-
	<u>(193,500)</u>	<u>(218,000)</u>

GUARANTEES (OFF-BALANCE SHEET ARRANGEMENTS) AND CONTINGENT LIABILITIES

Air Canada Miles

In accordance with the Commercial Participation and Services Agreement dated June 9, 2004 between Air Canada and Aeroplan, as amended, (the "CPSA"), Air Canada is responsible for the cost of the redemption for air rewards of up to a maximum of 112.4 billion Air Canada Miles accumulated by members prior to January 1, 2002. As of December 31, 2008, 109.2 billion of those Air Canada miles had been redeemed.

In the event that Air Canada is unable to meet its obligation, Aeroplan may be required to honor Air Canada's redemption obligation. Based on Aeroplan's current average redemption cost per mile, as calculated on the basis of the current average redemption cost, calculated as a function of actual prices with Redemption Partners, including Air Canada, and the experienced mix of various types of rewards that members have selected, based on past experience, such obligation would amount to approximately \$28.7 million at December 31, 2008.

Also under the CPSA, Aeroplan is responsible for any redemption for air rewards of Air Canada Miles issued prior to January 1, 2002, in excess of the 112.4 billion Air Canada Miles. While on the basis of current estimates, Aeroplan does not expect such redemptions to exceed 112.4 billion Air Canada Miles, the maximum potential redemption cost of meeting this obligation if all 12.6 billion estimated Broken but unexpired Air Canada Miles were to be redeemed, amounts to \$113.7 million at December 31, 2008.

As a result, the total maximum potential redemption cost of meeting this obligation, which would be charged to cost of rewards as the Air Canada miles are redeemed, for the total outstanding and unbroken Air Canada Miles issued prior to January 1, 2002 is estimated to be \$142.4 million at December 31, 2008.

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

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.

Aeroplan Miles

In addition, Groupe Aeroplan may be required to provide rewards to members for unexpired Aeroplan Miles accounted for as Breakage on the Aeroplan Miles issued after December 31, 2001 for which the Breakage revenue has been recognized or deferred and for which no liability has been recorded. The maximum potential redemption cost for such Aeroplan Miles is estimated to be \$853.1 million at December 31, 2008. The potential redemption costs noted above have been calculated on the basis of the current average redemption cost calculated as a function of actual prices with Redemption Partners, including Air Canada, and the experienced mix of the various types of rewards that members have selected, based on past experience.

On a consolidated basis, management estimates that a 1% change in Breakage related to the Aeroplan Miles issued after January 1, 2002, would have a total impact on revenue and net earnings before income taxes of \$65.3 million for the period in which the change occurred, with \$52.2 million relating to prior years and \$13.1 million relating to the current year.

VAT Appeal

LMG has been in litigation with Her Majesty's Revenue & Customs ("HMRC") since 2003 relating to the VAT treatment of the Nectar Program as it applies to the deductibility of input tax credits in the remittance of VAT owed, and has paid an assessed amount of £13.8 million (\$27.1 million).

LMG appealed to the VAT and Duties Tribunal and was successful. HMRC then appealed to the High Court which found in favour of HMRC. LMG, in turn, appealed to the Court of Appeal, who issued a judgement in favour of LMG on October 5, 2007 requiring the refund of the assessed amount and confirming LMG's eligibility to deduct input tax credits in the future. As a result of this event, an amount receivable of £13.8 million (\$27.1 million) was recorded in the accounts at December 31, 2007 and subsequently collected in January 2008.

HMRC has sought leave to appeal the Court of Appeal's decision to the House of Lords. The hearing on whether to grant leave to appeal was held on April 3, 2008. The House of Lords granted the leave to appeal and the case has been referred to the European Court of Justice. The case will be heard at a future date to be set. Until the outcome is known, it is unclear whether LMG will have to repay amounts awarded under the October 5, 2007 judgement, as well as any VAT recovered as a deduction in calculating input tax credits until such time as a decision is rendered, together with interest thereon. At December 31, 2008, LMG has recorded in its accounts the benefit of VAT input tax credits in the aggregate amount of £27.8 million (\$49.8 million) which is accounted for as a reduction of goodwill.

At this time, the outcome of this contingency is not determinable and no provision for a liability has been included Groupe Aeroplan's financial statements. In the event that the VAT litigation is decided against LMG, the cash held in escrow as contingent consideration related to the 2007 acquisition of LMG, in the amount of \$48.5 million (£27.1 million), plus accrued interest thereon, will be refunded to Groupe Aeroplan.

Other

From time to time, Groupe Aeroplan becomes involved in various claims and litigation as part of its normal course of business. While the final outcome thereof cannot be predicted, based on the information currently available, management believes the resolution of current pending claims and litigation will not have a material impact on Groupe Aeroplan's financial position and results of operations.

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

TRANSACTIONS WITH AIR CANADA

At December 31, 2007, ACE Aviation Holdings Inc. ("ACE") directly held a 20.1% interest in the Fund and, under the terms of a Securityholders' Agreement, had the ability, for as long as it owned more than a 20% interest in the Fund, to nominate a majority of the board of directors of Aeroplan Holding GP Inc.

Pursuant to a secondary offering which closed on April 21, 2008, ACE reduced its holdings to 9.9%, and on May 28, 2008, ACE disposed of its remaining holdings in the Fund. Subsequent to the May 28, 2008 disposal, ACE and the Fund terminated the Securityholders' Agreement and as a result ACE no longer has any director appointment rights. Effective May 28, 2008, Groupe Aeroplan is no longer related to ACE or the other companies controlled or subject to significant influence by ACE, including Air Canada.

Aeroplan has entered into various agreements with Air Canada, governing the commercial relationship between Aeroplan and Air Canada, which are described in the Fund's Annual Information Form dated March 28, 2008.

Air Canada is one of Groupe Aeroplan's largest Accumulation Partners, representing 17% and 25% of Gross Billings for the years ended December 31, 2008 and 2007, respectively. Under the CPSA, Air Canada is committed to \$207.9 million of minimum purchases on an annual basis. Air Canada, including other Star Alliance partners, is Groupe Aeroplan's largest Redemption Partner. For the year ended December 31, 2008, 57% of total reported cost of rewards was paid to Air Canada in connection with rewards purchased from Air Canada and other airlines (Star Alliance Partners), compared to 90% for the year ended December 31, 2007.

The dilution of the above percentages is primarily attributable to the inclusion of the consolidated results of LMG for the year ended December 31, 2008, as well as the continued increasing trend in redemption of non-air rewards by members.

In November 2008, Groupe Aeroplan entered into an agreement with Air Canada to temporarily accelerate the contractual payment terms under the CPSA for air travel rewards purchased from Air Canada for the period from October 2008 to May 2009. Under this arrangement, at December 31, 2008, Aeroplan had paid Air Canada \$63 million in advance of normal settlement terms. This impact will reverse in 2009 upon expiry of this agreement. The payments by Air Canada to Aeroplan for the purchase of Aeroplan Miles are based on the original terms of settlement.

In accordance with the termination provisions of the General Services Agreement with Air Canada (the "GSA"), Aeroplan notified Air Canada of its plans to terminate the GSA, effective June 1, 2009. On November 27, 2008 Aeroplan delivered to Air Canada its formal six-month notice of termination of the GSA and subsequently offered all agents continued employment as of June 1, 2009, in the same positions, unless, if eligible, they elect to return to Air Canada. On January 14, 2009 Aeroplan announced that it had come to a tentative three-year agreement with the CAW and Air Canada with respect to the transition of the contact centre employees from Air Canada to Aeroplan employment. The agreement included a detailed transition plan for affected employees in addition to a new labour contract. On January 28, 2009 Aeroplan announced that the tentative labour agreement had not been ratified and that all agents working in Aeroplan's contact centres in Vancouver and Montreal are being offered continued employment effective June 1, 2009 as per the original offer. Given that the outcome of future negotiations with the CAW and Air Canada, related to the collective agreement with contact centre agents and the potential transfer of the pension liability, respectively, is unclear at this time, it is difficult to determine, with any degree of certainty, the impact, if any, of their result on selling, general and administrative expenses.

SUMMARY OF CONTRACTUAL OBLIGATIONS

As at December 31, 2008, estimated future minimum payments under Groupe Aeroplan's contractual obligations are as follows:

<i>(in millions)</i>	Total	2009	2010	2011	2012	2013	thereafter
Operating leases	\$ 21.6	\$ 4.5	\$ 4.2	\$ 4.1	\$ 2.3	\$ 2.3	\$ 4.2
Technology infrastructure and other	72.7	24.8	22.3	13.9	6.5	4.7	0.5
Marketing support	61.1	15.4	15.4	15.4	10.9	2.0	2.0
Special payments under GSA	9.5	1.9	1.9	1.9	1.9	1.9	-
Long-term debt	700.0	200.0	500.0	-	-	-	-
Purchase obligation under the CPISA	4,506.9	391.9	391.9	391.9	391.9	391.9	2,547.4
Total	5,371.8	638.5	935.7	427.2	413.5	402.8	2,554.1

Marketing support amounts represent maximum obligations in connection with the Company's undertakings to promote the loyalty programs it operates.

Under the terms of certain contractual obligations with a major Accumulation Partner, Groupe Aeroplan is required to maintain certain minimum working capital amounts in accordance with pre-established formulas. As at December 31, 2008, Groupe Aeroplan complied with all such covenants.

DIVIDENDS / DISTRIBUTIONS

Subsequent to the conversion to a corporate structure, the dividend policy of Groupe Aeroplan has been set at \$0.125 per common share per quarter. During the fourth quarter of 2008, Groupe Aeroplan declared and paid its first cash dividend in the amount of \$24,996,078 or \$0.125 per common share. Dividends payable by Groupe Aeroplan to its shareholders are recorded when declared.

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

Distributions declared to the former unitholders of record of the Fund for the period up to the date of conversion were as follows:

Record date	2008		2007	
	Amount	Amount per Aeroplan Unit	Amount	Amount per Aeroplan Unit
Distributions				
January	\$ 13,997,815	\$ 0.0700	\$ 11,161,792	\$ 0.0700
February	13,997,815	0.0700	11,161,792	0.0700
March	13,997,815	0.0700	14,000,000	0.0700
April	13,997,815	0.0700	14,000,000	0.0700
May	13,997,815	0.0700	13,999,994	0.0700
June	13,997,804	0.0700	13,999,994	0.0700
July	-	-	13,999,992	0.0700
August	-	-	13,999,992	0.0700
September	-	-	13,999,990	0.0700
October	-	-	13,999,990	0.0700
November	-	-	13,999,990	0.0700
December	-	-	13,997,815	0.0700
	83,986,829	0.4200	162,321,341	0.8400

As part of a tax planning strategy to increase future tax deductions, the Fund did not use the full available discretionary deductions to reduce taxable income and as a result, for the year ended December 31, 2007, 100% of amounts distributed represented taxable income generated from operations.

It is expected that 100% of distributions paid by the Fund in 2008 will also be taxable.

CAPITAL STOCK

As at December 31, 2008, Groupe Aeroplan had 199,968,622 common shares issued and outstanding for an aggregate amount of \$1,746.9 million. In addition, there were 430,000 stock options issued and outstanding under the Groupe Aeroplan LTIP.

EARNINGS (LOSS) PER SHARE

Groupe Aeroplan's earnings (loss) per share or unit (as applicable) amounted to \$(4.84) and \$(0.14) for the years ended December 31, 2008 and 2007, respectively.

CRITICAL ACCOUNTING ESTIMATES

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

The significant accounting policies are described in note 2 to the December 31, 2008 audited consolidated financial statements. The policies which Groupe Aeroplan believes are the most critical to aid in fully understanding and evaluating its reported financial results include the following:

REVENUE RECOGNITION AND COST OF REWARDS

Groupe Aeroplan derives its revenues primarily from the sale of Aeroplan Miles, which are defined as the miles, points or other loyalty program reward units issued by Groupe Aeroplan's subsidiaries under the respective programs operated by each of the entities, to its Accumulation Partners, 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, separately for each program. 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 may affect members' redemption practices. During 2008, management assisted by an independent expert finalized an econometric model that takes into account historical activity, and expected member behaviour, projected on a going-concern basis. This tool will be used by Groupe Aeroplan to estimate and monitor the appropriate breakage estimates of the different programs it operates on a continuous basis. Groupe Aeroplan will no longer be relying on two independent expert studies to confirm the breakage rate every two years, however, it will continue to use an independent expert every two years to validate the robustness of the newly implemented breakage tool. Changes in the breakage factor are accounted for at the reporting unit level as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to revenue; and for subsequent periods, the revised estimate is used. Based on the results of the application of the model, incorporating the adjustments to the breakage rates applicable to the respective programs operated by each of the subsidiary entities, the consolidated weighted average estimated breakage factor is 17% (2007: 16%). The impact of these changes in breakage estimates is an increase in revenue and earnings before income taxes of \$41.8 million, with \$32.7 million relating to prior years and \$9.1 million relating to the current year. Breakage is recognized rateably over the estimated average life of a mile or point issued being 30 and 15 months for the Aeroplan and Nectar programs, respectively, which has been determined in a rational and systematic manner.

In limited circumstances, Groupe 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 Redemption Partners 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 servicing the Aeroplan program and for marketing services are recognized when the services are rendered.

Other revenue consists of charges to members for services rendered to members including booking, change and cancellation fees, other miscellaneous amounts, and royalties earned from the use of the Air Miles trademark and loyalty industry related business know how and expertise. Revenue from these sources is recognized when the service is performed.

ACCUMULATION PARTNERS' CONTRACTS AND SOFTWARE AND TECHNOLOGY

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

Software and technology are recorded at cost and amortized using the straight-line method over 3 to 5 years. Software under development includes costs paid to third parties such as consultants' fees and other direct costs of development. Amortization will commence upon completion of development once the software is available for use.

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

TRADE NAMES AND GOODWILL

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

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

For purposes of impairment testing, goodwill must be assigned and tested at the reporting unit level. Since December 21, 2007, Groupe Aeroplan has two reporting units, the Canadian unit which consists of Aeroplan Canada and the European and Middle East unit consisting of Groupe Aeroplan Europe's operations, including Nectar, LMG Insight & Communication and Air Miles Middle East.

