



TRANSAT A.T. INC.

ANNUAL INFORMATION FORM

FOR THE YEAR ENDED OCTOBER 31, 2011



DECEMBER 14, 2011

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In this Annual Information Form (“AIF”), “we”, “our”, “us”, “Transat” and the “Corporation” refer to Transat A.T. Inc. together with one or more of its subsidiaries or Transat A.T. Inc. itself, as the context may require. All dollar figures referred to in this AIF are references to Canadian dollars, unless otherwise indicated. The information contained in this AIF is reported as of October 31, 2011, being our financial year-end, unless otherwise indicated. The following is a list of our registered and unregistered trademarks and designs that are referred to and used as such in this AIF: our star logo and our mosaic featured on the cover of this AIF, Air Transat, ACE, Amplitude, Bennett Voyages, Cameleon, Canadian Affair, Club Voyages, Eleva Travel, Eurocharter, Exitnow.ca, Handlex, Jonview Canada, Lookéa, Lookéko, Look Voyages, Marlin Travel, Merika Tours, Nolitours, Transat Discoveries/Transat Découvertes, Rêvatours, Tourgreece, Trafictours, Transat, Transat Holidays/Vacances Transat, Transat Holidays USA, TravelPlus, Tripcentral.ca, Turissimo and Voyages en Liberté. Any other trademarks, designs or corporate, trade or domain names used in this AIF are the property of their owners.

1. CORPORATE STRUCTURE

1.1 NAME AND INCORPORATION

Transat A.T. Inc. (hereafter “Transat”) was incorporated under the *Canada Business Corporations Act*, R.S.C. 1985, c. C-44 (the “*Canada Business Corporations Act*”) by Certificate of Incorporation dated February 13, 1987. Since its incorporation, Transat has amended its Articles by way of Certificates of Amendment to make the following material changes:

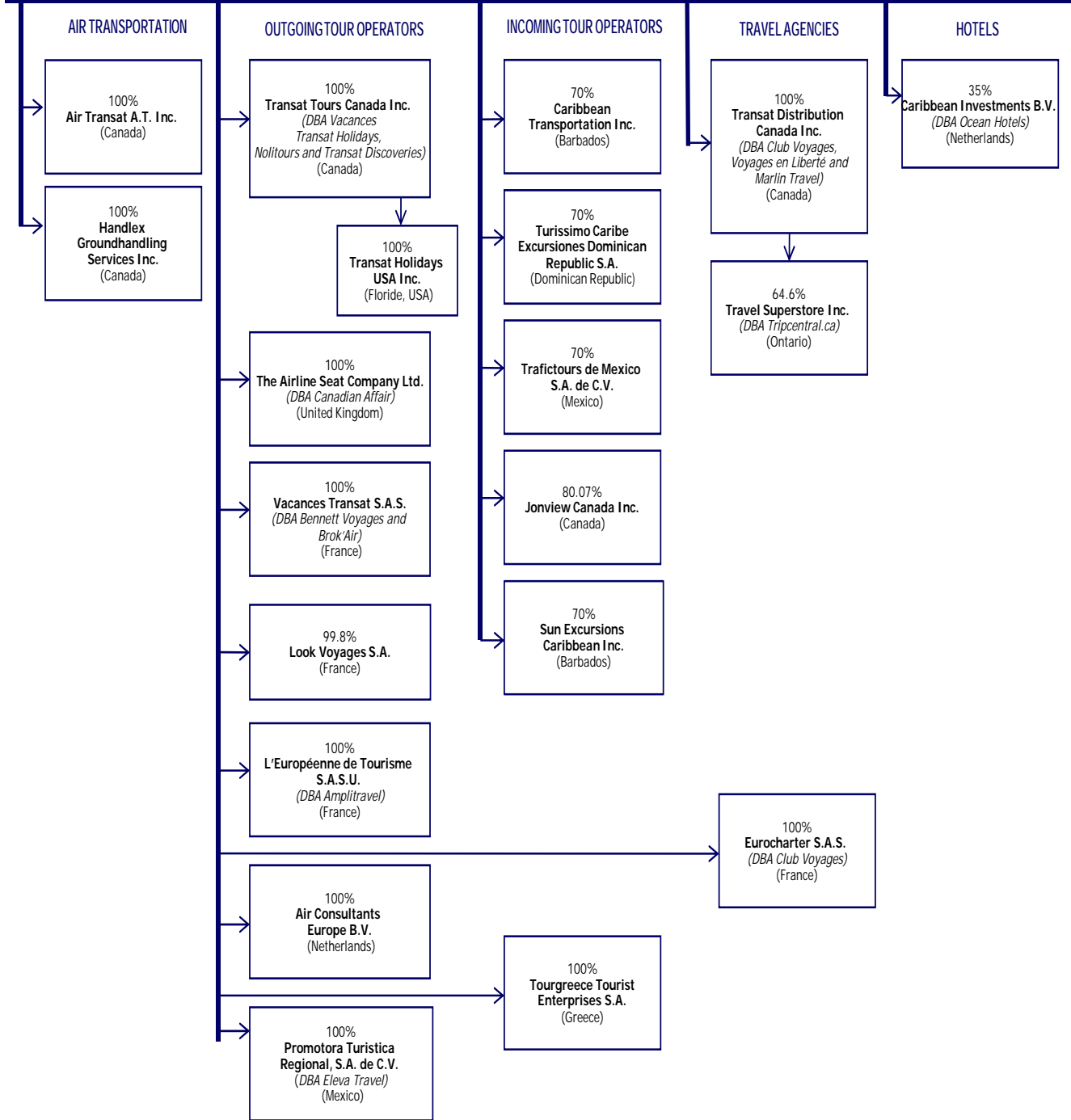
- (i) change its name to “Transat A.T. Inc.”;
- (ii) establish the minimum number of directors at nine and the maximum at fifteen and enable the Board of Directors to appoint directors during a given year;
- (iii) provide for the creation of an unlimited number of Preferred Shares issuable in series, leading to the creation of 2,400,000 Series 1 Preferred Shares, 250,000 Series 2 Preferred Shares and an unlimited number of Series 3 Preferred Shares;
- (iv) subdivide each common share on the basis of three common shares for each issued and outstanding common share;
- (v) introduce constraints on the issue and transfer of our voting shares in order for us to remain a “Canadian” corporation within the meaning of the *Canada Transportation Act*, S.C. 1996, c. 10 (the “*Canada Transportation Act*”); and
- (vi) create an unlimited number of Class A Variable Voting Shares (the “**Variable Voting Shares**”) and an unlimited number of Class B Voting Shares (the “**Voting Shares**”); convert each issued and outstanding common share which is not owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Variable Voting Share; convert each issued and outstanding common share owned and controlled by a Canadian within the meaning of the *Canada Transportation Act* into one Voting Share; cancel each issued and outstanding common share so converted; cancel the unissued common shares of Transat and substitute thereto, with the required adaptations, the Variable Voting Shares and the Voting Shares for the purpose of exercising all rights of subscription, purchase or conversion relating to the common shares so cancelled; and supersede prior restrictions on the issue and transfer of our voting shares stated in (v) above.

Transat’s head office is located at Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montréal, Québec, Canada H2X 4C2.

1.2 INTER-CORPORATE RELATIONSHIPS

The following chart sets out our corporate structure. We have omitted certain subsidiaries, each of which represents not more than 10% of our consolidated assets and not more than 10% of our consolidated sales and operating revenues and all of which, in the aggregate, represent not more than 20% of our consolidated assets and not more than 20% of our consolidated sales and operating revenues.

TRANSAT A.T. INC.



NOTE: DBA: Doing Business As

2. GENERAL DEVELOPMENT OF THE BUSINESS

2.1 OVERVIEW OF THE BUSINESS

Transat is one of the largest fully integrated world-class tour operators in the Americas. We conduct our activities in the holiday travel industry and we market our products mainly in two geographic areas (the Americas and Europe). Transat's core business involves developing and marketing vacation travel services in packages, including airline seats and air-only format. 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 United Kingdom and elsewhere, through travel agencies and the web, some of which we own. Transat is also a major retail distributor in Canada, representing more than 10% of a market with approximately 6,500 agencies in Canada, and relies on a multi-channel distribution system that incorporates web-based sales. Transat leverages on its subsidiary Air Transat A.T. Inc. ("Air Transat"), Canada's largest holiday-travel airline, to meet a substantial portion of its airline seat needs for its Canadian operations. We also offer destination, hotel management and airport services.

2.2 THREE-YEAR HISTORY

You will find below highlights in the development of Transat and other key events that have occurred in the three most recent financial years. For a detailed discussion of changes in our business that we expect will occur during fiscal 2012, we refer you to the "Overview – Core Business, Vision and Strategy" section of the Management's Discussion and Analysis of our 2011 Annual Report available for consultation on SEDAR at www.sedar.com.

On July 29, 2011, Transat renewed the agreements for its revolving credit facilities for operations and issuance of letters of credit. Under the new agreements, Transat has access to a \$100.0 million revolving credit facility maturing in 2015, which is renewable or immediately payable in the event of a change in control. Transat has a \$60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which Transat must pledge cash as collateral security against 105% of letters of credit. Under the terms and conditions of the agreement for the operating revolving credit facility, 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. The terms of the agreements require Transat to comply with financial criteria and ratios.

Transat also has access to an \$84.1 million revolving credit facility which matures in 2013 or is immediately payable in the event of a change in control. 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 LIBOR, plus a premium specific to the type of financing vehicle. This credit facility also includes an option, now in effect following implementation of the ABCP restructuring plan, allowing Transat, at its discretion, to repay amounts drawn down as they fall due under certain conditions up to a maximum of \$45.3 million using the restructured notes. The terms of this agreement require Transat to comply with financial criteria and ratios.

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 payments are needed to honour the customer departing 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.

In November 2011, Transat signed an amending and restated agreement for the processing of credit card transactions with its primary credit card processor in Canada. This amending and restated agreement took effect on November 21, 2011 and will run to August 2015. Transaction proceeds are segregated in separate accounts, in

Transat's name, for a certain number of days before being transferred to Transat's trust account where such applicable provincial legislation applies. 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 and restated agreement will have no significant impact on Transat's operations.

On February 28, 2011, Transat announced the signing of an agreement with a second credit card processor in Canada effective immediately and expiring on February 28, 2015. Credit card transactions processed in Canada under this agreement are subject to the requirement of maintaining certain levels of unrestricted cash and other cash equivalents at each quarter-end, as well as the same financial ratios as those set out in its bank credit agreements. Transat's failure to comply with these covenants could result in a variety of adverse consequences, including, among other things, an obligation by Transat to provide this new credit card processor with a letter of credit according to a predetermined formula based on the monthly dollar volume of credit card transactions processed by this new credit card processor.

2.2.1 Our Operations in the Americas

2.2.1.1 Outgoing Tour Operators

Transat Tours Canada Inc. ("Transat Tours Canada" or "TTC"), which is the backbone of our Canadian operations, operates through three brand names, namely Transat Holidays, Nolitours and Transat Discoveries (formerly known as Rêvateurs) and integrates Air Transat's commercial activities.

On February 13, 2009, TTC and CanJet Airlines, a division of I.M.P. Group Limited ("CanJet") entered into a five-year agreement, effective May 1st, 2009 to April 30, 2014, with two subsequent one-year renewal options. This agreement allows TTC to charter CanJet's Boeing 737-800 aircraft from 18 Canadian cities to approximately 29 sun destinations. CanJet's narrow-bodied aircraft complement Air Transat's wide-bodied fleet, allowing us to broaden our service offering in areas which could not otherwise be efficiently served by the current Air Transat fleet, penetrate new markets and more efficiently manage peak periods. By reason of its pricing structure, our agreement with CanJet further increases TTC's ability to be competitive, which is especially important in current challenging market conditions.

On June 10th, 2010, Transat launched an outgoing tour operator in Monterrey, Mexico under the Eleva Travel brand, to offer leisure travel products to Mexican customers. Eleva Travel was initially comprised of some 20 employees and marketed the following destinations: Cancun, Puerto Vallarta, in Mexico, along with Las Vegas. Other destinations are to be added later including Canada, a popular destination for Mexicans. The creation of Eleva Travel allowed us to offer up a new source market and also take advantage of strong summer demand to complement our operations.

2.2.1.2 Air Transportation

In 2009, we adopted and began implementing a transition plan for renewing the Air Transat fleet. During 2011, the implementation of this Air Transat fleet renewal program continued. Air Transat is currently exploring alternatives for the replacement of its fleet of Airbus A310s, some of which are being replaced by Airbus A330s. In fiscal 2011, Air Transat added four (4) additional Airbus A330s to its fleet, with two (2) Airbus A330-200 having been delivered in November and December 2010 and two (2) Airbus A330-300 in March and May 2011, respectively. Furthermore, Air Transat entered into agreements with Aircraft lessors for two (2) additional Airbus A330-200 aircraft, one of which was delivered in November 2011 and the other is expected to be delivered in December 2011. The first such aircraft is expected to enter into service in 2011 and the second in early 2012. Air Transat expects that the addition of A330 aircraft will help improve operating costs.

The Air Transat operating fleet currently (as of December 14, 2011) consists of 22 wide-bodied long-haul aircraft, namely: eleven (11) Airbus A310-300s with 249 seats each, which will be gradually withdrawn from service, and

eleven (11) Airbus A 330, including seven (7) Airbus A330-200 and four (4) Airbus A330-300 with 342 seats each, subject to the aforementioned deliveries. The lease of one of the A310-300s aircraft will expire in December 2011.

Air operations account for a major portion of our costs and our services. As planned, in 2011, we continued the migration of the Air Transat fleet toward Airbus A330 aircraft. Between 2012 and 2014, we intend to completely redesign our cabin interiors and instal a new in-flight entertainment system, which will mean an improved customer experience. We are also continuing our efforts to optimize capacity with our partnerships with third-party providers, more efficient flight scheduling, increased incidental revenues and leasing our wide-body jets to third parties in the winter and low seasons.

2.2.1.3 Incoming Tour Operators

In 2007, Transat consolidated its ownership incoming activities in Mexico, Dominican Republic and Barbados through an agreement with Gesmex Corporation pursuant to which Transat owns 70% of the shares of Trafictours Canada, ensuring a better quality of service and improved operational and financial controls. Transat also carries on incoming tour operator activities in Greece independently.

2.2.2 Our Operations in Europe

Transat France S.A.S. holds L'Européenne de Tourisme S.A.S.U. (doing business as Amplitravel), Vacances Transat (France), Look Voyages, The Airline Seat Company Ltd. (doing business as Canadian Affair), Tourgreece Tourist Enterprises S.A. and Air Consultants Europe B.V.

In 2009, the Finance, Legal, Information Systems and Human Resources departments of our two tour operators Vacances Transat (France) and Look Voyages were consolidated under a single management entity, Transat France. In doing so, we realized efficiency gains, and it is now easier to have our business units share a common vision. In October 2010, we relocated the Vacances Transat (France) employees of Ivry, so that all Transat France employees are now in a single location.

Also in 2009, we reached an agreement with XL Airways, which chartered one of Air Transat's aircraft during winter 2010 and 2011 to serve our tour operators based in France, resulting in substantial savings. On July 19th, 2010, Transat announced the signature of a three-year agreement with air carrier Transavia France for its medium-haul flights departing from France to Mediterranean Basin destinations. Under the terms of their agreement, Transavia France became the partner of choice of Vacances Transat and Look Voyages for their medium-haul chartered flights and seat needs. This type of initiative, combined with use of a single aircraft type by Air Transat and the chartering of narrow-body jets, translated into greater flexibility and reduced costs.

