TRANSAT A.T. INC.
FIRST QUARTER REPORT
Period ended January 31, 2009

MARCH 10, 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 ended January 31, 2009 compared with the quarter ended January 31, 2008 and should be read in conjunction with the unaudited consolidated interim financial statements for the first 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 first-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 March 10, 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 January 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, energy 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, 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 demand and volumes for the remainder of the winter will be higher than in 2008, that reservations from Canada to Europe, in the summer of 2009, will be similar as 2008 and that European reservations will be slightly lower than the summer of 2008.
- Cash flows from operations, cash on hand and drawdowns from its credit facilities will be sufficient to support ongoing working capital requirements.

In making these statements, the Corporation has assumed that the trends in reservations will continue throughout the remainder of the season, 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 law.

FINANCIAL HIGHLIGHTS

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 Restated $	Variance $	Variance %
Consolidated Statements of Loss				
Revenues	877,254	787,389	89,865	11.4
Margin [1]	(8,498)	19,274	(27,772)	(144.1)
Net loss	(29,436)	(7,851)	(21,585)	(274.9)
Basic loss per share	(0.90)	(0.23)	(0.67)	(291.3)
Diluted loss per share	(0.90)	(0.23)	(0.67)	(291.3)
Dividend – Class A and B shares	0.09	0.09	—	—
Consolidated Statements of Cash Flows				
Operating activities	80,047	118,242	(38,195)	(32.3)

	As at January 31, 2009 $	As at October 31, 2008 Restated $		
Consolidated Balance Sheets				
Cash and cash equivalents	184,068	145,767	38,301	26.3
Cash and cash equivalents in trust or otherwise reserved	307,301	256,697	50,604	19.7
Investments in ABCP	91,305	86,595	4,710	5.4
	582,674	489,059	93,615	19.1
Total assets	1,471,240	1,256,205	215,035	17.1
Debt (short-term and long-term)	178,964	153,241	25,723	16.8
Total debt [1]	468,960	450,335	18,625	4.1
Net debt [1]	193,587	217,973	(24,386)	(11.2)

[1]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 (Loss).

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. 11.

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"].

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 (North America 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 leverages on its subsidiary Air Transat, Canada's largest international charter air carrier, and on more than 60 other airlines to meet a substantial portion of its airline seat needs. Transat also has a stake in a hotel business and offer 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 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 looming 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 multichannel distribution strategy and increase sales for each channel;
- Develop and implement a sustainable tourism plan that will keep 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 alike.

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 to the success of our strategies and past 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 January 31 (in thousands of dollars)	2009 $	2008 $	Variance $	Variance %
Revenues	877,254	787,389	89,865	11.4

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

Revenues were up $89.9 million compared with the first quarter of 2008. The overall increase was driven by revenue growth of 9.5% and 23.0% in America and Europe, respectively. These improvements resulted mainly from greater business activity due to an expanded product offering. Owing to our expanded product offering in various markets, our volume of travellers rose 10.5% compared with the corresponding quarter of the previous year.

OPERATING EXPENSES

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 Restated $	Variance $	Variance %
Direct costs	541,921	441,441	100,480	22.8
Salaries and employee benefits	90,749	87,819	2,930	3.3
Aircraft fuel	77,874	67,606	10,268	15.2
Commissions	47,357	45,046	2,311	5.1
Aircraft maintenance	25,640	21,921	3,719	17.0
Airport and navigation fees	19,603	19,293	310	1.6
Aircraft rent	13,247	11,902	1,345	11.3
Other	69,361	73,087	(3,726)	(5.1)
Total	885,752	768,115	117,637	15.3

Our operating expenses consist mainly of direct costs, salaries and employee benefits, aircraft fuel, commissions, aircraft maintenance, airport and navigation fees, and aircraft rent.

Our aggregate operating expenses were up $117.6 million for the first quarter compared with the corresponding period of 2008, due to rises in operating expenses of 13.8% and 23.7% in America and Europe, respectively.