INCOME TAXES

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

FUTURE ACCOUNTING CHANGES

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the Canadian Institute of Chartered Accountants ("CICA") issued Section 3064, *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. Groupe Aeroplan has evaluated the impact of this new standard for adoption on January 1, 2009 and does not expect any significant impact on its consolidated financial statements.

BUSINESS COMBINATIONS, CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

In January 2009, the CICA issued three new accounting standards: section 1582, *Business Combinations*, section 1601, *Consolidated Financial Statements*, and section 1602, *Non-controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Groupe Aeroplan is in the process of evaluating the requirements of the new standards.

Section 1582 replaced section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3 – *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602 together replace section 1600 – *Consolidated Financial Statements*. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provision of International Financial Reporting Standard IAS 27 – *Consolidated and Separate Financial Statements* and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

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

- Phase 1 – Preliminary Diagnosis, Planning and Definition of Scope,
- Phase 2 – Detailed Evaluation,
- Phase 3 – Definition of the Solution and
- Phase 4 – Implementation

Groupe Aeroplan has assembled a team of internal and external resources, to execute the plan. A preliminary diagnosis indicates that similar standards to those used by Groupe Aeroplan in the preparation of its consolidated financial statements will apply, however, applicable revenue recognition standards under IFRS are not expected to be finalized until 2013. While there appears to be a general consensus that similar revenue recognition standards to those used by Groupe Aeroplan will apply, this will only be confirmed at a later date. As a result of the transition, changes in accounting policies may have a material impact on the consolidated financial statements.

CAPITAL DISCLOSURES

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

Groupe Aeroplan’s objectives when managing capital are:

- to provide a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business;
- to maintain a flexible capital structure that optimizes the cost of capital at acceptable risk and preserves the ability to meet financial obligations;

- to ensure sufficient liquidity to pursue its organic growth strategy and undertake selective acquisitions; and
- to provide a rewarding return on investment to shareholders.

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

The total capital as at December 31, 2008 and December 31, 2007 is calculated as follows:

	2008	2007 ⁽¹⁾
Cash and cash equivalents	\$ (188,016)	\$ (456,004)
Short-term investments	(477,341)	(123,361)
Long-term debt (including current portion)	696,969	734,686
Shareholders' (Unitholders') Capital	1,746,878	3,248,075
Contributed surplus	1,290,501	9,582
Retained earnings (Deficit)	<u>(1,088,782)</u>	<u>(206,592)</u>
Total capital	<u>1,980,782</u>	<u>3,206,386</u>

(1) The comparative figures are those of the Fund

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

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

The respective financial ratios, as calculated at December 31, 2008, are presented in *Credit Facilities* included in *Liquidity and Capital Resources* above.

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

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

Groupe Aeroplan has also established the Reserve, which at December 31, 2008 amounted to \$400 million and is 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 upon policies established by management. This internally imposed reserve, which was established as a matter of prudence, may be used to supplement cash flows generated from operations in order to pay for rewards during periods of unusually high redemption activity. To date, Groupe Aeroplan has not had to use the funds held in the Reserve. Management is of the opinion that the Reserve is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of operations.

For the next fiscal year, Groupe Aeroplan expects to invest approximately \$30.0 million in Maintenance Capital Expenditures. Like past investments, these investments in Productive Capacity provide for the stability of Groupe Aeroplan's operations and the realization of cost efficiencies through new technology or process improvements.

FINANCIAL INSTRUMENTS

Groupe Aeroplan's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, note receivable, accounts payable and accrued liabilities, distributions payable, and long-term debt.

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

Interest rate risk

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

Groupe 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 facilities with an objective to mitigate the interest rate exposure.

At December 31, 2008, the interest rate profile of Groupe Aeroplan's interest bearing financial instruments was as follows:

*December 31,
(in thousands of dollars)*

	<u>2008</u>	<u>2007</u>
Variable rate instruments		
Cash and short-term investments	\$ 665,357	\$ 579,365
Long-term debt	(700,000)	(740,000)
Currency swap	68,526	21,727

For the year ended December 31, 2008, management has determined that a 1% variance in the interest rates on the cash and short-term investments would result in a variance in earnings before tax of \$6.7 million, while a 1% variance in the interest rates on long-term debt would result in a variance in earnings before tax of \$7.0 million. Similarly, management has determined that a 1% variance in either the LIBOR or CDOR rates would have a \$1.1 million impact on the fair value of the swap.

Credit risk

Credit risk is the risk of a loss due to a counterparty's inability to meet its obligations. As at December 31, 2008, Groupe Aeroplan's credit risk exposure consists mainly of the carrying amounts of Cash and cash equivalents, Short-term investments, Accounts receivable, and Note receivable.

In accordance with its investment policy, Groupe Aeroplan invests the Reserve and excess cash, included in short-term investments and cash and cash equivalents in commercial paper or corporate bonds with a minimum rating of R-1 (high) or AA (low), and bankers' acceptances or term deposits, subject to certain thresholds to reduce undue exposure to any one issuer. The credit risk on short-term investments and cash and cash equivalents is limited because the counterparties are banks with high credit-ratings assigned by international credit-ratings agencies. At December 31, 2008, the Reserve and excess cash is invested in bankers' acceptances and overnight and term deposits.

With respect to accounts receivable, Groupe Aeroplan has concentration of credit risk on the Accumulation Partners identified in note 10 of the consolidated financial statements. However, any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. A significant portion of accounts receivable is due from banks with high credit-ratings assigned by international credit agencies. At December 31, 2008, approximately \$45.7 million (or 21.2%) of accounts receivable are with one company, Air Canada. Accordingly, Groupe Aeroplan is directly affected by the financial and operational strength of Air Canada. In order to manage its exposure to credit risk and assess credit quality, Groupe Aeroplan reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary. Historically, bad debts experienced by Groupe Aeroplan have been negligible.

Liquidity risk

Groupe Aeroplan's objective is to maintain sufficient liquidity to meet its financial liabilities as they come due as well as to demonstrate compliance with liquidity covenants on credit facilities. Groupe Aeroplan manages liquidity risk through financial leverage which includes monitoring of its cash balances and uses cash flows generated from operations to meet financial liability requirements. At December 31, 2008, Groupe Aeroplan had authorized credit facilities of \$850 million and drawings of \$700 million, with maturities at various dates through December 19, 2010, against the facilities. The credit facilities are provided by a syndicate that consists of fifteen institutional lenders. While it is Groupe Aeroplan's intention to renew or replace credit facilities as they come due, given the current credit market conditions, it is anticipated that such renewal or replacement may occur at terms that are less favourable than current terms. Groupe Aeroplan is evaluating options to refinance all or part of its existing debt. These include, but are not limited to, establishing replacement bank facilities, issuing new debt or equity to replace and/or repay existing debt (with different characteristics), the application of cash balances to reduce the amount of existing debt, and the potential reduction of cash dividends paid to shareholders.

On February 26, 2009, the Board of Directors approved the filing with securities regulators in each of the provinces and territories of Canada of a preliminary short form base shelf prospectus relating to debt and equity securities, which may consist of debentures, medium term notes, notes or other types of debt securities, common shares, preferred shares and convertible securities, for aggregate proceeds of up to \$1.0 billion. These securities may be offered from time to time, during a 25-month period for which the short form base shelf prospectus remains valid. The specific terms of any securities will be described in one or more shelf prospectus supplements.

Currency risk

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

At December 31, 2008, Groupe Aeroplan held net financial assets denominated in £ sterling of approximately £136.6 million. A 1% variance in the £ sterling foreign exchange rate would result in a \$2.4 million variance in the net assets of Groupe Aeroplan.

In addition, management has determined that a 1% variance in the £ sterling exchange rate attributable to the currency swap would result in a \$4.4 million variance in the fair value of the swap.

Financial instruments – carrying amounts and fair values

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

December 31,	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Held for trading:				
Cash and cash equivalents and short-term investments	\$ 665,357	\$ 665,357	\$ 579,365	\$ 579,365
Loans and receivables:				
Accounts receivable	215,821	215,821	216,324	216,324
Note receivable	59,007	59,007	60,482	60,482
Financial liabilities				
Other financial liabilities:				
Accounts payable and accrued liabilities	235,408	235,408	276,490	276,490
Distributions payable	-	-	13,998	13,998
Long-term debt	696,969	698,521	734,686	739,543
Derivatives				
Currency swap	68,526	68,526	21,727	21,727

Fair value of financial instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair values based on the immediate or short-term maturities of these financial instruments. The carrying amount of the note receivable approximates fair value based on discounted cash flows. The fair value of the borrowings under the credit facilities of approximately \$698.5 million is estimated as carrying value adjusted to remove unamortized transaction costs, since they bear interest at floating rates, and are typically drawn in the form of Bankers' Acceptances with a short-term maturity. The carrying amount of the currency swap is fair value, estimated on the amounts at which it could be settled, based on current market rates.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

An evaluation of the design and effectiveness of the operation of Groupe Aeroplan's disclosure controls and procedures has been conducted by management, under the supervision of the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that, as of December 31, 2008, Groupe Aeroplan's disclosure controls and procedures, as defined by National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, are effective to ensure that information required to be disclosed in reports that are filed or submitted under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

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

Management, under the supervision of the CEO and CFO, has evaluated the effectiveness of our internal control over financial reporting using the framework designed as described above. Based on this evaluation, the CEO and CFO have concluded that internal control over financial reporting, as defined by National Instrument 52-109, was effective as at December 31, 2008.

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

There has been no change in Groupe Aeroplan's internal control over financial reporting that occurred during the year ended 2008 that has materially affected, or is reasonable likely to materially affect, Groupe Aeroplan's internal control over financial reporting.

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

OUTLOOK

Current market conditions, with significantly reduced consumer expenditures, make it difficult to predict 2009 performance. Assuming no further deterioration of the markets, and anticipating a mild recovery in the latter part of the year, Groupe Aeroplan would expect to see a modest consolidated growth in gross billings in 2009. In addition, for 2009, Groupe Aeroplan expects the average cost of rewards per mile, under the Aeroplan program to remain under 0.95 cents and for the gross margin in the Canadian segment to remain relatively stable.

RISKS AND UNCERTAINTIES

The results of operations and financial condition of Groupe Aeroplan are subject to a number of risks and uncertainties, and are affected by a number of factors outside of the control of management. The following section summarizes certain of the major risks and uncertainties that could materially affect future business results going forward. The risks described herein may not be the only risks faced by Groupe Aeroplan. Other risks which currently do not exist or which are deemed immaterial may surface and have a material adverse impact on the Company's results of operations and financial condition.

Risks Related to the Business and the Industry

Dependency on Top Accumulation Partners

Groupe Aeroplan's top four Accumulation Partners were responsible for 82% of Gross Billings for the year ended December 31, 2008. A decrease in sales of Aeroplan Miles to any significant partner, for any reason, including a decrease in pricing or activity, or a decision to either utilize another service provider or to no longer outsource some or all of the services provided, could have a material adverse effect on Gross Billings. Subject to the minimum number of Aeroplan Miles to be purchased by Air Canada under the CPSA, Air Canada can change the number of Aeroplan Miles awarded per flight without Aeroplan's consent, which could result in a significant reduction in Gross Billings. There is no assurance that Aeroplan and Nectar will be able to renew their contracts with their principal Accumulation Partners 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 the business. This could manifest itself in Aeroplan's inability to fulfill member's flight redemption requests or to provide sufficient accumulation opportunities. As a result of airline or travel services industry disruption, such as those which resulted from the terrorist attacks on September 11, 2001, or as might result from political instability, other terrorist acts or war, or from increasingly restrictive security measures, such as the current restrictions on the content of carry-on baggage, too much uncertainty could result in the minds of the traveling public and have a material adverse effect on passenger demand for air travel. Consequently, members might forego redeeming miles for air travel and therefore might not participate in the Aeroplan Program to the extent they previously did which could adversely affect revenue from the Aeroplan Program. A reduction in member use of the Aeroplan Program could impact Aeroplan's ability to retain its current partners and members and to attract new Commercial Partners and members.

Air Canada Liquidity Issues

In the past, Air Canada has sustained significant operating losses and may sustain significant losses in the future. In its most recent public filings Air Canada has indicated that it is currently faced with several risks that may have a material impact on future operating results and liquidity. Such risks include slowing passenger and cargo revenues resulting from weakening demand for air travel as a result of the current economic environment, volatile fuel prices, pension funding deficits, labour conflicts or disruptions and the ability to secure additional financial arrangements to manage liquidity. While Air Canada management believes it has developed action plans to mitigate such risks, there can be no assurance that Air Canada will be successful in executing on its strategy and that it will conclude arrangements providing sufficient liquidity to meet its financial liabilities and other contractual obligations.

The bankruptcy or insolvency of Air Canada could lead to a termination or renegotiation of the CPSA. Upon such a renegotiation Aeroplan may be required to pay more for seat capacity from Air Canada than the currently negotiated rates under the CPSA. If the CPSA is terminated, Aeroplan would have to purchase seat capacity from other airlines. Seat capacity from other airlines could be more expensive than comparable seat capacity under the CPSA, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming members. As a result, Aeroplan 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.

Airline Industry Changes and Increased Airline Costs

Air travel rewards remain the most desirable reward for consumers under the Aeroplan Program. An increase in low cost carriers and the airline industry trend which has major airlines offering low cost fares may negatively impact the incentive for consumers of air travel services to book flights with Air Canada or participate in the Aeroplan Program. Similarly, any change which would see the benefits of Star Alliance® reduced either through Air Canada's, or, 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.

Reduction in Activity, Usage and Accumulation of Aeroplan Miles

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

Retail Market/Economic Downturn

The markets for the services that Aeroplan and Nectar offer may fail to expand or may contract and this could negatively impact growth and profitability. Loyalty and database marketing strategies are relatively new to retailers, and there can be no guarantee that merchants will continue to use these types of marketing strategies. In addition, Gross Billings are dependent on levels of consumer spend with Accumulation Partners, and any slowdown or reduction in consumer activity may have an impact on Aeroplan Miles issuance.