Following the financial difficulties encountered in the past several years by Eurocharter and in the context of the economic crisis currently prevailing in the tourism industry, the end of which cannot be predicted accurately, in 2009, Eurocharter began an in-depth reorganization of its activities to turn around its financial position and allow it to preserve its competitiveness. Thus, the following measures were taken in 2009 and continued in 2010 : (i) establishment of a group of 38 agencies of the Eurocharter network under the "Look Voyages" banner, with the aim of tightening the strategic relationships with the Transat tour operators in France, so as to derive all the possible benefits from Transat Group's position, (ii) subcontracting of support services to the Transat entities in France and the closing of the head office of Eurocharter in Nantes which resulted in the layoff of 39 employees, (iii) sale of 21 agencies of the Eurocharter network, whose positioning does not or no longer fits in with Eurocharter's development strategy, and (iv) closing of five agencies. In 2011, the focus was put on improving the efficiency or productivity of our sales force.

On November 20, 2009, Transat announced the expansion of its retail distribution reach in France through a new commercial agreement between its Transat France division and AFAT Sélectour Voyages, the country's biggest travel agency network. This new network, created earlier in 2010 from the merger of the AFAT and Sélectour

networks, together represent 1,170 agencies and total billings of approximately 3 billion Euros. In May 2010, the 40 Look Voyages Agencies became affiliated with the AFAT Sélectour organization. In 2011, AFAT Sélectour was the most important distribution network for Transat France.

3. DESCRIPTION OF OUR BUSINESS

The data contained in this section are estimates of our competitive positioning and market share and are based on our knowledge of the relevant industry segments. Being a vertically integrated business, we have determined that Transat conducts its activities in a single industry segment, namely holiday travel, and operates in two geographic areas, specifically the Americas and Europe. We recorded \$3,658.2 million in revenues for fiscal 2011, compared to \$3,498.9 million for fiscal 2010. North American operations accounted for \$2,762.4 of our revenues for fiscal 2011 and \$2,568.0 million for fiscal 2010. European operations amounted to \$895.8 million in revenues for fiscal 2011 and \$930.9 million for fiscal 2010.

In May 2011, Transat introduced a new identity platform and adopted new colours, based on the concept of welcome and hospitality, as being the very essence of the business of integrated tour operator. As part of the implementation of Transat's new brand platform, logos of Transat Holidays, Nolitours, Air Transat, Canadian Affair, Affair Travel and Tourgreece were also rejuvenated.

Over the past few months, Transat has begun reviewing all operations and developing an action plan focused mainly on reducing direct and operating costs, and on revisiting its approach to IT systems, in order to return to profitability. This is in addition to projects already under way aimed at optimizing the management of airline assets and improving product strategies. In addition, Transat immediately started last fall to implement changes to simplify its organizational structure in Canada, in order to accelerate decision-making and execution.

3.1 TOUR OPERATORS

Transat acts as an outgoing tour operator through Transat Holidays, Nolitours and Transat Discoveries (formerly known as Rêvateurs). Transat also acts as an outgoing tour operator through its European subsidiaries Vacances Transat (France), Look Voyages, Air Consultants Europe B.V. and The Airline Seat Company Limited.

Transat Holidays USA Inc. ("Transat Holidays USA"), Jonview Canada Inc., Tourgreece, Trafictours de Mexico S.A. de C.V., Turissimo Caribe Excursiones Dominican Republic, C. por A., Caribbean Transportation Inc., Eleva Travel, operate as incoming tour operators in Florida, Canada, Greece, Mexico, Barbados and the Dominican Republic.

Each of these tour operators operates in its own market by developing and marketing its individual product lines, while benefiting from the considerable purchasing power and other advantages generated by our vertical integration strategy. You will find below descriptions of the main product and service offering.

3.1.1 Products of Transat Tours Canada

Transat Tours Canada commercializes and sells travel products to sunshine destinations located in North America and Central America and to European destinations through the brand names of Transat Holidays and Nolitours, both of which have a national presence in Canada. Two principal types of products have been developed to complement Transat Tours Canada's revenues; notably, travel packages and seats to sunshine destinations mainly during the winter season; and seats with complementary product and service offering for travel to Europe, mainly during the summer season.

Most of our sunshine destinations are available with departures from 25 Canadian gateways, namely: Abbotsford, Bagotville, Calgary, Comox, Edmonton, Fredericton, Halifax, Hamilton, Kelowna, London, Moncton, Montréal, Ottawa, Québec City, Regina, Saskatoon, St. John's, Thunder Bay, Toronto, Vancouver, Victoria and Winnipeg.

Transat Tours Canada has also added in fiscal 2011 departures from three new Canadian gateways: North Bay, Rouyn-Noranda and Sault-Ste-Marie.

Transat Tours Canada's main brands represent distinct product ranges and tailored distribution strategies. Nolitours offers all-inclusive packages to sun destinations. Transat Holidays also offers all-inclusive sunshine destinations, with a focus on more exclusive and superior hotels compared to Nolitours. These products are available through travel agency networks across Canada and on-line.

Although both brands keep commercializing the three key destinations of Mexico, Cuba and the Dominican Republic, Transat Holidays also offers holiday packages to Jamaica, Panama, St-Martin/St. Maarten, Guadeloupe, Martinique, Saint Lucia, Aruba, Antigua, and to Fort Lauderdale, Orlando and St-Petersburg in Florida, United States. Nolitours offers holiday packages to Jamaica, Panama, Venezuela, Columbia, El Salvador, Costa Rica, Nicaragua and Honduras.

For travel to Europe, Transat Holidays also offers short stays (in hotels, studios, apartments, and bed and breakfast inns), car rentals (based either on the straight car rental formula or with a buy-back option) or train tickets. For destinations in France, Transat Holidays sells flights mainly to Paris, Lyon, Marseille, Bordeaux, Nantes, Nice and Toulouse. As for destinations in the United Kingdom and Ireland, it sells flights mainly to London (Gatwick & Heathrow), Birmingham, Exeter, Manchester, Newcastle, Glasgow, Belfast, Dublin and Shannon. Transat Holidays also sells flights to Brussels, Barcelona, Malaga, Madrid, Lisbon, Porto, Mulhouse/Basel (Switzerland), München, Frankfurt, Lamezia, Pescara, Hamburg, Amsterdam, Rome, Venice, Athens and Vienna. Flights to Ponte Delgada and Terceira in the Azores, Portugal and to Istanbul, Turkey are now also offered. Flights to London and Paris are offered year-round, but fewer flights are available from November to March.

In addition to sunshine and European destinations, Transat Holidays offers the finest cruise itineraries from the world's leading cruise lines to the Caribbean, Alaska and to Europe, as well as coach tours mainly in Europe.

We served approximately 1,880,000 travellers through Transat Holidays and Nolitours in fiscal 2011, compared to 1,750,000 in fiscal 2010.

Transat Discoveries' products are offered through Transat Tours Canada. Transat Discoveries' branded products are premium-quality guided tours in more than thirty countries in Asia (China, Vietnam, India, Thailand, Cambodia and Indonesia), Eastern Europe, Africa (Tunisia, Egypt, Kenya, Tanzania, South Africa and Morocco), Europe (Greece, Turkey, Croatia, Spain, Portugal, Austria, Hungary, Poland, Germany, Czech Republic, Italy and Russia) and South America (Mexico, Guatemala, Peru, Equator, Argentina and Chile), with specialized offerings for smaller market segments. Through Transat Discoveries, we served approximately 8,000 travellers in fiscal 2011, compared to 8,700 in fiscal 2010. In October 2011, Rêvatours, known in Quebec for 25 years, became Transat Discoveries and expanded its presence in Ontario by making available the same destinations and tours to the Ontario market through travel agents under the new Transat Discoveries brand. Transat Discoveries presents (i) new vacation options and (ii) a renewed, diversified and attractive product line, particularly as a result of its exclusive association with G Adventures, a leader in adventure travel in Canada, and with Trafalgar, the European circuit specialist.

3.1.2 Products of Vacances Transat (France)

The primary market of Vacances Transat (France) ("VTF") is the production and distribution, through French travel agencies, of holiday packages to Canada, the United States, Asia and the Caribbean. Although the Americas generally remain long-haul destinations for VTF, they have less and less impact on the sales of this subsidiary as VTF launched new Caribbean destinations, such as the Dominican Republic, Cuba and Mexico, as well as packages and guided tours in many countries in Latin America, namely in Costa Rica, Panama, Nicaragua, Guatemala, Ecuador, Brazil, Argentina, Chile, Peru and Bolivia. VTF also has product offerings to Asia and the Indian Ocean and Africa. With this array of destinations, VTF has become a long-haul specialist in the French market with a focus on selling packages.

VTF also launched a medium-haul offer, a brand of VTF, in the Scandinavian countries, notably Finland, during the winter season. During the summer season, the major destinations are the British Isles (Scotland and Ireland) as well as Eastern Europe. Products sold cover group and individual tours and FIT (Foreign Independent Tour). Starting in summer 2012, it is expected that VTF will expand its medium-haul offer by launching new Greece and Turkey destinations.

Under the Brokair brand, VTF markets group guided tours to the Americas, Asia (mostly Thailand) and South Africa. In all, VTF carried over 197,000 passengers in 2011, compared to 185,000 passengers in 2010. VTF ranks among the top 10 travel wholesalers on the French market.

3.1.3 Products of Look Voyages

Our subsidiary Look Voyages benefits from a well-known brand on the French market due to its exclusive value-added products in the form of holiday packages in “Club” hotels. “Lookéa” is the trademark used for these all-inclusive hotels situated in choice locations that target a youthful family-oriented clientele. We manage Lookéa Clubs according to a hybrid formula calling upon partners to manage the resorts while we handle activities and site supervision.

The number of Lookéa Clubs now amounts to 35 located in the following 17 countries: Egypt, Morocco, Mexico, Dominican Republic, Senegal, Tunisia, Mauritius, Bulgaria, Croatia, Greece, Italy, Turkey, Spain, Cape Verde, Kenya, Jamaica and Thailand.

Look Voyages served approximately 251,000 travellers in fiscal 2011, compared to 283,000 in fiscal 2010.

Look Voyages’ products are sold year-round. Its summer season, which in France runs from April to October, is by far its busiest. Its most popular destinations are located in the Mediterranean region. Our medium-term strategy for Look Voyages is to develop value-added products aimed at focusing on its holiday package activities. Thus, Look Voyages now focuses on destinations where it holds substantial volumes, concentrating on packages.

3.1.4 Products of The Airline Seat Company Limited

The Airline Seat Company Limited, trading directly to clients as Canadian Affair and to travel trade as Air Transat Holidays, has been wholly owned by Transat since August 1, 2006. As the UK’s largest tour operator to Canada they offer flights and tailor made holidays all year round. Their flight schedule offers flights in summer (May –October) to seven destinations in Canada from seven UK departure airports, in addition offering flights from two Irish Airports to two Canadian destinations; and in winter (November - April) flights to three destinations in Canada from three UK airports.

In 2012, Canadian Affair will offer flights only on Air Transat, providing booking facilities on a multi-channel distribution basis, directly via the website and via their two call centres and through the travel trade via their B2B website, GDS and via the call centres. UK sales in 2011 were split as follows: 75% direct sell (B2C) and 25% through the travel trade (B2B).

The product offering is wide ranging from air-only trips to full holiday packages, tailor made into city breaks, car rentals, rail tours, cruise holidays, ski packages, fly-drive tours and much more. The product range evolves each year with changing customer needs and patterns and our ability to leverage our volume capacity delivers excellent rates which we pass onto our customers offering excellent holidays at unbeatable prices.

During the financial year ended October 31, 2011, Canadian Affair served approximately 319,000 travellers compared to 317,000 travellers in 2010.

As part of the implementation of Transat's new brand platform, Canadian Affair undertook a branding refresh. Having grown over 16 years with the same logo since inception, a new fresh look was adopted and a new logo implemented across their website, direct mail brochures, adverts and partnership campaigns.

In November 2010, The Airline Seat Company acquired French Affair Ltd, trading as French Affair, Croatian Affair, Corsican Affair and Portuguese Affair, a villa specialist holiday company that had been in business for 24 years. Specialising in high quality, value for money villas in these spectacular locations throughout Europe. In 2011, French Affair grew revenues by 44%, increased villa rentals by 19%. In October 2011, after a rebrand in line with Transat's new brand platform, they launched a single integrated website Affairtravel.com and now trade all four destinations under the single name Affair Travel.

3.1.5 Products of Jonview Canada Inc.

Jonview Canada Inc. ("Jonview Canada"), which repackages products sold under the brand names Jonview Canada, Canadian Adventures and Merika Tours, is the leading incoming tour operator in Canada, with offices in Montréal and Toronto. Jonview has sale representation offices in France and the United Kingdom and sells a full range of products and services to tour operators in Europe, particularly in France, the United Kingdom, Germany, Italy, Spain, Switzerland, the Netherlands and Belgium and also caters to clientele in Latin America and Australasia.

Jonview Canada offers a full range of Canadian holiday products, including guided bus tours, group travel arrangements, fly and drive holidays, city and activity packages, ski vacations, hotel accommodations, local transfers and soft adventure tourism. It also offers products, such as snow mobile tours and multi activity winter programs, as well as its Explorer Collection which offers a range of unique and luxury hotels, lodges and resorts across Canada, as well as its "Ultimate to do List" program, which is designed to increase the aspirations of international travelers to visit Canada, highlight the most unique experiences that Canada has to offer. All of these products are currently being offered for the 2011-2012 season.

Jonview Canada brought 243,000 travellers (includes Merika Tours travellers) to Canada in fiscal 2011, compared to 236,000 in fiscal 2010.

3.1.6 Products of Tourgreece

Tourgreece is an incoming tour operator located in Athens, Greece with 30 years of history. It offers a range of holiday packages, such as stays at hotels of all categories in Athens and in the islands, excursions and cruises in Greece and the Greek Islands, as well as transportation from the airport to the hotel. Tourgreece services Transat's tour operators as well as other tour operators, mainly from the United States, Europe, Latin America and Far East.

Tourgreece, which recently totally revisited its visual identity as part of the implementation of Transat's new brand platform described above, served approximately 93,000 travellers in fiscal 2011, compared to 103,800 travellers in fiscal 2010.

3.2 TRAVEL AGENCIES AND DISTRIBUTION

3.2.1 Travel Agencies

Our travel agencies sell a variety of products, including those offered by our own tour operators. Travel agents reserve products either through a computerized booking system, the Internet or by telephone.

In the Canadian market, we distribute our products in part through our own retail network, corporate, franchised or affiliated. The acquisition of the Canadian travel agencies of Thomas Cook Travel Limited, which was completed in fiscal 2006, makes us the largest retail distributor of holiday travel products in Canada, with 504 outlets, out of which

78 are wholly owned and 402 are franchised or affiliated under the Club Voyages, Marlin Travel, Voyages en Liberté, TravelPlus and MTP Lite banners or affiliation programs, in addition to 24 TripCentral.ca agencies.

Our human resources, finance and administration, information systems departments and Transat Distribution Canada's marketing services support the entire retail network. Much like Transat Tours Canada for the Corporation's tour operators, this business unit created in fiscal 2003 is part of the integration of retail business operations, which draws on both travel agents and the Internet, not in parallel, but in a highly integrated and collaborative manner.

We operate our travel agencies network in Canada as one business unit by taking advantage of a common administrative system for all of our own corporate agencies across the country, and by putting together our purchasing power. We have developed a new branding initiative whereby both Club Voyages and Marlin Travel share a common logo and identity while keeping their distinct names. This initiative is part of our new branding strategy. The know-how acquired by exitnow.ca and tripcentral.ca in distribution on the Internet is being passed along to the "brick and mortar" agencies in order to have all the distribution acting in a coordinated fashion.

Through our subsidiary Eurocharter, we also own and operate 38 travel agencies throughout France. For marketing purposes, all the travel agencies have already been re-branded under the Look Voyages colours, in order to benefit from the reputation of Look Voyages in the French market and build on the latter's marketing initiative. For more details on the reorganization of Eurocharter activities, please refer to Section 2.2.2 of this AIF.

