TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2009

SEPTEMBER 9, 2009

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Trading symbols
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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc's operations, performance and financial position for the quarter and nine-month period ended July 31, 2009 compared with the quarter and nine-month period ended July 31, 2008 and should be read in conjunction with the unaudited consolidated interim financial statements for the third quarter of fiscal 2009 and 2008, the notes thereto and the 2008 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third quarter update to the information contained in the MD&A section of our 2008 Annual Report. The risks and uncertainties set out in the MD&A of the 2008 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 9, 2009. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2009 and Annual Information Form for the year ended October 31, 2008.

Our financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). We will occasionally refer to non-GAAP financial measures in the MD&A. These non-GAAP financial measures have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers. They are furnished to provide additional information and should not be considered as a substitute for measures of performance prepared in accordance with GAAP. All dollar figures are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "predict," the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. 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, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, changes in laws, adverse regulatory developments or procedures, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to put undue reliance on forward-looking statements.

The Corporation made a number of assumptions in making forward-looking statements in this MD&A such as certain economic, market, operational and financial assumptions and assumptions about transactions and forward-looking statements.

Examples of such forward-looking statements include, but are not limited to, statements concerning:

- *The Corporation's outlook whereby the prices should be lower but these should be partially offset by the lower fuel costs and potentially by higher load factors.*
- *The Corporation's outlook whereby lower prices could be offset by lower fuel costs and the positive impact of lower airline seat costs.*
- *The Corporation's outlook whereby, in France, a reduction in selling prices may not be fully compensated by a reduction in fuel costs.*
- *The Corporation's outlook whereby it will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.*

In making these statements, the Corporation has assumed that price pressure trends will continue throughout the remainder of the season, that fuel prices will remain stable, that credit facilities will continue to be made available as in the past, and that management will continue to manage cash flow variations to fund working capital requirements for the full fiscal year. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable.

These statements reflect current expectations regarding future events and operating performance and speak only as of the date of release of this MD&A, and represent the Corporation's expectations as of that date. The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required by the applicable securities laws.

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(In thousands of dollars)	2009 $	2008 Restated[1] $	Variance $	Variance %	2009 $	2008 Restated[1] $	Variance $	Variance %
Consolidated Statements of Income (Loss)								
Revenues	819,354	859,880	(40,526)	(4.7)	2,825,685	2,722,427	103,258	3.8
Margin[1]	27,187	14,587	12,600	86.4	57,819	104,576	(46,757)	(44.7)
Net income (loss)	30,991	(895)	31,886	3,562.7	43,741	32,975	10,766	32.6
Basic earnings (loss) per share	0.95	(0.03)	0.98	3,266.7	1.34	0.99	0.35	35.4
Diluted earnings (loss) per share	0.94	(0.03)	0.97	3,233.3	1.32	0.99	0.33	33.3
Dividend – Class A and B shares	—	0.09	(0.09)	(100.0)	0.09	0.27	(0.18)	(66.7)
Consolidated Statements of Cash Flows								
Operating activities	24,897	37,671	(12,774)	(33.9)	144,585	183,931	(39,346)	(21.4)

	As at July 31, 2009 $	As at Oct. 31, 2008 Restated[1] $	Variance $	Variance %
Consolidated Balance Sheets				
Cash and cash equivalents	215,158	145,767	69,391	47.6
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	224,358	256,697	(32,339)	(12.6)
Investments in ABCP	70,303	86,595	(16,292)	(18.8)
	509,819	489,059	20,760	4.2
Total assets	1,183,436	1,265,260	(81,824)	(6.5)
Debt (short-term and long-term)	100,883	153,241	(52,358)	(34.2)
Total debt[2]	453,341	450,335	3,006	0.7
Net debt[2]	167,880	217,973	(50,093)	(23.0)

[1]NEW ACCOUNTING POLICIES AND OTHER CHANGES

Refer to *New accounting policies and other accounting changes* section.

[2]NON-GAAP FINANCIAL MEASURES

The terms "margin," "total debt" and "net debt" have no standard definition prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers. However, these terms are presented on a consistent basis from year to year, as management uses them to measure the Corporation's financial performance.

Margin is used by management to assess Transat's ongoing and recurring operational performance. This term is represented by revenues less operating expenses, according to the unaudited Consolidated Statements of Income.

Total debt is used by management to assess the Corporation's future cash requirements. It represents the combination of balance sheet debt (long-term debt and debenture) and off-balance sheet arrangements, excluding arrangements with suppliers presented on p. 14.

Net debt is used by management to assess the Corporation's cash position. It represents the total debt (as discussed above) less cash and cash equivalents not held in trust or otherwise reserved, and investments in asset backed commercial paper ["ABCP"].

Margin, total debt and net debt should not be considered by itself or as a substitute of other financial performance measures calculated in accordance with GAAP, but rather as additional information.

OVERVIEW

Transat is one of the largest fully integrated world-class tour operators in North America. We conduct our activities in a single industry (holiday travel) and we mainly market our products in two geographic areas (the Americas and Europe). Transat's core business involves developing and marketing vacation travel services in package and air-only format, including airline seats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and elsewhere, mainly through travel agencies, some of which we own. Transat is also a major retail distributor with a total of approximately 500 travel agencies and a multi-channel distribution system that incorporates Web-based sales. Transat relies on over 60 air carriers, but primarily on its subsidiary Air Transat, Canada's largest international charter air carrier, to meet a substantial portion of its airline seat needs. Transat also has a stake in a hotel business and offers destination, and airport services.

The international tourism market is growing, and international tourists have increasingly varied origin markets and travel destinations. Transat's vision is to optimize shareholder value by entering new markets, increasing its market share and maximizing the benefits of vertical integration. We maintain a leadership position in the Canadian market, where we operate as an outgoing and incoming tour operator and as the country's leading international charter airline. We are a well-established outgoing tour operator in France and the U.K. and an incoming tour operator in Greece. We offer our customers a broad range of international destinations spanning some 60 countries. Over time, we intend to expand our business to other countries where we believe there is high growth potential for an integrated tour operator specializing in holiday travel.

From 2006 to 2008, Transat executed a three-year strategic growth plan. During that period, revenues grew approximately $1 billion, or 48%, driven by acquisitions and strong organic growth. The Corporation strengthened its leadership position in all regions of Canada, as well as in France, where it ranks among the country's largest tour operators, and in the U.K., where Transat acquired a tour operator, further boosting outbound sales to Canada. As anticipated, Transat successfully entered the hotel industry. During the three-year period, Transat also acquired travel agencies, bolstered its online presence and developed a high-performance multichannel distribution platform.

In 2009, Transat began its 2009-2011 three-year plan, focused primarily on making the Corporation more competitive in its key markets; adapting its offering to tap into high-growth market segments; pursuing vertical integration; renewing its bilateral market development approach; and developing expertise to maintain and strengthen its competitive positioning, while underpinning the Corporation's long-term viability. Implementation of this three-year plan factors in the worrisome economic conditions that loomed on the horizon at the end of the 2008 calendar year. For fiscal 2009, Transat has set the following targets:

- Increase efficiency, productivity, competitiveness and agility within the organization through stringent management of costs and targeted investments that will maximize resources; this should be achieved by strategically combining short-term results with a long-term vision, without compromising the quality of customer service;

- Strengthen our leadership position as an outgoing tour operator, maintaining or increasing our market share by differentiating our offering, maximizing exclusive products, launching new products and broadening our reach by building on the bilateral distribution approach we have developed;

- Continue developing and implementing our multi-channel distribution strategy and increase sales for each channel;

- Develop and implement a sustainable tourism plan that will position Transat in the front ranks of the industry, increase its influence over the future of our market and inspire buy-in by employees, suppliers and customers.

The key performance drivers are market share, revenue growth and margin. They are essential to successfully implement our strategy and achieve our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives. Our financial resources consist primarily of cash, our investments and our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended July 31				Nine-month periods ended July 31			
	2009	2008	Variance	Variance	2009	2008	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	819,354	859,880	(40,526)	(4.7)	2,825,685	2,722,427	103,258	3.8

We derive our revenues from outgoing tour operators, air transportation, travel agencies, distribution, incoming tour operators and services at travel destinations.

Compared with the corresponding periods of fiscal 2008, revenues for the quarter decreased by $40.5 million. The decline in revenues resulted from declines in revenues of 6.2% and 2.6% in the Americas and Europe, respectively. The quarterly decreases were partly due to the combined effect of a drop in business activity and lower selling prices.

For the nine-month period ended July 31, 2009, revenues grew $103.3 million for nine-month period ended July 31, 2009. The revenue increase was 3.0% and 6.3% in the Americas and Europe, respectively. The growth in the nine-month period stemmed from the winter season, which saw greater business activity (driven by our expanded product offering) and a boost from the euro's strength against the dollar, offset by lower selling prices, particularly for our Caribbean and Mexican destinations.

OPERATING EXPENSES

	Quarters ended July 31				Nine-month periods ended July 31			
	2009	2008 Restated	Variance	Variance	2009	2008 Restated	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Direct costs	460,083	480,375	(20,292)	(4.2)	1,712,385	1,542,282	170,103	11.0
Salaries and employee benefits	87,392	87,611	(219)	(0.3)	267,547	262,009	5,538	2.1
Aircraft fuel	77,280	104,037	(26,757)	(25.7)	238,882	260,543	(21,661)	(8.3)
Commissions	34,994	35,774	(780)	(2.2)	148,869	141,891	6,978	4.9
Aircraft maintenance	21,610	24,241	(2,631)	(10.9)	75,133	72,190	2,943	4.1
Airport and navigation fees	25,072	24,736	336	1.4	66,913	66,451	462	0.7
Aircraft rent	13,803	12,047	1,756	14.6	40,725	36,325	4,400	12.1
Other	71,933	76,472	(4,539)	(5.9)	217,412	236,160	(18,748)	(7.9)
Total	792,167	845,293	(53,126)	(6.3)	2,767,866	2,617,851	150,015	5.7

Aggregate operating expenses for the quarter fell $53.1 million, whereas they increased $150.0 million for the first nine months of 2009 compared with the corresponding period of 2008. The quarterly decrease resulted particularly from lower business activity and fuel prices, which trimmed operating expenses by 9.0% and 1.9% in the Americas and Europe, respectively. Growth in operating expenses over the nine-month period stemmed mainly from the winter season's greater business activity, which increased operating expenses by 4.9% and 8.3% in the Americas and Europe, respectively.