Greater Than Expected Redemptions for Rewards

A significant portion of profitability is based on estimates 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. Under the Aeroplan Program, Management's current estimate of Breakage is based on two independent studies conducted in 2006 on behalf of Aeroplan. As these studies were based on data up to December 31, 2005, which did not take into account the impact of the ClassicPlus Flight™ Rewards program introduced in October 2006, Management, assisted by an independent firm of experts, conducted a Breakage review on the basis of data accumulated until the end of 2006. Based upon the results of this update the estimated Breakage factor for the Aeroplan Program remains at 17%. In addition, during 2008, Management is conducting a full Breakage review taking into consideration a full year's redemption data of ClassicPlus Flight™ rewards and other factors. Breakage for the Aeroplan and Nectar Programs may decrease as such programs grow and a greater diversity of rewards become available. If actual redemptions are greater than current estimates, profitability could be adversely affected due to the cost of the excess redemptions. Furthermore, the actual mix of redemptions between air and non-air rewards could adversely affect profitability. Total Broken Miles amounted to 125.0 billion miles as at December 31, 2008 and include 112.4 billion Aeroplan Miles. The responsibility to provide rewards for these 125.0 billion total Broken Miles, if ever redeemed, rests with Aeroplan and Nectar. While Management believes that a material portion of the estimated 112.4 billion Aeroplan Miles will not be redeemed, there can be no such assurances.

Industry Competition

Competition in the loyalty marketing industry is intense. New and existing competitors may target Accumulation Partners and members, as well as draw rewards from Redemption Partners. The continued attractiveness of the Aeroplan and Nectar Programs will depend in large part on their ability to remain affiliated with existing Commercial 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 database marketing services, the ability to continue collecting detailed transaction data on consumers is critical in providing effective marketing strategies for Accumulation Partners. Many of Aeroplan and Nectar's current competitors may have greater financial, technical, marketing and other resources. Aeroplan and Nectar cannot ensure that they will be able to compete successfully against current and potential competitors, including in connection with technological advancements by such competitors.

Supply and Capacity Costs

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 Air LP and Star Alliance® member airlines or other non-air rewards from other suppliers are inadequate to meet their redemption demands at specific prices.

If, upon the renegotiation of the rates charged to Aeroplan under the CPSA which takes place every three years based on agreed-to metrics (with the next rate renegotiation scheduled for 2010) or upon the expiry of the CPSA, Aeroplan is unable to negotiate new rates or a replacement agreement with Air Canada on similarly favourable terms or if Air Canada sharply reduces its seat capacity, Aeroplan may be required to pay more for seat capacity from Air Canada than the currently negotiated rates under the CPSA or to purchase seat capacity from other airlines. Seat capacity from other airlines could be more expensive than comparable seat capacity under the CPSA, and the routes offered by the other airlines may be inconvenient or undesirable to the redeeming members. As a result, Aeroplan would experience higher air travel redemption costs, while at the same time member satisfaction with the Aeroplan Program may be adversely affected by requiring travel on other carriers on certain routes.

Unfunded Future Redemption Costs

Most Gross Billings are derived from the sale of Aeroplan Miles to Accumulation Partners. The earnings process is not complete at the time an Aeroplan Mile is sold as most of the costs are incurred 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 for the Aeroplan Program and 15 months for the Nectar Program; however, Aeroplan and Nectar have no control over the timing of the redemption of Aeroplan Miles or the number of Aeroplan Miles redeemed. Aeroplan and Nectar currently use proceeds from Gross Billings (which are deferred for accounting purposes) 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 or Nectar were to cease to carry on business, or if redemption costs incurred in a given year were in excess of the revenues received in the year from the issuance of Aeroplan Miles, they would face unfunded Future Redemption Costs, which could increase the need for working capital and, consequently, affect the payment of dividends to Groupe Aeroplan Shareholders.

Failure to Safeguard Databases and Consumer Privacy

As part of the Aeroplan and Nectar Programs and in connection with the Insight and Communication business' activities, member databases are maintained which contain member information including account transactions. Although Aeroplan and Nectar have security procedures, the databases may be vulnerable to potential unauthorized access to, or use or disclosure of member data. If Aeroplan or Nectar were to experience a security breach, their reputation may be negatively affected and an increased number of members may opt out from receiving marketing materials. The use of marketing services by partners could decline in the event of any publicized compromise of security. Any public perception that Aeroplan or Nectar released consumer information without authorization could subject Aeroplan or Nectar to complaints and investigation by the applicable privacy regulatory bodies and adversely affect relationships with members and partners. In addition, any unauthorized release of member information, or any public perception that member information was released without authorization, could lead to legal claims from consumers or regulatory enforcement actions.

Consumer Privacy Legislation

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

Changes to the Aeroplan and Nectar Programs

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

Seasonal Nature of the Business, Other Factors and Prior Performance

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

Nectar's Gross Billings from the Nectar Program are seasonal with fourth quarter gross billings typically higher than the preceding quarters, as a result of the impact of Christmas shopping. Gross Billings for the first and second quarters are typically slightly lower than those of the third quarter. Redemption activity in the Nectar Program is more seasonal than Gross Billings. More than 40% of all redemptions for the Nectar Program take place during the fourth quarter, as a result of members redeeming for gifts and other rewards prior to Christmas. Consequently, operating results for any one quarter may not be necessarily indicative of operating results for an entire year.

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

Regulatory Matters

Groupe Aeroplan's businesses are subject to several types of regulation, including legislation relating to privacy, consumer protection, 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 Commercial Partners operate in the highly regulated airline industry. Changes in regulations affecting Aeroplan, Nectar, Air Canada, the airline industry in general, or the implementation of additional limitations or adverse regulatory decisions affecting such entities, may have a material adverse effect on Groupe Aeroplan's businesses, results from operations and financial condition.

VAT Appeal

Nectar has been in litigation with HMRC since 2003 relating to the VAT treatment of the Nectar Program as it applies to the deductibility of input tax credits in the remittance of VAT owed, and has paid an assessed amount of £13.8 million.

Nectar appealed to the VAT and Duties Tribunal and won. HMRC then appealed to the High Court which found in favour of HMRC. Nectar, in turn, appealed to the Court of Appeal, who issued a judgement in favour of Nectar on October 5, 2007 requiring the refund of the assessed amount and confirming Nectar's eligibility to deduct input tax credits in the future. As a result of this event, an amount

receivable of £13.8 million (approximately \$27.1 million) was recorded in the accounts at December 31, 2007, and subsequently collected in January 2008.

HMRC has sought leave to appeal the Court of Appeal's decision to the House of Lords. The hearing on whether to grant leave to appeal was held on April 3, 2008. The House of Lords granted the leave to appeal and the case has been referred to the European Court of Justice. The case will be heard at a future date to be set. Until the outcome is known, it is unclear whether Nectar will have to repay amounts awarded under the October 5, 2007 judgment, as well as any VAT recovered as a deduction in calculating input tax credits until such time as a decision is rendered, together with interest thereon. At December 31, 2008, Nectar had recorded in its accounts the benefit of VAT input tax credits in the aggregate amount of £27.8 million (\$49.8 million).

At this time, the outcome of this contingency is not determinable and no provision for a liability has been included in the financial statements. An unfavourable judgment would impact Nectar's profitability and accordingly the value of the Nectar business.

Reliance on Key Personnel

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

Labour Relations and Pension Liability

Aeroplan contact centre agents are currently employees provided by Air Canada pursuant to the GSA. The employees are covered by a collective agreement between the Canadian Auto Workers Union, Local 202 (the "CAW") and Air Canada until May 31, 2009. On November 14, 2008 Aeroplan announced that, as originally contemplated upon the spin-off of Aeroplan in 2000, and in accordance with the termination provisions of the GSA, it would notify Air Canada of its plans to terminate the GSA, effective June 1, 2009. On November 27, 2008 Aeroplan delivered to Air Canada its formal six-month notice of termination of the GSA and subsequently offered all agents continued employment as of June 1, 2009, in the same positions, unless, if eligible, they elect to return to Air Canada. On January 14, 2009 Aeroplan announced that it had come to a tentative three-year agreement with the CAW and Air Canada with respect to the transition of the contact centre employees from Air Canada to Aeroplan employment. The agreement included a detailed transition plan for affected employees in addition to a new labour contract. On January 28, 2009 Aeroplan announced that the tentative labour agreement had not been ratified and that all agents working in Aeroplan's contact centres in Vancouver and Montreal are being offered continued employment effective June 1, 2009 as per the original offer. Aeroplan is hopeful that the June 1, 2009 transition of contact centre agents from Air Canada employment to Aeroplan employment will be seamless, however, if any of the relevant parties challenge actions being taken in implementing the transition and/ or if the relevant parties are unable to renegotiate the collective agreement, it could result in work stoppages and other labour disturbances which could have a material adverse effect on Aeroplan's business.

Upon transition of the contact centre agents from Air Canada to Aeroplan employment on June 1, 2009, Aeroplan will face increased costs relating to a large unionized workforce, including costs necessary to implement payroll systems and associated matters. Given that the outcome of any future negotiations with the CAW and/ or Air Canada related to the collective agreement and the potential transfer of the pension liability, respectively, is unclear at this time, it is difficult to determine, with any degree of certainty, the amount of the pension funding obligations Aeroplan may have to assume, if any, and the impact of their result on operating results.

Technological Disruptions and Inability to use Third-Party Software

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

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

Failure to Protect Intellectual Property Rights

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

Currency Fluctuations

Aeroplan is affected by fluctuations in the Canada/U.S. dollar exchange rate. Aeroplan 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 Aeroplan.

Risks Related to Groupe Aeroplan

Interest Rate and Currency Fluctuations

Groupe Aeroplan may be exposed to fluctuations in interest rates under its borrowings. Increases in interest rates may have an adverse effect on the earnings. In addition, financial results are sensitive to the changing value of the Canadian dollar and foreign operations are sensitive to the fluctuations of the British pound and the United Arab Emirates dirham. Groupe Aeroplan 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 Groupe Aeroplan to pay dividends, make distributions or make other payments or advances is subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness (including the Credit Facilities). The degree to which Groupe Aeroplan is leveraged has important consequences to Groupe Aeroplan shareholders, including: (i) that Groupe Aeroplan's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be

limited; (ii) that a significant portion of cash flow from operations may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for future operations; (iii) that certain borrowings will be at variable rates of interest, which exposes Groupe Aeroplan to the risk of increased interest rates; and (iv) that Groupe Aeroplan may be more vulnerable to economic downturns and be limited in its ability to withstand competitive pressures.

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

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

Dilution of Groupe Aeroplan Shareholders

Groupe Aeroplan is authorized to issue an unlimited number of Groupe Aeroplan Shares and an unlimited number of preferred shares, issuable in series for that consideration and on those terms and conditions as shall be established by the board of directors of Groupe Aeroplan. The shareholders of Groupe Aeroplan have no pre-emptive rights in connection with such further issues. Groupe Aeroplan may make future acquisitions or enter into financings or other transactions involving the issuance of securities of Groupe Aeroplan which may be dilutive.

Uncertainty of Dividend Payments

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

Level of Indebtedness – Refinancing Risk

The level of Groupe Aeroplan's indebtedness from time to time could impair Groupe Aeroplan's ability to obtain additional financing on a timely basis to take advantage of business opportunities that may arise.

Managing Growth

The inability of Groupe Aeroplan to manage growth effectively could have a material adverse impact on its business, operations and prospects.

ADDITIONAL INFORMATION

Additional information relating to Groupe Aeroplan and its operating businesses, including the Fund's Annual Information Form and the Management Information Circular dated May 16, 2008, is available on SEDAR at www.sedar.com or on Groupe Aeroplan's website at www.groupeaeroplan.com under Investors.

**Financial Statements
& Notes**

Management's Report

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

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

February 26th, 2009



RUPERT DUCHESNE

President and Chief Executive Officer



DAVID L. ADAMS

Executive Vice President and Chief Financial Officer

Auditors' Report

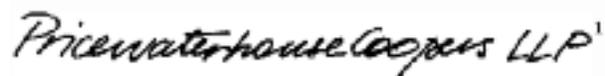
To the Shareholders of Groupe Aeroplan Inc.

We have audited the consolidated statements of financial position of Groupe Aeroplan Inc. as at December 31, 2008 and December 31, 2007 and the consolidated statements of operations, shareholders' equity, comprehensive income (loss) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we 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 consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2008 and December 31, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

February 26, 2009

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

¹ Chartered accountant auditor permit No. 15621

Consolidated Statements of Operations

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

	2008	2007
Revenue (Note 2)	\$ 1,458,229	\$ 710,163
Cost of rewards (Note 10)	859,082	415,954
Gross margin	599,147	294,209
Operating Expenses		
Selling, general and administrative	271,591	133,318
Depreciation and amortization	20,636	9,641
Amortization of accumulation partners' contracts and technology	87,838	58,098
	380,065	201,057
Operating Income	219,082	93,152
Impairment of long lived intangible assets and goodwill (Note 13)	(1,160,700)	-
Proportionate share of the Partnership's net earnings from January 1, 2007 to March 13, 2007	-	19,226
Interest on long-term debt	(37,992)	(15,809)
Other interest expense	(13,697)	-
Interest income	26,759	23,620
Foreign exchange loss	(2,301)	(2,875)
Earnings (loss) before income taxes	(968,849)	117,314
Income tax (expense) recovery (Note 16)		
Current	(23,129)	-
Future	26,768	(143,000)
Net loss for the year	\$ (965,210)	\$ (25,686)
Weighted average number of shares (units)	199,392,420	190,023,236
Earnings (loss) per share (unit)		
Basic and fully diluted	\$ (4.84)	\$ (0.14)

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

Consolidated Balance Sheets

As at December 31

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

Assets

Current assets

Cash and cash equivalents (Note 11)

Short-term investments (Note 11)

Accounts receivable

Future income taxes (Note 16)

Cash held in escrow, related to the acquisition of LMG (Note 7)

Currency swap (Note 8)

Note receivable (Note 9)

Investment in RMEL, at equity (Note 6)

Accumulation Partners' contracts (Notes 12 & 13)

Property and equipment (Note 12)

Software and technology (Note 12)

Trade names (Note 13)

Goodwill (Note 13)

Liabilities and Shareholders' Equity

Current liabilities

Accounts payable and accrued liabilities

Income taxes payable

Deferred revenue (Note 17)

Distributions payable

Current portion of long-term debt (Note 15)

Long-term debt (Note 15)

Future income taxes (Note 16)