With regards to B2C e-commerce, Exit.ca was one of the first websites to specialize in holiday packages and charter flights in Canada. The Exit.ca website name was eventually changed to Exitnow.ca and currently focused on last minute deals. Following the launch of the Exit.ca website, additional websites were created, such as Airtransat.ca, Transatholidays.ca, Nolitours.com, Travelplus.ca, Clubvoyages.ca, Marlintravel.com, MarlinExpress.ca and whitelabel sites.

In 2009, the growth in the B2C e-commerce activities was split between three different organizations. In the fall, the Exitnow.ca business was sold to Travel Superstore Inc. (Tripcentral) and Marlin.ca, Clubvoyages.com and Travelplus.ca remained under Transat Distribution Canada Inc. but those sites are now powered by the Travel Superstore technology. Two of the organizations focused on retail activities (offering different supplier products). The third group of sites, which focused on the distribution of their own products, was migrated into Transat Tours Canada Inc. This last group also provides call center support to Exitnow.ca, booking support to Transat Distribution Canada Inc.'s B2C bookings and support to Canadian Affairs' business in Canada.

3.3 AIR TRANSPORTATION

In fiscal 2011, our airline Air Transat offered flights out of its principal bases in Montréal, Toronto and Vancouver, as well as some flights out of Québec City, Calgary, Edmonton, Halifax, Ottawa, Regina, and Saskatoon. As a result of certain government policy changes that came into effect in 2002, Air Transat holds licenses to operate scheduled flights between Canada and the following countries: the European Union (representing its 27 member states), Switzerland, the United States, Cuba, Jamaica, the Bahamas, Mexico, Panama and the Dominican Republic.

During the 2011 winter season, we served 40 destinations in 18 countries, flying primarily to Southern or other sunshine destinations. In the summer, we shift most of our capacity to Europe, while maintaining some flights to Southern destinations. In fiscal 2011, Air Transat offered direct flights between Canada and some 33 European destinations.

We served approximately 3,675,000 passengers on Air Transat in fiscal 2011 compared to 2,960,000 passengers in 2010.

Our tour operators market air services for passenger transportation on a seasonal basis. In the winter season, most of the seats sold are to Southern destinations; in the summer season, seats are primarily sold to Europe. Air Transat's destinations are selected by our tour operators.

Even though the marketing of the flights is primarily in the hands of our tour operators, Air Transat's scheduled licensing authorities for certain countries allow us: (i) to market seats directly to travel agencies through Global Distribution Systems (GDS); (ii) to market and sell seats on the Internet using the Air Transat brand; (iii) to enter into agreements with other air carriers to offer connecting and code-share flights; and (iv) to transport freight. Those seats are then available on its website, which uses the exitnow.ca booking engine. Air Transat's website offers content to travellers in terms of vacation spots, package browsing and flight options and enabling online reservations.

3.3.1 Maintenance, Inspections and Other Measures

Air Transat continues to be committed to continuous improvement of processes involving all aspects of the airline operations. The result of which is to improve the quality of service while optimizing resources. We are seeing tangible results in all of these areas of operation, which have translated into highly satisfactory on-time performance.

Over the last years, we have implemented an array of measures based on principles of safety and prevention to which we subscribe without reserve. These measures include, amongst others, a Safety Management System, which is a comprehensive program involving training, reporting of safety related information from any areas of the company as well as extensive auditing and data analysis. In addition, the introduction of human factors training for all technical personnel, the integration of fuel leak scenarios into simulator training programs and the introduction of a fuel leak detection system on Airbus A330 aircraft have been implemented.

Furthermore, in September 2011, Air Transat successfully renewed for the second time its IOSA certification (IATA Operational Safety Audit) which was initially obtained on February 20, 2008. This certification, obtained following a rigorous audit process conducted by independent specialists, is the greatest recognition to date of the quality of the internal processes and was put in place to ensure the safety of our operations. This certification comprises more than 900 stringent standards that contribute to airline operational safety in the areas of management, flight operations, operational control, aircraft maintenance, cabin operations, ground handling, cargo operations and operational safety.

We perform regular maintenance work on all aircraft of our fleet. Our aircraft maintenance procedures and standards exceed Transport Canada's requirements and equal those set by well-known network or full service air carriers having a reputation for high maintenance standards. We carry an inventory of spare parts for our Airbus A330 and A310 (aircraft).

Check 1 to Check 8 ("C1 to C8") inspections are completed at regular mandatory intervals pursuant to strict regulatory requirements. Air Transat is continually reviewing its processes to reduce the turnover time of aircraft grounded by these inspections and lower its costs by negotiating agreements with maintenance and inspection specialists who offer the best quality at competitive rates.

We have a long-standing in-flight medical assistance contract, providing services 24 hours a day 365 days a year with MedAire, Inc., a medical advisory firm specialized with in-flight and on the ground health emergencies. We have also followed, and continue to follow, all the guidelines announced by Transport Canada and Health Canada.

Through our Audit Committee and our Corporate Governance and Nominating Committee, our Board of Directors identifies and evaluates at least on a yearly basis the principal risk factors related to our business and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry. Our Corporate Governance and Nominating Committee in particular oversee the policies and procedures with respect to flight safety. As part of its responsibilities, it regularly reviews the emergency plan implemented by Air Transat. This plan aims to inform and train all of our airline personnel and management on procedures to be followed with respect to an accident or an incident involving an aircraft and the ensuing investigation.

3.3.2 Insurance

We maintain insurance in amounts in accordance with industry standards and in compliance with applicable statutory requirements and the covenants of our aircraft lease agreements. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US\$1.25 billion with the exception of War Risk Bodily Injury/Property Damage to Third Parties excluding passengers where the limit is US\$150 million for any single event and in the aggregate.

In this latter regard, even though a commercial insurance market continues to be available to cover War Risk Bodily Injury/Property Damage to Third Parties excluding passengers, it is deemed by the Canadian government not to be commercially available on reasonable terms. Therefore, the Canadian government continues to indemnify Canadian airlines for third-party civil liability for the risks of war and terrorist acts in excess of the US\$150 million provided by the liability insurance for airline operations and to the equivalent total liability limit provided by the airline liability insurance (US \$1.25 billion). The current indemnity expires December 31st, 2013.

3.3.3 Fuel Supply

Fuel costs represent a major component of our airline's operating expenses. The increase and constant fluctuations in the cost of fuel are a major concern for Transat given the impact of fuel costs on our margin. Our policy calls for hedging a portion of our fuel requirement needs. As at October 31, 2011, fuel-purchasing derivatives products contracts covered 25% of the estimated fuel requirements for fiscal 2012, compared to 18% for fiscal 2011 and 21% for fiscal 2010 as at October 31, 2010.

We negotiate with national and international oil companies to insure that our aircraft are supplied with fuel at all airports where we operate. Fuel prices are established on the basis of margins applied to fluctuating world prices. The tariff filed by Air Transat with the Canadian Transportation Agency states that charter agreements signed with tour operators may be amended in the event of significant variations in the price paid for fuel. We also implement fuel surcharges when necessary and in accordance with the legislation to which we are subject in order to partially offset any surge in fuel prices.

3.3.4 Ground Handling and Airport

Handlex Ground handling Services Inc. ("Handlex"), our wholly-owned subsidiary, provides ground-handling and airport services, including passenger reception and check-in services, baggage and cargo handling, aircraft cleaning, as well as ramp services, at the international airports in Montréal (Trudeau and Mirabel), Toronto and Vancouver. With approximately 1,012 employees, Handlex serves Air Transat and 24 other air carriers from around the world at its Canadian bases. Its specialized staff provides services for approximately 13,300 departures and arrivals annually. On February 15, 2011, Handlex locked out 400 of its ramp and baggage workers at airports in Toronto and Montreal, following the rejection of its most recent offer to renew the collective bargaining agreement, which expired in November 2010, and the strike action launched by the union. A contingency plan was immediately implemented to ensure continuity of operations and services for all airlines served by Handlex, including Air Transat. On March 7, 2011, Handlex and its ramp and employees at airports in Toronto and Montréal agreed to renew the collective bargaining agreement.

3.4 OUR EMPLOYEES

As at October 31, 2011, Transat and its subsidiaries had a total of 6,503 employees and the average number of employees over the fiscal year 2011 was approximately 6,500. For additional information concerning the number of employees working in our main subsidiaries, please refer to our 2011 Annual Report available for consultation on SEDAR at www.sedar.com.

We favour employee ownership of our share capital. For a detailed description of our share-based compensation plans and other long-term incentive plans, we refer you to our Management Proxy Circular in respect of the annual and special meeting of shareholders to be held on March 15, 2012 (or to a more recently filed management proxy circular, if any) available for consultation on SEDAR at www.sedar.com. Our policy is to promote good relations with our employees, in light of which we have adopted a policy to hinder harassment in the workplace and another regarding the protection of personal information and the right to privacy.

Some of our employees belong to employee associations with which we have negotiated a series of working conditions. The following chart sets out employees' affiliations and the status of their respective collective bargaining agreements as at the date of this AIF.

During the last fiscal year, Transat announced that Air Transat's had reached an agreement with its flight attendants. The new collective agreement is effective since November 1st, 2010 and will expire October 31st, 2015. In March 2011, Transat announced that its subsidiary Handlex had come to terms on the renewal of four collective agreements with approximately 700 Toronto, Montreal and Vancouver employees, including passenger service and cabin service attendants as well as ramp personnel in Vancouver. A new collective agreement with Handlex's ramp and cargo employees in Montreal and Toronto was also reached, which put an end to the lock-out.

Employees	Transat's Subsidiary	Affiliation	Status of Collective Bargaining Agreement
Flight crew members (pilots)	Air Transat	Airline Pilots Association (ALPA)	In force until March 31, 2014 (New Collective Agreement effective since May 1 st , 2010).
Flight attendants	Air Transat	Canadian Union of Public Employees (CUPE)	In force until October 31 st , 2015 (New Collective Agreement effective since November 1 st , 2010).
Dispatch	Air Transat	Canadian Airline Dispatcher's Association (CALDA)	Expired on October 31 st , 2011 (Negotiations will start in January 2012).
Crew scheduling and passenger service	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW)	In force until July 31 st , 2012.
Maintenance, stores and technical support	Air Transat	International Association of Machinists and Aerospace Workers (IAMAW), Lodge 140	Expired on April 30 th , 2011. (Currently in negotiations).
Call centre	Air Transat	Teamsters, Local 1999	In force until October 31 st , 2012.
Mechanics and station attendants – Toronto and Montréal	Handlex	Teamsters, Locals 419-1999	In force until November 30 th , 2013. (New Collective Agreement effective since December 1 st , 2010).
Passenger service agents – Toronto and Montréal	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada), Local 2002	In force until February 28 th , 2014 (New Collective Agreement effective since March 1 st , 2011).
Cabin service attendants – Montréal	Handlex	Union of Local Transport and Various Industry Workers, Local 931	In force until March 26 th , 2014.

Employees	Transat's Subsidiary	Affiliation	Status of Collective Bargaining Agreement
Cabin service attendants – Toronto	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada), Local 2002	In force until February 28 th , 2014. (New Collective Agreement effective since March 1 st , 2011).
Passenger service agents and Cabin service attendants – Vancouver	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada)	In force until February 28 th , 2014. (New Collective Agreement effective since March 1 st , 2011).
Mechanics and station attendants – Vancouver	Handlex	National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW-Canada)	In force until February 28 th , 2014. (New Collective Agreement effective since March 1 st , 2011).

3.5 COMPETITION

Owing to our vertical integration strategy, we face many competitors doing business worldwide as either tour operators, travel agencies (traditional and online) or air carriers.

This past year was one of significant competition for the sun destinations. On our European gateways, we saw air carriers adding capacity into Canadian gateways. Both these activities placed significant stress on margins. At the extreme end of the spectrum, we saw the disappearance of certain players and on the other end, defensive actions began proliferating into the seasonal market at varying points.

3.5.1 *Tour Operators*

The market for tour operators is well established in Europe, Asia, the United States and Canada. Tour operators specialized in outgoing services, purchase the various components of a trip and sell them to customers through various distribution channels, either as a travel package or separately. The large outgoing tour operators purchase blocks of seats or complete flights mainly from air carriers specializing in charter services and undertake to pay for all the seats so purchased whether they sell them or not, thereby obtaining a better price. Such tour operators also negotiate with hoteliers for blocks of rooms and make arrangements in order to offer travel packages at lower prices than if customers were to make their own reservations.

The Canadian market for sunshine destinations is mainly a “package” driven market, whereas Europe, as a destination, is a market of aircraft seats, car rentals and hotel rooms booked on a nightly basis. Canadian outgoing tour operators finalize agreements with suppliers six to eight months prior to the beginning of each season. The summer season runs essentially from May 1 to October 31 and packages are prepared in the preceding fall. The winter season runs mainly from November 1 to April 30 and packages are prepared in the preceding spring. As part of these preparations, tour operators undertake negotiations with air carriers, hotel and cruise ship operators, and car rental agencies. When such negotiations are completed, brochures and websites illustrating the various destinations and describing the various packages and services offered are prepared and distributed to travel agencies before the beginning of each season and sales presentations are made to travel agents in the main cities of the markets covered.

Certain tour operators specialize as incoming tour operators, making arrangements for foreign tourists at their destinations. They negotiate rates with local suppliers of tourist services (hotels, tour buses, local attractions, etc.), assemble packages and sell them to outgoing tour operators in the countries of origin. Incoming tour operators

essentially export a country's attractions to foreigners, while also providing services with respect to the organization of holiday travel, conventions and group travel.

Certain tour operators round out the range of services offered to travel agencies with the FIT formula (Foreign Independent Tour), namely the sale of seats along with lodging and car rentals. Online travel agencies, such as Expedia, Inc. and Travelocity.com LP, are particularly active in the FIT business segment, thus becoming both an additional distribution channel and a competitor for tour operators. The FIT market is growing at a rapid pace and the tour operators will put greater emphasis on that segment.

3.5.1.1 On the Canadian Market

Through Transat Holidays and Nolitours, Transat Tours Canada is the largest tour operator in Canada. We compete with other tour operators, such as Thomas Cook Canada Inc. (Sunquest Vacations, Holiday House Intair), Sunwing Vacations which has entered into a partnership with the anglo-german group TUI Ltd. (Sunwing, Signature Vacations), Air Canada Vacations, Vacances Tours Mont-Royal and Westjet Vacations.

We have succeeded in establishing a significant market share in the European travel segment, mainly to the United Kingdom during the summer season, as well as for the sunshine destinations segment during the winter season.

Geographical diversification involves departure points and destinations, the purpose being to offer products that best meet customers' expectations in each new market, preferably exclusively. In this respect, our agreement with CanJet allows us to penetrate new markets, as mentioned in Section 2.2.1 of this AIF. In addition, we continue to invest in the expansion of our range of products, in keeping with market trends.

3.5.1.2 On the European Market

The French market consists of approximately 200 tour operators, the largest of which are the Thomas Cook Group (Thomas Cook and Jet Tours), the TUI Group (Nouvelles Frontières/Corsair, Marmara), FRAM, Club Med as well as Transat France (Look Voyages, Vacances Transat (France) and Amplitravel).

There is a rising demand for long-haul flights during the winter (primarily to sunshine destinations). Aside from the French West Indies (Guadeloupe and Martinique), the demand for countries such as Cuba, the Dominican Republic and Mexico is growing, supported by the affluence of French tourists. This situation enables several players in the industry to increase that proportion of their revenues derived from winter operations.

Over the last few years, France has experienced an accelerated consolidation of the tourism industry with the arrival of foreign companies and the pooling of interests among French players. In particular, TUI Travel PLC and Thomas Cook Group, as a result of several acquisitions, have created a very competitive market on each destination, with many generalist tour operators and a plethora of specialized players.

As a result of the general economic slowdown and of the social/political problems in Tunisia, Egypt and Lybia, TUI announced the proposed merger of the operations of Marmara and Nouvelles Frontières in 2012.

As for Transat, we are firmly established in France, where our tour operator activities rely on Vacances Transat (France), Look Voyages and Amplitravel. Based on available public data published for the year 2010, Transat France ranks fourth amongst tour operators in France.

