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Aeroplan reports 2007 first quarter results

MONTREAL, May 10 /CNW Telbec/ - Aeroplan Income Fund (TSX: AER.UN) today reported the first quarter results of Aeroplan Limited Partnership ("Aeroplan"), in which the Fund has a 100% ownership interest.

First Quarter 2007 Financial Highlights

- Gross billings \$228.0 million, up 13.1% from the first quarter of 2006
- Operating income \$48.1 million, an increase of 23.3% over the first quarter of 2006
- Adjusted EBITDA \$60.0 million, compared to \$54.4 million for the first quarter of 2006
- Distributable cash \$60.1 million, compared to \$48.4 million for the first quarter of 2006

"2007 picked up where 2006 ended for Aeroplan: with continued growth. On the partnerships front, we announced our latest hotel partner, Barcelo; we debuted our relationship with Home Hardware; and, just after the quarter ended, we announced a new partnership with CruiseShipCenters," said Rupert Duchesne, President and CEO, Aeroplan. "Aeroplan was recognized by our industry peers with an award for innovation honouring the launch of ClassicPlus Flight Rewards. Where it concerns sponsorships, we, along with the Art Gallery of Ontario, launched The Grange Prize for contemporary photography."

Aeroplan Financial Performance

Gross billings from the sale of Aeroplan Miles for the three months ended March 31, 2007 amounted to \$228.0 million compared to \$201.5 million for the three months ended March 31, 2006, representing an increase of \$26.5 million or 13.1%. This increase is primarily attributable to an increase of 1.9 billion or 11.5% Aeroplan Miles sold as a result of higher sales to accumulation partners. The overall increase reflects growth in consumer spending and credit and charge card usage, which translates into increased volume from the credit and charge card accumulation partners; as well as the positive momentum experienced by the travel industry in general, which has positively affected Air Canada and its affiliates.

Total revenue for the quarter ended March 31, 2007 was \$245.3 million, up 22.6% from \$200.1 million for the same quarter of 2006. This increase was mainly driven by increased redemption activity during the quarter and higher breakage revenue.

Cost of rewards amounted to \$155.1 million for the first quarter of 2007, compared to \$124.9 million for the corresponding quarter of 2006, an increase of 24.2%, primarily attributable to a higher volume of miles redeemed.

Operating income amounted to \$48.1 million for the quarter ended March 31, 2007, compared to \$39.0 million for the corresponding quarter of 2006; a 23.3% increase mainly attributable to higher gross margin, partially offset by increased operating expenses.

At the end of the first quarter, Aeroplan had \$643.6 million of cash, cash equivalents and short-term investments, including the Aeroplan redemption reserve of \$400 million.

Adjusted EBITDA and distributable cash amounted to \$60.0 million and \$60.1 million, respectively, compared to \$54.4 million and \$48.4 million for the first quarter of 2006.

Recent Corporate Developments

Number of units

On March 14, 2007, ACE Aviation Holdings Inc. (ACE) exchanged 40,545,835 units of Aeroplan for an equivalent number of units of Aeroplan Income Fund in accordance with the terms of the investor liquidity agreement entered into at the time of the initial public offering of Aeroplan Income Fund, and distributed 20,272,917 Aeroplan Income Fund units to its shareholders as part of its Plan of Arrangement approved in October of 2006.

As a result of the exchange, Aeroplan Income Fund has 200,000,000 units issued and indirectly holds 100% of the issued units of Aeroplan Limited Partnership. ACE holds 80,285,585 units of Aeroplan Income Fund, representing 40.1% of the units issued, with the public holding the balance.

Partnerships and Rewards

Best Western International - Aeroplan's first "direct connect" hotel partner

On January 9, 2007, Aeroplan announced that Best Western International had become the first hotel partner to offer a totally web-based solution for searching, booking and confirming hotel stay redemptions using Aeroplan Miles, joining Aeroplan's three car partners - Avis, Hertz and National - that already offer completely web-based redemptions through Aeroplan.com. Unlike other loyalty and travel programs - which use a certificate-only or call centre-based booking process - Aeroplan enables its members to search

Aeroplan.com for the Best Western property of their choice, make their booking online and receive an immediate confirmation of the booking from the hotel. This hassle-free redemption method eliminates the need for vouchers and coupons and, because the process is immediate, there is no longer a need to book seven days in advance or call the hotel chain to make the reservation. What's more, reservations may be cancelled for a full refund of Aeroplan Miles (provided that the cancellation is made in accordance with the reservation's terms and conditions).