Deferred revenue (Note 17)

Shareholders' / unitholders' equity (Note 20)

Contingencies and commitments (Notes 18 & 21)

Approved by the Board of Directors



ROMAN DORONIUK

Director

	2008	2007
	\$ 188,016	\$ 456,004
	477,341	123,361
	215,821	216,324
	58,911	35,362
	940,089	831,051
	48,485	53,245
	68,526	21,727
	59,007	60,482
	-	5,393
	1,418,398	1,595,210
	2,122	1,708
	100,946	120,163
	404,145	434,671
	1,976,002	2,994,690
	\$ 5,017,720	\$ 6,118,340
	\$ 235,408	\$ 276,490
	33,774	3,821
	1,171,438	1,193,669
	-	13,998
	200,000	-
	1,640,620	1,487,978
	496,969	734,686
	193,500	218,000
	738,034	626,611
	3,069,123	3,067,275
	1,948,597	3,051,065
	\$ 5,017,720	\$ 6,118,340



JOANNE FERSTMAN

Director

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

Consolidated Statements of Shareholders' Equity

For the years ended December 31, 2008 and 2007

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

	Share (Unit) capital	Retained Earnings (Deficit)		Accumulated Other Comprehensive Income	Contributed Surplus	Total
		Net earnings (loss) and other	Distributions/ Dividends			
Balance, December 31, 2006	\$1,392,232		\$ (16,612)	\$ -	\$ -	\$1,375,620
Net loss for the year		(25,686)				(25,686)
Monthly distributions (Note 19)			(162,321)			(162,321)
Redemption of 146 units tendered by unitholders	(3)					(3)
Issuance of 60,000,000 units at \$17.97 each, on exchange of Partnership units (Note 20)	1,078,200					1,078,200
Issuance of 40,545,835 units at \$19.40 each, on exchange of Partnership units (Note 20)	786,589					786,589
Issuance of 288,937 units at \$22.15 each, as partial consideration for the LMG acquisition (Note 20)	6,400					6,400
Repurchase of 320,000 units under issuer bid (Note 20)	(5,211)	(1,973)				(7,184)
Units held by stock-based compensation plans (Note 20)	(10,132)				6,598	(3,534)
Accretion related to officers' compensation in the form of ACE options (Note 20)					334	334
Accretion related to initial long-term incentive plan (Note 20)					1,385	1,385
Accretion related to other stock-based compensation plans (Note 20)					1,265	1,265
Subtotal	1,855,843	(27,659)	(162,321)	-	9,582	1,675,445
Balance, December 31, 2007	\$3,248,075		\$ (206,592)	\$ -	\$ 9,582	\$3,051,065
Net earnings for the period		73,586				73,586
Monthly distributions (Note 19)			(83,988)			(83,988)
Redemption of 169 units tendered by unitholders (Note 20)	(2)					(2)
Shares (Units) held by stock-based compensation plans (Note 20)	(1,195)				(2,596)	(3,791)
Accretion related to initial long-term incentive plan (Note 20)					430	430
Accretion related to other stock-based compensation plans (Note 20)					1,656	1,656
Capital reduction pursuant to the Arrangement (Notes 3 & 20)	(1,500,000)	216,994			1,283,006	-
Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiary				2,457		2,457
Subtotal	(1,501,197)	290,580	(83,988)	2,457	1,282,496	(9,652)
Balance, June 25, 2008 (at time of conversion)	\$1,746,878		\$ -	\$ 2,457	\$1,292,078	\$3,041,413
Net loss for the period		(1,038,796)				(1,038,796)
Quarterly dividends (Note 19)			(24,997)			(24,997)
Accretion related to other stock-based compensation plans (Note 20)					1,374	1,374
Shares granted under various employment contracts (Note 20)					(2,951)	(2,951)
Cumulative translation adjustment on consolidation of self-sustaining foreign subsidiaries				(27,446)		(27,446)
Subtotal	-	(1,038,796)	(24,997)	(27,446)	(1,577)	(1,092,816)
			(1,063,793)	(24,989)		
Retained earnings and Accumulated other comprehensive income (loss)				(1,088,782)		
Balance, December 31, 2008	\$1,746,878			\$(1,088,782)	\$1,290,501	\$1,948,597

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

Consolidated Statements of Comprehensive Income (loss)

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

Net loss for the year

Other comprehensive income (loss)

Change in fair value of forward contracts entered into in connection
with the acquisition of LMG (Note 5)

Allocation of change in fair value of forward contracts to the
carrying value of the investment (Note 5)

Cumulative translation adjustment on consolidation of self sustaining foreign subsidiaries

Comprehensive loss for the year

	2008	2007
	\$ (965,210)	\$ (25,686)
	-	11,119
	-	(11,119)
	(24,989)	-
	(24,989)	-
	\$ (990,199)	\$ (25,686)

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 share and per share amounts)

Cash flows from (used in)

Operating activities

	2008	2007
Net earnings (loss) for the period	\$ (965,210)	\$ (25,686)
Items not affecting cash		
Depreciation & amortization	108,474	67,856
Stock-based compensation	3,461	2,977
Impairment of long lived intangible assets and goodwill	1,160,700	-
Proportionate share of Partnership's net earnings from January 1, 2007 to March 13, 2007	-	(19,226)
Currency swap	(46,799)	(21,727)
Foreign exchange	49,100	-
Future income taxes	(26,768)	143,000
Accretion on note receivable	1,475	-
Changes in non-cash working capital items and deferred revenue		
Income taxes	29,953	-
Accounts receivable	7,732	(16,463)
Accounts payable and accrued liabilities	(57,129)	(2,251)
Deferred revenue	42,812	103,967
Other	19,069	1,180
Distributions received from the Partnership	-	22,324
Funding of stock-based compensation plans	(3,791)	(3,534)
	<u>1,288,289</u>	<u>278,103</u>
	323,079	252,417

Investing activities

Acquisitions of LMG and RMMEL, net of cash acquired and transaction costs related to the LMG acquisition	(39,553)	(545,775)
Increase in cash on consolidation of Partnership	-	220,460
Change in short-term investments	(353,980)	328,188
Additions to property, equipment, software and technology	(22,558)	(14,427)
Cash held in escrow, related to acquisition of LMG	-	(53,245)
	<u>(416,091)</u>	<u>(64,799)</u>

Financing activities

Monthly distributions and quarterly dividends	(122,981)	(159,486)
Redemption of units	(2)	(3)
Repurchase of units	-	(7,184)
Credit facilities drawn	-	440,000
Repayment of long-term debt	(40,000)	-
Financing costs	-	(4,973)
	<u>(162,983)</u>	<u>268,354</u>
Net change in cash and cash equivalents	(255,995)	455,972
Translation adjustment related to cash	(11,993)	-
Cash and cash equivalents, beginning of year	456,004	32
Cash and cash equivalents, end of year	\$ 188,016	\$ 456,004
Interest paid	\$ 68,989	\$ 12,611

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

Notes to Consolidated Financial Statements

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

1. STRUCTURE OF THE CORPORATION

Groupe Aeroplan Inc. (together with its direct and indirect wholly-owned subsidiaries, where the context requires, "Groupe Aeroplan" or the "Company") was incorporated on May 5, 2008 under the laws of Canada as a wholly-owned subsidiary of Aeroplan Income Fund (the "Fund"). The Company entered into an arrangement agreement dated May 8, 2008 with, among other parties, the Fund, pursuant to which the parties proposed to implement an arrangement under the Canada Business Corporations Act (the "Arrangement"). The Arrangement involved the exchange, on a one-for-one basis of units of the Fund for common shares of Groupe Aeroplan. As a result of the Arrangement, the holders of units of the Fund became the shareholders of Groupe Aeroplan which became the sole owner of all outstanding Fund units. The effective date of the Arrangement was June 25, 2008 (see note 3). On December 29 and 30, 2008, Groupe Aeroplan completed the reorganization of its corporate structure which began with the closing of the Arrangement on June 25, 2008. As a result of this reorganization, Aeroplan Limited Partnership (the "Partnership") was liquidated and dissolved and the Fund and Aeroplan Trust were wound-up.

The principal and head office of Groupe Aeroplan is located at 5100 de Maisonneuve Boulevard West, Montreal, Québec, H4A 3T2. Groupe Aeroplan earns income from its interest in Aeroplan Canada Inc. ("Aeroplan" or "Aeroplan Canada", the successor to the Partnership following the December 2008 reorganization), a Canadian customer loyalty marketing company, and from its other subsidiaries in Europe and the Middle East managed by Groupe Aeroplan Europe.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Generally accepted accounting principles

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

Principles of consolidation

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

Revenue recognition and cost of rewards

Groupe Aeroplan derives its revenues primarily from the sale of Aeroplan Miles, which are defined as the miles, points or other loyalty program reward units issued by Groupe Aeroplan's subsidiaries under the respective programs operated by each of the entities, to its Accumulation Partners, 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, separately for each program. 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 may affect members' redemption practices. During 2008, management assisted by an independent expert finalized an econometric model that takes into account historical activity, and expected member behaviour, projected on a going-concern basis. This tool will be used by Groupe Aeroplan to estimate and monitor the appropriate breakage estimates of the different programs it operates on a continuous basis. Groupe Aeroplan will no longer be relying on two independent expert studies to confirm the breakage rate every two years, however, it will continue to use an independent expert every two years to validate the robustness of the newly implemented breakage tool. Changes in the breakage factor are accounted for at the reporting unit level as follows: in the period of change, the deferred revenue balance is adjusted as if the revised estimate had been used in prior periods with the offsetting amount recorded as an adjustment to revenue; and for subsequent periods, the revised estimate is used. Based on the results of the application of the

model, incorporating the adjustments to the breakage rates applicable to the respective programs, operated by each of the subsidiary entities, the consolidated weighted average estimated breakage factor is 17% (2007: 16%). The impact of these changes in breakage estimates is an increase in revenue and earnings before income taxes of \$41.8 million, with \$32.7 million relating to prior years and an increase of \$9.1 million relating to the current year. Breakage is recognized ratably over the estimated average life of a mile or point issued being 30 and 15 months for the Aeroplan and Nectar programs, respectively, which has been determined in a rational and systematic manner.

In limited circumstances, Groupe Aeroplan may sell 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 Redemption Partners 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 servicing the Aeroplan program and for marketing services are recognized when the services are rendered.

Other revenue consists of charges to members for services rendered to members including booking, change and cancellation fees, other miscellaneous amounts, and royalties earned from the use of the Air Miles trademark and loyalty industry related business know how and expertise. 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.

Significant estimates made in the preparation of the consolidated financial statements include those used in accounting for breakage, income taxes, the determination of amortization period for long-lived assets, the impairment considerations on long-lived assets and goodwill, particularly future cash flows and cost of capital, the carrying value of financial instruments recorded at fair value and contingencies.

Employee future benefits

All of the contact centre agents servicing the Aeroplan program are employees of Air Canada, contractually assigned under the General Services Agreement ("GSA") 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 Groupe Aeroplan employees, excluding the contact centre agents, participate in the Company's defined contribution pension plans, which provide pension benefits based on the accumulated contributions and fund earnings.

Aeroplan 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 Aeroplan 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

Groupe Aeroplan provides for income taxes using the liability method of tax allocation. Under this method, future income tax assets and liabilities are determined based on deductible or taxable temporary differences between the financial statement values and the tax values of assets and liabilities, using substantively enacted income tax rates expected to be in effect for the year in which the differences are expected to reverse (note 16).

Dividends

Dividends payable by Groupe Aeroplan to its shareholders, which are determined at the discretion of the board of directors, are recorded when declared.

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.

Foreign Operations

All of Groupe Aeroplan's foreign operations are self sustaining. The assets and liabilities of foreign operations are translated at the rates of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rates for the year. Translation gains or losses are deferred and included in accumulated other comprehensive income.

Financial instruments and hedge accounting

Under Groupe Aeroplan's practices, derivative financial instruments are used only for risk management purposes and are not entered into for speculative purposes.

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

Groupe Aeroplan may, from time to time, enter into forward exchange contracts and currency swaps to manage the risk associated with acquisitions of foreign assets in order to mitigate the impact of currency fluctuations.

Derivative instruments are recorded at fair value. Changes in the fair values of derivative instruments are recognized in non-operating income (expense) with the exception of derivatives designated as effective cash flow hedges. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative is recognized as part of the related item while the ineffective portion is recognized in non-operating income (expense). In connection with the acquisition of Loyalty Management Group Limited, ("LMG"), Aeroplan purchased derivative instruments consisting of forward contracts and a currency swap. The forward contracts were designated as an accounting hedge of the foreign currency exposure of the anticipated investment, with any changes in fair value were reflected in accumulated other comprehensive income and ultimately allocated to the purchase price of the acquisition. Subsequent to the acquisition date of LMG, the currency swap was not designated as a hedge for accounting purposes and is held as a trading instrument, accordingly, all changes in the fair value of the currency swap are recognized in non-operating income as foreign exchange.

For financial instruments measured at amortized cost, transaction costs or fees, premiums or discounts earned or incurred are recorded, at inception, net against the fair value of the financial instrument. Interest expense is recorded using the effective interest method. For any guarantee issued that meets the definition of a guarantee pursuant to Accounting Guideline 14, *Disclosure of Guarantees* (“AcG-14”), the inception fair value of the obligation relating to the guarantee is recognized.

Groupe Aeroplan has classified its financial instruments as follows:

- cash and cash equivalents and short-term investments are classified as held-for-trading and any change in fair value is recorded through net income;
- accounts and note receivable are classified as loans and receivables and, are recorded at amortized cost;
- accounts payable and accrued liabilities, dividends payable, and long-term debt are classified as other financial liabilities and are recorded at amortized cost.

Comprehensive Income consists of Net Income and Other Comprehensive Income (“OCI”). OCI represents changes in Shareholders’ equity during a period arising from transactions and other events with non-owner sources that are recognized in Comprehensive Income, but excluded from Net Income. Cumulative translation adjustments related to the conversion of the foreign subsidiaries to Canadian dollars are recognized in OCI.

Cash and cash equivalents

Cash and cash equivalents consist of funds in current operating bank accounts, term deposits and fixed income securities with an original term to maturity of three months or less. The weighted average effective interest rate earned on investments held at December 31, 2008 was 1.5% (2007: 4.7%).