We remain the leading tour operator for packages to Canada through Vacances Transat (France). Over the years, we have been able to build on this base by expanding our product offerings for the entire long-haul market. Taking advantage of synergies with Transat Holidays in Canada, Vacances Transat (France) is one of the leaders in France for travel to the Dominican Republic, Cuba and Mexico.

As in Canada, the characteristics of the holiday travel market vary depending on the season: during the winter, the French prefer domestic and long-haul flights, while in the summer they readily opt for the Mediterranean Basin and North Africa. We have succeeded in building a solid brand image for Look Voyages. We should also note the acquisition of Amplitravel, which contributed to this growth as well.

Although quality is an important factor, we believe that competition between tour operators on the Canadian and French markets is mainly based on price, with customers looking for the most affordable way to travel to their destinations. Reduced profit margins in recent years have caused tour operators to seek higher volumes and larger market shares. It is our view that another important factor relative to competition is exclusive access to certain hotels in sunshine destinations, which may enable the major tour operators to improve their position on the market. Thus, we increased exclusivity arrangements with hoteliers over the last few years and intends to continue to do so.

The UK travel market has been dominated for many years now most significantly by competition based on price and the market is quite mature in its use of online direct booking focus. Customers will decide their holiday destination on the price of their flight; using flight comparison website's as part of daily life. This is the case for every destination in the world from the UK, as air access is no longer the restricting factor. The Airline Seat Company Limited (trading as "Canadian Affair") is well established in the UK, and as the UK's largest tour operator to Canada, sells flights and holidays to Canada on a direct consumer basis via their two call centres and their website www.canadianaffair.com. In November 2010 and November 2011, Canadian Affair won the Best Tour Operator to Canada award at the prestigious British Travel Awards, beating stiff competition from established worldwide Tour Operators. Online sales are continually growing in the UK, as is the technology used to book, with the growth of laptop's, tablets and phones with fast and easy internet connectivity the access to online bookings will only continue to grow in importance. It now account for over 75% of Canadian Affair's direct flight sales. Selling to the travel trade is conducted under the brand Air Transat Holidays and providing online booking facilities for agents at www.transatholidays.co.uk, via direct XML links as well as via their two call centres and via the GDS system. Air Transat flight only sales can also be booked online via www.airtransat.co.uk and www.airtransat.ie.

Mainstream tour operator competitors such as Trailfinders, Thomas Cook Signature, Titan, First Class Holidays all have a dedicated Canada focus and brochures, centered mainly on selling packaged holidays and tours to Canada and whilst many have flight allocations on our flights . Travel agent competitors such as the Multiples e.g., Thomas Cook, the TUI Group etc play less of a focus for sales to Canada with the majority of their sales being to traditional sun destinations in Europe and America.

3.5.2 Travel Agencies and Distribution

Travel agencies are the intermediary between the tour operator and the customer. Travel agents meet with, advise and sell the product to the customer. In general, tour operators and other suppliers remunerate travel agencies by way of a commission. Travel agencies also sell travel packages and plane tickets offered by tour operators, plane tickets sold directly by airline carriers and other travel products and services such as cruises. Travel agencies mainly operate independently, as part of large corporate groups, as franchisees or within associations or affiliations.

As a result of technological advances, online travel agencies now offer a large range of travel products by way of transactional websites on the Internet. In both the Americas and Europe, online travel sales are mostly made up of air tickets, with only a limited proportion of packages (including air and hotel).

According to industry sources, the market is composed of approximately 4,500 travel agencies in France and approximately 6,500 in Canada. We believe that competition between travel agencies is principally based on price and service level. As is the case with tour operators, low profit margins cause travel agencies to seek higher volumes and larger market shares. One of our priorities with regard to integration is to extend our distribution network in our two principal geographic markets.

Retail chains represent one third of all travel agents in Canada. The major chains are Transat Distribution Canada operating under the Club Voyages, Voyages en Liberté, Marlin Travel, TravelPlus and MTP Lite banners or affiliated programs, which is our own network of travel agencies, Carlson Wagonlit Travel[®], CAA[™], Flight Center, Uniglobe and Sears Canada Inc. operating as Sears Travel. Retail chains, operating under a common brand, provide a range of services to their members, in the form of centralized negotiated commission levels with major tour operators, as well as training, marketing and information services support. Consortiums of travel agents, such as Ensemble Travel Ltd., Advantage Travel T-Comm Inc. and Travel Saver constitute the second third of Canadian travel agents. They mainly offer centralized negotiated commissions with tour operators. Finally, the other third is made up of independent travel agents. Vertical integration between travel agent networks and tour operators has been taking place in Canada, as is the case in Europe. All major Canadian tour operators have acquired more travel agencies in recent years.

In France, with regards to agencies, the market is also concentrated to a small number of large travel agency networks. We intend to further expand our distribution network in France through the opening of new agencies or the creation of a franchise type of network.

Even though our distribution plans focus on the harmonization and deployment of technology platforms, we intend to pursue a distribution strategy combining traditional travel agencies and the Internet, which will enable us to cater to our customers' preferences. This is where exitnow.ca's technological platform comes in, being the cornerstone of our online operations. It plays a key role in meeting the expectations of both customers and travel agents, and significantly reducing transaction costs. This in turn can be profitable and efficient for everyone, including the customer.

3.5.3 Air Carriers

Competition between air carriers is based largely on price, as well as on schedules (convenience), choice of routes (availability of direct flights), service (comfort, classes, family-friendliness). In holiday travel, the ability of operators to bundle land portion (car rental cars, tours, accommodation) with the flight can also influence consumer decisions and buying patterns. Prices depend in part on supply and demand forces, thus the capacity offered in the marketplace by all operators, if excessive in comparison to demand, exerts downward pressure. Prices also vary significantly in accordance with seasonal variations in market conditions.

The air transportation industry is composed of four major segments: (i) network or full-service carriers, such as Air Canada, which primarily operate scheduled flights at major hub airports and rely mostly on the business travel segment and, to a lesser extent, holiday travel markets; (ii) low-cost carriers, such as WestJet, operating short to medium-haul segments at secondary airports on a high-frequency, no frills basis and serving the price-sensitive business and holiday markets; (iii) leisure carriers, such as our own airline Air Transat, serving almost exclusively the holiday travel market through a combination of scheduled and charter air services; and (iv) regional airlines serving local short-haul markets and providing feed traffic to network carriers at major hubs.

Network operators market and distribute their services to the public through in-house reservations departments, global distribution systems and the Internet. Low-cost carriers sell the vast majority of their seats on the Internet. Leisure carriers charter most of their capacity to tour operators and wholesalers who, in turn, consolidate flight services into packages and sell to the public primarily via the travel agency distribution network. The tour operators negotiate bulk hotel room rates and make other arrangements to render the price of a vacation package sold to the customer more attractive than if the same consumer had attempted to make his own reservations.

Network carriers expand their destination offerings through marketing tools such as code sharing and may be part of several large global carrier-alliances, which have been formed over the last decade in this regard. Holiday and low-cost carriers generally do not interline or connect and offer principally direct point-to-point services for the origin-destination traffic segment.

Airline companies either own their aircraft or lease aircraft on a short or long-term basis. Carriers specializing in charter or scheduled flights configure aircraft differently in order to meet their respective needs in terms of service and capacity.

We believe that network carriers, low-cost carriers and holiday or charter carriers increasingly compete in the holiday and the so-called “visiting friends and relatives” travel markets. This is particularly true following certain policy changes enabling air carriers specializing in charter services to operate scheduled flights between certain destinations, as is the case with Air Transat, which is licensed to offer scheduled services between Canada and the countries listed in Section 3.3 of this AIF.

3.6 INTELLECTUAL PROPERTY

The following is a list of our principal registered and unregistered trademarks and designs that are used in association with travel-related services rendered by our business units : the star logo and the mosaic featured on the cover of this AIF, Air Transat, Handlex, Nolitours, Transat Holidays/Vacances Transat, Transat Discoveries/Transat Découvertes, Rêvatours, Merika Tours, Look Voyages, Lookéa, Lookéko, Brokair, Canadian Affair, Bennett Voyages, Club Voyages, TravelPlus, Voyages Marlin/Marlin Travel, Exitnow.ca, Tripcentral.ca, Voyages en liberté, Jonview Canada, Transat Holidays USA, Cameleon, Turissimo, Trafictours and Tourgreece, as well as trademarks, trade names, designs and domain names associated to the aforementioned trademarks.

Some of these trademarks, such as Air Transat, Handlex, Nolitours, Transat Holidays/Vacances Transat, Transat Discoveries, Rêvatours, Merika Tours, Transat Holidays USA, Club Voyages, TravelPlus and Voyages Marlin/Marlin Travel share the star logo and the mosaic featured on the cover of this AIF as their common platform. The creation of a unique, strong and visible corporate identity across our main business units facilitates the recognition of our various companies and divisions for both our customers and employees. It also maximizes customer awareness on both the B2C and B2B markets, while fully leveraging the contribution of all of our business units and creating value.

We believe that our intellectual property is very important to our success. Hence, we take appropriate measures to protect and defend it. We achieve this through registering our trademarks, designs and domain names with the appropriate authorities in the countries where we carry out our operations, including Canada, the United States, Europe and our destinations, monitoring the usage of others’ trademarks, designs, trade names and domain names that are likely to cause confusion in the mind of the public with our own intellectual property and resorting to legal action when appropriate.

We also take great care not to infringe on the intellectual property and trademarks that belong to others.

3.7 TRENDS

In recent years, the activities of the Canadian holiday travel sector have been consolidated. The sector has also experienced the effect of the globalization of markets. Although a number of smaller tour operators remain, four major tour operators, two of which are foreign owned continue to try and dominate the Canadian leisure travel industry. This past fiscal year dubbed by many as a “slow recovery year” saw the Canadian scheduled carriers diverting unused capacity onto the leisure market which added further margin strain on leisure operators. This cyclical trend has been witnessed in previous business cycles.

Although the United Kingdom has experienced similar trends, France is still a largely fragmented market with several tour operators and a large number of smaller ones.

3.8 THE REGULATORY ENVIRONMENT IN WHICH WE OPERATE

As a vertically integrated company, we are involved on all levels of operation specific to holiday travel. Hence, we conduct business in a highly regulated environment as far as our tour operators, travel agencies and air carrier are

concerned. All of our companies and divisions hold all licences, certificates and permits necessary for their operations and are in compliance with the requirements of applicable legislation. You will find below a description of the legislation to which we are subject.

3.8.1 Tour Operators and Travel Agencies

3.8.1.1 Canada

In Québec, Ontario and British Columbia, where our operations are centered, tour operators and travel agencies (collectively referred to in this subsection as “Travel Agents”) are governed by specific legislation providing protection to the travel customer. The *Office de la protection du consommateur*, the Travel Industry Council of Ontario and Consumer Protection B.C. are designated authorities in Québec, Ontario and British Columbia, respectively, to carry out the control and inspection mechanisms provided for in the legislation and to ensure compliance therewith. In all three provinces, Travel Agents must hold licenses for the performance of their operations and deposit into a trust account monies received from customers in respect of the travel services purchased. The law restricts use of these funds. All three provinces have established compensation funds benefiting customers for the protection against fraud and bankruptcies of Travel Agents and end suppliers, such as airlines or cruise lines.

Key aspects addressed by applicable legislation in all three provinces are compensation funds and advertised price for travel services.

3.8.1.1.1 Compensation Funds

Québec is the only province where the Indemnity Fund is made up of customers’ contributions amounting to 0.35% of the total cost of the travel services purchased. Customers are able to claim directly on the Indemnity Fund in the event of an end supplier failure that is not attributable to the Travel Agent. The total amount of the indemnities per event may not exceed 20% of the surplus accumulated in the Fund as of the preceding March 31 or be less than \$5.0 million.

In Ontario, contrary to Québec, Travel Agents are responsible for financing travelers’ financial protection through the compensation fund. As in Québec, Travel Agents registered in Ontario may draw directly on the compensation fund with a view to be reimbursed for disbursements made to customers in the event of end supplier failures. The maximum amount that may be reimbursed out of the compensation fund to a customer or Travel Agent for a failure to provide travel services is \$5,000 for each person whose travel services were paid for by the customer. The maximum amount that may be reimbursed for a failure to provide travel services with respect to all claims arising out of an event or a major event is capped at \$5.0 million.

In British Columbia, as in Ontario, the Indemnity Fund is made up of Travel Agents contribution. The maximum amount that may be paid from the Fund to a claimant in respect of a claim is \$5,000 for each person covered by the claim, subject to a \$2.0 million cap in respect of all claims relating to a single event. It remains to be seen how this cap will work out with the contribution holiday applicable to licensees under the legislation when the book value of the Travel Assurance Fund is at least \$1.0 million and the contributor has paid the required contributions for successive semi-annual periods totalling three years.

3.8.1.1.2 Advertised Price for Travel Services

When it comes to advertising, the province of Québec promotes full disclosure to enable the customer to make informed decisions, namely to ensure that pricing information is not misleading and that the total price is provided at the actual time of purchase to avoid so-called “sticker-shock”. However, Travel Agents may exclude from the total cost of the services advertised the Québec sales tax, the goods and services tax of Canada and the dollar amount payable as a contribution to the Indemnity Fund. The modifications brought to the Travel Agent Act and its Regulation

came into effect on June 30th, 2010 now states that a Travel Agent who wishes to change unilaterally the price of the travel services must insert a clause to that effect in the contract. The clause shall state that the price may only be increased following the imposition of a fuel surcharge by the carrier or an increase of the exchange rate insofar as the exchange rate has increased by more than 5% between the date of the purchase and 45 days prior to departure. In any case, no price increase may occur within 30 days prior to the date of departure. In any event if such price increase is equal to or greater than 7% of the price of the travel services, excluding Quebec sales tax or federal goods and services tax, than the customer shall choose between a full and immediate refund or the provision of the similar services.

Ontario's legislation requires any representation that refers to the price of travel services, to show in a clear, comprehensible and prominent manner the total amount to be paid for travel services, either including all fees, levies, service charges and surcharges or excluding them and, in the latter case, to provide either an itemized list of the cost for each fee, levy, service charge and surcharge, or the total cost the customer will be required to pay for fees, levies, service charges or surcharges. The practice for Transat's Travel Agents in Ontario is to advertise the price of travel services by providing a base price excluding all fees, levies, service charges and surcharges along with the total cost of the latter items featured next to the base price. As in Québec, it is not necessary for representations that refer to the price of travel services to deal with retail sales tax or federal goods and services tax.

While Ontario's legislation also allows for price increases, it does so provided that the contract between the Travel Agent and the customer permits price increases and only if the cumulative price increase is by a maximum of seven per cent (7%) of the total price of the travel services, excluding any increase resulting from an increase in retail sales tax or federal goods and services tax. Otherwise, the Travel Agent must offer to the customer the choice of a full and immediate refund or comparable alternate travel services acceptable to the customer. Advertising rules in British Columbia applicable to Travel Agents are similar to Ontario but they are dealt with in general consumer protection laws.

Although air carriers are governed by federal legislation, the amendments brought to the *Consumer Protection Act* in Quebec, which came into effect on June 30, 2010, now prevents air carriers from charging a higher price than what is advertised. In order to fulfill the obligations contained in the new legislation, we have taken the position to advertise in Québec an all-inclusive price (inclusive of taxes, fees and surcharges) for all our travel products.

So far, the federal government and the other provinces have not adopted similar provisions.

As at the date of this AIF, our companies and divisions doing business as Travel Agents hold all licenses necessary for their operations and are in compliance, in all material respects, with the requirements of applicable legislation.

3.8.1.2 France

In France, travel agents (producers and distributors) are governed by the provisions of Law No. 92-645 of July 13, 1992, and by Decree No. 94-490 of June 15, 1994. These texts were codified as existing law in the *Code du tourisme* ("Tourism Code") by Order of December 20, 2004, and by Decree of October 6, 2006.