DIRECT COSTS

Direct costs are incurred by our tour operators. They include hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Compared with the corresponding periods of the previous year, direct costs for the third quarter were down $20.3 million (4.2%), while they were up $170.1 million (11.0%) for the nine-month period. The quarterly dollar decrease resulted from the combined effect of lower business activity and seat costs. The dollar increase for the nine-month period was driven by the winter season, which saw greater business activity and a strong euro and U.S. dollar against the Canadian currency.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits held relatively steady for the quarter, whereas they rose $5.5 million (2.1%) for the nine-month period compared with the same period of 2008. The slight quarterly decrease resulted mainly from tighter control of workforce costs. The nine-month increase was mainly due to annual salary increases and the addition of two aircraft to our fleet during 2008, as well as to greater business activities during the winter season.

AIRCRAFT FUEL

Aircraft fuel costs for the quarter and nine-month period fell $26.8 million (25.7%) and $21.7 million (8.3%), respectively. The quarterly decline resulted mainly from lower fuel prices compared with the same quarter of 2008. For the nine-month period, the decrease stemmed chiefly from negative growth in the third quarter, which was partially offset by greater business activities and higher fuel prices for the Corporation during the winter season. As a result of its fuel risk management policy, the Corporation was unable to fully capitalize on the decline in fuel prices.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the third quarter was down $0.8 million, while it rose $7.0 million for the nine-month period, compared with the corresponding periods of fiscal 2008. As a percentage of revenues, commissions held steady. For the quarter ended July 31, 2009, commission expenses accounted for 4.3% of revenues compared with 4.2% for the same quarter of 2008. For the nine-month period, commission expense represented 5.3% of revenues compared with 5.2% for the corresponding period of 2008.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Costs for the quarter were down $2.6 million (10.9%) and up $2.9 million (4.1%) for the nine-month period compared with the same periods of 2008. The quarterly decrease was driven mostly by lower business activities, whereas the nine-month increase resulted from the two aircraft added to the fleet in fiscal 2008, the strength of the U.S. dollar against its Canadian counterpart and an engine failure.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports. Fees for the quarter and nine-month period ended July 31, 2009 remained largely unchanged, rising $0.3 million and $0.5 million, respectively, compared with the corresponding periods of 2008.

AIRCRAFT RENT

Aircraft rent for the third quarter and nine-month period rose $1.8 million (14.6%) and $4.4 million (12.1%), respectively, compared with the same periods of 2008, owing primarily to the two aircraft added in fiscal 2008 and the strength of the U.S. dollar relative to the Canadian currency.

OTHER

Other expenses for the third quarter and nine-month period were down $4.5 million (5.9%) and $18.7 million (7.9%), respectively, compared with the corresponding periods of 2008, resulting mainly from lower marketing costs and professional fees. As a percentage of revenues, other expenses for the third quarter of 2009 eased to 8.8% from 8.9% for the same period of 2008, whereas they fell to 7.7% from 8.7% for the nine-month period, year over year.

MARGIN

In light of the foregoing, margin for the quarter and nine-month period was $27.2 million and $57.8 million, respectively, compared with $14.6 million and $104.6 million for the respective periods of 2008. As a percentage of revenues, margin for the third quarter of 2009 widened to 3.3% from 1.7% for the same quarter of 2008, whereas it narrowed to 2.0% for the nine-month period from 3.8%, year over year. The quarterly margin growth resulted mainly from lower fuel prices, reduced seat costs, and tight cost control. Slimmer margins for the nine-month period stemmed primarily from the winter season, affected by downward price pressure sparked by excess supply in the Canadian marketplace and fierce competition, mainly for our Caribbean and Mexican destinations.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended July 31				Nine-month periods ended July 31			
	2009	2008 Restated	Variance	Variance	2009	2008 Restated	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	478,089	509,477	(31,388)	(6.2)	2,131,725	2,069,663	62,062	3.0
Operating expenses	472,949	519,876	(46,927)	(9.0)	2,086,417	1,988,810	97,607	4.9
Margins	5,140	(10,399)	15,539	149.4	45,308	80,853	(35,545)	(44.0)

Revenues of our North American subsidiaries, which stem from sales made in Canada and abroad, were down $31.4 million (6.2%) during the third quarter, compared with the same period in 2008. The quarterly decline resulted from a 6.5% drop in the volume of travellers. In this regard, we note that the number of travellers from Canada towards southern destinations and Europe remained stable, and that the decrease is attributable to the fact that the Corporation, as an incoming tour operator in Canada, reported a decline in European travelers bound for Canada. Compared with the corresponding periods of 2008, the margin for the quarter was 1.1% in the Americas compared with a negative margin of 2.0%. The margin improvement in the Americas was driven mainly by lower fuel prices, by reduced seat cost, and tight cost control.

Revenues for the nine-month period from our North American subsidiaries were up $62.1 million (3.0%). The growth was mainly driven by a 2.4% increase in the volume of travellers. During the 2009 winter season, Air Transat offered more seats to sun destinations and fewer seats to Florida. These changes translated into a 17.7% increase in the volume of winter season travellers for sun destinations compared with the same season of 2008. Margin for the nine-month period was 2.1% compared with 3.9% for the corresponding periods of 2008. Slimmer margins for the nine-month period ended July 31, 2009 resulted mainly from lower selling prices, particularly for sun destinations in the 2009 winter season, owing to excess supply in the marketplace and an environment that remains highly competitive.

EUROPE

	Quarters ended July 31				Nine-month periods ended July 31			
	2009	2008 Restated	Variance	Variance	2009	2008 Restated	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	341,265	350,403	(9,138)	(2.6)	693,960	652,764	41,196	6.3
Operating expenses	319,218	325,417	(6,199)	(1.9)	681,449	629,041	52,408	8.3
Margins	22,047	24,986	(2,939)	(11.8)	12,511	23,723	(11,212)	(47.3)

Revenues of our European subsidiaries, which stem from sales made in Europe and in Canada, decreased by $9.1 million (2.6%) during the third quarter, compared with the corresponding period of 2008, despite a 4.7% increase in traveller volume. The increase in volume came from Canadian Affair, which sells in the United Kingdom and in Canada, partially offset by lower volumes in France, especially in the long-haul market segment. Margin for the quarter was $22.0 million (6.5%) compared with $25.0 million (7.1%) in 2008. Slimmer margins in Europe resulted from our fuel hedging positions, competition and from the performance of our French distribution network.

For the nine-month period, revenues were up $41.2 million (6.3%) when compared to 2008. Higher revenues and operating expenses for the nine-month period in Europe were due, among other things, to the euro's strength against the dollar. Our volume of travellers for the nine-month period in Europe rose 5.5%, largely fueled by an increase of Canadian Affair's sales in Canada. Margin for the nine-month period at our European operations was $12.5 million (1.8%) compared with $23.7 million (3.6%) for the respective period of 2008. Slimmer margins in Europe resulted from higher seat costs in the 2009 winter season, our fuel hedging positions and the performance of our French distribution network compared the same periods of 2008.

OTHER EXPENSES (REVENUES)

(In thousands of dollars)	Quarters ended July 31 2009 $	2008 Restated $	Variance $	Variance %	Nine-month periods ended July 31 2009 $	2008 Restated $	Variance $	Variance %
Amortization	12,541	14,779	(2,238)	(15.1)	38,342	42,048	(3,706)	(8.8)
Interest on long-term debt and debenture	870	2,028	(1,158)	(57.1)	3,473	6,473	(3,000)	(46.3)
Other interest and financial expenses	1,194	527	667	126.6	2,335	834	1,501	180.0
Interest income	(674)	(4,651)	3,977	(85.5)	(4,093)	(12,794)	8,701	(68.0)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(44,409)	4,661	(49,070)	(1,052.8)	(53,325)	(14,314)	(39,011)	272.5
Foreign exchange loss (gain) on long-term monetary items	(1,243)	218	(1,461)	(670.2)	(1,354)	(2)	(1,352)	67,600.0
Changes in fair value of investments in ABCP	6,903	—	6,903	N/A	1,910	32,137	(30,227)	(94.1)
Gain on repurchase of redeemable preferred shares of a subsidiary	—	—	—	—	—	(1,605)	1,605	(100.0)
Share of net income (loss) of a company subject to significant influence	835	915	(80)	(8.7)	(2,598)	(602)	(1,996)	331.6

AMORTIZATION

Amortization includes amortization on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gain on options. Year over year, amortization for the quarter and nine-month period declined $2.2 million (15.1%) and $3.7 million (8.8%). These decreases resulted mainly from the amortization of the initial fair value of the mechanisms in the form of options, amounting to $1.1 million per quarter, enabling the Corporation to use its ABCP to repay a portion of the drawdowns under certain credit facilities as they fall due and the decline in amortization of property, plant and equipment, compared with 2008.

INTEREST ON LONG-TERM DEBT AND DEBENTURE

Interest on long-term debt and debenture for the quarter and nine-month period was down $1.2 million and $3.0 million, respectively, compared with the corresponding periods of 2008. The quarterly decrease resulted from lower interest rates and average debt balances than in the same quarter of 2008. For the nine-month period, despite higher average debt levels than in the same period of 2008, interest expense was reduced by lower interest rates, year over year.