DIRECT COSTS

Direct costs include the costs of the various trip components sold to consumers via travel agencies and incurred by our tour operators. They also include hotel room costs and the costs of reserving blocks of seats or full flights with air carriers other than Air Transat. During the quarter ended January 31, 2009, these costs accounted for 61.8% of our revenues, up from 56.1% for the same period in 2008. Direct costs were up 22.8% compared with the corresponding quarter of the previous year. The increases in dollar terms were driven primarily by greater business activity, but also by the strength of the euro and the U.S. dollar against the Canadian dollar.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up 3.3% for the quarter compared with the corresponding period of 2008, owing primarily to greater business activity and annual pay raises.

AIRCRAFT FUEL

Aircraft fuel costs for the quarter climbed $10.3 million or 15.2%. This rise resulted mainly from greater business activity and higher fuel costs for the Corporation than in the corresponding quarter of 2008. As a result of its fuel risk management policy, the Corporation was unable to fully capitalize on the recent 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 was up $2.3 million during the first quarter ended January 31, 2009 compared with the corresponding period of 2008. This increase stemmed primarily from greater business activity. During the quarter ended January 31, 2009, commission expense accounted for 5.4% of our revenues compared to 5.7% for the same period in 2008.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs relate to the engine and airframe maintenance expenses incurred by Air Transat. Compared with the corresponding period of 2008, aircraft maintenance costs rose 17.0% during the quarter ended January 31, 2009, due primarily to the two aircraft added to the fleet in fiscal 2008.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees relate mainly to fees charged by airports. The 1.6% increase in fees for the quarter compared with the corresponding period of the previous year resulted from greater business activity.

AIRCRAFT RENT

During the quarter ended January 31, 2009, aircraft rent increased by 11.3% compared with the corresponding period of 2008, owing primarily to the two aircraft added to the fleet in fiscal 2008.

OTHER

For the first quarter, other expenses were down $3.0 million, or 4.1%, from the corresponding period of 2008, resulting mainly from lower marketing costs. As a percentage of revenues, other expenses dropped to 8.0% for the quarter from 9.3% in the corresponding period of 2008.

MARGIN

In light of the foregoing, the Corporation recorded a negative margin of $8.5 million dollars during the quarter compared with a positive margin of $19.3 million in the corresponding period of 2008. Expressed as a percentage of revenues, the Corporation reported a negative margin of 1.0% for the quarter compared with a positive margin of 2.4% for the corresponding period in 2008. These slimmer margins resulted primarily from downward price pressure due to excess supply in the Canadian marketplace and fierce competition, mainly with respect to our Caribbean and Mexican destinations.

GEOGRAPHIC AREAS

AMERICAS

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 Restated $	Variance $	Variance %
Revenues	739,426	675,342	64,084	9.5
Operating expenses	738,093	648,746	89,347	13.8
Margin	1,333	26,596	(25,263)	(95.0)

In America, revenues were up 9.5% during the first quarter ended January 31, 2009 compared with the same period in 2008. This increase resulted primarily from 11.1% growth in the volume of travellers compared with the corresponding quarter of 2008. For the quarter, the Corporation reported a margin of 0.2% compared with 3.9% for the corresponding period of 2008. These slimmer margins stemmed primarily from downward price pressure, mainly on our sun destinations, due to excess supply in the marketplace and an environment that remains highly competitive.

EUROPE

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 Restated $	Variance $	Variance %
Revenues	137,828	112,047	25,781	23.0
Operating expenses	147,659	119,369	28,290	23.7
Margin	(9,831)	(7,322)	(2,509)	(34.3)

In Europe, revenues and operating expenses were up from the corresponding quarter in the previous year, owing mostly to greater business activity for our European operations, but also to the euro's strength against the dollar. The volume of travellers rose 6.0% during the quarter compared with the corresponding period of 2008. Our European operations reported a negative margin of $9.8 million or 7.1% compared with a negative margin of $7.3 million or 6.5% in the corresponding period of 2008, due among other things to the euro's strength against the dollar.