3.8.1.2.1 Conditions for Conducting Business Activities as a Travel Agent

The provisions of article 141-3 of the Tourism Code stipulate that travel agents must be registered with the Registration Office for Travel Agents and Other Travel Sale Agents in order to conduct their business activities. As conditions for the registration, the Code requires of corporations ("*personnes morales*") that: (1) their legal representatives fulfill conditions for professional competence (degree of qualification and/or experience in tourism) and are exempt from certain criminal convictions; (2) they occupy suitable physical facilities on French territory or that of another European Union Member State or state party to the Agreement on the European Economic Area; (3) they have proof of insurance covering the financial consequences of their professional legal liability; and (4) they provide evidence that sufficient financial security has been provided, earmarked especially to cover refunds to buyers of

amounts received for travel services not exclusively involving transportation, in case of default by the agency. That security must be provided by an *organisme de garantie collective* (joint guarantee fund), a credit institution or an insurance company established on the territory of a European Union Member State or state party to the Agreement on the European Economic Area. It must cover the cost of any necessary repatriation. Refund may, with the agreement of the buyer, be in the form of provision of different services in replacement of those originally planned.

The minimum amount (currently 100,000 Euros) and method of calculating the financial security are determined by decision of the minister responsible for Tourism upon the advice of the *Conseil National du tourisme* (National Tourism Board). The calculation is based on the travel agency's total annual sales.

3.8.1.2.2 *Prior Information to Consumers*

In the area of advertising and prior information to consumers, French law requires travel agents to disclose very detailed information so that buyers can make informed decisions. Prior to entering into contract and on the basis of a written document bearing its corporate name, its address and an indication of its administrative authorization for exercise, the travel agent must communicate to the consumer information on prices, dates and other elements constituting the services provided on the occasion of the journey or of the stay.

The travel agent must also provide to passengers, prior to entering into contract, for each leg of air travel including domestic flights, a list, in writing or by any other suitable means, containing a maximum of three potential air carriers. This information must be complemented by the list of effective carriers where these differ from the contract carriers. Furthermore, the travel agent must confirm to passengers in writing the name of the actual carrier, for each leg, no later than eight days before travel begins. Lastly, the travel agent is required to inform passengers, by suitable means, of any change to the list of carriers occurring after the contract is entered into, or the name of the effective carrier as soon as this change is known and no later than at the time of check-in.

3.8.1.2.3 *Price Posting*

The *Direction Générale de la Concurrence, de la Consommation et de la Répression des Fraudes* (DGCCRF, Directorate-General for Fair Trading, Consumer Affairs and Fraud Control) is the administrative authority responsible for overseeing the regulation of market competition and consumer protection. In that capacity, it ensures, among other things, the respect of applicable rules in regard to pricing information. These rules are fixed by the *Code de la Consommation* (Consumer Code) and are therefore not specific to travel agents. They apply equally to all business undertakings providing products or services to consumers, which include travel agents and air carriers.

Pricing information must in principle show, no matter what support is used, the total amount of all taxes included that are in fact payable by the consumer. The published price must therefore include the airport taxes, fuel surcharges and administrative charges. The objective is to ensure that the consumer immediately knows the total price to be paid and has no unpleasant surprises upon booking.

3.8.1.2.4 *Price Revisions*

Published prices may be freely revised until the date on which travel is booked by the buyer. After that date, Article L.211-12 of the Tourism Code stipulates that the prices may be modified only up to thirty days before the departure date and only if the booking contract expressly provides for the possibility of upward or downward price revision, and sets forth the specific calculation methods for same, for the sole purpose of accounting for variations in (i) the cost of transport, related to, among other factors, the cost of fuel; (ii) the fees and taxes relating to the services provided, such as landing charges or boarding and disembarkation taxes in ports and airports; and (iii) exchange rates applied to the trip or stay under consideration.

Article R.211-8 of the Code stipulates that when the contract expressly states that price revisions are possible, it must mention the exact calculation methods for price variations, whether upward or downward, including the related

amount of the transport charges and taxes, the currency or currencies involved that may have an impact on the cost of the trip or stay, the portion of the price to which the variation applies, and the exchange rate of the reference currency or currencies used when the price appearing on the contract was established.

As of the date of this AIF, our companies and divisions that act as travel agents hold all permits required to conduct their business activities, and are in compliance, in all material respects, with the requirements to which they are subject.

3.8.1.3 United Kingdom

The UK travel industry has three main regulatory bodies: ATOL, ABTA and IATA (defined hereinafter). ATOL is a Government backed protection scheme for flights and air holidays, and is managed by the Civil Aviation Authority (CAA). Most firms who sell air travel in the UK such as Canadian Air Travel are required by law to hold a licence called an ATOL. ATOL protects consumers from losing money or being stranded abroad if and when a tour operator goes out of business. All licensed firms are required to take part in a financial guarantee scheme managed by the CAA which provides funds to protect customers should a firm fail. ATOL protection is included in the price of a holiday booked with an ATOL holder. Scheduled airlines are not required to have ATOL protection for their flight only customers, and while this is a significant financial undertaking, it sets Canadian Air Travel apart from competitors and low cost airlines entering the market who do not have this. In recent years, where we have seen UK and Canadian airlines go out of business (Zoom & Flyglobespan.com), passengers have been left stranded with no recourse to getting their money other than through credit card companies due to the lack of protection of their money when they booked.

ABTA, the Association of British Travel Agents, is an organisation which represents UK travel agents and tour operators responsible for the sale of package holidays and independent travel arrangements. It is ABTA's role to ensure that customers benefit from consistently high standards of trading practice in the travel industry. ABTA members operate under a Code of Conduct and provide consumers guidance and advice on all aspects of holidays from financial security to complaint handling.

IATA, the International Air Transport Association, is the prime vehicle for inter-airline cooperation in promoting safe, reliable, secure and economical air services - for the benefit of the world's consumers. IATA membership is open to both scheduled and non-scheduled airlines. Only airlines operating air services are eligible for IATA membership. However, travel agencies can be registered as IATA approved agents.

3.8.2 Air Carriers

3.8.2.1 International Regulatory Framework

Numerous commercial aspects of international air transport are regulated by international conventions, principally the *Convention on International Civil Aviation* signed in Chicago on December 7, 1944 (the "Chicago Convention"), by the domestic legislation of countries in which air transport is conducted, and by a network of bilateral and multilateral air transport agreements and treaties.

The Chicago Convention provides the basis for regulation of international air carrier operations. Certain principles pertaining to the operation of international charter flights were established between each of the signatory states, which include Canada, namely that the intended transportation comply with, and be duly approved pursuant to, the national regulations of the countries between which it is being conducted.

The Chicago Convention also established the International Civil Aviation Organization (the "ICAO"), a specialized agency of the United Nations whose purpose is to foster the planning and development of international air transport. Under the auspices of the ICAO, rules establishing minimum operational standards are normally agreed upon on a multilateral basis. No other agreement is ordinarily required in order to operate charter flights between most countries, subject to certain exceptions regarding capacity quotas.

A new Air Transport Agreement between the Government of Canada and the Government of the United States of America came into effect in March 2007. It provides for the opening of third-country markets, as well as for tariff and all-cargo services liberalization. In operating trans-border flights, Canadian carriers are now allowed to embark passengers at U.S. points and carry them onward toward a destination in a third country and *vice versa*. US carriers have been granted reciprocal rights with respect to their operations via Canada. A similar landmark air transport agreement was concluded between Canada and the European Union in November 2008. It formally entered into force on December 16, 2009. The agreement sets the rules for air transport services between Canada and the 27 member states of the European Union, and will liberalize market access in this respect on a progressive, phased-in basis. During the first phase, Canadian airlines will be able to operate from any point in Canada to any point in the 27 member-state EU zone without restrictions, with EU licensed air carriers enjoying reciprocal rights from any point in the EU (regardless of nationality) to any point in Canada. Subsequent liberalization phases will be contingent on the relaxation of foreign airline ownership and control rules by Canada and will involve the easing of access to third-country markets.

On November 5, 2003, the *Montréal Convention of 1999 on Compensation for Accident Victims* (the “Montréal Convention”) came into effect. This multilateral agreement updates the rules on passenger, baggage and cargo liability applicable to international air transport and originally established by the Warsaw Convention in 1929 and amended over the years (together the “Warsaw System”). In general, the Montréal Convention establishes a two-tier liability regime for carriers for damages to passengers resulting from personal injury or death. The first tier includes strict liability up to 100,000 Special Drawing Rights (SDR) (approximately US\$135,000) regardless of the carrier’s fault. The second tier is based on presumption of fault of a carrier and has no limit of liability. The Montréal Convention provides for the review of limits of liability, thus ensuring that the amounts remain relevant with the passage of time. The first such review was duly undertaken by the ICAO during the course of 2009. It was agreed that the original amounts of the prescribed liability limits would be increased by 13.1% effective January 1, 2010. In addition to establishing new principles of liability, the Montréal Convention modernizes many of the ticketing and air waybill requirements. The Montréal Convention has been ratified by Canada and applies to all flights between Canada and other ratifying states. For flights from Canada to non-ratifying or non-signatory states, the Warsaw System continues to govern.

As an airline operating flights from airports within the European Union, Air Transat is subject to the provisions of European Community Regulation 261/2004. This directive establishes a legal framework for the compensation and care of passengers by airlines in the event of overbooking/denied boarding, flight cancellations and long delays. While the Regulation stipulates payable compensation in the event of the first two cases, it only expressly provides for a duty of care by the airline in the context of a long flight delay (meals, snacks, hotel accommodation, as applicable). In November 2009, the European Court of Justice issued a ruling that extended financial compensation obligations to long delays as well. It is not clear at present how the national enforcement authorities in the European Union will apply this decision as they are ultimately responsible for ensuring compliance by airlines with the Community directive in question. Leading airline associations in Europe have already announced plans to challenge this ruling in court.

3.8.2.2 Canadian Legislation

The *Aeronautics Act*, R.S.C. 1985, c. A-2 and the *Canada Transportation Act* are two of the principal legislative instruments that regulate the operation of a commercial airline in Canada. Such operation is subject to the issuance of the required licenses and operating certificate attesting that the air carrier complies with Canadian standards, as well as to the maintenance of the required liability insurance. In the case of charter flights, permits are required for each proposed flight or series of flights. Licenses and charter permits are issued by the Canadian Transportation Agency (the “Agency”), and the operating certificate is issued by Transport Canada. This certificate attests that the air carrier is properly organized and equipped to conduct its business in compliance with the *Canadian Aviation Regulations*, SOR/1996-433. Such a certificate was issued to Air Transat on November 13, 1987, and was subsequently modified to reflect our changing operating conditions.

Our airline Air Transat is required to obtain a permit from the Agency in respect of each international charter flight or series of charter flights. This authorization is conditional upon various details being provided to the Agency with respect to the flight, the eligibility and financial responsibility of the charterer, and the terms and conditions of the charter contract. Moreover, the issuance of any authorization relating to an international charter flight or a series of international charter flights is subject to the provision by Air Transat of satisfactory evidence that any advance payments by the charterer to Air Transat, for an international charter flight or a series of international charter flights, are protected by way of a guarantee or an irrevocable letter of credit. This guarantee or irrevocable letter of credit provides security in an amount equal to the payments received by Air Transat from charterers in advance of all segments of unperformed flights pursuant to a charter contract. The Agency also determines the conditions regulating the relationship between air carriers and the charterer. Under current Canadian regulations, an air carrier operating under a charter permit does not have the right to sell seats on international air services directly to the public, but must charter its capacity to one or more competent charterers.

The conditions mentioned previously do not apply to Canadian domestic operations in that the legislation no longer makes any distinction between scheduled and charter flight services. Furthermore, Air Transat is licensed to offer scheduled services to the United States, Cuba, the European Union (representing its 27 member states), Mexico, Jamaica, the Bahamas, Turkey, Panama and the Dominican Republic. These operations are subject to the rules established under the bilateral air transport agreements concluded by Canada with these respective countries and supranational authorities.

As at the date of this AIF, Air Transat holds all necessary licenses, certificates and permits and is in compliance, in all material respects, with the requirements of applicable Canadian legislation. Furthermore, all of our aircraft meet the ICAO chapter 3 noise requirements implemented by Transport Canada.

3.8.2.3 Foreign Legislation

In respect of each jurisdiction other than Canada in which Air Transat operates, we must comply with applicable laws and, when necessary, obtain the required licenses, permits and authorizations. Such permits and authorizations are generally issued to Air Transat provided it meets the applicable criteria, which may vary from country to country. We believe that Air Transat holds all licenses, permits and authorizations necessary for its operations and is in compliance, in all material respects, with the requirements of applicable foreign legislation.

3.8.3 Environment

We are subject to various environmental laws and we have put the necessary processes in place to ensure compliance with the environmental requirements and standards that apply to us. If necessary, we adopt preventive and corrective measures. We believe that we comply in all material respects with the provisions of applicable environmental laws and regulations. Our Corporate Governance and Nominating Committee of the Board of Directors annually reviews risk measurement and corporate policies and procedures with respect to the environment.

Beginning in January 2012, all air carriers serving the European Union, including Air Transat, will be subject to the recently enacted Community regulations concerning the application of the EU's Emissions Trading Scheme (ETS) to aviation. The ETS will establish a hard-cap for aviation greenhouse gas emissions as of the above-mentioned date and all airlines will be required to account for such emissions either through freely-allocated or purchased credits. Pursuant to the applicable EU directives, Air Transat's compliance in this respect will be monitored by the relevant authorities of the United Kingdom, which are in the process of finalizing and implementing application and enforcement regulations. Moreover, air carriers will be required to submit formal Monitoring, Reporting and Compliance (MRV) plans by the end of 2009 to their respective national compliance authorities in order to be eligible for the allocations of free GHG emissions credits. Air Transat has filed all relevant documentation in this respect and is currently in compliance, in all material respects, with all applicable regulations. The ETS is currently the object of a legal challenge brought by the U.S. Air Transport Association before the U.K. High Court. This matter has been referred by the High Court to the European Court of Justice in Luxembourg, which heard arguments in July 2011.

IATA and the NACC have formally intervened in support of the ATA's claim of illegal extra-territorial application of the provisions of ETS in international aviation. A preliminary opinion by the EU Advocate General rejected claims of non-conformity of the ETS with various instruments of international and customary law. A ruling by the Court is expected by the end of 2011 or early 2012.

In addition, in 2008, Transat's Board of Directors formally adopted a sustainable tourism policy, which was made public and which includes a major focus on the environment. In 2010, Transat developed and implemented an environmental policy. This policy provides a framework and sets out the principles guiding our action in this area.

3.8.4 Corporate Social Responsibility

As an industry, tourism is intimately linked to communities, both at destination and in source-markets. It brings them benefits and encourages protection of the environment, heritage and diversity. But tourism also entails pressures of various natures on the environment and community development. As a Corporation, we pay attention to communities, give back as much as possible, and strives to develop sound and mutually beneficial relationships with all stakeholders, including our employees. We define this as sustainable tourism, that is tourism that entails respect for nature as well as for host communities and their values, and that combines positive socio-economic benefits for local populations with an enriching experience for travelers.

We have in place a comprehensive corporate responsibility program, on which we reported at the end of fiscal 2010 through our second Corporate Responsibility Report (available online at www.resp.transat.com). The report provides an account of the organization's commitment to taking responsible actions, and describes the main accomplishments.

In 2011, pursuant to implementation of an environmental management system (begun in 2008), Air Transat was awarded a LEED-EB (Leadership in Energy and Environmental Design for Existing Buildings) certification for its office building. Also, atmosfair, a German NGO which studied environmental performance of 100 major airlines ranked Air Transat No. 1 in the world in the long-haul category. In addition, Transat received a World Travel Market Global Award for its efforts in sustainability.