OTHER INTEREST AND FINANCIAL EXPENSES

Our other interest and financial expenses for the quarter and nine-month period rose $0.7 million and $1.5 million, respectively, compared with the corresponding periods of the previous fiscal year. These increases resulted primarily from interest expenses triggered by prior year income tax adjustments affecting a number of our subsidiaries.

INTEREST INCOME

Year over year, interest income for the quarter and nine-month period ended July 31, 2009 was down $4.0 million and $8.7 million, respectively, owing mainly to lower interest rates in 2009 than in the corresponding periods of 2008, despite generally higher average balances of cash and cash equivalents.

CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS USED FOR AIRCRAFT FUEL PURCHASES

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the period of derivative financial instruments held and used by the Corporation to manage its exposure to fuel price volatility. Year over year, the change in fair value of derivative financial instruments used for aircraft fuel purchases for the quarter and nine-month period was a positive variance of $49.1 million and $39.0 million, respectively.

FOREIGN EXCHANGE LOSS (GAIN) ON LONG-TERM MONETARY ITEMS

Foreign exchange gains on long-term monetary items for the quarter and nine-month period amounted to $1.2 million and $1.4 million, respectively, owing mainly to the favourable effect of foreign exchange rates on our long-term debt for the financing of some of our aircraft.

CHANGES IN FAIR VALUE OF INVESTMENTS IN ABCP

RESTRUCTURING

On January 21, 2009, the Pan-Canadian Committee of ABCP investors announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for longer-term notes whose maturities match those of the assets previously contained in the underlying conduits. As at January 21, 2009, the Corporation held a portfolio of ABCP issued by several trusts with an overall notional value of $143.5 million.

On the plan implementation date, the Corporation remeasured its investments in ABCP at fair value prior to the exchange. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions.

Since there is no active market for ABCP securities, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market data, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also took into account its estimated share of the restructuring costs associated with the Montréal Accord, as well as amounts of cash accumulated in the conduits and payable on the plan implementation date.

As a result of this valuation, on January 21, 2009, the Corporation reversed $9.5 million of its provision for impairment on its investments in ABCP under change in fair value of investments in ABCP. This reversal takes into account the Corporation's share of the cash accumulated in the conduits, estimated at $6.0 million, of which $4.7 million was received prior to January 31, 2009. Subsequent to this reversal, the provision for impairment totalled $47.5 million, and the ABCP investment portfolio had a fair value of $96.1 million.

Also on January 21, 2009, the ABCP held by the Corporation at that date was exchanged for new securities. As at that date, the new ABCP had a notional value of $141,741.

VALUATION

On July 22 and July 27, 2009, the Corporation received $1.5 million ($7.2 million for the nine-month period) in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets and ABCP supported solely by traditional securitized assets. The new ABCP now has a notional value of $134.6 million and is detailed as follows:

The Corporation holds $113.3 million in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through December 31, 2016. The Corporation received replacement notes with notional values as follows:

Class A-1:	$34.4 million
Class A-2:	$63.9 million
Class B:	$11.6 million
Class C:	$3.4 million

The Corporation holds $12.5 million in ABCP supported mainly by U.S. sub-prime assets that have been restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.

The Corporation holds $8.8 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through 2016.

On July 31, 2009, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions. The Corporation gave due consideration, in particular, to new information released by BlackRock Canada Ltd. ("BlackRock"), which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. and ABCP supported exclusively by traditional securitized assets. For the quarter, the Corporation's management measured the fair value of its assets from these two classes using said reports. The Corporation also took into account the information released by DBRS on August 11, 2009. DBRS downgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets of Class A-2 to "BBB–". Prior to this downgrading, this class of ABCP had an "A" rating.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 4.6% (weighted average rate of 2.5%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 4- to 27-year periods (weighted average period of 8.4 years) and using discount rates ranging from 7.2% to 59% (weighted average rate of 11.2%), which factor in liquidity.

As a result of this new valuation, on July 31, 2009, the Corporation recognized an additional $7.3 million writedown in respect of its investments in ABCP ($2.7 million for the nine-month period). This writedown does not take into account any additional amount of the Corporation's estimated share of the cash accumulated in the conduits ($6.4 million for the nine-month period). During the nine-month period ended July 31, 2009, the Corporation received all of the cash accumulated in the conduits that it had estimated, of which $1.7 million was recorded in the third quarter. The Corporation also remeasured the options enabling it to use the restructured notes to repay certain drawdowns under rotating credit facilities as they fall due, subject to certain conditions. As a result of this valuation, the Corporation recognized a $0.4 million increase in fair value in respect of these options ($0.8 million for the nine-month period) under change in fair value of investments in ABCP. Subsequent to this new valuation, $7.2 million in ABCP principal repayments and the receipt of $6.4 million during the nine-month period, the ABCP investment portfolio had a fair value of $70.3 million and the provision for impairment totalled $64.3 million, representing 47.8% of the notional amount of $134.6 million.

The Corporation's estimate of the fair value of its ABCP investments is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities over the coming fiscal year. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $4.0 million in the estimated fair value of ABCP held by the Corporation.

The liquidity disruption in the Canadian market for third-party sponsored ABCP has had no significant impact on the Corporation's operations. The Corporation holds or has access to sufficient available cash to meet all of its financial, operational and regulatory obligations. Cash in trust, representing deposits from customers, as well as available cash, are held either as cash or are invested in liquid instruments (mainly cash and term deposits) with a broad range of large financial institutions and have no exposure whatsoever to the current ABCP market disruption.

Changes in our investments in ABCP for the quarter and nine-month period ended July 31, 2009 are as follows:

	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $	Changes in fair value of investments in ABCP $
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	(1,759)
Writedown of investments in ABCP	—	(48)	(48)	(48)
Share of estimated cash accumulated in conduits receivable	—	1,655	1,655	1,655
Realization of principal of investments in ABCP	(5,664)	—	(5,664)	—
Share of cash accumulated in conduits	—	—	—	4,745
Remeasurement of options	—	—	—	400
Balance as at April 30, 2009; impact on results for the six-month period	136,077	(55,298)	80,779	4,993
Realization of principal of investments in ABCP	(1,518)	—	(1,518)	—
Writedown of investments in ABCP	—	(7,303)	(7,303)	(7,303)
Share of cash accumulated in conduits receivable	—	(1,655)	(1,655)	—
Remeasurement of options	—	—	—	400
Balance as at July 31, 2009; impact on results for the quarter	134,559	(64,256)	70,303	(6,903)
Impact on results for the nine-month period				(1,910)

SHARE OF NET (INCOME) LOSS OF A COMPANY SUBJECT TO SIGNIFICANT INFLUENCE

Our share of net income of a company subject to significant influence represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of net loss of a company subject to significant influence for the current quarter amounted to $0.8 million compared with $0.9 million for the corresponding period of 2008. An outbreak of influenza A (H1N1) late in the second quarter affected the profitability of two of our hotels in Mexico. However, cost reduction initiatives and business from U.S. tourists, coupled with the fact that the outbreak occurred during low season, offset the decline in profitability. Our share of net income for the nine-month period amounted to $2.6 million compared with $0.6 million for the corresponding period of 2008. The nine-month improvement resulted mainly from the fact that one of the hotels of our company subject to significant influence was in its start-up phase at the beginning of fiscal 2008.

INCOME TAXES

Income taxes for the quarter and nine-month period of 2009 totalled $20.1 million and $26.9 million, respectively, compared with a recovery of $3.5 million and income taxes of $16.4 million for the respective periods of the previous year. Excluding the share in net income (loss) of a company subject to significant influence, the effective tax rate for the quarter and nine-month period of 2009 was 38.6% and 38.1%, respectively, compared with 118.4% and 31.7% for the respective periods of 2008.

The changes in the effective tax rate for the quarter and nine-month period of 2009 resulted mainly from the following 2008 items: the use of tax losses from prior fiscal years of our French subsidiaries previously unrecognized in future income tax assets, the tax treatment of the writedown of investments in ABCP and the effect of adjustments to future income tax rates. The effective tax rates for the quarter and nine-month period ended July 31, 2009 also factor in unfavourable items related to prior year adjustments affecting a number of our subsidiaries.

NET INCOME

In light of the items discussed in *Consolidated operations*, net income for the quarter ended July 31, 2009 totalled $31.0 million, or $0.95 per share, compared with a net loss of $0.9 million, or $0.03 per share, for the corresponding quarter of the previous year. The weighted average number of shares outstanding used to establish the per share amounts for the third quarter of 2009 was 32,792,000 compared with 32,656,000 for the corresponding period of 2008.

Net income for the nine-month period ended July 31, 2009 amounted to $43.7 million, or $1.34 per share, compared with $33.0 million, or $0.99 per share, for the same period of the previous year. The weighted average number of shares outstanding used to establish the per share amounts for the nine-month period of 2009 was 32,743,000 compared with 33,223,000 for the corresponding period of 2008.

On a diluted basis, earnings per share for the third quarter and nine-month period ended July 31, 2009 stood at $0.94 and $1.32, respectively, compared with a loss per share of $0.03 and earnings per share of $0.99 for the respective periods of 2008. The adjusted weighted average number of shares used in computing these amounts for the third quarter and nine-month period of 2009 was 33,115,000 and 33,088,000, respectively, compared with 32,656,000 and 33,486,000 for the respective periods of 2008. *See note 8 to the unaudited Consolidated Interim Financial Statements.*

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are up compared with the corresponding quarters of previous years, mainly as a result of growth in volume of travellers. From a margin perspective, there have been fluctuations during each quarter, mainly due to competitive pressure on prices. In light of the foregoing, the following quarterly financial information can vary significantly from quarter to quarter.