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 short-term investments held at December 31, 2008 was 3.8% (2007: 4.8%).

Property and equipment

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

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

Property and equipment are tested for impairment whenever circumstances indicate that the carrying value may not be recoverable. When such a situation arises, the future cash flows associated with the assets use and disposition are compared to its carrying amount to determine if the carrying amount is recoverable. Any impairment loss is measured as the amount by which the asset’s carrying value exceeds its fair value.

Accumulation Partners’ contracts and software and technology

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

Software and technology are recorded at cost and amortized using the straight-line method over 3 to 5 years. Software under development includes costs paid to third parties such as consultants' fees and other direct costs of development. Amortization will commence upon completion of development, once the software is available for use.

Accumulation Partners' contracts and software and technology are tested for impairment in the same manner as property and equipment.

Trade names and Goodwill

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

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized. On an annual basis, a goodwill impairment test is performed. This test is carried out more frequently if events or changes in circumstances indicate that goodwill might be impaired. A "step I" goodwill impairment test determines whether the fair value of a reporting unit exceeds the net carrying amount of that reporting unit as of the assessment date in order to assess if goodwill is impaired. If the fair value is greater than the net carrying amount, no impairment is necessary. In the event that the net carrying amount exceeds the fair value, a "Step II" goodwill impairment test must be performed in order to determine the amount of the impairment charge. Fair value of goodwill is estimated in the same way as goodwill is determined at the date of the acquisition in a business combination. That is, the excess of the fair value of the reporting unit over the fair value of the identifiable net assets of the reporting unit. To accomplish this step II test, the fair value of the reporting unit's goodwill must be estimated and compared to its carrying value. The excess of the carrying value over the fair value is taken as an impairment charge in the period (note 13).

For purposes of impairment testing, goodwill must be assigned and tested at the reporting unit level. Since December 21, 2007, Groupe Aeroplan has two reporting units, the Canadian unit which consists of Aeroplan Canada and the European and Middle East unit consisting of Groupe Aeroplan Europe's operations, including Nectar, LMG Insight & Communication and Air Miles Middle East.

Stock-based compensation plans

Management Employee Share Purchase Plan. On January 1, 2006, an ownership purchase plan was established allowing eligible employees to invest up to 5% of their salary for the purchase of Fund Units. Upon the Fund's conversion to a corporation, the plan was amended to allow for the purchase of Groupe Aeroplan common shares on the secondary market. The corporate yearly contribution, which is based on performance, is measured as a function of distributions paid, compared to target distributions, as 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%, is charged to earnings as compensation expense over the performance period, based on the estimated annual performance.

Initial Long-Term Incentive Plan. Aeroplan made certain commitments in connection with the granting of Fund Units to key employees, as a one-time special award to recognize their efforts in the creation of Aeroplan and completion of the initial public offering, and to provide them with incentive compensation under an Initial Long-Term Incentive Plan. On March 30, 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 were subject to vesting conditions based on Aeroplan's performance and the remaining

50% based on time. Performance based Units vested 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 were met, or on a cumulative basis at the end of the following performance period if such targets were met in that following performance period. All time based Units vested at the end of the three year period ending on June 29, 2008. Compensation costs related to the Fund Units contributed by ACE were charged to compensation expense over the vesting period, as vesting conditions were met, with the corresponding equity contribution being accreted to contributed surplus. Distributions declared by the Fund on the Units granted ultimately accrued to the employees. Forfeited Units, to the extent they were contributed by ACE, and accumulated distributions thereon accrued to ACE. The trust was a VIE with respect to Aeroplan, and as such, it is consolidated with Aeroplan's financial statements. Unvested Units contributed by ACE were credited to contributed surplus at their aggregate value on March 30, 2006, the contribution date, with an equivalent reduction of unitholders' capital. Compensation expense under this plan was charged to earnings over the vesting period, with a corresponding increase to equity. At December 31, 2008, the Initial Long-Term Incentive Plan is no longer in effect.

On-Going Long-Term Incentive Plan. Under the terms of the Aeroplan On-Going Long-Term Incentive Plan, eligible employees were entitled to yearly Groupe Aeroplan share grants determined on the basis of a percentage of their annual base salary. The shares, 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. Groupe Aeroplan purchases the shares on the secondary market, which are accounted for as an acquisition of treasury shares. Dividends declared by Groupe Aeroplan on any shares granted under this plan, may be invested in additional shares, which will vest concurrently and proportionately with the shares granted. Forfeited shares and accumulated dividends thereon accrue to Groupe Aeroplan. The trust is a VIE entity with respect to Groupe Aeroplan, and as such, it is consolidated with Groupe Aeroplan's financial statements. The fair value of Groupe Aeroplan's shares, at the grant date is charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. Groupe Aeroplan's cost of the shares held is presented as a reduction of share capital. Estimated compensation costs relative to this plan are accrued on the basis of actual performance relative to targets. Effective June 25, 2008, the On-Going Long-Term Incentive Plan was replaced by the Groupe Aeroplan Inc. Long-Term Incentive Plan.

Omnibus Plan. The Omnibus Compensation and Incentive Plan was 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 shares, which are held in a trust for the benefit of the eligible employees, vesting three years after the grant. Groupe Aeroplan will purchase the shares on the secondary market, which are accounted for as an acquisition of treasury shares. Dividends declared by Groupe Aeroplan on any shares granted under this plan, may be invested in additional shares, which will vest concurrently with the shares granted. Forfeited shares and accumulated dividends thereon accrue to Groupe Aeroplan. The trust is a VIE with respect to Groupe Aeroplan, and as such, it is consolidated with Groupe Aeroplan's financial statements. The fair value of Groupe Aeroplan's shares, at the grant date, is charged to earnings as compensation expense over the vesting period, with a corresponding increase to equity. Groupe Aeroplan's cost of the shares held is presented as a reduction of shareholders' capital. Effective June 25, 2008, except for remaining commitments to certain individuals, the Omnibus Plan was replaced by the Groupe Aeroplan Inc. Long-Term Incentive Plan.

Long-Term Incentive Plan. The Groupe Aeroplan Inc. Long-Term Incentive Plan (the “Plan”), which upon the Fund’s conversion to a corporation effectively replaced the Initial Long-Term Incentive, the On-Going Long-Term Incentive, and Omnibus Plans, was established to provide an opportunity for officers, senior executives and other employees of Groupe Aeroplan and its subsidiaries to participate in the growth and development of Groupe Aeroplan. Under the Plan, stock options or performance share units (“PSUs”) may be granted to eligible employees. The aggregate number of shares that may be issued under the Plan, at any time, may not exceed five percent of the issued and outstanding Groupe Aeroplan common shares. The vesting conditions of options and PSUs issued under the Plan, may include time and performance criteria, and are determined at the time of grant. In the case of options, the option term cannot exceed ten years, whereas the vesting period of PSUs shall end no later than December 31 of the calendar year which is three years after the calendar year in which the award is granted. The fair value of stock options or PSUs, at the date of grant to the eligible employees, is recognized as compensation expense and a credit to contributed surplus on a straight-line basis over the applicable vesting period.

Earnings per share

Earnings per share are calculated on a weighted average number of shares outstanding basis. Shares held under the various stock-based compensation plans reduce the weighted average number of Groupe Aeroplan’s outstanding shares from the date they are contributed into the respective plans.

Future Accounting Changes

Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064, *Goodwill and Intangible Assets* which provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. The standard is effective for fiscal years beginning on or after October 1, 2008, and requires retroactive application to prior period financial statements. Groupe Aeroplan has evaluated the impact of this new standard for adoption on January 1, 2009 and does not expect any significant impact on its consolidated financial statements.

Business Combinations, Consolidated Financial Statements and Non-controlling Interests

In January 2009, the CICA issued three new accounting standards: section 1582, *Business Combinations*, section 1601, *Consolidated Financial Statements*, and section 1602, *Non-controlling Interests*. These new standards will be effective for fiscal years beginning on or after January 1, 2011. Groupe Aeroplan is in the process of evaluating the requirements of the new standards.

Section 1582 replaced section 1581, and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to International Financial Reporting Standard IFRS3 – *Business Combinations*. The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011.

Sections 1601 and 1602, combined, replace section 1600 – *Consolidated Financial Statements*. Section 1601, establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements, subsequent to a business combination. It is equivalent to the corresponding provision of International Financial Reporting Standard IAS 27 – *Consolidated and Separate Financial Statements* and applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011.

3. THE ARRANGEMENT

On June 19, 2008, unitholders of the Fund voted, and approved, the reorganization of the Fund, by way of a plan of arrangement under the Canada Business Corporations Act (the "CBCA") into a corporation pursuant to an arrangement agreement dated May 8, 2008 between Groupe Aeroplan and the Fund. The Arrangement was completed and effective June 25, 2008. The purpose of the Arrangement was to convert the Fund's income trust structure into a corporate structure (see note 16).

The Arrangement resulted in unitholders receiving Groupe Aeroplan common shares in exchange for Fund units on a one-for-one basis and has been accounted for as a continuity of interests of Aeroplan Income Fund since Groupe Aeroplan continued to operate the business of the Fund and there have been no ownership changes. On December 29 and 30, 2008, Groupe Aeroplan completed the reorganization of its corporate structure which began with the closing of the Arrangement on June 25, 2008. As a result of this reorganization, the Partnership was liquidated and dissolved and the Fund and Aeroplan Trust were wound-up. The comparative figures are those of the Fund.

In addition and also approved pursuant to the Arrangement, Groupe Aeroplan reduced its capital maintained in respect of its common shares by an amount of \$1,500,000,000. This reduction has been applied first, in the amount of \$216,994,000, to reduce the accumulated deficit, with the balance of \$1,283,006,000 credited to contributed surplus (see note 20a).

As a result of the Fund's conversion pursuant to the Arrangement, holders of incentive rights under the predecessor Ongoing and Omnibus long term incentive plans will receive Groupe Aeroplan common shares rather than units of the Fund upon vesting of their respective grandfathered incentive rights.

All time-based incentive units granted under the Initial LTIP in June 2005 vested on June 29, 2008.

4. RELATED PARTY BALANCES

December 31,

	2008	2007
LMG employee loans receivable	\$ -	\$ 6,572
Notes payable to LMG employees	-	17,035

At December 31, 2007, ACE Aviation Holdings Inc. ("ACE") directly held a 20.1% interest in the Fund and, under the terms of a Securityholders' Agreement, had the ability, for as long as it owned more than a 20% interest in the Fund, to nominate a majority of the board of directors of Aeroplan Holding GP Inc.

Pursuant to a secondary offering which closed on April 21, 2008, ACE reduced its holdings to 9.9%, and on May 28, 2008, ACE disposed of its remaining holdings in the Fund. Subsequent to the May 28, 2008 disposal, ACE and the Fund terminated the Securityholders' Agreement and as a result ACE no longer has any director appointment rights. Effective May 28, 2008, Groupe Aeroplan is no longer related to ACE or the other companies controlled or subject to significant influence by ACE, including Air Canada.

5. ACQUISITION OF LMG

On December 20, 2007, Aeroplan acquired all of the outstanding shares of LMG for a total consideration of £355.1 million (\$715.4 million), including acquisition related costs of £8.1 million (\$16.0 million). In addition, an amount of £27.1 million (\$53.7 million) has been placed in escrow as contingent consideration, pending the outcome of outstanding Value Added Tax ("VAT") litigation (notes 7 and 18).

The acquisition of LMG was financed through excess cash on hand, funds from the Aeroplan Miles redemption reserve (the "Reserve"), and drawings under the existing and new bridge credit facilities, the issuance of 288,937 Fund units, with a market value of \$6.4 million, and notes payable to certain shareholders, in the amount of £8.7 million (\$17.4 million) which were repaid in the current year.

At the time of the acquisition LMG was primarily engaged in the operation of multi-partner coalition loyalty programs and the provision of related analytical services to retailers and their suppliers. LMG owned and operated the Nectar program in the United Kingdom, and owned rights to the Air Miles trademark. Following the acquisition, the LMG operations were folded into Groupe Aeroplan Europe.

In connection with the acquisition, Aeroplan purchased derivative instruments consisting of forward contracts and a currency swap. The forward contracts, in the aggregate amount of £123.4 million at an average exchange rate of 2.073, entered into on various dates, ranging from December 13 to December 17, 2007 and matured on December 19, 2007, were designated as an accounting cash flow hedge of the forecasted acquisition of LMG. The gain of \$11.1 million was applied, on the acquisition date, as a reduction of the purchase price. Aeroplan also entered into a currency swap for a 5 year term to December 19, 2012, swapping floating interest on £240.0 million at the 3-month sterling LIBOR rate, for floating interest on \$500.0 million at the 3-month CDOR rate. The currency swap does not meet the criteria for hedge accounting treatment, and is classified as held for trading and accordingly, changes in the fair value of the currency swap are recognized in non-operating income as foreign exchange

Aeroplan accounted for the acquisition under the purchase method of accounting. As permitted by Canadian accounting standards, at the time of the acquisition transaction, a preliminary estimate of the purchase price allocation was performed. The final valuation was completed during the fourth quarter of 2008. The purchase price allocation has been adjusted primarily to reflect the impact of the application of the breakage tool on the Nectar program and the resulting impact on deferred revenue, accumulation partners' contracts and goodwill. Other adjustments relate to certain accrued liabilities and the alignment of the calculation of future income taxes resulting from the acquisition.

The table below details the final purchase price allocation compared to that reported at December 31, 2007 and the underlying differences as follows:

		As previously reported	Adjustment	Final purchase price allocation
Purchase price				
Cash	£ 335,159	\$ 675,671	\$ -	\$ 675,671
Fund units issued	3,194	6,400	-	6,400
Notes payable	8,668	17,369	-	17,369
Transaction costs	8,069	16,000	-	16,000
	355,090	715,440	-	715,440
Net identifiable assets acquired:				
Current assets and liabilities				
Cash and cash equivalents		\$ 130,442	\$ 530	\$ 130,972
Short-term investments		49,560	10	49,570
Accounts receivable		134,790	-	134,790
Accounts payable and accrued liabilities		(214,261)	(7,763)	(222,024)
Income taxes payable		(3,857)	510	(3,347)
Deferred revenue		(252,529)	(57,196)	(309,725)
Note receivable		61,021	-	61,021
Property and equipment		625	-	625
Investment in RMMEL		5,441	-	5,441
Intangible assets				
Finite life				
Accumulation partners' contracts (5 to 25 years)		162,003	(66,224)	95,779
Software and technology (3 to 5 years)		42,638	-	42,638
Indefinite life				
Trade names (Indefinite)		161,093	-	161,093
Goodwill ^(a)		477,798	124,144	601,942
Future income taxes		(39,324)	5,989	(33,335)
		715,440	-	715,440

(a) Goodwill arising from the acquisition is not tax deductible.