OTHER EXPENSES AND REVENUES

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 Restated $	Variance $	Variance %
Amortization	12,894	13,169	(275)	(2.1)
Interest on long-term debt and debenture	1,429	2,351	(922)	(39.2)
Other interest and financial expenses	466	388	78	20.1
Interest income	(1,897)	(4,427)	2,530	57.1
Change in fair value of derivative financial instruments used for aircraft fuel purchases	28,512	1,967	26,545	1,349.5
Foreign exchange loss (gain) on long-term monetary items	121	(157)	278	177.1
Change in fair value of investments in ABCP	(9,855)	14,222	(24,077)	(169.3)
Share of net loss (income) of a company subject to significant influence	399	(707)	1,106	156.4

AMORTIZATION

Amortization includes amortization on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements, and on deferred gain on options. Amortization expense was down $0.3 million or 2.1%, mainly resulting from the amortization in the amount of $1.1 million of the initial fair value of the options enabling the Corporation to repay a portion of the drawdowns under its credit facilities using the restructured notes. These were partially offset by the increase of amortization on property, plant and equipment due to additions made during fiscal 2008.

INTEREST ON LONG-TERM DEBT AND DEBENTURE

Interest on long-term debt and the debenture was down $0.9 million during the quarter compared with the corresponding period of 2008. Despite higher average debt for the quarter compared with the corresponding period of 2008, interest expense was lower in light of more favourable interest rates in 2009 than in 2008.

OTHER INTEREST AND FINANCIAL EXPENSES

Our other interest and financial expenses remained relatively unchanged during the first quarter, increasing slightly by $0.1 million from the corresponding period of the previous year.

INTEREST INCOME

Interest income was down $2.5 million for the quarter ended January 31, 2009 compared with the corresponding period of 2008. This decrease resulted mainly from lower interest rates compared with the corresponding period 2008, despite 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 the derivative financial instruments outstanding as at January 31, 2009, used by the Corporation to manage risks related to fuel price volatility. Compared with the corresponding quarter of the previous year, the change in fair value of derivative financial instruments used for aircraft fuel purchases was down $28.5 million.

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

The Corporation recognized a $0.1 million foreign exchange loss on long-term monetary items for the quarter compared with $0.2 million gain in the corresponding period of 2008, arising primarily from the unfavourable effect of foreign exchange rates on its long-term debt.

CHANGES IN FAIR VALUE OF INVESTMENTS IN ABCP

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.

As at 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 has 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.

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 3.85% (weighted average rate of 1.6%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.0 years) and using discount rates ranging from 4.9% to 164.4% (weighted average rate of 23.9%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the 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 $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. The new ABCP now has a notional value of $141.7 million and is detailed as follows:

The Corporation holds $113.4 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 expects to receive replacement notes at the notional value as follows:

Class A-1: $34.5 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 $15.8 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 January 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. Subsequent to this new measurement, no adjustments were recognized. 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 under change in fair value of investments in ABCP. As a result of the valuation, of the exchange of new securities, and of the amount received of $4.7 million, the ABCP investment portfolio had a fair value of $91.3 million and the provision for impairment totalled $50.4 million.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $4.6 million in the estimated fair value of ABCP held by the Corporation.

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.

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.

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

Our share of net loss (income) of a company subject to significant influence represents our share of the net loss (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 $0.4 million compared with a share of net income of $0.7 million for the corresponding period of 2008.

INCOME TAXES (RECOVERY)

The Corporation recorded $12.3 million in income tax recovery for the quarter ended January 31, 2009 compared with $0.3 million for the corresponding quarter of the previous fiscal year. Excluding the share in net loss (income) of a company subject to significant influence, the effective tax rate was 30.6% for the quarter compared with 3.8% for the corresponding period of 2008.

The higher tax rate for the quarter resulted mainly from the use by our French subsidiaries in the first quarter of 2008 of tax loss carryforwards for which no future income tax assets had been recognized. Since October 31, 2008, the Corporation once again recognizes future income tax assets related to tax loss carryforwards, if any, for the period.