(In thousands of dollars, except per share amounts)	Q4-2007 Restated $	Q1-2008 Restated $	Q2-2008 Restated $	Q3-2008 Restated $	Q4-2008 Restated $	Q1-2009 Restated $	Q2-2009 $	Q3-2009 $
Revenues	680,418	787,389	1,075,158	859,880	790,424	877,254	1,129,077	819,354
Margin	11,380	19,274	70,715	14,587	23,192	(8,498)	39,130	27,187
Net income (loss)	14	(7,851)	41,721	(895)	(82,369)	(29,436)	42,186	30,991
Basic earnings (loss) per share	(0.00)	(0.23)	1.25	(0.03)	(2.54)	(0.90)	1.29	0.95
Diluted earnings (loss) per share	(0.00)	(0.23)	1.25	(0.03)	(2.54)	(0.90)	1.27	0.94

LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2009, cash and cash equivalents totalled $215.2 million compared with $145.8 million as at October 31, 2008. Cash and cash equivalents in trust or otherwise reserved amounted to $224.4 million as at the end of the nine-month period of 2009 compared with $256.7 million as at October 31, 2008. The Corporation's balance sheet reflects a working capital deficiency of $77.3 million and a current ratio of 0.90 compared with working capital deficiency of $7.6 million and a ratio of 0.99 as at October 31, 2008. The variance in working capital is mainly as a result of reimbursements of our long-term credit facilities.

Total assets fell $81.8 million (6.5%) to $1,183.4 million as at July 31, 2009 from $1,265.3 million as at October 31, 2008. This decrease arose mainly from the following negative variances: $100.7 million in derivative financial instruments, $32.3 million in cash and cash equivalents in trust or otherwise reserved, $20.2 million in property, plant and equipment and $16.3 million in our investments in ABCP. These declines were offset by a $69.4 million increase in cash and cash equivalents. Shareholders' equity fell $60.3 million to $286.8 million as at July 31, 2009 from $347.1 million as at October 31, 2008. This decline stemmed mainly from a $90.3 million change in fair value of derivatives designated as cash flow hedges, coupled with a $13.5 million foreign exchange loss on translation of the financial statements of our self-sustaining operations, both transactions being recorded in accumulated other comprehensive income, all of which was offset by $43.7 million in net income.

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2009	2008 Restated	Variance	2009	2008 Restated	Variance
(In thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	24,897	37,671	(12,774)	144,585	183,931	(39,346)
Cash flows related to investing activities	(6,984)	(28,555)	21,571	(18,876)	(103,341)	84,465
Cash flows related to financing activities	(42,242)	(42,181)	(61)	(54,367)	(1,258)	(53,109)
Effect of exchange rate changes on cash and cash equivalents	(346)	3,047	(3,393)	(1,951)	13,541	(15,492)
Net change in cash and cash equivalents	(24,675)	(30,018)	5,343	69,391	92,873	(23,482)

OPERATING ACTIVITIES

Operating activities for the third quarter resulted in $24.9 million in cash inflows compared with $37.7 million for the corresponding quarter of 2008. The $12.8 million decrease for the quarter resulted mainly from a decrease in the net change in provision for overhaul of leased aircraft and from a decrease in the cash flows from working capital balances related to operations, which was partially offset by an improvement of our profitability.

Cash flows provided by operating activities for the nine-month period ended July 31, 2009 were down $39.3 million to $144.6 million from $183.9 million compared with the same period of 2008. The decline was primarily due to slimmer margins, mainly for winter 2009.

INVESTING ACTIVITIES

Cash flows used in investing activities for the quarter totalled $7.0 million, a decrease of $21.6 million from the corresponding quarter of 2008. This decrease resulted mainly from an $8.2 million decline in additions to property, plant and equipment.

Cash flows used in investing activities for the nine-month period totalled $18.9 million, an $84.5 million positive variance from $103.3 million in cash outflows for the corresponding period of 2008. The year-to-date decrease arose mainly from a $54.3 million decline in cash used for business acquisitions and a $21.4 million decline in additions to property, plant and equipment compared with the same period of 2008. During the nine-month period of 2009, the Corporation made a $5.2 million [US$4.2 million] capital contribution to CIBV for land acquisition in the Dominican Republic. During the nine-month period of 2008, the Corporation acquired a 35% ownership interest in CIBV for $51.6 million, in addition to making a $4.2 million capital contribution for the initial deposit on the recent land acquisition. Also during the nine-month period of 2008, the Corporation acquired, in particular, the business premises of Look Voyages.

FINANCING ACTIVITIES

Cash flows used in financing activities for the quarter held steady at $42.2 million compared with the corresponding quarter of 2008. Credit facilities and other debt for the quarter were down $42.3 million year over year. During the corresponding quarter of 2008, credit facilities and other debt decreased $27.5 million year over year and the Company repaid $9.8 million in borrowings. Also during the third quarter of 2008, the Company paid $2.9 million in dividends and repurchased $2.3 million in shares.

Cash flows used in financing activities for the nine-month period ended July 31, 2009 totalled $54.4 million, up $53.1 million from $1.3 million for the corresponding period of 2008. The year-to-date improvement resulted primarily from a $41.8 million decrease in credit facilities and other debt, compared with the $40.8 million year-over-year increase recorded in the same period of 2008. The Corporation made $7.9 million in debt repayments and no repurchases during the nine-month period of 2009, compared with $9.8 million in debt repayments and $24.9 million in share repurchases for the same period for 2008. In addition, the dividend paid to the Corporation's shareholders was $6.1 million lower than in 2008, and $2.9 million was paid to a minority shareholder of one of the Corporation's subsidiaries during the nine-month period of 2009.

FINANCING

As at July 31, 2009, the Corporation had several types of financing, consisting primarily of three revolving term credit facilities, loans secured by aircraft and lines of credit.

The Corporation has a revolving credit facility, which was increased to $157.0 million from $86.4 million on February 9, 2009 (subsequent to the implementation of the ABCP restructuring plan and pursuant to the terms of the agreement) maturing in 2012, or immediately payable in the event of a change in control, and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium based on certain financial ratios calculated on a consolidated basis. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at July 31, 2009, all of the financial criteria and ratios were met.

The Corporation has two revolving credit facilities of $9.4 million and $89.8 million, the first maturing in 2010 and the second in 2011, or immediately payable in the event of a change in control. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under these agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. These credit facilities include options, which are now effective following implementation of the ABCP restructuring plan and allow the Corporation, at its option, to use the restructured notes to repay up to $61.9 million in drawdowns as they fall due, under certain conditions. These options have been initially reported at fair value, and the corresponding initial gain has been deferred and recognized in net income under amortization over the term of the credit agreements. The options are reported at fair value at each balance sheet date under derivative financial instruments, and any change in fair value of the options is recorded in net income under change in fair value of the investments in ABCP. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at July 31, 2009, all financial criteria and ratios were met.

As at July 31, 2009, $60.4 million had been drawn down under these credit facilities.

On December 18, 2008, the Corporation entered into a $60.0 million subordinated unsecured financing agreement with a shareholder of the Corporation. Drawdowns can be made through October 31, 2009. This agreement expires on December 31, 2012, or is immediately payable in the event of a change in control. Early repayments are permitted subject to certain conditions. The agreement bears interest separately for each drawdown at the rates of Government of Canada bonds, updated semi-annually, with maturities equal to the remaining term of the agreement, plus a premium determined in part based on certain factors specific to subordinated unsecured financing arrangements for comparable companies. As at July 31, 2009, this credit facility is undrawn.

The loans secured by aircraft of the Corporation amounted to $37.4 million [US$33.3 million] as at July 31, 2009. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments through 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.3 million [$17.8 million].

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited Consolidated Interim Financial Statements as at July 31, 2009. As at July 31, 2009 and October 31, 2008, these obligations amounted to $100.9 million and $153.2 million, respectively. Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and consist of the following:

- Guarantees
- Operating leases

Excluding agreements with service providers, off-balance sheet debt that can be estimated amounted to approximately $352.5 million as at July 31, 2009 compared with $297.1 million as at October 31, 2008, and is detailed as follows:

	As at July 31, 2009 $	As at October 31, 2008 $
Guarantees		
Irrevocable letters of credit	7,212	7,074
Collateral security contracts	840	790
Operating leases		
Commitments under operating leases	344,406	289,230
	352,458	297,094

In the normal course of business, guarantees are required in the travel industry to provide indemnifications and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and collateral security contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them.

We believe that the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

DEBT LEVELS

Debt levels as at July 31, 2009 were higher than as at October 31, 2008.

Balance sheet debt declined $52.4 million to $100.9 million from $153.2 million, and our off-balance sheet debt increased $55.4 million to $352.5 million from $297.1 million, collectively representing a $3.0 million increase in total debt as at January 31, 2009 compared with October 31, 2008. The decrease in our balance sheet debt resulted mainly from repayments during the nine-month period. The $55.4 million increase in off-balance sheet debt, resulting mainly from the extension of four aircraft leases expiring from December 2013 through November 2015 and an additional lease for one aircraft expiring in June 2015, was offset by repayments made during the period.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $167.9 million in net debt as at July 31, 2009, down 23.0% from $218.0 million as at October 31, 2008.

OUTSTANDING SHARES

As at July 31, 2009, there were three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at July 31, 2009, there were 847,782 Class A Variable Voting Shares outstanding and 31,960,073 Class B Voting Shares outstanding.

Stock options

As at September 9, 2009, there were a total of 1,114,765 stock options outstanding, 469,068 of which were exercisable.