6. INVESTMENT IN REWARDS MANAGEMENT MIDDLE EAST FREE ZONE LLC ("RMMEL")

At December 31, 2007, Groupe Aeroplan, through a wholly-owned subsidiary, held a 20% interest in RMMEL, a loyalty management company that operates the Air Miles programs in the United Arab Emirates, Qatar, and Bahrain. Groupe Aeroplan accounted for its investment in this company subject to significant influence, under the equity method of accounting.

On January 17, 2008, Groupe Aeroplan acquired an additional 40% participation in RMMEL for a consideration of AED 40.7 million (\$11.4 million). The acquisition of RMMEL was financed with cash on hand. As a result of this transaction, Groupe Aeroplan holds 60% of RMMEL and accordingly, effective January 17, 2008, changed its basis of accounting for its investment from the equity method to consolidation.

Aeroplan accounted for the acquisition under the purchase method of accounting. As permitted by Canadian accounting standards, at the time of the acquisition transaction, a preliminary estimate of the purchase price allocation was performed. The final valuation was completed during the fourth quarter of 2008. The purchase price allocation has been adjusted to reflect a reduction of the breakage rate and the resulting impact on deferred revenue and goodwill.

The table below details the final purchase price allocation compared to that reported at March 31, 2008 and the underlying differences as follows:

	AED	As previously reported	Adjustment	Final purchase price allocation
Purchase price				
Cash	40,000	\$ 11,200	\$ -	\$ 11,200
Transaction costs	714	200	-	200
	<u>40,714</u>	<u>11,400</u>	<u>-</u>	<u>11,400</u>
Carrying amount of original 20% interest		5,393	-	5,393
Total amount to be allocated		<u>16,793</u>	<u>-</u>	<u>16,793</u>
Net identifiable assets acquired:				
Current assets and liabilities				
Cash and cash equivalents		7,710	-	7,710
Accounts receivable		8,292	-	8,292
Accounts payable and accrued liabilities		(7,089)	-	(7,089)
Income taxes payable		(11)	-	(11)
Deferred revenue		(17,958)	(4,000)	(21,958)
Property and equipment		417	-	417
Intangible assets				
Finite life				
Accumulation partners' contracts (10 to 25 years)		20,570	-	20,570
Indefinite life				
Minority interest		(4,772)	1,600	(3,172)
Goodwill ^(a)		9,634	2,400	12,034
Total allocated		<u>16,793</u>	<u>-</u>	<u>16,793</u>

(a) Goodwill arising from the acquisition is not tax deductible.

7. CASH HELD IN ESCROW

Cash held in escrow, in the amount of \$48.5 million (£27.1 million), represents contingent consideration related to the December 2007 acquisition of LMG. In the event that the VAT litigation is decided in favour of Groupe Aeroplan, this contingent consideration will be distributed to the former shareholders of LMG with a corresponding amount to be recorded as an increase to goodwill (note 18).

8. CURRENCY SWAP

In connection with the December 2007 acquisition of LMG, Aeroplan entered into a currency swap arrangement to mitigate its exposure to currency rate fluctuations arising on the subsidiary's future profits. The currency swap is for a 5 year term to December 19, 2012, swapping floating interest on £240.0 million at the 3-month sterling LIBOR rate, for floating interest on \$500.0 million at the 3-month CDOR rate. The currency swap does not meet the criteria for hedge accounting treatment, and accordingly, changes in the fair value of the currency swap are recognized in non-operating income as foreign exchange. At December 31, 2008, the currency swap had a fair value of \$68.5 million (2007: \$21.7 million).

9. NOTE RECEIVABLE

This unsecured, non-interest bearing loan, in the principal amount of £40.0 million, which has been discounted using an effective interest rate of 6%, is due from a major Accumulation Partner and is repayable on July 1, 2012.

10. MAJOR ACCUMULATION PARTNERS AND SIGNIFICANT REDEMPTION PARTNER

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

<i>Year ended December 31,</i>	2008 %	2007 %
Air Canada	17	25
Accumulation Partner A	38	52
Accumulation Partner B	10	12
Accumulation Partner C	17	-

Contractual and commercial practices with Air Canada

Air Canada is one of Groupe Aeroplan's largest redemption partners providing air-travel related rewards. The cost of rewards provided by Air Canada (and other Star Alliance Partners) as a percentage of total rewards is as follows:

<i>Year ended December 31,</i>	2008 %	2007 %
Air Canada	57	90

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

CPSA

The amended and restated commercial participation services agreement dated June 9, 2004 between Air Canada and Aeroplan, as amended (the "CPSA"), which expires on June 29, 2020, covers the terms and conditions of the purchase of air travel rewards by Aeroplan from Air Canada and its affiliates, the purchase of Aeroplan Miles under the Aeroplan Program by Air Canada and its affiliates for issuance to members and the management of the tier membership program for certain Air Canada customers. Pursuant to the CPSA, Aeroplan is required to purchase annually a minimum number of reward travel seats on Air Canada and its affiliates, which number is based on a function of the number of seats utilized in the three preceding calendar years. Based on the three years ended December 31, 2008, Aeroplan is required to purchase reward travel seats with an exchange amount of approximately \$391.9 million each year. While Air Canada can change the number of per flight Aeroplan Miles under the Aeroplan Program awarded to members without Aeroplan's consent, Air Canada is required to purchase, on an annual basis, a pre-established number of Aeroplan Miles under the Aeroplan Program at a specified rate. Aeroplan is required to perform certain marketing and promotion services for Air Canada including contact centre services for the management of the frequent flyer tier membership program for a fee based on actual costs, on a fully allocated basis, plus an administrative fee. Aeroplan's ability to respond to members' requests for future rewards will depend on Air Canada's ability to provide the requested number of seats.

In November 2008, Groupe Aeroplan entered into an agreement with Air Canada to temporarily accelerate the contractual payment terms under the CPSA for air travel rewards purchased from Air Canada for the period from October 2008 to May 2009. Under this arrangement, at December 31, 2008, Aeroplan had paid Air Canada \$63 million in advance of normal settlement terms. This impact will reverse in 2009 upon expiry of this agreement. The payments by Air Canada to Aeroplan for the purchase of Aeroplan Miles are based on the original terms of settlement.

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.

11. AEROPLAN MILES REDEMPTION RESERVE

Groupe Aeroplan maintains the Aeroplan Miles redemption reserve (the "Reserve") to supplement cash flows generated from operations in order to pay for rewards during periods of unusually high redemption activity associated with Aeroplan Miles under the Aeroplan Program. As at December 31, 2008 and December 31, 2007, the Reserve amounted to \$400.0 million and is included in cash and cash equivalents and short-term investments.

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

Any deposits of funds in non-Canadian dollar denominated investments are required to be hedged. At December 31, 2008, all the investments held as part of the reserve were denominated in Canadian dollars.

12. ACCUMULATION PARTNERS' CONTRACTS, PROPERTY AND EQUIPMENT AND SOFTWARE AND TECHNOLOGY

<i>December 31, 2008</i>	Cost	Accumulated depreciation and amortization	Impairment Writedown (note 13)	Net
Accumulation Partners' contracts	\$ 1,608,509	\$ 125,307	\$ 64,804	\$ 1,418,398
Property and equipment				
Furniture, fixtures and computer hardware	7,694	6,481	-	1,213
Leasehold improvements	2,290	1,381	-	909
	<u>9,984</u>	<u>7,862</u>	<u>-</u>	<u>2,122</u>
Software and technology				
Software and technology	138,906	56,122	10,000	72,784
Software under development	28,162	-	-	28,162
	<u>167,068</u>	<u>56,122</u>	<u>10,000</u>	<u>100,946</u>

<i>December 31, 2007</i>	Cost	Accumulated depreciation and amortization	Net
Accumulation Partners' contracts	\$ 1,646,953	\$ 51,743	\$ 1,595,210
Property and equipment			
Furniture, fixtures and computer hardware	771	160	611
Leasehold improvements	1,408	311	1,097
	<u>2,179</u>	<u>471</u>	<u>1,708</u>
Software and technology			
Software and technology	117,285	15,525	101,760
Software under development	18,403	-	18,403
	<u>135,688</u>	<u>15,525</u>	<u>120,163</u>

13. IMPAIRMENT OF LONG-LIVED INTANGIBLE ASSETS AND GOODWILL

	Accumulation Partners' contracts		Software & technology		Trade names		Goodwill	
	Reporting unit		Reporting unit		Reporting unit		Reporting unit	
	Aeroplan	Europe and Middle East	Aeroplan	Europe and Middle East	Aeroplan	Europe and Middle East	Aeroplan	Europe and Middle East
Balance –								
December 31, 2007	\$ 1,434,635	\$ 160,575	\$ 77,901	\$ 42,262	\$ 275,000	\$ 159,671	\$ 2,517,237	\$ 477,453
Adjustment ⁽¹⁾	-	(66,224)	-	-	-	-	-	76,782
Additions (disposals)	-	20,570	17,862	7,560	-	-	-	19,134
Amortization	(64,422)	-	(19,786)	(10,568)	-	-	-	-
Impairment charge	-	(64,804)	-	(10,000)	-	(21,497)	(841,395)	(223,004)
Foreign exchange translation adjustment	-	(1,934)	-	(4,285)	-	(9,029)	-	(50,205)
Balance –								
December 31, 2008	1,370,215	48,183	75,977	24,969	275,000	129,145	1,675,842	300,160

(1) During the last quarter of 2008, Groupe Aeroplan adjusted the purchase price allocation relating to the December 2007 acquisition of LMG and the January 2008 acquisition of RMMEL, primarily to reflect the impact of the breakage model on the Nectar and RMMEL programs (notes 5 and 6). This resulted in an increase to goodwill of \$126.5 million. Goodwill has been reduced by the benefit of VAT input tax credits, in the aggregate amount of £27.8 million (\$49.8 million) relating to the VAT appeal recorded during the current year (note 18).

At December 31, 2008, Groupe Aeroplan performed impairment tests of its amortizable property and equipment and amortizable intangibles consisting of accumulated partner contracts and software and technology; its trade name; and its goodwill. As a result of these impairment tests, Aeroplan recorded impairment losses reflecting the decline in expected future cash flows reflecting the current economic conditions which generally is expected to result in a tightening of general consumer spending and travel and increased discount rates used in determining fair values reflecting current market conditions and uncertainties.

For amortizable assets, management determined that the undiscounted cash flows for the assets of the Europe and Middle East reporting unit were below the carrying value of the net assets of the reporting unit. Management determined the fair value of the group of assets at the reporting unit level, as well as, the fair value of accumulation partners' contracts and software and technology. The resulting impairment loss was allocated on a pro rata basis to reduce the carrying value of the amortizable assets, except for the accumulated partners' contracts and software and technology, which were reduced to their respective fair values. Fair value of the group of assets was determined using a discounted cash flow model, as explained below, for goodwill step 1 impairment testing. The fair value of accumulated partners' contracts and software and technology was determined using the income approach valuation technique. The impairment loss related to amortizable assets of the Europe and Middle East reporting unit was \$74.8 million, which has been included in impairment of long-lived intangibles. In addition, the Nectar trade name was written down to its fair value.

The impairment loss related to goodwill for the Aeroplan and Europe and Middle East reporting units was computed as follows:

Step I Impairment Test:

Groupe Aeroplan determined that the discounted cash flow method (“DCF”) was the most appropriate approach to determine the respective fair value of the reporting units. Financial projections of future cash flows, for the period from 2009 to 2011 (the “Forecast Period”), served as the basis of calculation for the DCF and terminal value calculations. The discounted future cash flow analysis resulted in a fair value of the reporting units below the carrying value of the net assets by \$841.4 million for Aeroplan and \$319.3 million for the Europe and Middle East reporting unit.

Step II Impairment Test:

In Step II of the impairment test, the estimated fair value of the reporting units, determined in Step I, was allocated to its assets and liabilities, based on their fair values, in order to arrive at the fair value of goodwill for each of the respective reporting units. The step II impairment test concluded that the fair value of goodwill, at Aeroplan was impaired by \$841.4 million, and accordingly, an impairment charge of that amount was recorded against goodwill in the fourth quarter of 2008, to reduce the carrying value to fair value. Similarly, for the Europe and Middle East reporting unit, the step II impairment test concluded that goodwill was impaired by \$223.0 million.

14. EMPLOYEE FUTURE BENEFITS

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

December 31,	2008		2007	
	Pension benefits	Other future benefits	Pension benefits	Other future benefits
Contact centre employees	\$ 5,724	\$ 1,270	\$ 4,608	\$ 1,021
Other Groupe Aeroplan employees	2,660	-	924	-
	8,384	1,270	5,532	1,021

As a result of 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 a commercial agreement signed with Air Canada, which 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 below.

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.

Remaining maximum payments in respect of the special payments should not exceed \$9.4 million over the period ending December 31, 2013. The obligation in respect of special payments does not survive early termination. In the event that all the assigned employees become Aeroplan employees, Aeroplan may be required to assume certain liabilities with respect to the assigned employees as of the transfer date.

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

Year	Amount
2009	\$ 1,883
2010	1,883
2011	1,883
2012	1,883
2013	1,883
	9,415

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

In accordance with the termination provisions of the GSA, Aeroplan notified Air Canada of its plans to terminate the GSA, effective June 1, 2009. On November 27, 2008 Aeroplan delivered to Air Canada its formal six-month notice of termination of the GSA and subsequently offered all agents continued employment as of June 1, 2009, in the same positions, unless, if eligible, they elect to return to Air Canada. On January 14, 2009 Aeroplan announced that it had come to a tentative three-year agreement with the CAW and Air Canada with respect to the transition of the contact centre employees from Air Canada to Aeroplan employment. The agreement included a detailed transition plan for affected employees, in addition to a new labour contract. On January 28, 2009 Aeroplan announced that the tentative labour agreement had not been ratified and that all agents working in Aeroplan's contact centres in Vancouver and Montreal are being offered continued employment effective June 1, 2009 as per the original offer. Given that the outcome of future negotiations with the CAW and Air Canada, related to the collective agreement with contact centre agents and the potential transfer of the pension liability, respectively, it is difficult to determine, at this time, with any degree of certainty, the impact, if any, of their result on selling, general and administrative expenses.