Transat ascribes great importance to skills upgrading and maintenance of a work atmosphere based on respect. Over the years, we have implemented a variety of programs and tools to improve employee orientation and integration, training as well as all aspects of employee recognition. When it comes to diversity, a key value for Transat, half of our senior executives are women, and we promote hiring of candidates from minority groups. We also encourage employment of local personnel for positions at destination.

Transat's Code of Ethics was revised in 2010, and now includes commitments related to our vision of corporate responsibility. This document, approved by the Board of Directors, is at once an expression of our corporate culture and an instrument of change management. Every employee is required to read it and commit to complying with it.

Skills upgrading and professional development are the core of our strategy. In the last few years, we have developed a flexible training offering, highly adaptable to employees' needs. The Odyssey program and Transat Academy form the heart of our skills-development efforts. Odyssey is offered to managers in Canada and comprises eight modules, covering 12 competencies critical to Transat's industry segment. To date, 424 managers have begun the program, and 66 of them have completed more than half the modules. Transat Academy is an undergraduate university program in organizational management, offered to Canadian employees on a volunteer basis, subject to certain selection criteria. It is conducted in partnership with Université de Sherbrooke, Ryerson University in Toronto and Simon Fraser University in Vancouver.

To strengthen this culture geared toward upgrading of competencies and encourage personnel to excel, we have developed a structured method for evaluating employee potential, with input from a specialized firm. Based on the

initial results, we decided to deploy this approach earlier in the careers of targeted employees, so as to accelerate their development and outpace competitors elsewhere in our industry.

Our corporate responsibility program and all sub-programs are managed by the Corporate Responsibility Committee (CRC), made up essentially of senior executives from all areas of the Corporation. The CRC met 4 times in 2010 and 3 times in 2011.

3.9 RISK FACTORS

We are subject to a number of risks and other factors that could affect demand for our offering, some of which are related or inherent to the travel industry in general. Please see the “Risks and Uncertainties” section of our Management’s Discussion and Analysis for the year ended October 31, 2011 available for consultation on SEDAR at www.sedar.com.

4. DIVIDENDS AND NORMAL COURSE ISSUER BID

4.1 DIVIDENDS

On March 11, 2009, we announced that our board of Directors had suspended until further notice dividends to holders of the Variable Voting Shares and of the Voting Shares, in order to keep cash on hand to contend with business challenges arising from the prevailing economy. No decision has been taken with respect to future dividends, and no assurance can be given that any dividends will be paid in the future.

4.2 NORMAL COURSE ISSUER BID

The normal course issuer bid program was not renewed in June 2009 and therefore no voting shares were purchased for cancellation since.

5. MANAGEMENT’S DISCUSSION AND ANALYSIS

We refer you to our Management’s Discussion and Analysis for the year ended October 31, 2011 available for consultation on SEDAR at www.sedar.com.

6. OUR SHARE CAPITAL STRUCTURE

6.1 CONSTRAINTS

Pursuant to the *Canada Transportation Act*, Air Transat, a wholly-owned subsidiary of the Corporation, must at all times, be in a position to establish that it is “Canadian” within the meaning of such act (hereinafter, a “Qualified Canadian”) in order to hold the licenses necessary to operate an air service. Because Air Transat is wholly owned by Transat, we must be a Qualified Canadian in order for Air Transat to be a Qualified Canadian. Currently, we must ensure that no more than 25% of voting interests attaching to our shares are owned or controlled by persons who are not Qualified Canadians.

In this respect, our Articles provide for Variable Voting Shares and Voting Shares. The Variable Voting Shares can only be owned or controlled by persons who are not Qualified Canadian and carry one vote per share unless (i) the number of issued and outstanding Variable Voting Shares exceeds 25% of all the issued and outstanding voting shares (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*), or (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting exceeds 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at such meeting. If either of the above-noted thresholds would otherwise be surpassed at any time, the vote attached to each Variable Voting Share will decrease

proportionately such that (i) the Variable Voting Shares as a class do not carry more than 25% of the aggregate votes attached to all issued and outstanding voting shares of the Corporation and (ii) the total number of votes cast by or on behalf of holders of Variable Voting Shares at any meeting do not exceed 25% of the votes that may be cast at such meeting. The Voting Shares can only be owned and controlled by Qualified Canadians and always carry one vote per share. All the other rights, privileges, conditions and restrictions for the two classes of shares are the same.

The holders of Variable Voting Shares and Voting Shares will vote together at any meeting and no separate meeting is being held for any such class of shares. Only votes attached to voting shares represented by shareholders present in person or represented by proxy at a meeting and legally entitled to be voted thereat can be exercised or cast at such meeting.

Pursuant to its powers under Transat By-law No. 1999-1 and the regulations under the *Canada Business Corporations Act*, and in accordance with the provisions of our Articles and the *Canada Transportation Act*, Transat's Board of Directors has implemented a series of administrative measures to ensure that the Voting Shares are owned and controlled by Qualified Canadians and the Variable Voting Shares are owned or controlled by persons who are not Qualified Canadians at all times (the "Ownership Restrictions"). The measures are notably reflected in the forms of declaration of ownership and control. Shareholders who wish to vote at a meeting either by: (i) completing and delivering a proxy form or a voting instruction form, or (ii) by attending and voting at such meeting, will be required to complete a declaration of ownership and control in order to enable Transat to comply with the Ownership Restrictions. If a shareholder does not duly complete such declaration or if it is determined by Transat or its transfer agent, CIBC Mellon Trust Company ("CIBC Mellon"), that a shareholder indicated (through inadvertence or otherwise) that he or she owns or controls the wrong class of shares, the automatic conversion provided for in our Articles shall be triggered. Where a statement made in a declaration appears inconsistent with the knowledge of Transat (through inadvertence or otherwise), we may take any action that we deem appropriate with a view to ensure compliance with the Ownership Restrictions. Further, if a declaration is not duly completed, executed and delivered to Transat through its transfer agent, CIBC Mellon, the vote attached to such declarant's voting shares will not be tabulated.

Proposed Change to Restriction on Foreign Ownership

Bill C-10, the *Budget Implementation Act 2009* was adopted on March 12, 2009 by Parliament. This Act contains provisions whereby the foreign ownership limit in the *Canada Transportation Act* applicable to voting securities of air carriers would be amended to provide the Governor in Council with flexibility to increase the limit from the existing 25% level to a maximum of 49%. This provision will come into force on a date to be fixed by order of the Governor in Council made on the recommendation of the Minister of Transport (federal).

6.2 GENERAL DESCRIPTION OF OUR SHARE CAPITAL

As at the date of this AIF, Transat's share capital is composed of Voting Shares and Variable Voting Shares introduced in our latest Articles of Amendment filed on March 4, 2005 and effective as at that date (the "Articles of Amendment"), as well as Preferred Shares. As of December 14, 2011, there were 937,441 issued and outstanding Variable Voting Shares and 37,124,469 issued and outstanding Voting Shares. Below is a summary describing the rights, privileges, restrictions and conditions attached to Transat's Variable Voting Shares, Voting Shares and Preferred Shares.

6.2.1 *Class A Variable Voting Shares*

6.2.1.1 *Exercise of Voting Rights*

The holders of Variable Voting Shares are entitled to receive notice of, to attend and vote at all meetings of our shareholders, except those at which the holders of a specific class are entitled to vote separately as a class under the *Canada Business Corporations Act*.

Variable Voting Shares carry one vote per share held, except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding Variable Voting Shares and Voting Shares (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*), or (ii) the total number of votes cast by or on behalf of the holders of Variable Voting Shares at any meeting exceeds 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share will decrease automatically without further act or formality. Under the circumstances described in paragraph (i) above, the Variable Voting Shares as a class cannot carry more than 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total voting rights attached to the aggregate number of issued and outstanding Variable Voting Shares and Voting Shares of Transat. Under the circumstances described in paragraph (ii) above, the Variable Voting Shares as a class cannot, for a given shareholders' meeting, carry more than 25% (or any greater percentage that the Governor in Council may specify pursuant to the *Canada Transportation Act*) of the total number of votes that may be cast at said meeting.

6.2.1.2 Dividends

Subject to the rights, privileges, restrictions and conditions attached to any other class of Transat shares ranking prior to the Variable Voting Shares, the holders of Variable Voting Shares are entitled to receive any dividends that are declared by Transat's directors at the times and for the amounts that our Board of Directors may, from time to time, determine. The Variable Voting Shares and the Voting Shares shall rank equally as to dividends on a share-for-share basis. All dividends shall be declared in equal or equivalent amounts per share on all Variable Voting Shares and Voting Shares then outstanding, without preference or distinction.

6.2.1.3 Subdivision or Consolidation

No subdivision or consolidation of the Variable Voting Shares or Voting Shares shall occur unless simultaneously, the Variable Voting Shares or Voting Shares, as the case may be, are subdivided or consolidated in the same manner so as to maintain and preserve the relative rights of the holders of each of these classes of shares.

6.2.1.4 Rights in the Case of Liquidation, Winding-Up or Dissolution

Subject to the rights, privileges, restrictions and conditions attached to the other classes of Transat shares ranking prior to the Voting Shares, in the case of liquidation, dissolution or winding-up of Transat, the holders of Variable Voting Shares and Voting Shares shall be entitled to receive Transat's remaining property and shall be entitled to share equally, share for share, in all distributions of such assets.

6.2.1.5 Conversion

Each issued and outstanding Variable Voting Share shall be automatically converted into one Voting Share, without any further intervention on the part of Transat or the holder, if (i) the Variable Voting Share is or becomes owned and controlled by a Qualified Canadian, or if (ii) the provisions contained in the *Canada Transportation Act* relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

In the event that an offer is made to purchase Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Voting Shares are then listed, to be made to all or substantially all the holders of Voting Shares in a given province of Canada to which these requirements apply, each Variable Voting Share shall become convertible at the option of the holder into one Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Variable Voting Shares for the purpose of depositing the resulting Voting Shares

pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning voting rights for Variable Voting Shares notwithstanding their conversion. Our transfer agent shall deposit the resulting Voting Shares on behalf of the holder.

Should the Voting Shares issued upon conversion and tendered in response to the offer be withdrawn by shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, the Voting Shares resulting from the conversion shall be automatically reconverted, without further intervention on the part of Transat or on the part of the holder, into Variable Voting Shares. Variable Voting Shares may not be converted into Voting Shares, and vice-versa, other than in accordance with the conversion procedure set out in our Articles of Amendment dated March 4, 2005.

6.2.1.6 Constraints on Share Ownership

Variable Voting Shares may only be owned or controlled by persons who are not Qualified Canadians.

6.2.2 Class B Voting Shares

6.2.2.1 Exercise of Voting Rights

The holders of Voting Shares shall be entitled to receive notice of, and to attend and vote at all meetings of our shareholders, except those at which holders of a specific class are entitled to vote separately as a class under the *Canada Business Corporations Act*. Each Voting Share shall confer the right to one vote at all meetings of our shareholders.

6.2.2.2 Dividends

Subject to the rights, privileges, restrictions and conditions attached to any class of Transat shares ranking prior to the Voting Shares, holders of Voting Shares are entitled to receive any dividends declared by our directors at the times and for the amounts that the Board of Directors may determine from time to time. The Voting Shares and the Variable Voting Shares shall rank equally as to dividends on a share-for-share basis. All dividends declared shall be declared in equal or equivalent amounts per share on all Voting Shares and Variable Voting Shares then outstanding, without preference or distinction.

6.2.2.3 Subdivision or Consolidation

No subdivision or consolidation of the Voting Shares or Variable Voting Shares shall occur unless simultaneously, the Voting Shares or the Variable Voting Shares, as the case may be, are subdivided or consolidated in the same manner so as to maintain and preserve the relative rights of the holders of each of these classes of shares.

6.2.2.4 Rights in the Case of Liquidation, Winding-Up or Dissolution

Subject to the rights, privileges, restrictions and conditions attached to any class of shares ranking prior to the Voting Shares, in the case of liquidation, dissolution or winding-up of Transat, the holders of Voting Shares and Variable Voting Shares shall be entitled to receive Transat's remaining property and shall be entitled to share equally, share for share, in all distributions of such assets.

6.2.2.5 Conversion

Each issued and outstanding Voting Share shall be converted into one Variable Voting Share, automatically and without any further act of Transat or the holder, if such Voting Share is or becomes owned or controlled by a person who is not a Qualified Canadian.

In the event that an offer is made to purchase Variable Voting Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Variable Voting Shares are then listed, to be made to all or substantially all the holders of Variable Voting Shares, each Voting Share shall become convertible at the option of the holder into one Variable Voting Share at any time while the offer is in effect until one day after the time prescribed by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the offer. The conversion right may only be exercised in respect of Voting Shares for the purpose of depositing the resulting Variable Voting Shares pursuant to the offer, and for no other reason, including notably with respect to voting rights attached thereto, which are deemed to remain subject to the provisions concerning the voting rights for Voting Shares notwithstanding their conversion. Our transfer agent shall deposit the resulting Variable Voting Shares on behalf of the holder.

Should the Variable Voting Shares issued upon conversion and tendered in response to the offer be withdrawn by shareholders or not taken up by the offeror, or should the offer be abandoned or withdrawn, the Variable Voting Shares resulting from the conversion shall be automatically reconverted, without further intervention on the part of Transat or on the part of the holder, to Voting Shares.

The Voting Shares may not be converted into Variable Voting Shares, or *vice-versa*, other than in accordance with the conversion procedure set out in the Articles of Amendment.

6.2.2.6 Constraints on Share Ownership

The Voting Shares may only be owned or controlled by persons who are Qualified Canadians.

6.2.3 Preferred Shares

The Preferred Shares, if issued, will rank prior to the Variable Voting Shares and the Voting Shares with respect to the payment of dividends and the distribution of assets. In the event of the dissolution or liquidation of the Corporation or the distribution of its capital, no amount shall be paid and no asset shall be distributed to the holders of shares of any other class of the Corporation until the holders of the Preferred Shares receive an amount equal to the value of the consideration received by the Corporation upon the issuance of such shares and, in the case of Preferred Shares of a series entitled to cumulative dividends, of all dividends then accrued and unpaid, and, for Preferred Shares of a series entitled to non-cumulative dividends, of all dividends declared thereon and unpaid, if any, plus any other amount, if any, determined by the directors in respect of each series prior to the issue of any Preferred Shares of such series. The holders of the Preferred Shares of a particular series shall be entitled to the payment of this entire amount from the assets of the Corporation in preference and prior to the holders of any other class of shares of the capital of the Corporation.

The Preferred Shares of each series will rank equally with the Preferred Shares of other series in terms of payment of dividends and distribution of assets upon liquidation or dissolution of the Corporation.

7. MARKET FOR SECURITIES

Our Variable Voting Shares and our Voting Shares are listed on the TSX under the symbols TRZ.A and TRZ.B, respectively.

The following tables set out the reported high and low prices and trading volume of: (i) the foreign owned Variable Voting Shares listed as "TRZ.A" and (ii) the Canadian owned Voting Shares listed as "TRZ.B" for each month of the fiscal year ended October 31, 2011.

TRANSAT A.T. INC. TRZ.A			
Month	High	Low	Volume
October 2011	\$7.44	\$5.50	9,000
September 2011	\$9.26	\$6.29	28,854
August 2011	\$10.30	\$8.01	19,480
July 2011	\$11.34	\$10.26	10,690
June 2011	\$13.00	\$10.01	20,822
May 2011	\$13.00	\$11.50	34,892
April 2011	\$12.95	\$11.08	113,070
March 2011	\$17.68	\$10.70	58,713
February 2011	\$17.81	\$16.39	26,665
January 2011	\$19.97	\$16.90	16,048
December 2010	\$20.47	\$16.85	37,570
November 2010	\$18.99	\$16.51	35,300

TRANSAT A.T. INC. TRZ.B			
Month	High	Low	Volume
October 2011	\$7.70	\$5.56	3,367,264
September 2011	\$8.65	\$6.06	9,919,673
August 2011	\$10.26	\$8.05	2,804,037
July 2011	\$11.45	\$9.93	1,172,313
June 2011	\$12.95	\$9.92	3,421,315
May 2011	\$13.05	\$11.40	4,041,879
April 2011	\$12.53	\$11.31	3,990,872
March 2011	\$17.74	\$11.50	7,123,235
February 2011	\$17.76	\$16.02	3,378,511
January 2011	\$19.93	\$16.37	2,328,276
December 2010	\$19.97	\$16.79	1,559,675
November 2010	\$18.90	\$16.20	2,016,463

On October 31st, 2011, the closing price on the TSX of a Variable Voting Share was \$7.30 and the Voting Shares closed at a price of \$6.83.