Aeroplan has also teamed with Best Western to introduce another reward option: for only 12,000 Aeroplan Miles, members may obtain a C\$100 Best Western Travel Card. Used by guests to pay for both accommodations and related incidentals (such as room service and phone charges), the Best Western Travel Card is accepted at Best Western hotels worldwide.

Barcelo Hotels & Resorts

As of January 11, 2007, visitors to Barcelo Hotels & Resorts can now enjoy their vacation and earn Aeroplan Miles. Registered Aeroplan members can earn Aeroplan Miles by staying at any Barcelo property at published, corporate, preferred, or BarceloBest Available rates. On stays of seven days or more, Aeroplan members may earn 1,000 Aeroplan Miles at a Barcelo Premium brand property, 750 Aeroplan Miles at a Barcelo property or 500 Aeroplan Miles at a Barcelo Comfort brand location. Additional miles may be earned at select properties on a promotional basis. Members may book their stay at <http://www.barcelo.com> or directly with the hotel or through a travel agent.

Barcelo Hotels & Resorts offers more than 130 hotels and resorts in 14 countries, and Barcelo all-inclusive resorts are located in popular warm-weather destinations throughout Mexico, the Dominican Republic, Cuba, Costa Rica and Nicaragua.

Home Hardware

On February 26, 2007, Aeroplan officially launched its partnership signed in 2006 with Home Hardware, Canada's largest independent home improvement retailer. The exclusive multi-year partnership allows Aeroplan members to earn one Aeroplan Mile for every \$2 spent at the more than 1,000 Home Hardware, Home Building Centre, Home Hardware Building Centre and Home Furniture stores across Canada. Additionally, Aeroplan members can redeem Aeroplan Miles for Home Hardware Gift Cards.

Home Hardware also marked the launch of the partnership with a one million mile donation to Kids' Horizons, a partner in Aeroplan's Beyond Miles program. Kids' Horizons supports paediatric hospitals across the country including SickKids Foundation, one of Home Hardware's three national charities. One million miles represents up to 66 flights for children in need of care, and their families.

CruiseShipCenters

On April 2, 2007, Aeroplan and CruiseShipCenters International Inc. announced a multi-year agreement to offer Aeroplan Miles on cruise vacations booked at one of the company's more than 98 retail locations or online at www.cruiseshipcenters.ca.

Aeroplan members who book their vacation through CruiseShipCenters may accumulate Aeroplan Miles for any cruise on all major cruise lines worldwide. Those who love to cruise can now earn 1 Aeroplan Mile for every \$2 spent; CruiseShipCenters' 7SEAS(R) Cruise Club members can earn up to double Aeroplan Miles.

Sponsorships

Art Gallery of Ontario

February 6, 2007 was an auspicious day for Aeroplan as the company and the AGO announced a partnership to establish The Grange Prize, an annual award recognizing the work of Canadian and international contemporary photographers.

Named in honour of the AGO's historic home, The Grange Prize is the largest of its kind in Canada. The winner of the \$50,000 prize will be selected from among five Canadian and international artists each year. The international candidates for the award will be invited to Canada for artist-in-residency programs at art centres or photography schools. A student or practising photographer will also be selected to intern with each international candidate.

The first Grange Prize recipient will be announced in spring 2008.

Industry recognition: ClassicPlus Flight Rewards

On February 27, 2007, Aeroplan was awarded with the Frequent Flyer Program (FFP) Innovation Silver Award for the development and launch of its innovative ClassicPlus Flight Rewards.

ClassicPlus Flight Rewards is designed to offer Aeroplan members unrestricted access to available seat inventory across the Air Canada and Air Canada Jazz networks in both Economy and Executive Class. ClassicPlus Flight Rewards offers unparalleled flexibility for reward travel, complementing Aeroplan's existing ClassicFlight Rewards and global Star Alliance Flight Rewards.