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

15. LONG-TERM DEBT

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

	Authorized	Drawn at December 31, 2008	Drawn at December 31, 2007
Revolving term facility ^(a)	\$ 150,000	\$ -	\$ 40,000
Term facility ^(a)	300,000	300,000	300,000
Acquisition facility ^(a)	100,000	100,000	100,000
Bridge facility ^(b)	300,000	300,000	300,000
Prepaid interest ^(c)	-	(1,479)	(457)
Unamortized transaction costs ^(c)	-	(1,552)	(4,857)
	850,000	696,969	734,686
Less: current portion		200,000	-
Total	850,000	496,969	734,686

(a) The revolving term, term, and acquisition facilities mature on December 19, 2010, or earlier at the option of Groupe Aeroplan, without penalty, and bear interest at rates ranging from Canadian prime rate and U.S. base rate plus 0.25% to Canadian prime rate and U.S. base rate plus 1.00% and the Bankers' Acceptance rate and LIBOR plus 1.25% to 2.00%. The revolving term facility was amended on December 19, 2007 to increase the maximum authorized borrowings under this facility from \$75 million to \$150 million.

At December 31, 2008, amounts borrowed under the term, and acquisition facilities, were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 3.7%.

Letters of credit:

Groupe Aeroplan has issued irrevocable letters of credit in the aggregate amount of \$520,000. This amount reduces the available credit under the revolving term facility.

(b) The bridge facility, which was entered into on December 19, 2007, matures on June 19, 2009, or earlier at the option of Groupe Aeroplan, without penalty, and bears interest at rates ranging from Canadian prime rate plus 0.25% to 1.00% and the Bankers' Acceptance rate plus 1.25% to 2.00%. The total amount borrowed under this facility may, under certain conditions, at the option of Groupe Aeroplan, be extended to December 19, 2009 and an amount of \$100 million may be further extended to June 19, 2010. At December 31, 2008, borrowings under the bridge facility were in the form of Bankers' Acceptances with a 30 day term and an effective interest rate of 3.69%.

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

Borrowings under the credit facilities are secured by substantially all the present and future assets of Groupe Aeroplan.

The continued availability of the credit facilities is subject to Groupe Aeroplan's ability to maintain certain leverage, debt service and interest coverage covenants, as well as other affirmative and negative covenants, including the limitation of distribution payments in any given fiscal year to 50% of adjusted free cash flow, as defined in the credit agreements.

16. INCOME TAXES

Prior to June 25, 2008, immediately prior to converting to a corporation, the Fund, as a publicly traded income trust, qualified for special income tax treatment that permitted a tax deduction for distributions paid to unitholders. For taxation purposes, the Fund was considered a specified investment flow-through ("SIFT") entity and was to become subject to tax commencing January 1, 2011. For accounting purposes, the Fund computed future income tax, based on temporary differences that were expected to reverse after 2010, at the tax rate expected to apply for those periods. The Fund was not subject to, and did not recognize, any current income taxes or future income tax assets or liabilities on temporary differences expected to reverse prior to 2011.

Effective June 25, 2008, upon conversion to a corporate structure, Groupe Aeroplan became subject to tax on taxable income earned from that date. Current income taxes recorded prior to June 25, 2008 relate to foreign operations of the subsidiary companies.

Groupe Aeroplan's provision for income taxes is made up as follows:

<i>December 31, 2008</i>	%	\$
Reconciliation of statutory tax rate:		
Income taxes expense (recovery) at Canadian statutory tax rate:	30.80	(298,405)
Adjusted for the effect of:		
Fund's earnings – distributed to unitholders and therefore not subject to tax	2.16	(20,879)
Permanent differences – goodwill impairment	(33.18)	321,509
Permanent differences – other	1.40	(13,748)
Foreign operations – subject to lower tax rates	(0.80)	7,884
Income tax expense (recovery), as reported in the consolidated statements of operations and effective tax rate	0.38	(3,639)

Future income taxes consist of the following future income tax assets (liabilities) relating to temporary differences for:

<i>December 31,</i>	2008	2007
Current assets		
Deferred revenue	\$ 36,004	\$ 27,422
Losses available for carryforward	23,107	-
Note receivable	3,522	4,833
Other	(3,722)	3,107
	58,911	35,362
Long-term liabilities		
Accumulation Partners' contracts and trade names	(366,614)	(374,880)
Eligible capital expenditures	190,613	170,709
	(176,001)	(204,171)
Software and technology	(19,162)	(14,263)
Deferred transaction costs	2,513	434
Other	(850)	-
	(193,500)	(218,000)

17. DEFERRED REVENUE

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

December 31,	2008	2007
Opening balance	\$ 1,820,280	\$ 1,466,012
Aeroplan Miles issued – Gross billings	1,420,548	769,783
Deferred revenue assumed on acquisition of RMME	78,649	-
Deferred revenue assumed on acquisition of LMG	-	250,301
Revenue recognized for Aeroplan Miles redeemed and Breakage	(1,377,736)	(665,816)
Other foreign currency adjustments	(32,269)	-
Ending balance	<u>1,909,472</u>	<u>1,820,280</u>
Represented by:		
Current portion^(a)	1,171,438	1,193,669
Long-term	<u>738,034</u>	<u>626,611</u>

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

18. CONTINGENT LIABILITIES

Air Canada Miles issued prior to January 1, 2002

In accordance with the CPSA, Air Canada is responsible for the cost of the redemption for air rewards of up to a maximum of 112.4 billion Air Canada Miles accumulated by members prior to January 1, 2002. As of December 31, 2008, 109.2 billion of those Air Canada Miles had been redeemed.

In the event that Air Canada is unable to meet its obligation, Aeroplan may be required to honor Air Canada's redemption obligation. Based on Aeroplan's current average redemption cost per mile, as calculated on the basis of the current average redemption cost, calculated as a function of actual prices with Redemption Partners, including Air Canada, and the experienced mix of the various types of rewards that members have selected, based on past experience, such obligation would amount to approximately \$28.7 million at December 31, 2008.

Also under the CPSA, Aeroplan is responsible for any redemption for air rewards of Air Canada Miles issued prior to January 1, 2002, in excess of the 112.4 billion Air Canada Miles. While on the basis of current estimates, Aeroplan does not expect such redemptions to exceed 112.4 billion Air Canada Miles, the maximum potential redemption cost of meeting this obligation if all 12.6 billion estimated broken but unexpired Air Canada Miles were to be redeemed, amounts to \$113.7 million at December 31, 2008.

As a result, the total maximum potential redemption cost of meeting this obligation, which would be charged to costs of rewards as the Air Canada Miles are redeemed, for the total outstanding and unbroken Air Canada Miles issued prior to January 1, 2002 is estimated to be \$142.4 million at December 31, 2008.

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

Aeroplan Miles issued after January 1, 2002

In addition, Groupe Aeroplan may be required to provide rewards to members for unexpired Aeroplan Miles accounted for as Breakage on the Aeroplan Miles issued after December 31, 2001 for which the Breakage revenue has been recognized or deferred and for which no liability has been recorded. The maximum potential redemption cost for such Aeroplan Miles is estimated to be \$853.1 million at December 31, 2008. The potential redemption costs, noted above, have been calculated on the basis of the current average redemption cost, calculated as a function of actual prices with Redemption Partners, including Air Canada, and the experienced mix of the various types of rewards that members have selected, based on past experience.

On a consolidated basis, management estimates that a 1% change in Breakage would have a total impact on revenue and earnings before income taxes of \$65.3 million for the period in which the change occurred, with \$52.2 million relating to prior years and \$13.1 million relating to the current year.

VAT Appeal (note 7)

LMG has been in litigation with Her Majesty's Revenue & Customs ("HMRC") since 2003 relating to the VAT treatment of the Nectar Program as it applies to the deductibility of input tax credits in the remittance of VAT owed, and has paid an assessed amount of £13.8 million (\$27.1 million).

LMG appealed to the VAT and Duties Tribunal and was successful. HMRC then appealed to the High Court which found in favour of HMRC. LMG, in turn, appealed to the Court of Appeal, who issued a judgement in favour of LMG on October 5, 2007 requiring the refund of the assessed amount and confirming LMG's eligibility to deduct input tax credits in the future. As a result of this event, an amount receivable of £13.8 million (\$27.1 million) was recorded at December 31, 2007 and subsequently collected in January 2008.

HMRC has sought leave to appeal the Court of Appeal's decision to the House of Lords. The hearing on whether to grant leave to appeal was held on April 3, 2008. The House of Lords granted the leave to appeal and the case has been referred to the European Court of Justice. The case will be heard at a future date to be set. Until the outcome is known, it is unclear whether LMG will have to repay amounts awarded under the October 5, 2007 judgement, as well as any VAT recovered as a deduction in calculating input tax credits until such time as a decision is rendered, together with interest thereon. At December 31, 2008, LMG has recorded in its accounts the benefit of VAT input tax credits in the aggregate amount of £27.8 million (\$49.8 million) which is accounted for as a reduction of goodwill.

At this time, the outcome of this contingency is not determinable and no provision for a liability has been included in these financial statements.

Other

From time to time, Groupe Aeroplan becomes involved in various claims and litigation as part of its normal course of business. While the final outcome thereof cannot be predicted, based on the information currently available, management believes the resolution of current pending claims and litigation will not have a material impact on Groupe Aeroplan's financial position and results of operations.

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

19. DISTRIBUTIONS / DIVIDENDS

Distributions declared to unitholders of the Fund for the period up to the date of conversion were as follows:

Record date	2008		2007	
	Amount	Amount per Aeroplan Unit	Amount	Amount per Aeroplan Unit
Distributions				
January	\$ 13,997,815	\$ 0.0700	\$ 11,161,792	\$ 0.0700
February	13,997,815	0.0700	11,161,792	0.0700
March	13,997,815	0.0700	14,000,000	0.0700
April	13,997,815	0.0700	14,000,000	0.0700
May	13,997,815	0.0700	13,999,994	0.0700
June	13,997,804	0.0700	13,999,994	0.0700
July	-	-	13,999,992	0.0700
August	-	-	13,999,992	0.0700
September	-	-	13,999,990	0.0700
October	-	-	13,999,990	0.0700
November	-	-	13,999,990	0.0700
December	-	-	13,997,815	0.0700
	<u>83,986,829</u>	<u>0.4200</u>	<u>162,321,341</u>	<u>0.8400</u>

In addition, during the fourth quarter of 2008, Groupe Aeroplan declared and paid a cash dividend of \$24,996,078 or \$0.125 per common share.

20. CAPITAL STOCK

a) Capital stock

Authorized:

An unlimited number of common shares, voting;

An unlimited number of preferred shares, non-voting, non-participating, issuable in series.

Issued and outstanding:

<i>December 31, 2008</i>	Number of shares	\$
Common Shares:		
Opening balance	-	-
Shares issued pursuant to the arrangement	199,968,622	3,258,204
Shares held by stock-based compensation plan	(584,804)	(11,326)
Capital reduction pursuant to the arrangement	-	(1,500,000)
Closing balance	<u>199,383,818</u>	<u>1,746,878</u>

b) Unitholders' capital

Description	2008		2007	
	Number of units	\$	Number of units	\$
<i>December 31,</i>				
Issued June 2005 for \$10 each, net of issue costs of \$2,250,000	28,750,000	285,250	28,750,000	285,250
Issued on March 3, 2006 for \$12.40 each	20,204,165	250,532	20,204,165	250,532
Issued on March 31, 2006 for \$12.90 each	500,000	6,450	500,000	6,450
Issued on December 28, 2006 for \$17.00 each	50,000,000	850,000	50,000,000	850,000
Issued on January 10, 2007 for \$17.97 each	60,000,000	1,078,200	60,000,000	1,078,200
Issued on March 14, 2007 for \$19.40 each	40,545,835	786,589	40,545,835	786,589
Sub-total	200,000,000	3,257,021	200,000,000	3,257,021
Redemption of Units tendered	(315)	(6)	(146)	(3)
Repurchased and cancelled	(320,000)	(5,211)	(320,000)	(5,211)
Issued on December 20, 2007 for \$22.15	288,937	6,400	288,937	6,400
	199,968,622	3,258,204	199,968,791	3,258,207
Fund Units held to fund stock-based compensation plans	-	-	(560,739)	(10,132)
Sub-total	199,968,622	3,258,204	199,408,052	3,248,075
Fund units cancelled on June 25, 2008, under the Arrangement	(199,968,622)	(3,258,204)	-	-
Unitholders' capital – closing balance	-	-	199,408,052	3,248,075

c) Stock-based compensation

Groupe Aeroplan Long-Term Incentive Plan

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

	<u>2008</u>
Compensation expense relating to the options granted	\$ 101
Number of stock options granted	430,000
Weighted average fair value per option granted	\$ 3.16
Aggregate fair value of options granted	\$ 1,360
Weighted average assumptions:	
Risk-free interest rate	3.26%
Expected volatility	29.34%
Dividend yield	4.33%
Expected option life (years)	7
Vesting conditions – time	<u>4 years</u>

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

<i>December 31, 2008</i>	Options (000's)	Weighted Average Exercise Price/Share	Expiry date	Weighted Average Remaining life (years)
Opening balance, beginning of year	-	-	-	-
Granted	430	\$12.88	2015	7
Options outstanding, end of year	430	\$12.88	2015	7
Options exercisable, end of year	-	-	-	-

2008 Outstanding Options

Range of Exercise Prices	Expiry dates	Number of Options Outstanding (000's)	Weighted Average Remaining Life (years)	Weighted Average Exercise Price/Share
\$15.07	2015	305	7	\$ 15.07
\$7.52	2015	125	7	\$ 7.52
	-	430	-	\$ 12.88

The details of Groupe Aeroplan shares held under stock-based compensation plans described in note 2 are as follows:

<i>December 31, 2008</i>	Initial LTIP	On-going LTIP	Omnibus plan
Number of Aeroplan Shares outstanding – beginning of year	201,246	146,993	212,500
Number of Aeroplan Shares granted during the year	-	130,673	123,022
	201,246	277,666	335,522
Number of Aeroplan Shares forfeited	-	(20,891)	(36,500)
	201,246	256,775	299,022
Number of Aeroplan Shares vested	(201,246)	-	-
Number of Aeroplan Shares outstanding – end of year	-	256,775	299,022
Weighted average remaining life (years)	-	1.64	2.11
Cost of Aeroplan Shares purchased during the period (\$)	-	\$ 2,043	\$ 1,748
Weighted average fair value per Aeroplan share on date of grant (\$)	-	\$ 17.34	\$ 19.99
Expense for the year (\$)	\$ 431	\$ 1,429	\$ 1,601

Pursuant to the terms of various employment contracts with certain management employees, Groupe Aeroplan has committed to annual grants, under certain conditions, of common shares under the Plan as follows:

Year ending December 31,	shares
2009	101,500
2010	80,000
2011	80,000
2012	30,000
2013	30,000
Thereafter	40,000
Total shares to be granted	361,500

Pursuant to the terms of the On-going and Omnibus plans, Groupe Aeroplan shares 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.