Dividends

During the nine-month period ended July 31, 2009, the Corporation declared and paid dividends totalling $2.9 million. On March 11, 2009, Transat's Board of Directors suspended the quarterly dividend to holders of Class B Voting Shares and Class A Variable Voting Shares until further notice to keep cash on hand to contend with business challenges arising from the current economy.

AGREEMENTS WITH CREDIT CARD PROCESSOR

In certain Canadian provinces, the applicable legislation aimed at protecting consumers requires deposits received by a customer in such provinces, whether in cash or by credit card, to be placed in trust until such time as such customer departs on vacation. A portion of Transat's cash and cash equivalents consists of deposits that are not subject to the above-mentioned in trust restrictions, for example deposits received by customers in provinces where there is no legislation providing for such restrictions and deposits held by Transat's foreign subsidiaries.

Transat signed an amending agreement for the processing of credit card transactions with its primary credit card processor in Canada. This amending agreement takes effect immediately and will run to August 2012. Pursuant to the amending agreement, transaction proceeds will be segregated in a separate account, in Transat's name, for 30 days before being transferred to Transat's trust account in compliance with the applicable Canadian provincial legislation. However, under the amending agreement, Transat will not be required to comply with any other financial requirements. A substantial portion of Transat's Canadian sales are processed through credit cards, with the remaining sales being processed through cash based transactions. The amending agreement will have no significant impact on Transat's operations.

OTHER

Influenza A (H1N1)

An outbreak of influenza A (H1N1) occurred in Mexico late in the second quarter. Already by the end of the second quarter, the Corporation decided to postpone all of its flights to Mexico from both France and Canada. We also took the necessary measures to repatriate our customers and employees. It is difficult to accurately estimate the financial impact of this crisis on our future financial results. However, we estimate that the crisis will dampen our 2009 summer season results by approximately $3.0 million. Our flights to Mexico resumed as of the end of June 2009. While operations have resumed, we continue to monitor the situation closely and are adjusting our product offering in response to demand, as we do for all our destinations.

Appointments and senior management changes

On March 27, 2009, the Corporation announced the appointment of Patrice Caradec as President and General Manager of Transat France. Patrice will also head Vacances Transat (France) and Look Voyages.

On April 1, 2009, the Corporation also announced the appointment of Nelson Gentiletti as Interim Chief Financial Officer. Nelson will continue to serve as Executive Vice-President, Tour Operators and President of Transat Tours Canada.

Effective November 1, 2009, the two of the Corporation's three co-founders, Lina De Cesare, President, Tour Operators, and Philippe Sureau, President, Distribution, will leave their positions. Lina and Philippe will both remain directors of Transat and serve as advisors to the President and Chief Executive Officer. Effective November 1, 2009, Nelson Gentiletti will become Chief Operating Officer. Nelson will continue to serve as President of Transat Tours Canada and Interim Chief Financial Officer until October 31, 2009.

Agreement with CanJet

On February 13, 2009, we announced a five-year partnership agreement with CanJet. With this agreement, which includes two one-year renewal options, the Corporation can now charter short-haul Boeing 737-800 aircraft for some 20 sun destinations from over 20 Canadian cities. This agreement should provide the necessary capacity and flexibility to continue offering superior service at affordable prices.

NEW ACCOUNTING POLICIES AND OTHER CHANGES

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the Canadian Institute of Chartered Accountants ["CICA"] issued *Handbook* Section 3064, *Goodwill and Intangible Assets*, which supersedes Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These new standards have been adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into a $5.7 million decrease in retained earnings on November 1, 2007 and the following changes as at October 31, 2008: a $6.5 million decrease in prepaid expenses, a $0.8 million decrease in other assets, a $2.2 million decrease in future income tax liabilities and a $5.1 million decrease in retained earnings. For the quarter and nine-month period ended July 31, 2008, the adoption of these new standards translated into the following respective changes: decreases in other operating expenses of $1.8 million and $6.5 million, decreases in amortization of $0.1 million and $0.4 million and decreases in future income tax recovery of $0.4 million and $2.0 million, for increases in net income of $1.6 million and $4.8 million and increases in diluted earnings per share of $0.04 and $0.15, respectively. These adjustments arise from certain marketing expenses related to upcoming seasons. These expenses were previously recorded in net income for the related seasons and aircraft commissioning costs were previously deferred and amortized over a period not exceeding five years.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Also in January 2009, the Emerging Issues Committee issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides further information on determining the fair value of financial assets and financial liabilities under Section 3855, *Financial Instruments – Recognition and Measurement*. This Abstract states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation applies retroactively without restatement of prior period financial statements to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009, the date of issuance of the Abstract. The adoption of this new EIC as at November 1, 2008 resulted in a $1.4 million decrease in derivative financial instruments recorded in assets, a $3.2 million decrease in derivative financial instruments recorded in liabilities, a $0.6 million decrease in future income tax assets, a $2.0 million increase in retained earnings and a $0.8 million decrease in accumulated other comprehensive income. For the quarter ended July 31, 2009, the adoption of this recommendation resulted in decreases in the Corporation's net income and net earnings per share of $1.6 million and $0.05, respectively, and a $0.4 million increase in other comprehensive income. For the nine-month period ended July 31, 2009, the adoption of this recommendation resulted in decreases in net income and net earnings per share of $1.5 million and $0.04, respectively, and a $1.5 million increase in other comprehensive income.

CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

Cash and cash equivalents reserved pledged as collateral security against the Corporation's long-term obligations, mostly related to pension agreements, have been reclassified out of current assets in the balance sheet. As at July 31, 2009 and October 31, 2008, this reclassification resulted in a $28.3 million decrease in current assets and had no effect on total assets in the balance sheet. In connection with this change, net changes in cash and cash equivalents in trust or otherwise reserved included in current assets in the balance sheet have been reclassified from investing activities to operating activities in the statement of cash flows, as these temporarily inaccessible funds arise mainly from the sale of services to customers and will be used for the provision of services sold by the Corporation in the normal course of business. The reclassification also resulted in increases in cash flows provided by operating activities for the three- and nine-month periods ended July 31, 2009 of $26.3 million and $32.3 million, respectively. Also as a result of the reclassification, cash flows provided by operating activities for the three-month period ended July 31, 2008 declined $9.4 million, while they increased $32.4 million for the nine-month period then ended. Lastly, cash flows used in investing activities decreased $9.4 million for the three-month period ended July 31, 2008 and rose $32.4 million for the nine-month period then ended.

TRANSLATION OF AN INVESTMENT

The carrying amount of the investment in CIBV as at October 31, 2008 was increased by $9.1 million to reflect the translation of this U.S. dollar investment using the effective rate at that date (decreases of $0.1 million and $2.9 million for the quarter and nine-month period ended July 31, 2008, respectively). The consideration for this adjustment was recorded in accumulated other comprehensive income and included in shareholders' equity without any impact on net loss for the fiscal year ended October 31, 2008.

FUTURE CHANGES IN ACCOUNTING POLICIES

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 financial statements related to fiscal years beginning on or after January 1, 2011. The Corporation is currently assessing the requirements under these new standards.

Section 1582, *Business Combinations*, supersedes former Section 1581, *Business Combinations*, and sets out recognition standards for business combinations. The Section establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Section constitutes the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date occurs at the beginning of the first annual fiscal year beginning on or after January 1, 2011.

Sections 1601 and 1602 supersede former Section 1600, *Consolidated Financial Statements*. Section 1601, which sets out standards for the preparation of consolidated financial statements, is effective for interim and annual consolidated financial statements related 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. This Section, constituting the equivalent of International Accounting Standard IAS 27, *Consolidated and Separate Financial Statements*, and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

Also in February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012. The Corporation's management has put in place an IFRS team which had the responsibility to develop a conversion plan to IFRS. The plan has been completed and the team is currently in the stage of identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators Multilateral Instrument 52-109, the Corporation has filed certificates signed by the President and Chief Executive Officer and Interim Chief Financial Officer that, among other things, deem the design of disclosure controls and procedures and the design of internal control over financial reporting ("ICFR") to be adequate. The financial disclosure controls and procedures provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries. Furthermore, ICFR is designed to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with Canadian GAAP in its financial statements.

The President and Chief Executive Officer and the Interim Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the three-month period ended July 31, 2009 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK – SUMMER 2009

With regard to Canada-Europe travel, which represents an important part of the Corporation's business in the fourth quarter, reservations from Canada to Europe are higher than the 2008 levels whereas reservations from Europe are trailing. The prices should be lower but these should be partially offset by the lower fuel costs and potentially by higher load factors.

Reservations and the passenger load factor for travel to sun destinations from Canada are similar to 2008. Lower prices could be offset by lower fuel costs and the positive impact of lower airline seat costs.

In France, medium-haul travel is tracking higher than in 2008, whereas long-haul travel continues to trail behind. In France, a reduction in selling prices may not be fully compensated by a reduction in fuel costs.