Aeroplan was amongst 20 nominees for the FFP Innovation Award, introduced this year by Airline Information and Global Flight, co-founders of the FFP Conference. Airline employees working in the frequent flyer area voted for the best program, making this award particularly prestigious as the only industry FFP Award where industry frequent flyer executives recognize their best peers in the field.

Non-GAAP Measures

In order to provide a better understanding of the results, Aeroplan uses the following terms:

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization

("Adjusted EBITDA")

EBITDA adjusted for certain factors particular to Aeroplan's business, such as changes in deferred revenue and future redemption costs ("Adjusted EBITDA") is used by management to evaluate performance, and is used in measuring compliance with debt covenants and in making decisions relating to distributions to unitholders. Management believes Adjusted EBITDA assists investors in comparing a company'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.

Adjusted EBITDA is a non-GAAP measurement and may not be comparable with similar measures reported by other entities, and is not considered an alternative to operating income or net income in measuring performance. For a reconciliation with GAAP, please refer to the Summary of Operating results and reconciliation of Adjusted EBITDA and Distributable Cash. 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 repayment and other sources and uses of cash, which are disclosed in the statements of cash flows.

Refer to the attached schedule for a summary of operating results and reconciliation of Adjusted EBITDA and Distributable Cash.

Distributable Cash

Distributable cash is a non-GAAP measure generally used by Canadian open-ended trusts as an indicator of financial performance, and it should not be seen as a measurement of liquidity or a substitute for comparable metrics prepared in accordance with GAAP. Distributable cash may differ from similar calculations as reported by other entities and, accordingly, may not be comparable to distributable cash as reported by such entities.

Aeroplan intends to make equal monthly distributions to its partners of record on the last business day of each month. Management, the board of directors and the trustees will periodically review cash distributions in order to take into account Aeroplan's current and prospective performance.

Refer to the attached schedule for a reconciliation of Distributable Cash to cash flows from operations.

The unaudited interim financial statements and the Investor Presentation, as well as unaudited supplementary financial information will be accessible on Aeroplan's investor relations website at aeroplan.com.

Quarterly Investor Conference Call / Audio Webcast

Aeroplan will hold an analyst call at 10 a.m. (Eastern Time) on Thursday, May 10, 2007 to discuss its first quarter results. The call may be accessed by dialing 416-695-5261 within the Toronto area, or 877-888-3855 (toll free) outside of Toronto. The call will be simultaneously audio webcast at <http://events.startcast.com/events/20/B0047>.

The conference call webcast and the Investor Presentation will be archived on Aeroplan's investor relations website at aeroplan.com. A playback of the call can also be accessed until midnight ET, June 10, 2007 by dialing 416-695-5275, pass code 643683# from within the Toronto area, or 888-509-0081, pass code 643683# outside of Toronto.

About Aeroplan Income Fund

Aeroplan Income Fund is an unincorporated, open-ended trust established under the laws of the Province of Ontario, that holds all of the outstanding limited partnership units of Aeroplan.

About Aeroplan

Aeroplan is Canada's premier loyalty marketing company, dedicated to developing and executing programs designed to engage the loyalty of its prestigious membership.

Aeroplan's millions of members earn Aeroplan Miles with its network of more than 60 world-class partners, representing more than 100 brands in the financial, retail and travel sectors. Miles earned may be redeemed for Aeroplan's industry-leading ClassicFlight Rewards, innovative ClassicPlus Flight Rewards and global Star Alliance Flight Rewards, offering travel to more than 850 destinations worldwide. In 2006 alone, more than 1.4 million round-trip flight rewards were issued. Aeroplan's roster of non-flight rewards includes more than 400 exciting specialty, merchandise and experiential rewards, as well as hotel and car rental rewards. Members are encouraged to stay engaged with Aeroplan and avoid mileage expiration due to inactivity by earning or redeeming Aeroplan Miles as detailed in the Aeroplan program terms and conditions.

For more information about Aeroplan, please visit www.aeroplan.com.