8. OUR DIRECTORS AND OFFICERS

8.1 ORGANIZATIONAL CHANGES

Transat implemented some changes to simplify its organizational structure in Canada, in order to accelerate its processes for making and implementing decisions. With this in mind, Transat announced the departure of Chief Operating Officer Nelson Gentiletti, as well as the departure of Transat Tours Canada President Michael DiLollo. At that time, Allen B. Graham, President and Chief Executive Officer of Air Transat, was given oversight of operations at subsidiaries Air Transat, Transat Tours Canada, Transat Distribution Canada, Canadian Air, Air Consultants Europe and Handlex. André De Montigny was given responsibility for Eleva Travel, Tourgreece, Trafictours and Turissimo, as well as hotel operations, while remaining Vice President, Corporate Development.

Also, on November 23, 2011, Transat announced changes to the management structure of its main Canadian business unit, Transat Tours Canada. Two distinct divisions, one focusing on the sun market and the other on the transatlantic market have been created to concentrate decision-making powers, improve accountability and increase efficiency. Each division has its own resources for managing flight schedules, capacity, procurement and revenues.

Sales and marketing, on the one hand, and operations, on the other hand, will serve these two divisions. This announcement triggered changes in personnel, appointments and promotions, as well as changes in reporting lines.

Back on June 11, 2009, Transat had announced important changes to its management team, including the retirement of two of its three co-founders, Lina De Cesare and Philippe Sureau, after 30 years of service to the organization. Effective November 1st, 2009, co-founders Lina De Cesare and Philippe Sureau left their positions as President, Tour Operators and President, Distribution, respectively. Both remain members of Transat's Board of Directors and since act as advisors to the President and Chief Executive Officer.

8.2 OUR DIRECTORS

The following table states, as at the date of this AIF, the name, province and country of residence, year of election as director and present principal occupation of each director of Transat, as well as the number of voting shares of Transat owned by each director or over which he or she exercises control or direction. Each of our directors shall hold office until the next annual meeting of Transat or until his or her replacement is elected.

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed ⁽²⁾
Jean-Marc Eustache <i>Québec, Canada</i>	Chairman of the Board, President and Chief Executive Officer, Transat	February 1987	401,766
André Bisson, O.C. <i>Québec, Canada</i>	Chairman of the Board, CIRANO <i>(Centre for Interuniversity Research and Analysis on Organizations)</i>	April 1995	20,762
Madeleine Chenette <i>Québec, Canada</i>	Senior Partner and Chair of the Board, SECOR <i>(an international strategy and management consulting firm)</i>	October 2011	–
Lina De Cesare <i>Québec, Canada</i>	Advisor to the President	May 1989	62,576
Jean Pierre Delisle <i>Québec, Canada</i>	Corporate Director and Executor of Estates	September 2007	28,000
W. Brian Edwards <i>Québec, Canada</i>	Entrepreneur and Corporate Director	June 2010	8,790
Jean-Yves Leblanc <i>Québec, Canada</i>	Corporate Director	December 2008	5,000
Jacques Simoneau <i>Québec, Canada</i>	Corporate Director	November 2000	7,900
Philippe Sureau <i>Québec, Canada</i>	Advisor to the President	February 1987	316,609
John D. Thompson <i>Québec, Canada</i>	Corporate Director	April 1995	15,000

Name of Director, Province and Country of Residence	Principal Occupation	Director Since	Voting Shares Owned or Controlled or Directed ⁽²⁾
Dennis Wood, O.C. <i>Québec, Canada</i>	President and Chief Executive Officer, DWH Inc. <i>(a venture capital corporation which invests in various industries)</i>	March 2004	7,143

(1) The number of shares indicated is given as at December 14, 2011 and is based on the declarations of our directors. Under the guidelines adopted by Transat, each director who is not an employee must hold a number of shares or deferred share units equivalent to at least three times the annual retainer to which he is entitled after having served three years as a director. Please refer to our 2012 Management Proxy Circular for additional detail.

Each of the directors of the Corporation has had the principal occupation indicated opposite his or her name during the past five years, except as indicated below:

- Mr. André Bisson, O.C. has been Chairman of the Board of Branchez-Vous Inc. (now BV! Media Inc.) from June 2005 to October 2010 and was Chancellor and Chairman of the Board of Université de Montréal from 1990 until 2003;
- Mrs. Lina De Cesare was President, Tour Operators of Transat and President of Cameleon Hotel Management Corporation from December 2004 to November 2009. Prior to December 2004, she was Executive Vice-President, Tour Operators of Transat as well as President of Transat Tours Canada;
- Mr. Jacques Simoneau was Executive Vice President, Investment, Business Development Bank of Canada from April 2006 to December 2010 and was President and Chief Executive Officer of Hydro-Québec CapiTech Inc. from November 2004 to April 2006. Prior to November 2004, he was at the *Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, where he held the position of Senior Vice-President – Industry and Services from 2000 to 2004;
- Mr. Philippe Sureau was President, Distribution of Transat and President of Transat Distribution Canada from December 2004 to November 2009. Prior to December 2004, he was Executive Vice-President of Transat from November 2000 to December 2004. Prior to November 2000, he was President and Chief Executive Officer of Air Transat from March 1997 to November 2000; and
- Mr. Dennis Wood, O.C. was Interim President and Chief Executive Officer of GBO Inc. (formerly Le Groupe Bocenor Inc.) from 2005 to July 2009.

The Board of Directors of Transat has created four committees, to which it has given specific mandates and the necessary powers to assist it in effectively fulfilling its duties. The table below indicates the committees of the Board of Directors, with their respective membership as at October 31, 2011:

EXECUTIVE COMMITTEE	Jean-Marc Eustache – Chair André Bisson, O.C. John D. Thompson Jacques Simoneau
AUDIT COMMITTEE	André Bisson, O.C. – Chair John D. Thompson Jean Pierre Delisle Jacques Simoneau

HUMAN RESOURCES AND COMPENSATION COMMITTEE	John D. Thompson – Chair W. Brian Edwards Dennis Wood Jean-Yves Leblanc
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE	Jacques Simoneau – Chair André Bisson, O.C. W. Brian Edwards Jean-Yves Leblanc

As at December 14, 2011, Messrs. André Bisson, O.C., John D. Thompson and Jacques Simoneau are the lead directors of Transat. Each assumes responsibility for chairing and coordinating the meetings of the Audit Committee, the Human Resources and Compensation Committee and the Corporate Governance and Nominating Committee, respectively.

8.3 OUR EXECUTIVE OFFICERS

The following table sets forth the names, province and country of residence of the executive officers of Transat, their first year of service and current position held with Transat, as well as the number of voting shares of Transat owned or over which he or she exercises control or direction.

As at December 14th, 2011, the executive officers and directors of the Corporation as a group own a total of 978,761 Voting Shares, which represent 2.64% of the total number of Voting Shares issued and outstanding as at that date and 2.57% of the voting rights attached to all the Variable Voting Shares and the Voting Shares, collectively.

Name, Province and Country of Residence	First Year of Service with Transat	Position Held with Transat	Voting Shares Owned or Controlled or Directed ⁽¹⁾
Jean-Marc Eustache <i>Québec, Canada</i>	1987	Chairman of the Board, President and Chief Executive Officer	401,766
Allen B. Graham <i>Québec, Canada</i>	2000	President of Transat Tours Canada and President and Chief Executive Officer of Air Transat	26,347
Bernard Bussi�eres <i>Québec, Canada</i>	2001	Vice-President, General Counsel and Corporate Secretary	35,597
Andr� De Montigny <i>Québec, Canada</i>	2000	Vice-President, Corporate Development	32,701
Denis P�trin <i>Québec, Canada</i>	1990	Vice-President, Finance and Administration and Chief Financial Officer	5,637
Michel Lemay <i>Québec, Canada</i>	2006	Vice-President, Communications and Corporate Affairs	12,530
Jean-Fran�ois Lemay <i>Québec, Canada</i>	2011	Vice-President, Human Resources and Chief Talent Officer	–
Michel Bellefeuille <i>Québec, Canada</i>	2002	Vice-President and Chief Information Officer	4,933

⁽¹⁾ The number of shares indicated is given as at December 14, 2011 and is based on the declarations of our officers.

With the exception of Messrs. Jean-Marc Eustache, Bernard Bussières, Allen B. Graham and André De Montigny, who over the past five years have had the principal occupation indicated opposite their name, the other executive officers of Transat held the following positions:

- Michel Bellefeuille was Vice-President Information Systems of Transat from April 2009 to November 2009 and of both Air Transat and Transat Tours Canada from January 2002 to November 2009;
- Michel Lemay was Vice-President, Corporate and Financial Communication with consultancy Optimum Public Relations, a division of Cossette Communication Group, from 1992 to 2006. Prior to that, he was Director of Communications at the Montreal Exchange;
- Jean-François Lemay was a partner of Dunton Rainville practicing in labour relations;
- Denis Pétrin was Vice-President, Finance and Administration of Transat Tours Canada from May 2003 to November 2009.

8.4 CEASE TRADE ORDERS OR BANKRUPTCIES

To the knowledge of Transat and except for: (i) Mr. Dennis Wood, who (a) was Acting President and Chief Executive Officer of GBO Inc. (formerly Le Groupe Bocenor Inc.), until July 16, 2009, which company filed a notice of intention to make a proposal under the *Bankruptcy and Insolvency Act* (Canada) on June 11, 2004, which was accepted by the creditors on July 14, 2004 and ratified by the Superior Court of Quebec on August 5, 2004 and (b) was a director of Blue Mountain Wallcoverings Group Inc. at the time the petition for the issuance of the initial order was granted and at the time the initial order pursuant to the *Companies' Creditors Arrangement Act* (the "CCAA") was issued. On March 20, 2009, Blue Mountain Wallcoverings Group Inc. and its subsidiaries were granted creditor protection under the CCAA, (ii) Mr. H. Clifford Hatch Jr. (who ceased to be a director of Transat on March 29, 2011) (a) was, until March 7, 2003, a director of Geneka Biotechnologie Inc. which made an assignment in bankruptcy on June 1, 2003, and (b) was a director of Fleming Packaging Corporation which became bankrupt in May 2003, being within one year after Mr. Hatch resigned as a director of such company; (iii) Mr. John P. Cashman (who ceased to be a director of Transat on March 11, 2010) who (a) was a director of Amtrol Holdings, Inc. until May 2007, which filed, along with certain of its affiliates, voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code on December 18, 2006, and registered on December 27, 2006, and (b) was a former director of Phoqus Group plc, which filed for bankruptcy in 2008, within one year after Mr. Cashman ceased to serve as director of such company; and (iv) Mr. John D. Thompson, who served on the board of directors of Shermag Inc. from 1996 until August 8, 2007, being less than 12 months before such corporation filed for protection under the CCAA on May 5, 2008, no director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of our Corporation is, as at the date of the AIF or has been, within the 10 years before the date of the AIF, a director or executive officer of any company that while that person was acting in that capacity,

- (i) or was the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days,
- (ii) or was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days,
- (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

8.5 PENALTIES OR SANCTIONS

To the best of the knowledge of the Corporation, no director or executive officer of Transat has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

8.6 PERSONAL BANKRUPTCIES

To the best of the knowledge of Transat, as at the date of this AIF or within ten years before the date of this AIF, no director or executive officer has become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer.

9. LEGAL PROCEEDINGS

In the ordinary course of business, Transat is a defendant in a number of legal proceedings, suits, and claims common to companies operating in the travel industry and engaged in the wholesale, retail or airline business. We believe that the ultimate outcome of these matters will not have a material effect upon the Corporation's financial position, operating results or cash flows.

None of the above proceedings will have a material adverse effect on either Transat Tours Canada's, Air Transat's or Transat's operating results or financial condition seeing that Transat's insurers will assume all amounts payable by Transat or its subsidiaries in the event of an adverse liability finding, subject to the terms and conditions of their insurance coverage.

10. TRANSFER AGENT AND REGISTRAR

As at the date of this AIF, the transfer agent and registrar for the shares of Transat is CIBC Mellon Trust Company, 2001 University Street, Suite 1600, Montréal, Québec H3A 2A6. Registrar offices are located in Toronto, London (Ontario), Calgary, Winnipeg, Vancouver and Halifax.

11. INTERESTS OF EXPERTS

Ernst & Young LLP is the public accounting firm that prepared the auditors' report to shareholders with respect to the Corporation's consolidated financial statements for the years ended October 31, 2011 and 2010 included in the Corporation's 2011 Annual Report. Ernst & Young LLP has confirmed to the Corporation that it is independent within the meaning of the Rules of Professional Conduct of the *Ordre des comptables agréés du Québec*.

12. MATERIAL CONTRACTS

Other than the agreements entered into in the normal course of business, the only material agreements entered into in fiscal 2011, or before fiscal 2011 and which still in force are the Renewed Professional Services Agreement entered into by the Corporation with Philippe Sureau and Lina De Cesare, respectively, which both act as advisors to the president since their retirement date on November 1, 2009. Each Renewed Professional Services Agreement covers the period from, except in case of an earlier termination by any of the parties upon prior written notice. Each agreement provides for the payment of fees at an hourly rate of \$250 in consideration for the professional services rendered by Mr. Sureau and Mrs. De Cesare, respectively, as consultants. Each agreement also provides for confidentiality and non-solicitation undertakings. These professional services were filed and are available on the SEDAR website at www.sedar.com.

13. FORWARD-LOOKING INFORMATION

Certain statements in this AIF, other than statements of historical fact, are forward-looking statements based on certain assumptions and reflect the Corporation's and its subsidiaries' current expectations. Forward-looking statements are provided for the purposes of assisting the reader in understanding the Corporation's financial position and results of operations as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future and the reader is cautioned that such statements may not be appropriate for other purposes. These statements may include, without limitation, statements regarding the operations, business, financial condition, expected financial results, performance, prospects, opportunities, priorities, targets, goals, ongoing objectives, strategies and outlook of the Corporation and its subsidiaries, as well as the outlook for North American and international economies for the current fiscal year and subsequent periods. Forward-looking statements include statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "expects", "anticipates", "plans", "believes", "estimates", "seeks", "intends", "targets", "projects", "forecasts" or negative versions thereof and other similar expressions, or future or conditional verbs such as "may", "will", "should", "would" and "could".

This information is based upon certain material factors or assumptions that were applied in drawing a conclusion or making a forecast or projection as reflected in the forward-looking statements, including perceptions of historical trends, current conditions and expected future developments, as well as other factors that are believed to be appropriate in the circumstances.

By its nature, this information is subject to inherent risks and uncertainties, that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of material factors, many of which are beyond the Corporation's and its subsidiaries' control, affect the operations, performance and results of the Corporation and its subsidiaries and their businesses, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to: the impact or unanticipated impact of general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, management of market liquidity and funding risks, changes in accounting policies and methods used to report financial condition (including uncertainties associated with critical accounting assumptions and estimates), the effect of applying future accounting changes (including adoption of International Financial Reporting Standards), business competition, operational and reputational risks, technological change, changes in government regulation and legislation, changes in tax laws, unexpected judicial or regulatory proceedings, catastrophic events, the Corporation's and its subsidiaries' ability to complete strategic transactions, integrate acquisitions and implement other growth strategies, and the Corporation's and its subsidiaries' success in anticipating and managing the foregoing factors.

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

Other than as specifically required by law, the Corporation undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made, or to reflect the occurrence of unanticipated events, whether as a result of new information, future events or results, or otherwise.