TRANSAT A.T. INC.
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)	As at July 31, 2009 $	As at October 31, 2008 [restated – note 2] $
ASSETS		
Current assets		
Cash and cash equivalents	215,158	145,767
Cash and cash equivalents in trust or otherwise reserved *[notes 2 and 3]*	196,013	228,352
Accounts receivable	124,295	119,852
Income taxes receivable	12,089	4,095
Future income tax assets *[note 2]*	18,268	10,807
Inventories	10,325	11,412
Prepaid expenses *[note 2]*	51,914	46,747
Derivative financial instruments *[note 2]*	11,169	111,007
Current portion of deposits	30,125	32,094
Total current assets	669,356	710,133
Cash and cash equivalents reserved *[notes 2 and 3]*	28,345	28,345
Investments in ABCP *[note 4]*	70,303	86,595
Deposits	16,788	18,526
Future income tax assets	20,026	16,097
Property, plant and equipment	151,079	171,294
Goodwill and other intangible assets *[note 5]*	147,081	151,803
Derivative financial instruments *[note 2]*	10,022	10,875
Investments and other assets *[notes 2 and 6]*	70,436	71,592
	1,183,436	1,265,260
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	314,071	282,440
Current portion of provision for overhaul of leased aircraft	28,918	23,231
Income taxes payable	14,418	6,942
Future income tax liabilities *[note 2]*	—	14,615
Customer deposits and deferred income	316,065	293,537
Derivative financial instruments *[note 2]*	55,496	77,056
Debenture	3,156	3,156
Payments on current portion of long-term debt	14,568	16,745
Total current liabilities	746,692	717,722
Long–term debt *[note 7]*	83,159	133,340
Provision for overhaul of leased aircraft	11,461	13,011
Other liabilities *[note 4]*	40,832	34,517
Derivative financial instruments *[note 2]*	5,555	9,850
Future income tax liabilities	8,912	9,692
	896,611	918,132
Shareholder's equity		
Share capital *[note 8]*	155,331	154,198
Retained earnings *[note 2]*	146,990	106,188
Contributed surplus *[note 8]*	6,106	4,619
Accumulated other comprehensive income *[notes 2, 6 and 9]*	(21,602)	82,123
	286,825	347,128
	1,183,436	1,265,260

See accompanying notes to consolidated interim financial statement

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars, except per share amounts) (unaudited)	Quarters ended July 31 2009 $	Quarters ended July 31 2008 [restated – note 2] $	Nine months ended July 31 2009 $	Nine months ended July 31 2008 [restated – note 2] $
Revenues	819,354	859,880	2,825,685	2,722,427
Operating expenses				
Direct costs	460 083	480,375	1 712 385	1,542,282
Salaries and employee benefits	87 392	87,611	267 547	262,009
Aircraft fuel	77 280	104,037	238 882	260,543
Commissions	34 994	35,774	148 869	141,891
Aircraft maintenance	21 610	24,241	75 133	72,190
Airport and navigation fees	25 072	24,736	66 913	66,451
Aircraft rent	13 803	12,047	40 725	36,325
Other *[note 2]*	71 933	76,472	217 412	236,160
	792 167	845,293	2 767 866	2,617,851
	27,187	14,587	57,819	104,576
Amortization *[note 2]*	12,541	14,779	38,342	42,048
Interest on long-term debt and debenture	870	2,028	3,473	6,473
Other interest and financial expenses	1,194	527	2,335	834
Interest income	(674)	(4,651)	(4,093)	(12,794)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(44,409)	4,661	(53,325)	(14,314)
Foreign exchange loss (gain) on long-term monetary items	(1,243)	218	(1,354)	(2)
Change in fair value of investments in ABCP *[note 4]*	6,903	—	1,910	32,137
Gain on repurchase of redeemable preferred shares of a subsidiary *[note 5]*	—	—	—	(1,605)
Share of net income (loss) of a company subject to significant influence	835	915	(2,598)	(602)
	(23,983)	18,477	(15,310)	52,175
Income (loss) before the undernoted items	51,170	(3,890)	73,129	52,401
Income taxes (recovery)				
Current	1,760	(704)	10,171	18,626
Future *[note 2]*	18,292	(2,818)	16,680	(2,210)
	20,052	(3,522)	26,851	16,416
Income (loss) before non-controlling interest in subsidiaries' results	31,118	(368)	46,278	35,985
Non-controlling interest in subsidiaries' results	(127)	(527)	(2,537)	(3,010)
Net income (loss) for the period	30,991	(895)	43,741	32,975
Income (loss) per share *[notes 2 and 8]*				
Basic	0.95	(0.03)	1.34	0.99
Diluted	0.94	(0.03)	1.32	0.99

See accompanying notes to consolidated interim financial statement

Transat A.T. Inc.
Consolidated Statements of Comprehensive Income

(in thousands of dollars) (unaudited)	Quarters ended July 31 2009 $	Quarters ended July 31 2008 [restated – note 2] $	Nine months ended July 31 2009 $	Nine months ended July 31 2008 [restated – note 2] $
Net income (loss) for the period	30,991	(895)	43,741	32,975
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	(36,046)	9,164	(38,998)	34,429
Reclassification in income	(12,199)	7,612	(94,231)	58,594
Future income taxes	14,988	(5,170)	42,962	(30,868)
	(33,257)	11,606	(90,267)	62,155
Losses on derivatives designated as fuel hedges before November 1, 2006 included in net income for the period	—	61	—	522
Future income taxes	—	(20)	—	(172)
	—	41	—	350
Foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign subsidiaries due to (appreciation) depreciation of Canadian dollars vs. euro, pound sterling and U.S. dollar at balance sheet date	(6,853)	(1,930)	(13,458)	6,952
	(40,110)	9,717	(103,725)	69,457
Comprehensive income for the period	(9,119)	8,822	(59,984)	102,432

Transat A.T. Inc.
Consolidated Statements of Retained Earnings

(in thousands of dollars) (unaudited)	Quarters ended July 31 2009 $	Quarters ended July 31 2008 [restated – note 2] $	Nine months ended July 31 2009 $	Nine months ended July 31 2008 [restated – note 2] $
Retained earnings, beginning of period, as previously reported	115,999	197,582	109,302	191,118
Changes in accounting policies *[note 2]*	—	(2,422)	(3,114)	(5,708)
Retained earnings, beginning of period	115,999	195,160	106,188	185,410
Net income (loss) for the period	30,991	(895)	43,741	32,975
Premium paid on share repurchase	—	(1,804)	—	(19,864)
Dividends	—	(2,936)	(2,939)	(8,996)
Retained earnings at the end of the period	146,990	189,525	146,990	189,525

See accompanying notes to consolidated interim financial statement

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands of dollars) (unaudited)	Quarters ended July 31 2009 $	Quarters ended July 31 2008 [restated – note 2] $	Nine months ended July 31 2009 $	Nine months ended July 31 2008 [restated – note 2] $
OPERATING ACTIVITIES				
Net income (loss) for the period	30,991	(895)	43,741	32,975
Operating items not involving an outlay (receipt) of cash :				
Amortization	12,541	14,779	38,342	42,048
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(44,409)	4,661	(53,325)	(14,314)
Foreign exchange loss (gain) on long-term monetary items	(1,243)	218	(1,354)	(2)
Change in fair value of investments in ABCP	8,558	—	8,310	31,915
Loss on disposal of investments in ABCP	—	—	—	222
Gain on repurchase of redeemable preferred shares of a subsidiary	—	—	—	(1,605)
Share of net loss (income) of a company subject to significant influence	835	915	(2,598)	(602)
Non-controlling interest in subsidiaries' results	127	527	2,537	3,010
Future income taxes	18,292	(2,818)	16,680	(2,210)
Pension expense	732	774	2,195	2,310
Compensation expense related to stock option plan	555	834	1,487	1,968
	26,979	18,995	56,015	95,715
Net change in non-cash working capital balances related to operations	4,770	11,849	84,303	82,155
Net change in other assets and liabilities related to operation	325	3,544	130	1,492
Net change in provision for overhaul of leased aircraft	(7,177)	3,283	4,137	4,569
Cash flows related to operating activities	24,897	37,671	144,585	183,931
INVESTING ACTIVITIES				
Additions to property, plant and equipment	(8,502)	(16,736)	(20,847)	(42,264)
Consideration paid for acquired companies *[note 6]*	—	(4,801)	(5,211)	(59,559)
Realization of principal of investments in ABCP	1,518	—	7,182	10,778
Increase of cash equivalents reserved	—	(7,018)	—	(12,296)
Cash flow related to investing activities	(6,984)	(28,555)	(18,876)	(103,341)
FINANCING ACTIVITIES				
Loan repayments	—	(9,754)	(7,887)	(9,754)
Net change in credit facilities and other debt	(42,307)	(27,511)	(41,801)	40,761
Proceeds from issuance of shares	401	328	1,133	1,595
Share repurchase	—	(2,308)	—	(24,864)
Dividend paid to a non-controlling interest	(336)	—	(2,873)	—
Dividends	—	(2,936)	(2,939)	(8,996)
Cash flow related to financing activities	(42,242)	(42,181)	(54,367)	(1,258)
Effect of exchange rate changes on cash and cash equivalents	(346)	3,047	(1,951)	13,541
Net change in cash and cash equivalents	(24,675)	(30,018)	69,391	92,873
Cash and cash equivalents, beginning of the period	239,833	289,659	145,767	166,768
Cash and cash equivalents, end of the period	215,158	259,641	215,158	259,641
Supplementary information				
Income taxes paid	1,409	(1,232)	9,917	10,279
Interest paid	9	2,167	2,991	6,699

See accompanying notes to consolidated interim financial statement

[The amounts are expressed in thousands, except for share capital, stock options, and amounts per option or per share] [Unaudited]

Note 1 BASIS OF PRESENTATION

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the new accounting policies described in note 2. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2008 Annual Report. Certain comparative figures were reclassified to conform to the presentation adopted in the current year.

Note 2 NEW ACCOUNTING POLICIES AND OTHER CHANGES

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the Canadian Institute of Chartered Accountants ["CICA"] issued *Handbook* Section 3064, *Goodwill and Intangible Assets*, which supersedes Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These new standards have been adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into a $5,708 decrease in retained earnings on November 1, 2007 and the following changes as at October 31, 2008: a $6,512 decrease in prepaid expenses, a $760 decrease in other assets, a $2,155 decrease in future income tax liabilities, a $5,091 decrease in retained earnings, and a $26 decrease in accumulated other comprehensive income. For the three-month period ended July 31, 2008, the adoption of these new standards translated into the following changes: a $1,823 decrease in other operating expenses ($6,520 for the nine-month period), a $132 decrease in amortization ($368 for the nine-month period) and a $401 decrease in future income tax recovery ($2,048 for the nine-month period), for a $1,554 increase in net income ($4,840 for the nine-month period) and $0.04 on diluted earnings per share ($0.15 for the nine-month period), and by a decrease in comprehensive income of $5 ($73 for the nine-month period). These adjustments arise from certain marketing expenses related to upcoming seasons. These expenses were previously recorded in net income for the related seasons and aircraft commissioning costs were previously deferred and amortized over a period not exceeding five years.