NET LOSS

Due to the items discussed in *Consolidated Operations*, the Corporation recorded a net loss for the quarter ended January 31, 2009 of $29.4 million or $0.90 per share (basic and diluted) compared with a net loss of $7.9 million or $0.23 per share (basic and diluted) for the corresponding quarter of the previous year. The weighted average number of shares outstanding used to establish the per share amounts was 32,697,000 for the first quarter of 2009 compared with 33,639,000 for corresponding period 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 the volume of travellers and acquisitions since fiscal 2007. From a margin perspective, there have been fluctuations during each quarter, mainly due to competitive pressure on prices and rising fuel 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)	Q2-2007 Restated $	Q3-2007 Restated $	Q4-2007 Restated $	Q1-2008 Restated $	Q2-2008 Restated $	Q3-2008 Restated $	Q4-2008 Restated $	Q1-2009 $
Revenues	911,400	741,762	680,418	787,389	1,075,158	859,880	790,424	877,254
Margin	69,334	27,691	11,380	19,274	70,715	14,587	23,192	(8,498)
Net income (loss)	57,018	17,453	14	(7,851)	41,721	(895)	(82,369)	(29,436)
Basic earnings (loss) per share	1.68	0.52	(0.00)	(0.23)	1.32	(0.03)	(2.54)	(0.90)
Diluted earnings (loss) per share	1.67	0.51	(0.00)	(0.23)	1.31	(0.03)	(2.54)	(0.90)

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2009, cash and cash equivalents totalled $184.1 million compared with $145.8 million as at October 31, 2008. Cash and cash equivalents in trust or otherwise reserved amounted to $307.3 million as at the end of the first quarter of 2009 compared with $256.7 million as at October 31, 2008. The Corporation's balance sheet reflects working capital of $0.1 million and a current ratio of 1.00 compared with $20.8 million and 1.03 as at October 31, 2008.

Total assets were up $215.0 million or 17.1% to $1,471.2 million as at January 31, 2009 from $1,256.2 million as at October 31, 2008. This increase was driven mainly by greater business activity coupled with the seasonal nature of our operations, which in turn resulted in increases in cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, and prepaid expenses of $38.3 million, $50.6 million and $94.6 million, respectively. The Corporation reported $281.0 million in shareholders' equity as at January 31, 2009, down $57.1 million from $338.1 million as at October 31, 2008. This decline arose mainly from the $29.4 million net loss and the $21.9 million change in fair value of the derivatives designated as cash flow hedges, which are included in accumulated other comprehensive income.

SUMMARY OF CASH FLOWS

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 Restated $	Variance $
Cash flows related to operating activities	80,047	118,242	(38,195)
Cash flows related to investing activities	(61,513)	(161,149)	99,636
Cash flows related to financing activities	22,389	43,179	(20,790)
Effect of exchange rate changes on cash and cash equivalents	(2,622)	4,910	(7,532)
Net change in cash and cash equivalents	38,301	5,182	33,119

OPERATING ACTIVITIES

During the first quarter, operating activities generated $80.0 million in cash flows compared with $118.2 million for the corresponding quarter of 2008. This $38.2 million decrease for the quarter resulted primarily from the net change in non-cash working capital balances related to operations, which represented a $33.4 million decline from the corresponding quarter of 2008 (owing mainly to an adverse change in prepaid expenses for the quarter compared with the corresponding period of 2008) and from a higher net loss for the quarter compared with the corresponding period of 2008.

INVESTING ACTIVITIES

During the quarter, cash flows used in investing activities totalled $61.5 million, down $99.6 million from the corresponding period of 2008. This decrease resulted mainly from the net change in cash and cash equivalents in trust or otherwise reserved, which represented a $56.1 million decline from the corresponding period of 2008. The Corporation made a $5.2 million [US$4.2 million] capital contribution to Caribbean Investments B.V. during the quarter.In addition, during the quarter ended January 31, 2008, the Corporation acquired a 35% ownership interest in CIBV for $50.6 million during the quarter.

FINANCING ACTIVITIES

During the quarter, cash flows generated from financing activities totalled $22.4 million, down $20.8 million from the corresponding period of 2008. This decrease resulted mainly from the net change in credit facilities and other debt, which represented a $24.6 million decline from the corresponding period of 2008.

FINANCING

As at January 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 an $86.4 million revolving credit facility 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. On February 9, 2009, subsequent to the implementation of the ABCP restructuring plan and pursuant to the terms of the agreement, the revolving term credit facility was increased to $157.0 million.