Caution Concerning Forward-Looking Statements

This news release should be read in conjunction with Aeroplan Income Fund's 2007 first quarter MD&A dated May 9, 2007 filed with Canadian securities regulatory authorities (available at www.sedar.com). Certain statements in this news release may contain forward-looking statements. 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, dependency on Aeroplan's top three accumulation partners, Air Canada or travel industry disruptions, reduction in activity, usage and accumulation of Aeroplan Miles, greater than expected redemptions for rewards, industry competition, supply and capacity costs, unfunded future redemption costs, seasonal nature of the business, regulatory matters, restrictions on certain unitholders and liquidity of units, as well as the other factors identified in the "Risks and Uncertainties Affecting the Business" section of the 2006 MD&A (available at www.sedar.com). The forward-looking statements contained in this discussion represent Aeroplan's expectations as of May 9, 2007, and are subject to change after such date. However, Aeroplan disclaims any intention or obligation to update or revise any forward-looking statements whether as a result of new information, future events or otherwise, except as required under applicable securities regulations.

SUMMARY OF OPERATING RESULTS AND RECONCILIATION OF ADJUSTED EBITDA AND DISTRIBUTABLE CASH

(in thousands, except miles, unit and per unit information)	Three months ended March 31		
	2007	2006	% change
Number of Aeroplan Miles issued (in billions)	18.4	16.5	11.5
Number of Total Miles redeemed (in billions)	18.6	15.6	19.2
Number of Aeroplan Miles redeemed (in billions)	16.3	13.0	25.4
Gross Billings from the sale of Aeroplan Miles	\$227,977	\$201,502	13.1
Aeroplan Miles revenue	228,561	183,072	24.8
Tier management, contact centre management and marketing fees from Air Canada	3,701	3,152	17.4
Other revenue	13,052	13,834	(5.7)
Total revenue	245,314	200,058	22.6
Cost of rewards	(155,134)	(124,883)	24.2
Gross margin	90,180	75,175	20.0
Operating expenses, excluding depreciation and amortization	(39,403)	(32,438)	21.5
Depreciation and amortization	(2,704)	(3,742)	(27.7)
Operating income	\$ 48,073	\$ 38,995	23.3
Depreciation and amortization	2,704	3,742	
Change in deferred revenue			
Gross Billings from the sale of Aeroplan Miles	227,977	201,502	
Aeroplan Miles revenue	(228,561)	(183,072)	
Change in Future Redemption Costs(1)	9,787	(6,777)	244.4
(Change in Net Aeroplan Miles outstanding x Average Cost of Rewards per Mile for the period)			
Adjusted EBITDA	\$ 59,980	\$ 54,390	10.3
Net Interest Income (Expense)(2)	2,513	459	447.5
Maintenance Capital Expenditures(3)	(2,373)	(6,475)	(63.4)
Distributable Cash	\$ 60,120	\$ 48,374	24.3
Weighted average number of units	199,539,544	200,000,001	
Distributable Cash per unit	\$ 0.3013	\$ 0.2419	24.6
Net earnings, in accordance with GAAP	\$ 50,116	\$ 38,985	28.6

Earnings per unit, in accordance with GAAP	\$ 0.2512	\$ 0.1949	28.9
Distributions declared	\$ 42,000	\$ 34,980	20.1
Distributions declared per unit	\$ 0.2105	\$ 0.1749	20.4

- (1) The per unit cost derived from this calculation is retroactively applied to all prior periods with the effect of revaluing the liability on the basis of the latest available average unit cost.
- (2) Excludes amortization of deferred financing charges which are presented with interest.
- (3) Maintenance capital expenditures in the comparative three month period ended March 31, 2006 have been restated to reflect the actual amount of maintenance capital expenditures incurred in that period. The amount previously reported for that period was based upon a pro-ratation of the estimated yearly spend.

RECONCILIATION OF CASH FLOWS FROM OPERATIONS TO DISTRIBUTABLE CASH

(in thousands)	Three months ended March 31,	
	2007	2006
Cash flows from operations	\$ 73,229	\$ 46,350
Changes in non-cash working capital items	(21,235)	15,760
Stock-based compensation	(817)	(484)
Funding of stock-based compensation plans	1,529	-
Change in future redemption costs	9,787	(6,777)
Maintenance Capital Expenditures	(2,373)	(6,475)
Distributable cash	\$ 60,120	\$ 48,374
Distributions declared	\$ 42,000	\$ 34,980
Payout ratio - Distributions declared / Distributable cash	70%	72%

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