CREDIT RISK AND THE FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Also in January 2009, the Emerging Issues Committee issued EIC-173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities*, which provides further information on determining the fair value of financial assets and financial liabilities under Section 3855, *Financial Instruments – Recognition and Measurement*. This Abstract states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation applies retrospectively without restatement of prior period financial statements to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009, the date of issuance of the Abstract. The adoption of this new EIC as at November 1, 2008 resulted in a $1,379 decrease in derivative financial instruments disclosed as assets, a $3,152 decrease in derivative financial instruments disclosed as liabilities, a $575 decrease in future income tax assets, a $1,977 increase in retained earnings and a $779 decrease in accumulated other comprehensive income. The adoption of this recommendation decreased the net income and diluted earnings per share by $1,606 and $0.05 respectively, and increased the other comprehensive income by $360, for the three-month period ended July 31, 2009. For the nine-month period ended July 31, 2009, the adoption of this recommendation decreased the net income and diluted earnings per share by $1,488 and $0.04 respectively and increased the other comprehensive income by $1,453.

CASH AND CASH EQUIVALENT IN TRUST OR OTHERWISE RESERVED

Cash and cash equivalents reserved pledged as collateral security against the Corporation's long-term obligations, mostly related to pension agreements, have been reclassified out of current assets in the balance sheet. As at July 31, 2009 and October 31, 2008, this reclassification resulted in a $28,345 decrease in current assets and had no effect on total assets in the balance sheet. In connection with this change, net changes in cash and cash equivalents in trust or otherwise reserved included in current assets in the balance sheet have been reclassified from investing activities to operating activities in the statement of cash flows, as these temporarily inaccessible funds arise mainly from the sale of services to customers and will be used for the provision of services sold by the Corporation in the normal course of business. The reclassification also resulted in increases in cash flows provided by operating activities for the three- and nine-month periods ended July 31, 2009 of $26,284 and $32,339, respectively. Also as a result of the reclassification, cash flows provided by operating activities for the three-month period ended July 31, 2008 declined $9,403, while they increased $32,353 for the nine-month period then ended. Lastly, cash flows used in investing activities decreased $9,403 for the three-month period ended July 31, 2008 and rose $32,353 for the nine-month period then ended.

TRANSLATION OF AN INVESTMENT

The carrying amount of the investment in CIBV as at October 31, 2008 (see note 6) was increased by $9,055 to reflect the translation of this U.S. dollar investment using the effective rate at that date. The consideration for this adjustment was recorded in accumulated other comprehensive income (of which a decrease of $137 was recorded during the third quarter of 2008 and a decrease of $2,910 during the nine-month period of 2008) and included in shareholders' equity without any impact on net loss for the fiscal year ended October 31, 2008.

FUTURE CHANGES IN ACCOUNTING POLICIES

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 financial statements related to fiscal years beginning on or after January 1, 2011. The Corporation is currently assessing the requirements under these new standards.

Section 1582, *Business Combinations*, supersedes former Section 1581, *Business Combinations*, and sets out recognition standards for business combinations. The Section establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Sections constitutes the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date occurs at the beginning of the first annual fiscal year beginning on or after January 1, 2011.

Sections 1601 and 1602 supersede former Section 1600, *Consolidated Financial Statements*. Section 1601, which sets out standards for the preparation of consolidated financial statements, is effective for interim and annual consolidated financial statements related 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. This Section, constituting the equivalent of International Accounting Standard IAS 27, *Consolidated and Separate Financial Statements*, and is effective for interim and annual consolidated financial statements beginning on or after January 1, 2011.

Also in February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012. The Corporation's management put in place an IFRS team to develop a conversion plan to IFRS. The plan has been completed and the team is currently in the stage of identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

Note 3 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2009, cash and cash equivalents in trust or otherwise reserved included $176,710 [$210,481 as at October 31, 2008] in funds received from customers, mainly Canadian, for services not yet rendered and in accordance with Canadian regulatory authorities and $47,648, of which $28,345 was presented as non-current assets, [$46,216 as at October 31, 2008, of which $28,345 was presented as non-current assets], which was pledged as collateral security against letters of credit.

Note 4 INVESTMENTS IN ABCP

RESTRUCTURING

In mid-August 2007, the Canadian third-party asset backed commercial paper ["ABCP"] market was hit by a liquidity disruption. Since then, there have been no material transactions in an active market involving the Corporation's ABCP.

On August 16, 2007, subsequent to the liquidity disruption, a group of financial institutions and other parties agreed, pursuant to the Montréal Accord [the "Accord"], to a standstill period in respect of ABCP sold by 23 conduit issuers. A Pan-Canadian Investors Committee was subsequently established to oversee the orderly restructuring of these instruments during this standstill period.

On January 21, 2009, the Pan-Canadian Committee of ABCP investors announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for longer-term notes whose maturities match those of the assets previously contained in the underlying conduits. As at January 21, 2009, the Corporation held a portfolio of ABCP issued by several trusts with an overall notional value of $143,500.

On the plan implementation date, the Corporation remeasured its investments in ABCP at fair value prior to the exchange. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions.

Since there is no active market for ABCP securities, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market data, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also took into account its estimated share of the restructuring costs associated with the Montréal Accord, as well as amounts of cash accumulated in the conduits and payable on the plan implementation date.

As a result of this valuation, on January 21, 2009, the Corporation reversed $9,455 of its provision for impairment on its investments in ABCP under change in fair value of investments in ABCP. This reversal takes into account the Corporation's share of the cash accumulated in the conduits, estimated at $6,042, of which $4,745 was received prior to January 31, 2009. Subsequent to this reversal, the provision for impairment totalled $47,450, and the ABCP investment portfolio had a fair value of $96,050.

Also on January 21, 2009, the ABCP held by the Corporation at that date was exchanged for new securities. The new ABCP now has a notional value of $141,741.

VALUATION

On July 22 and July 27, 2009, the Corporation received $1,518 ($7,182 for the nine-month period) in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets and ABCP supported solely by traditional securitized assets. The new ABCP now has a notional value of $134,559 and is detailed as follows:

The Corporation holds $113,331 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through December 31, 2016. The Corporation received replacement notes with notional values as follows:

Class A-1:	$34,436
Class A-2:	$63,894
Class B:	$11,598
Class C:	$3,403

The Corporation holds $12,474 in ABCP supported mainly by U.S. sub-prime assets to be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.

The Corporation holds $8,754 in ABCP supported solely by traditional securitized assets that were restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through 2016.

On July 31, 2009, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions. The Corporation gave due consideration, in particular, to new information released by BlackRock Canada Ltd. ("BlackRock"), which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. and ABCP supported exclusively by traditional securitized assets. For the quarter, the Corporation's management measured the fair value of its assets from these two classes using said reports. The Corporation also took into account the information released by DBRS on August 11, 2009. DBRS downgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets of Class A-2 to "BBB–". Prior to this downgrading, this class of ABCP had an "A" rating.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 4.6% (weighted average rate of 2.5%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 4- to 27-year periods (weighted average period of 8.4 years) and using discount rates ranging from 7.2% to 59% (weighted average rate of 11.2%), which factor in liquidity.

As a result of this new valuation, on July 31, 2009, the Corporation recognized an additional $7.303 writedown in respect of its investments in ABCP ($2,710 for the nine-month period). This writedown does not take into account any additional amount of the Corporation's estimated share of the cash accumulated in the conduits ($6,400 for the nine-month period). During the nine-month period ended July 31, 2009, the Corporation received all of the cash accumulated in the conduits that it had estimated, of which $1,655 was received during the third quarter. The Corporation also remeasured the options enabling it to use the restructured notes to repay certain drawdowns under rotating credit facilities as they fall due, subject to certain conditions. As a result of this valuation, the Corporation recognized a $400 increase in fair value in respect of these options ($800 for the nine-month period) under change in fair value of investments in ABCP. These options (recorded under derivative financial instruments) and the corresponding deferred gain (recorded under other liabilities) were initially recognized at fair value, which amounted to $8,400. Subsequent to this new valuation, $7,182 in ABCP principal repayments and the receipt of $6,400 during the nine-month period, the ABCP investment portfolio had a fair value of $70,303 and the provision for impairment totalled $64,256 representing 47.8% of the notional value of $134,559.

The Corporation's estimate of the fair value of its ABCP investments is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities over the coming fiscal year. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $4,000 in the estimated fair value of ABCP held by the Corporation.

The liquidity disruption in the Canadian market for third-party sponsored ABCP has had no significant impact on the Corporation's operations. The Corporation holds or has access to sufficient available cash to meet all of its financial, operational and regulatory obligations. Cash in trust, representing deposits from customers, as well as available cash, are held either as cash or are invested in liquid instruments (mainly cash and term deposits) with a broad range of large financial institutions and have no exposure whatsoever to the current ABCP market disruption.

Note 5 BUSINESS ACQUISITIONS

During the nine-month period ended July 31, 2008, a $1,605 gain was recognized subsequent to the repurchase of shares classified as other liabilities by the Corporation's subsidiary Travel Superstore for a consideration of $330, whereas these shares had a carrying amount of $1,935. Subsequent to this transaction, the percentage of the Corporation's interest in this subsidiary increased to 64.6% from 50.1%.