The Corporation has two revolving credit facilities of $9.4 million and $97.0 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 $67.5 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 over the term of the credit agreements as amortization. The options are reported at fair value at each balance sheet date under derivative financial instruments, and any subsequent change in fair value of the options is recorded in net income under change in fair value of the investments in ABCP.

As at January 31, 2009, $125.0 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 immediately payable in the event of a change in control. Early repayments are permitted subject to certain premiums. The agreement bears interest separately for each drawdown at the rates of Government of Canada bonds with maturities equal to the remaining term of the agreement, plus a premium determined in part based on certain factors specific to unsecured financing arrangements.

The loans secured by aircraft of the Corporation amount to $49.1 million [US$40 million] as at January 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 January 31, 2009. As at January 31, 2009 and October 31, 2008, these obligations amounted to $179.0 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

Off-balance sheet debt, excluding agreements with service providers, that can be estimated amounted to approximately $290.0 million as at January 31, 2009 compared with $297.1 million as at October 31, 2008, and is detailed as follows:

	As at January 31, 2009 $	As at October 31, 2008 $
Garantees		
Irrevocable letters of credit	18,186	7,074
Collateral security contracts	790	790
Operating leases		
Commitments under operating leases	271,020	289,230
	289,996	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 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 January 31, 2009 were higher than as at October 31, 2008.

Balance sheet debt increased $25.7 million to $179.0 million from $153.2 million, and our off-balance sheet debt decreased $7.1 million to $290.0 million from $297.1 million, collectively representing an $18.6 million increase in total debt as at January 31, 2009 compared with October 31, 2008. The increase in balance sheet debt resulted mainly from drawdowns under our revolving term credit facilities during the quarter. The decrease in our off-balance sheet debt, stemming from repayments of our commitments, was offset by the Corporation's issuance of new irrevocable letters of credit and the adverse effect of foreign exchange rates compared with October 31, 2008.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $193.6 million in net debt as at January 31, 2009, down 11.2% from $218.0 million as at October 31, 2008.

OUTSTANDING SHARES

As at January 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 January 31, 2009, there were 1,094,099 Class A Variable Voting Shares outstanding and 31,623,451 Class B Voting Shares outstanding.

STOCK OPTIONS

As at January 31, 2009, there were a total of 716,173 stock options outstanding, 323,551 of which were exercisable.

DIVIDENDS

During the quarter ended January 31, 2009, the Corporation declared and paid dividends totalling $2.9 million.

CHANGES TO ACCOUNTING POLICIES

STANDARDS IN EFFECT ON NOVEMBER 1, 2008

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 three-month period ended January 31, 2008, the adoption of these new standards translated into the following changes: a $3.3 million decrease in other operating expenses, a $0.1 million decrease in amortization and a $1.2 million decrease in future income tax recovery, for a $2.2 million decrease in net loss and $0.07 on diluted earnings per share. 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.

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 $1.4 million decrease in derivative financial instruments disclosed as assets, a $3.2 million decrease in derivative financial instruments disclosed as 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.

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 is currently preparing its IFRS conversion plan. The plan will be aimed in particular at 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 the Vice-President, Finance and Administration and 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 Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the three-month period ended January 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

For the winter season, Transat expects demand and volumes to be higher than in 2008 on all markets. However, in Canada, heightened competition and excess capacity continue to exert pressure on selling prices and margins. For the summer, Canadian bookings to Europe are similar to those of the previous year and European bookings to Canada and other destinations are slightly behind 2008.