21. COMMITMENTS

The minimum lease payments under various operating leases and payments under other commitments are as follows:

Year ending December 31,	Operating leases	Technology infrastructure and other	Marketing support ⁽¹⁾	Total
2009	\$ 4,486	\$ 24,791	\$ 15,422	\$ 44,699
2010	4,166	22,272	15,422	41,860
2011	4,135	13,936	15,422	33,493
2012	2,317	6,484	10,948	19,749
2013	2,313	4,670	2,000	8,983
Thereafter	4,221	477	2,000	6,698
	21,638	72,630	61,214	155,482

(1) Marketing support amounts represent maximum obligations in connection with the Company's undertakings to promote the loyalty programs it operates.

Under the terms of certain contractual obligations with a major Accumulation Partner, Groupe Aeroplan is required to maintain certain minimum working capital amounts in accordance with pre-established formulae. At December 31, 2008, Aeroplan complied with all such covenants.

22. SEGMENTED INFORMATION

At December 31, 2008, the Company has two business segments: Canada which includes the operations of Aeroplan, and Europe and Middle East which includes Groupe Aeroplan Europe's operations in Europe and the Middle East.

The table below summarizes the relevant financial information by segment:

December 31,	2008			2007		
	Canada	Europe and Middle East	Consolidated	Canada	Europe and Middle East	Consolidated
Geographic segmentation						
Gross billings	\$ 1,025,184	\$ 395,364	\$ 1,420,548	\$ 952,165	\$ -	\$ 952,165
Revenue	1,008,987	449,243	1,458,230	710,163	-	710,163
Cost of rewards	567,599	291,483	859,082	415,954	-	415,954
Gross margin	441,388	157,760	599,148	294,209	-	294,209
Selling, general and administration expenses	175,383	96,208	271,591	133,318	-	133,318
Depreciation and amortization	85,877	22,597	108,474	67,739	-	67,739
Impairment of long lived intangibles and goodwill	841,395	319,305	1,160,700	-	-	-
Earnings (loss) before income taxes	(699,004)	(269,845)	(968,849)	117,314	-	117,314
Additions to capital assets	19,186	9,132	28,318	15,350	-	15,350
Additions to goodwill	-	12,034	12,034	-	477,453	477,453
Goodwill	1,676,108	299,894	1,976,002	2,517,237	477,453	2,994,690
Deferred revenue	1,641,626	267,846	1,909,472	1,569,979	250,301	1,820,280
Total assets	4,785,482	232,238	5,017,720	5,370,727	747,613	6,118,340

23. CAPITAL DISCLOSURES

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

Groupe Aeroplan's main objectives when managing capital are:

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

In managing its capital structure, Groupe Aeroplan monitors performance throughout the year to ensure anticipated cash dividends, working capital requirements and maintenance capital expenditures are funded from operations, available cash on deposit and, where applicable, bank borrowings. Groupe Aeroplan manages its capital structure and may make adjustments to it, in order to support the broader corporate strategy or in response to changes in economic conditions and risk. In order to maintain or adjust its capital structure, Groupe Aeroplan may adjust the amount of dividends paid to shareholders, purchase

shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt (with different characteristics), or reduce the amount of existing debt.

The total capital as at December 31, 2008 and December 31, 2007 is calculated as follows:

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ (188,016)	\$ (456,004)
Short-term investments	(477,341)	(123,361)
Long-term debt (including current portion)	696,969	734,686
Shareholders' (Unitholders') Capital	1,746,878	3,248,075
Contributed surplus	1,290,501	9,582
Retained earnings (Deficit)	<u>(1,088,782)</u>	<u>(206,592)</u>
Total capital	<u>1,980,209</u>	<u>3,206,386</u>

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

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

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

Ratio	Test	Result
Leverage	≤ 3.0	2.03
Debt service ^(a)	≤ 3.0	0.11
Interest coverage	≥ 3.0	13.83

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

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

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

Groupe Aeroplan has also established the Reserve, which at December 31, 2008 amounted to \$400.0 million and is 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 upon policies established by management. This

internally imposed reserve, which was established as a matter of prudence, may be used to supplement cash flows generated from operations in order to pay for rewards during periods of unusually high redemption activity. To date, Groupe Aeroplan has not had to use the funds held in the Reserve. Management is of the opinion that the Reserve is sufficient to cover redemption costs, including redemption costs incurred in periods of unusually high redemption activity, as they become due, in the normal course of operations.

24. FINANCIAL INSTRUMENTS

Groupe Aeroplan's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, note receivable, accounts payable and accrued liabilities, dividends/distributions payable, and long-term debt.

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

Interest rate risk

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

Groupe 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 facilities with an objective to mitigate the interest rate exposure.

At December 31, 2008, the interest rate profile of Groupe Aeroplan's interest bearing financial instruments was as follows:

<i>December 31,</i>	<u>2008</u>	<u>2007</u>
Variable rate instruments		
Cash and short-term investments	\$ 665,357	\$ 579,365
Long-term debt	(700,000)	(740,000)
Currency swap	68,526	21,727

For the year ended December 31, 2008, management has determined that a 1% variance in the interest rates on the cash and short-term investments would result in a variance in earnings before tax of \$6.7 million, while a 1% variance in the interest rates on long-term debt would result in a variance in earnings before tax of \$7.0 million. Similarly, management has determined that a 1% variance in either the LIBOR or CDOR rates, would have an impact of approximately \$1.1 million on the fair value of the swap.

Credit risk

Credit risk is the risk of loss due to a counterparty's inability to meet its obligations. As at December 31, 2008, Groupe Aeroplan's credit risk exposure consists mainly of the carrying amounts of Cash and cash equivalents, Short-term investments, Accounts receivable, and Note receivable.

In accordance with its investment policy, Groupe Aeroplan invests the Reserve and excess cash, included in short-term investments and cash and cash equivalents in commercial paper or corporate bonds with a minimum rating of R-1 (high) or AA (low), and bankers' acceptances or term deposits, subject to certain thresholds to reduce undue exposure to any one issuer. The credit risk on short-term investments and cash and cash equivalents is limited because the counterparties are banks with high credit-ratings, assigned by international credit-ratings agencies. At December 31, 2008, the Reserve and excess cash is invested in bankers' acceptances and overnight and term deposits.

With respect to accounts receivable and the note receivable, Groupe Aeroplan is exposed to a concentration of credit risk on the Accumulation Partners, as identified in note 10. However, any exposure associated with these customers is mitigated by the relative size and nature of business carried on by such partners. A significant portion of accounts receivable is due from banks with high credit-ratings assigned by international credit-ratings agencies. At December 31, 2008, approximately \$ 45.7 million (or 21.2%) of accounts receivable are with one company, Air Canada. Accordingly, Groupe Aeroplan is directly affected by the financial and operational strength of Air Canada. In order to manage its exposure to credit risk and assess credit quality, Groupe Aeroplan reviews counterparty credit ratings on a regular basis and sets credit limits when deemed necessary. Historically, bad debts experienced by Groupe Aeroplan have been negligible.

Liquidity risk

Groupe Aeroplan's objective is to maintain sufficient liquidity to meet its financial liabilities as they come due as well as to demonstrate compliance with liquidity covenants on credit facilities. Groupe Aeroplan manages liquidity risk through financial leverage which includes monitoring of its cash balances and uses cash flows generated from operations to meet financial liability requirements. At December 31, 2008, Groupe Aeroplan had authorized credit facilities of \$850 million and drawings of \$700 million, with maturities at various dates through December 19, 2010, against the facilities. The credit facilities are provided by a syndicate that consists of fifteen institutional lenders. While it is Groupe Aeroplan's intention to renew or replace credit facilities as they come due, given the current credit market conditions, it is anticipated that such renewal or replacement may occur at terms that are less favorable than current terms. Groupe Aeroplan is evaluating options to refinance all or part of its existing debt. These include, but are not limited to, establishing replacement bank facilities, issuing new debt or equity to replace and/or repay existing debt (with different characteristics), the application of cash balances to reduce the amount of existing debt, and the potential reduction of cash dividends paid to shareholders.

Currency risk

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

At December 31, 2008, Groupe Aeroplan held net financial assets denominated in £ sterling of approximately £136.6 million. A 1% variance in the £ sterling foreign exchange rate would result in a \$2.4 million variance in the net assets of Groupe Aeroplan.

In addition, management has determined that 1% variance in the £ sterling exchange rate attributable to the currency swap would result in a \$4.4 million variance in the fair value of the swap.

Financial instruments – carrying amounts and fair values

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

December 31,	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Held for trading:				
Cash and cash equivalents and short-term investments	\$ 665,357	\$ 665,357	\$ 579,365	\$ 579,365
Loans and receivables:				
Accounts receivable	215,821	215,821	216,324	216,324
Note receivable	59,007	59,007	60,482	60,482
Financial liabilities				
Other financial liabilities:				
Accounts payable and accrued liabilities	235,408	235,408	276,490	276,490
Distributions payable	-	-	13,998	13,998
Long-term debt	696,969	698,521	734,686	739,543
Derivatives				
Currency swap	68,526	68,526	21,727	21,727

Fair value of financial instruments

The carrying amounts reported in the balance sheet for cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate fair values based on the immediate or short-term maturities of these financial instruments. The carrying amount of the note receivable approximates fair value based on discounted cash flows. The fair value of the borrowings under the credit facilities of approximately \$698.5 million is estimated as carrying value adjusted to remove unamortized transaction costs, since they bear interest at floating rates, and are typically drawn in the form of Bankers' Acceptances with a short-term maturity. The carrying amount of the currency swap is fair value, estimated on the amounts at which it could be settled, based on current market rates.

Corporate Information

BOARD OF DIRECTORS

Robert Brown

Chairman of the Board
*President and Chief Executive Officer,
CAE Inc.*

Roman Doroniuk⁽¹⁾

Consultant

Rupert Duchesne

*President and Chief Executive Officer,
Groupe Aeroplan Inc.*

Joanne Ferstman⁽¹⁾⁽³⁾

*Vice-Chair, Dundee Wealth Inc. and
Head, Dundee Capital Markets*

Michael Fortier⁽²⁾

Partner, Ogilvy Renault LLP

John Forzani⁽²⁾⁽³⁾

*Founder and Chairman of the Board of
The Forzani Group Ltd.*

David Laidley⁽¹⁾

*Chairman Emeritus,
Deloitte & Touche LLP (Canada)*

Douglas Port⁽²⁾⁽³⁾

Consultant

Alan Rossy⁽²⁾

*President and Chief Executive Officer,
Copley Investments Inc.*

*(1) Member of the Audit, Finance and Risk
Committee*

*(2) Member of the Governance, Nominating
and Corporate Matters Committee*

*(3) Member of the Human Resources and
Compensation Committee*

EXECUTIVE TEAM

Rupert Duchesne

President and Chief Executive Officer

David Adams

*Executive Vice President, and
Chief Financial Officer*

Tony Buffin

*Executive Vice President and
Managing Director – Groupe
Aeroplan Europe*

Liz Graham

*Executive Vice President and
Chief Operating Officer*

Vince Timpano

*Executive Vice President and
President – Aeroplan Canada*

Mark Hounsell

*Senior Vice President, General
Counsel and Corporate Secretary*

Melissa Sonberg

*Senior Vice President, Corporate
Services*

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AEROPLAN CUSTOMER CONTACT CENTRE

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.

TRANSFER AGENT

Shareholders are encouraged to contact CIBC Mellon Trust Company for information regarding their security holdings. They can be reached at:

CIBC Mellon Trust Company
P.O. Box 7010
Adelaide Street Postal Station
Toronto, Ontario
Canada, M5C 2W9
Telephone: 416-643-5500
1-800-387-0825 (toll-free
throughout North America)
Facsimile: 416-643-5501
Email: inquiries@cibcmellon.com

AUDITORS

PricewaterhouseCoopers LLP
Chartered Accountants
Montreal, Québec

TORONTO STOCK EXCHANGE SYMBOL

AER

INVESTOR RELATIONS

50 Bay Street, 8th Floor
Air Canada Centre
Toronto, Ontario
Canada, M5J 2X3
Telephone: 416-352-3728
Email: ir@aeroplan.com
Website: www.groupeaeroplan.com

ANNUAL AND GENERAL MEETING

Shareholders are invited to attend the annual and general meeting of shareholders of Groupe Aeroplan being held on Thursday May 21, 2009 at 10 a.m. ET at the TSX Broadcast Centre 130 King Street West Toronto, Ontario Canada, M5X 1J2

GROUPE AEROPLAN WEBSITE

Groupe Aeroplan's website contains a variety of corporate and investor information including:

- Share price information
- Annual and quarterly reports
- Management information circular
- News releases
- Investor presentations
- Dividend information
- Shareholder support information
- Corporate social responsibility report
- Annual Information Form

Groupe Aeroplan's continuous disclosure documents are filed with the securities regulators in Canada and can be found at www.sedar.com

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www.groupeaeroplan.com