During the three-month period ended July 31, 2008, the Corporation paid €2,502 [$3,994] in additional consideration in connection with the 2007 acquisition of L'Européenne de Tourisme (Amplitude Internationale), and $1,756 in additional goodwill was recognized.

Note 6 INVESTMENTS AND OTHER ASSETS

	As at July 31, 2009 $	As at October 31, 2008 [restated – note 2] $
Investment in Caribbean Investments B.V.	67,751	68,114
Deferred costs, unamortized balance	2,136	2,028
Other investments	118	603
Sundry	431	847
	70,436	71,592

The change in the investment in Caribbean Investments B.V. [« CIBV »] is detailed as follows:

	$
Balance as at October 31, 2008	68,114
Capital contribution	5,211
Share of net income	2,598
Translation adjustment	(8,172)
Balance as at July 31, 2009	67,751

On December 10, 2007, the Corporation acquired a 35% interest in CIBV, a company operating five hotels in Mexico and the Dominican Republic, for $51,605 [US$51,100] in cash and additional payments potentially totalling US$4,000 contingent on meeting certain specific terms and conditions by 2009. In addition, on April 9, 2008, the Corporation made a $4,150 [US$4,113] capital contribution. The acquisition costs for this transaction amounted to $2,099. This acquisition was recorded using the equity method, and the share of net income of the acquired company has been accounted for as of December 10, 2007. The difference between the Corporation's ownership interest in CIBV and its share of the net assets at the acquisition date amounted to $16,000 and was allocated to imputed goodwill.

Note 7 LONG-TERM DEBT

On December 18, 2008, the Corporation entered into an unsecured subordinated financing agreement with a shareholder of the Corporation for $60,000. The Corporation can draw on the facility until October 31, 2009. This agreement will expire on December 31, 2012, or immediately payable in the event of a change in control. The Corporation can make early repayments on the facility subject to conditions. The agreement bears interest separately for each disbursement at Government of Canada bond rates that have maturities equal to the remaining term of the agreement, plus a premium determined in part based on certain factors specific to unsecured subordinated financing arrangements. As at July 31, 2009, this credit facility was undrawn.

Subsequent to the restructuring and the principal repayments received in respect of certain investments held in ABCP [note 4], the revolving credit facilities with initial amounts of $9,485 and $98,140 were reduced pursuant to the terms of the agreements. As at July 31, 2009, the new available credit facility balances stood at $9,355 and $86,768 and were fully drawn.

Note 8 SHARE CAPITAL

A) SHARE CAPITAL

AUTHORIZED

Class A variable voting shares

An unlimited number of Class A Variable Voting Shares ["Class A Shares"], participating, which may be owned or controlled by non-Canadians as defined by the *Canada Transportation Act* ["CTA"], carrying one vote per Class A Share unless (i) the number of issued and outstanding Class A Shares exceeds 25% of the total number of all issued and outstanding voting shares (or any higher percentage that the Governor in Council may specify pursuant to the CTA); or (ii) the total number of votes cast by or on behalf of holders of Class A Shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed, the vote attached to each Class A Share will decrease automatically, without further act or formality. Under the circumstance described in subparagraph (i) above, the Class A Shares as a class cannot carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the aggregate votes attached to all issued and outstanding voting shares of the Corporation. Under the circumstance described in subparagraph (ii) above, the Class A Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that can be exercised at the said meeting.

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without any further act on the part of the Corporation or of the holder if: (i) the Class A Share is or becomes owned and controlled by a Canadian as defined by the

CTA; or (ii) the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

Class B voting shares

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation.

Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without any further act on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

Preferred shares

An unlimited number of preferred shares, non-voting, issuable in series, each series bearing the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

ISSUED AND OUTSTANDING

The changes affecting the Class A Shares and the Class B Shares were as follows:

	Nine months ended July 31, 2009	
	Number of shares	Amount ($)
Balance at beginning of period	32,678,241	154,198
Issued from treasury	120,613	1,071
Exercise of options	9,001	62
Balance at end of period	32,807,855	155,331

As at July 31, 2009, the number of Class A Shares and Class B Shares amounted to 847,782 and 31,960,073, respectively.

B) OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2008	716,173	22.85
Granted	441,084	11.18
Exercised	(9,001)	6.83
Cancelled	(33,491)	24.34
Balance as at July 31, 2009	1,114,765	18.32
Options exercisable as at July 31, 2009	469,068	22.27

C) CONTRIBUTED SURPLUS

	Quarters ended July 31		Nine months ended July 30	
	2009 $	2008 $	2009 $	2008 $
Balance at beginning of period	5,551	2,741	4,619	1,871
Compensation expense related to stock option plan	555	834	1,487	1,968
Options exercised	—	—	—	(264)
Balance at end of period	6,106	3,575	6,106	3,575

D) EARNINGS (LOSS) PER SHARE

Earnings (loss) per share and the diluted earnings (loss) per share were computed as follows:

	Quarters ended July 31		Nine months ended July 31	
	2009	2008 [restated – note 2]	2009	2008 [restated – note 2]
(in thousands of dollars, except per share amounts)	$	$	$	$
Numerator				
Income (loss) attributable to voting shareholders	30,991	(895)	43,741	32,975
Interest on debentures that may be settled in voting shares	33	—	98	97
Income (loss) used to calculate diluted earnings per share	31,024	(895)	43,839	33,072
Denominator				
Weighted average number of outstanding shares	32,792	32,656	32,743	33,223
Debenture that may be settled in voting shares	293	—	321	117
Stock options	30	—	24	146
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	33,115	32,656	33,088	33,486
Earnings (loss) per share				
Basic	0.95	(0.03)	1.34	0.99
Diluted	0.94	(0.03)	1.32	0.99

In computing diluted earnings (loss) per share for the three-month and nine-month period ended July 31 2009, 1,017,755 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the respective periods.

Debentures that can be settled in voting shares have not been reflected in the calculation of diluted earnings per share for the three-month period ended July 31, 2008 because of their antidilutive effect. These securities' potential impact on the denominator is 151,000 shares for the three-month period ended July 31, 2008. Given the loss recorded for the three-month period ended July 31, 2008, the 716,173 stock options outstanding were excluded from the computation of diluted earnings per share because of their antidilutive effect. In computing diluted earnings per share for the nine-month period ended July 31, 2008, a total of 139,000 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the period.

Note 9 ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the accumulated other comprehensive income were as follows for the quarter and nine-month period ended July 31, 2009:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income $
Accumulated other comprehensive income			
Balance as at October 31, 2008, as previously reported	73,258	615	73,873
New accounting policies *[note 2]*	(779)	(26)	(805)
Other change *[note 2]*	—	9,055	9,055
Balance as at October 31, 2008	72,479	9,644	82,123
Change during the period	(57,010)	(6,605)	(63,615)
Balance as at April 30, 2009	15,469	3,039	18,508
Change during the period	(33,257)	(6,853)	(40,110)
Balance as at July 31, 2009	(17,788)	(3,814)	(21,602)

Changes in the accumulated other comprehensive income were as follows for the quarter nine-month period ended July 31, 2008:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income $
Accumulated other comprehensive income			
Balance as at October 31, 2007, as previously reported	(59,392)	(7,109)	(66,501)
Change in accounting policy *[note 2]*	—	40	40
Balance as at October 31, 2007	(59,392)	(7,069)	(66,461)
Change during the period	50,858	8,882	59,740
Balance as at April 30, 2008	(8,534)	1,813	(6,721)
Change during the period	11,647	(1,930)	9,717
Balance as at July 31, 2008	3,113	(117)	2,996

Note 10 SEGMENTED INFORMATION

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the consolidated statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and in Europe.

	Quarter ended July 31, 2009			Nine months ended July 31, 2009		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	478,089	341,265	819,354	2,131,725	693,960	2,825,685
Operating expenses	472,949	319,218	792,167	2,086,417	681,449	2,767,866
	5,140	22,047	27,187	45,308	12,511	57,819
Property, plant and equipment, goodwill and other intangible assets [1]				172,980	125,180	298,160

	Quarter ended July 31, 2008			Nine months ended July 31, 2008		
	Americas $	Europe $	Total [restated – note 2 $	Americas $	Europe $	Total [restated – note 2] $
Revenues	509,477	350,403	859,880	2,069,663	652,764	2,722,427
Operating expenses	519,876	325,417	845,293	1,988,810	629,041	2,617,851
	(10,399)	24,986	14,587	80,853	23,723	104,576
Property, plant and equipment, goodwill and other intangible assets [2]				192,231	130,866	323,097

[1] As at July 31, 2009
[2] As at October 31, 2008

Note 11 GUARANTEES

In the normal course of business, the Corporation has entered into agreements that contain features which meet the definition of a guarantee. These agreements provide for indemnification and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit, and security contracts.

These agreements may require the Corporation to compensate the counterparties for costs and losses incurred as a result of various events including breaches of representations and warranties, loss of or damages to property, claims that may arise while providing services and environmental liabilities.

Notes 4, 11, 12, 13 and 21 to the 2008 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases mature at various dates until 2034. The nature of the agreements varies based on the contracts and therefore prevents the Corporation from estimating the total potential amount its subsidiaries would have to pay to lessors. Historically, the Corporation's subsidiaries have not made any significant payments under such agreements and have liability insurance protecting them for the obligations undertaken.

IRREVOCABLE LETTERS OF CREDIT

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain rendered services that it has undertaken to pay for. These agreements typically cover a one year period and are renewed annually.

The corporation has also issued letters of credit to provincial regulatory agencies guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totalled $477 as at July 31, 2009. Historically, the Corporation has not made any significant payments under such letters of credit.

SECURITY CONTRACTS

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totalled $840 as at July 31, 2009. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2009, no amounts had been accrued with respect to the above-mentioned agreements.

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