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TRANSAT A.T. INC.
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)	As at January 31 2009 $	As at October 31 2008 [restated – note 2] $
ASSETS		
Current assets		
Cash and cash equivalents	184,068	145,767
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	307,301	256,697
Accounts receivable	145,570	119,852
Income taxes receivable	6,295	4,095
Future income tax assets *[note 2]*	22,267	10,807
Inventories	12,428	11,412
Prepaid expenses *[note 2]*	141,338	46,747
Derivative financial instruments *[note 2]*	83,703	111,007
Current portion of deposits	36,566	32,094
Total current assets	939,536	738,478
Investments in ABCP *[note 4]*	91,305	86,595
Deposits	18,759	18,526
Future income tax assets	22,587	16,097
Property, plant and equipment	163,719	171,294
Goodwill and other intangible assets *[note 5]*	148,207	151,803
Derivative financial instruments *[note 2]*	18,267	10,875
Investments and other assets *[notes 2 et 6]*	68,860	62,537
	1,471,240	1,256,205
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	278,644	282,440
Current portion of provision for overhaul of leased aircraft	22,131	23,231
Income taxes payable	4,027	6,942
Future income tax liabilities *[note 2]*	9,003	14,615
Customer deposits and deferred income	506,670	293,537
Derivative financial instruments *[note 2]*	98,970	77,056
Débenture	3,156	3,156
Payments on current portion of long-term debt	16,885	16,745
Total current liabilities	939,486	717,722
Long–term debt *[notes 7 et 12]*	158,923	133,340
Provision for overhaul of leased aircraft	22,010	13,011
Other liabilities *[note 4]*	43,698	34,517
Derivative financial instruments *[note 2]*	17,440	9,850
Future income tax liabilities	8,699	9,692
	1,190,256	918,132
Shareholder's equity		
Share capital *[note 8]*	154,567	154,198
Retained earnings *[note 2]*	73,813	106,188
Contributed surplus	5,084	4,619
Accumulated other comprehensive income *[notes 2 and 9]*	47,520	73,068
	280,984	338,073
	1,471,240	1,256,205

See accompanying notes to consolidated interim financial statement

NOTICE

The Corporation's independent auditors have not performed a review of the accompanying financial statements in accordance with the Canadian Institue of Chartered Accountants' standards for a review of interim financial statements by the entity's auditors.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME

	Quarters ended January 31	
	2009	2008 [restated – note 2]
(in thousands of dollars, except per share amounts) (unaudited)	$	$
Revenues	877,254	787,389
Operating expenses		
Direct costs	541,921	441 441
Salaries and employee benefits	90,749	87 819
Aircraft fuel	77,874	67 606
Commissions	47,357	45 046
Aircraft maintenance	25,640	21 921
Airport and navigation fees	19,603	19 293
Aircraft rent	13,247	11 902
Other *[note 2]*	69,361	73 087
	885,752	768 115
	(8,498)	19,274
Amortization *[note 2]*	12,894	13,169
Interest on long-term debt and debenture	1,429	2,351
Other interest and financial expenses	466	388
Interest income	(1,897)	(4,427)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	28,512	1,967
Foreign exchange loss (gain) on long-term monetary items	121	(157)
Change in fair value of investments in ABCP *[note 4]*	(9,855)	14,222
Share of net loss (income) of a company subject to significant influence	399	(707)
	32,069	26,806
Loss before the undernoted items	(40,567)	(7,532)
Income taxes (recovery)		
Current	(562)	4,529
Future *[note 2]*	(11,729)	(4,846)
	(12,291)	(317)
Loss before Non-controlling interest in subsidiaries' results	(28,276)	(7,215)
Non-controlling interest in subsidiaries' results	(1,160)	(636)
Net loss for the period	(29,436)	(7,851)
Loss per share *[note 8]*		
Basic	(0.90)	(0.23)
Diluted	(0.90)	(0.23)

See accompanying notes to consolidated interim financial statement

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Quarters ended January 31	
	2009	2008 [restated – note 2]
(in thousands of dollars) (unaudited)	$	$
Net loss for the period	(29,436)	(7,851)
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	7,467	7,698
Reclassification in income	(41,501)	34,847
Future income taxes	12,127	(298)
	(21,907)	42,247
Losses on derivatives designated as fuel hedges before November 1, 2006 included in net income for the period	—	264
Future income taxes	—	(87)
	—	177
Foreign exchange gains (losses) on the translation of financial statements of self-sustaining foreign subsidiaries due to the (appreciation) depreciation of the Canadian dollars vs. the euro, pound sterling and U.S. dollar at the balance sheet date	(3,641)	6,666
	(25,548)	49,090
Comprehensive income for the period	(54,984)	41,239

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	Quarters ended January 31	
	2009	2008 [restated – note 2]
(in thousands of dollars) (unaudited)	$	$
Retained earnings, beginning of period, as previously reported	109,302	191,118
Changes in accounting policies *[note 2]*	(3,114)	(5,708)
Retained earnings, beginning of year	106,188	185,410
Net loss for the period	(29,436)	(7,851)
Premium paid on share repurchase	—	(3,459)
Dividends	(2,939)	(3,028)
Retained earnings at the end of the period	73,813	171,072

See accompanying notes to consolidated interim financial statement

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

	Quarters ended January 31	
	2009	2008 [restated – note 2]
(in thousands of dollars) (unaudited)	$	$
OPERATING ACTIVITIES		
Net loss for the period	(29,436)	(7,851)
Imputations à l'exploitation ne nécessitant pas de sorties (rentrées de fonds) :		
Amortization	12,894	13,169
Change in fair value of derivative financial instruments used for aircraft fuel purchases	28,512	1,967
Foreign exchange loss (gain) on long-term monetary items	121	(157)
Change in fair value of investments in ABCP	(5,110)	14,000
Loss on disposal of investments in ABCP	—	222
Share of net loss (income) of a company subject to significant influence	399	(707)
Non-controlling interest in subsidiairies'results	1,160	636
Future income taxes	(11,729)	(4,846)
Pension expense	732	772
Compensation expense related to stock option plan	465	567
	(1,992)	17,772
Net change in non-cash working capital balances related to operations	74,161	107,522
Net change in other assets and liabilities related to operation	(21)	(5,919)
Net change in provision for overhaul of leased aircraft	7,899	(1,133)
Cash flows related to operating activities	80,047	118,242
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(5,698)	(14,575)
Consideration paid for acquired companies	(5,211)	(50,621)
Net change in investments in ABCP	—	10,778
Net change in cash and cash equivalents in trust or otherwise reserved	(50,604)	(106,731)
Cash flow related to investing activities	(61,513)	(161,149)
FINANCING ACTIVITIES		
Net change in credit facilities and other debts	24,959	49,550
Proceeds from issuance of shares	369	829
Share repurchase	—	(4,172)
Dividends	(2,939)	(3,028)
Cash flow related to financing activities	22,389	43,179
Effect of exchange rate changes on cash and cash equivalents	(2,622)	4,910
Net change in cash and cash equivalents	38,301	5,182
Cash and cash equivalents, beginning of the period	145,767	166,768
Cash and cash equivalents, end of the period	184,068	171,950
Supplementary information		
Income taxes paid	4,742	6,108
Interest paid	730	1,025

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 consolidated interim 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

STANDARDS IN EFFECT ON NOVEMBER 1ST, 2008

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 January 31, 2008, the adoption of these new standards translated into the following changes: a $3,330 decrease in other operating expenses, a $106 decrease in amortization and a $1,193 decrease in future income tax recovery, for a $2,243 decrease in net loss and $0.07 on diluted earnings per share. 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.

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.

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 is currently preparing its IFRS conversion plan. The plan will be aimed in particular at 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 January 31, 2009, cash and cash equivalents in trust or otherwise reserved included $260,238 [$210,481 as at October 31, 2008] in funds received from customers for services not yet rendered and $47,063 [46,216 as at October 31, 2008] which was pledged as collateral security against letters of credit and foreign exchange contracts.

Note 4 INVESTMENTS IN ABCP

In mid-August 2007, the Canadian third-party 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.

As at 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 has 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.

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 3.85% (weighted average rate of 1.6%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.0 years) and using discount rates ranging from 4.9% to 164.4% (weighted average rate of 23.9%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the 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 a $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 $6,041, 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 and is detailed as follows:

The Corporation holds $113,421 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 expects to receive replacement notes at the notional value as follows:

Class A-1: $34,526
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 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 $15,846 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 January 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. Subsequent to this new measurement, no adjustments were recognized. 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 under change in fair value of investments in ABCP. These options (presented under Derivative financial instruments) along with the corresponding deferred gain (presented under Other liabilities) were initially accounted for at their fair value of $8,400. As a result of the valuation, of the exchange of new securities, and of the amount received of $4,745, the ABCP investment portfolio had a fair value of $91,305 and the provision for impairment totalled $50,436.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $4,600 in the estimated fair value of ABCP held by the Corporation.

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.

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 three-month period ended April 30, 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 January 31, 2009 $	As at October 31, 2008 [restated – note 2] $
Investment in Caribbean Investments B.V.	65,316	59,059
Deferred costs, unamortized balance	2,200	2,028
Other investments	617	603
Sundry	727	847
	68,860	62,537

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

	$
Balance as at October 31, 2008	59,059
Capital contribution	5,211
Share of net loss	(399)
Translation adjustment	1,445
Balance as at January 31, 2009	65,316

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. 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 premiums. The agreement bears interest separately for each disbursement at Government of Canada bonds 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.

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:

Quarter ended January 31, 2009

	Number of shares	Amount ($)
Balance at beginning of period	32,678,241	154,198
Issued from treasury	39,309	369
Balance at end of period	32,717,550	154,567

Au As at January 31, 2009, the number of Class A Shares and Class B Shares amounted to 1,094,099 and 31,623,451 respectively.

B) OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2008 and as at January 31, 2009	716,173	22.85
Options exercisable as at January 31, 2009	323,551	19.92

During the three-month period ended January 31, 2009, the Corporation recorded a compensation expense of $465 [$567 for the three-month period ended January 31, 2008] for its stock option plan.

c) LOSS PER SHARE

Loss per share and the diluted loss per share were computed as follows:

Quarters ended January 31 (in thousands of dollars, except per share amounts)	2009 $	2008 [restated – note 2] $
Numerator		
Loss attributable to voting shareholders	(29,436)	(7,851)
Denominator		
Weighted average number of outstanding shares	32,697	33,639
Loss per share		
Basic	(0.90)	(0.23)
Diluted	(0.90)	(0.23)

The debenture that may be settled in shares was excluded from the computation of diluted earnings per share for the three-month periods ended January 31, 2009 and 2008, because of its antidilutive effect. The potential impact of this security on the denominator is 321,000 shares for the three-month period ended January 31, 2009 [89,000 shares for the three-month period ended January 31, 2008]. Given the losses recorded for the three-month periods ended January 31, 2009, and 2008, the 716,173 stock options outstanding as at January 31, 2009 [464,917 stock options outstanding as at January 31, 2008] were excluded from the computation of diluted earnings per share because of their antidilutive effect.

Note 9 ACCUMULATED OTHER COMPREHENSIVE INCOME

Quarters ended January 31 (in thousands of dollars)	2009 $	2008 [restated – note 2] $
Accumulated other comprehensive income		
Balance beginning of period, as previously reported	73,873	(66,501)
Change in accounting policy *[note 2]*	(805)	40
Balance beginning of period	73,068	(66,461)
Other comprehensive income for the period	(25,548)	49,090
Balance, end of period	47,520	(17,371)

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 North America and in Europe.

Quarters ended January 31, 2009	Americas $	Europe $	Total $
Revenues	739,426	137,828	877,254
Operating expenses	738,093	147,659	885,752
	1,333	(9,831)	(8,498)
Property, plant and equipment, goodwill and other intangible assets [1]	184,508	127,418	311,926

Quarters ended January 31, 2009	Americas $	Europe $	Total [restated – note 2] $
Revenues	675,342	112,047	787,389
Operating expenses	648,746	119,369	768,115
	26,596	(7,322)	19,274
Property, plant and equipment, goodwill and other intangible assets [2]	192,231	130,866	323,097

[1] As at January 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 tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $499 as at January 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 Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $790 as at January 31, 2009. Historically, the Corporation has not made any significant payments under such agreements.

As at January 31, 2009, no amounts have been accrued with respect to the above-mentioned agreements.

Note 12 SUBSEQUENT EVENT

On February 9, 2009, following the implementation of the ABCP restructuring plan, the $86,350 revolving credit facility, was increased by $70,650 to $157,000

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