Additional information about the risks and uncertainties about the Corporation's business is provided in its disclosure materials, including this AIF and its most recent Management's Discussion and Analysis of Operating Results, filed with the securities regulatory authorities in Canada, available on the SEDAR website at www.sedar.com.

14. AUDIT COMMITTEE DISCLOSURE

14.1 AUDIT COMMITTEE'S CHARTER

Transat's Audit Committee approved the latest version of Audit Committee's Charter at its meeting held on September 6, 2011. The Board of Directors adopted and ratified the Audit Committee's Charter on September 7, 2011. A copy of the Charter of the Audit Committee is attached as Schedule I.

14.2 COMPOSITION OF OUR AUDIT COMMITTEE

Our Audit Committee is currently composed of unrelated, independent and financially literate directors, namely Messrs. André Bisson, O.C. (Chairman), Jean Pierre Delisle, Jacques Simoneau and John D. Thompson.

14.2.1 *Financial Literacy*

André Bisson, O.C. Mr. Bisson has a Master's degree in Commercial Sciences with a major in Accounting from *Université Laval*. He also holds a MBA from Harvard University, two honorary doctorates and a Fellow *honoris causa* of the Institute of Canadian Bankers. After teaching courses in Finance and Business Policy at *Université Laval* from 1955 to 1971, Mr. Bisson was appointed in 1971 Senior Vice-President and General Manager, Québec for the Bank of Nova Scotia, where he was in charge among other responsibilities of commercial credit approvals or recommendations until 1987. From 1990 to 2003, Mr. Bisson was Chancellor and Chairman of the Board of *Université de Montréal*. Between 1986 and 2000, Mr. Bisson sat on the board of directors and was a member of the audit committee of two publicly traded companies, namely Power Financial Corporation and Donohue. He also chaired the audit committee of *Université de Montréal* from 1987 to 1991 and that of AXA Assurances from 1994 to 2000. Mr. Bisson is currently Chairman of the Board of CIRANO (Centre for Interuniversity Research and Analysis on Organizations). As a result of his experience acquired both as a scholar and in the private sector, Mr. Bisson has the ability to assess the scope of generally accepted accounting principles and their application in particular instances. Furthermore, his research work, publications and practical experience have led him to acquire expertise in appraising the quality of responses given to accounting questions and the relevance of the evaluations utilized, as well as the internal control and procedures for financial reporting.

Jean Pierre Delisle. Mr. Delisle holds a bachelor's degree in commerce from Concordia University (Loyola College). He is a chartered accountant since 1967 and a director and executor of a number of companies and estates. In 1965, Mr. Delisle joined Ernst & Young and became a partner in their tax group in 1974. From 1980 to 1986, he was in charge of the Montréal office's Entrepreneurial Services Group. He has been Vice-president of Groupe Soficorp Inc., where he advised a number of companies in their Initial Public Offering (IPO's) including Transat A.T. Inc. of which he was a director from April 1987 to October 1988 until his return to Ernst & Young in November 1988. Until his retirement in 2000, Mr. Delisle held a number of positions within Ernst & Young including that of Managing partner of the Montreal South Shore and Laval offices. He has been a director of Placements Verane Inc. since October 2000. From September to December 2001, Mr. Delisle joined Transat's senior management team as Adviser to the President in the context of the crisis facing the airline industry resulting from the events of September 11th, 2001. In 2009, Mr. Delisle obtained the designation of "Certified Corporate Director" from *Université Laval*.

Jacques Simoneau. Dr. Simoneau has a bachelor degree in science and a master degree in applied science from Laval University and a Ph.D. from Queen's University. He has completed the Directors Education Program at McGill University. He also participated in several intensive executive training courses in finance, accounting, marketing and leadership. From 1982 to 1989, he taught at the Royal Military College and then joined Alcan where he held research and management positions. In 1994, he was appointed as Director, Business Development at Advanced Scientific Computing. In 1995, Dr. Simoneau focussed his career mainly in private equity and venture capital investments. In 1995, he was appointed as Chief Executive Officer of *Société Innovatech du sud du Québec*, a venture-capital fund. In 1999, he joined Solidarity Fund QFL as Group Vice President for Technology Investment, and was then promoted to Senior Vice President – Industry and Services in 2000. In 2004, he became President and Chief Executive Officer

of Hydro-Québec CapiTech, the corporate venture capital subsidiary of Hydro-Québec. In 2006, Dr. Simoneau joined BDC as Executive Vice President, Investment, where he was responsible of the venture capital and the subordinate financing portfolios until 2010. He was a member of the Senior Management Committee, of the Asset and Liability Committee and the Pension Fund Investment Committee. Dr. Simoneau is also a director and chair of the audit committee of Sustainable Development Technology Canada, and a director of the Canadian Venture Capital and Private Equity Association. As part of the numerous managerial positions he has held in venture capital, private equity and corporate financing, Dr. Simoneau was actively involved in analysing, evaluating, structuring and negotiating investments for private and publicly traded corporations. In doing so, he closely examined and evaluated financial statements, business and strategic plans, and questioned management thereon. Dr. Simoneau's aforementioned experience has provided him with the skills to evaluate Transat's accounting and internal control processes in the preparation of its financial statements.

John D. Thompson. Mr. Thompson has a bachelor's degree in engineering from McGill University. He also holds a MBA degree from the University of Western Ontario. From 1962 to 1994, Mr. Thompson held several managerial positions in the field of commercial financing and corporate financing for large firms with Roynat Capital, Canada's leading private merchant bank, where he was employed as General Manager from 1968, President and Chief Executive Officer from 1973 and of which he became Chairman of the Board of Directors in 1989. During the same year, Mr. Thompson joined the parent company Montréal Trust Company of Canada as President and Chief Executive Officer. During the course of his career, Mr. Thompson also acted as a director of various Canadian companies. Mr. Thompson was until December 2009 the Chairman of the Audit and Conduct Review Committees of certain corporations of the Scotia Bank Group, including Montreal Trust Company of Canada, National Trust Company, Bank of Nova Scotia Trust Company, Scotia Life Insurance Company, Scotia General Insurance Company, Scotia Mortgage Corporation, Mortgage Insurance Company of Canada, Maple Trust Company and Dundee Bank of Canada. He is also a director of the MacDonald Stewart foundation and a governor of the Windsor foundation and of St-Mary's Hospital Centre. As part of the numerous managerial positions he has held in the field of commercial financing, corporate financing and merchant banking, Mr. Thompson was actively involved in analyzing, evaluating, structuring and negotiating financings for private and publicly traded corporations of all sizes. In doing so, he closely examined and evaluated financial statements, business and strategic plans, acquisitions and questioned management thereon. Mr. Thompson's aforementioned experience has provided him with the skills to evaluate Transat's accounting and internal control processes in the preparation of its financial statements. Furthermore, Mr. Thompson acted as a member of the audit committee for various Canadian companies.

14.3 COMPLAINT PROCEDURES FOR ACCOUNTING AND AUDITING MATTERS

In response to National Instrument 52-110 – *Audit Committees* and as part of our efforts to maintain a high standard of good corporate governance, we developed a whistleblower policy and reporting procedure that allow employees of Transat to report, in a confidential manner, any concerns they may have regarding questionable accounting, internal accounting controls or auditing matters. Hence, at its meeting held on September 8, 2004, Transat's Audit Committee approved a Complaint Procedures for Accounting and Auditing Matters applicable to the Corporation and its subsidiaries. At each Audit Committee meeting, members receive a report indicating whether any complaints regarding accounting or auditing matters have been filed.

14.4 POLICY RESPECTING THE PRE-APPROVAL OF AUDIT AND NON-AUDIT SERVICES

Transat's Audit Committee has a Policy Respecting the Pre-Approval of Audit and Non-Audit Services. Transat's Corporate Governance and Nominating Committee also approved this policy on November 16, 2004 and its Board of Directors adopted and ratified the said policy on the same date. This policy prohibits the Corporation from engaging the external auditors to provide certain non-audit services to the Corporation and its subsidiaries, including bookkeeping, or other services related to the accounting records or financial statements, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing services, investment banking services, management or human resources functions, legal services and expert services unrelated to the audit. The policy allows the Corporation to engage the external auditors to provide non-audit

services, other than the prohibited services, only if the services have specifically been pre-approved by the Audit Committee.

14.5 EXTERNAL AUDITOR SERVICE FEES

Ernst and Young LLP have been Transat's auditors since its incorporation. They have confirmed their independence with Transat's Audit Committee.

For the fiscal years ended October 31, 2011 and October 31, 2010, Ernst & Young LLP billed the following fees for audit, audit-related, tax and all other services provided to the Corporation:

	2011	2010
Audit Fees ⁽¹⁾	\$1,111,000	\$1,107,000
Audit-Related Fees ⁽²⁾	\$77,000	\$37,000
Tax Fees ⁽³⁾	\$162,000	\$204,000
All Other Fees ⁽⁴⁾	\$ –	\$ –
TOTAL	\$1,350,000	\$1,348,000

- (1) Audit fees include fees for services rendered for the audit of the Corporation's financial statements or other services that are normally provided by the Corporation's external auditors in connection with statutory or regulatory filings or engagements. These fees also include fees for services rendered in connection with the interpretation of accounting and financial reporting standards.
- (2) Audit-related fees include fees for assurance and related services that are performed by the Corporation's external auditors. These services include accounting consultations in connection with acquisitions, special audits and due diligence.
- (3) Tax related fees include fees for assistance with tax planning (restructuring and discontinued operations), tax opinions as well as the preparation and review of income and other tax returns.
- (4) This category of fees would normally include professional services rendered by the Corporation's external auditors, which are not reported under the captions "audit fees", "audit-related fees" and "tax fees". No such services were rendered to the Corporation for the fiscal years ended October 31, 2011 and October 31, 2010.

15. ADDITIONAL INFORMATION

Additional financial data may be found in our comparative financial statements and Management's Discussion and Analysis for the year ended October 31, 2011, both of which are contained in the 2011 Annual Report. Additional information, including directors' and officers' remuneration and indebtedness, principal holders of Transat securities and securities authorized for issuance under equity compensation plans, is contained in our Management Proxy Circular in respect of the annual and special meeting of shareholders to be held on March 15, 2012.

Copies of these documents and additional information relating to Transat may be found on the SEDAR website at www.sedar.com and may also be obtained upon request to the Corporate Secretary of the Corporation at the following address: Place du Parc, 300 Léo-Pariseau Street, Suite 600, Montréal, Québec, Canada H2X 4C2.

SCHEDULE 1 – CHARTER OF THE AUDIT COMMITTEE

Audit Committee

Constitution

The Board of Directors established an audit committee (the “Audit Committee”) composed solely of independent directors, that is, who have no direct or indirect material relationship with the Corporation¹ and whose members and Chair are appointed by the Board of Directors. The Audit Committee is composed of no less than three (3) members.

The Audit Committee helps the Board of Directors discharge the oversight responsibilities it owes to shareholders, employees, and all interested parties. Such oversight responsibilities pertain to the financial statements of the Corporation, internal control systems, identification of risks (in collaboration with the Corporate Governance and Nominating Committee), the statutory audit of the annual financial statements and compliance with the laws, regulations and codes as established by management and the Board.

Role of the external auditors

Management is responsible for ensuring the integrity of the financial information and the efficiency of the Corporation’s internal controls. The external auditors are responsible for auditing and certifying the fair presentation of the Corporation’s financial statements and, in carrying out this mission, for evaluating the internal control procedures to determine the nature, scope and chronology of the audit procedures used. The Audit Committee is responsible for supervising the participants in the preparation procedure of the financial information and reporting thereon to the Board of Directors of the Corporation.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation are invited to and heard at the meetings of the Audit Committee. From time to time, the President and Chief Executive Officer or the Vice-President, Finance and Administration and Chief Financial Officer or any other officer of the Corporation shall appear before the Audit Committee when required to do so. Moreover, the Audit Committee meets on a quarterly and annual basis with the Corporation’s external auditors, at the committee’s option (but no less than once a year), without the presence of management. Each meeting of the Audit Committee provides for an in camera session to be held, as needed, without the presence of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer or of any other officer.

¹ A material relationship means a relationship that could, in the opinion of the Board of Directors, be reasonably expected to interfere with the exercise of independent judgment of a member of the committee. The following individuals are considered to have a material relationship with the Corporation: (a) an individual who is, or has been, an employee or executive officer of the Corporation in the past three (3) years, or whose immediate family member is, or has been, an executive officer of the Corporation in the past three (3) years; (b) an individual who is, or has been, or whose immediate family member is, or has been, a member of an affiliated entity or a partner of, or employed by, a current or former internal or external auditor of the Corporation, unless a period of three (3) years has elapsed since the end of such individual’s relationship with the internal or external auditor, or of the auditing relationship; (c) an individual who is, or has been, or whose immediate family member is or has been, an executive officer of an entity if any of the current executive officers of the Corporation serves on the compensation committee of such entity, unless a period of three (3) years has elapsed since the end of the service or employment; (d) an individual who has a relationship with the Corporation pursuant to which the individual may accept, directly or indirectly, any consulting, advisory or other compensation fee from the Corporation or any subsidiary of the Corporation, other than remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors; (e) an individual who receives, or whose immediate family member who is employed as an executive officer of the Corporation receives, more than seventy-five thousand dollars (\$75,000.00) per year in direct compensation from the Corporation, other than as remuneration for acting in his or her capacity as a member of the Board of Directors or of any committee of the Board of Directors, or as a part-time Chair or Vice-Chair of the Board of Directors or of any committee of the Board of Directors, unless a period of three (3) years has elapsed since he or she ceased to receive more than seventy-five thousand dollars (\$75,000.00) a year in such compensation; (f) an individual who is a member of an affiliated entity of the Corporation or of any of its subsidiaries. The foregoing is a summary of the rule. For more details, see subsection 1.4 of Regulation 52-110 respecting Audit Committees.

The Audit Committee shall ensure, with the assistance of management and the external auditors, that the financial statements fairly present the Corporation's financial position in accordance with Canadian generally accepted accounting principles ("GAAP") and, starting November 1st, 2011, in accordance with International Financial Reporting Standards ("IFRS") (including their evaluation of the quality of the accounting principles and policies adopted the consistency of the accounting estimates and the clarity of the financial information disclosed. Furthermore, the Audit Committee shall enquire of the external auditors about the results of the annual audit and any other matters, which must be disclosed to it pursuant to Canadian generally accepted auditing standards ("GAAS").

The auditors are appointed each year by the shareholders at the annual meeting based on the recommendation of the Board of Directors, following the Audit Committee's opinion. Only shareholders may remove the auditors from office.

When the auditors resign or are about to be removed or replaced, they have the right to deliver to the Corporation, with a copy to the Audit Committee, a written declaration indicating the grounds for their resignation or their objection to the removal or replacement².

The directors shall promptly fill any vacancy in the position of external auditor.

Powers

The Audit Committee has all the powers and duties conferred on it by the laws governing the Corporation. Within the performance of its duties, the Audit Committee has the right to examine the books, registers, and accounts of the Corporation and its subsidiaries and to discuss them, as well as any other matter regarding the financial situation of the Corporation and its subsidiaries, with the officers and auditors of the Corporation and its subsidiaries.

The Audit Committee has the power to communicate directly with the internal auditors, as the case may be, and the external auditors.

Financial Literacy

All members of the Audit Committee are financially literate³.

Mandate

The duties of the Audit Committee's are as follows:

- I. Recommend to the Board of Directors the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or certification services;
- II. Recommend to the Board of Directors the compensation of the external auditors;
- III. Review, with the Corporation's external auditors, the approach and the scope of their audit plan and report to the Board of Directors on any material reservations the Audit Committee may have, or which the external auditors may have expressed regarding their work;
- IV. Resolve disagreements between management and the external auditors regarding financial information;

² Under the rules stated in National Instrument 51-102 -- *Continuous Disclosure Obligations*.

³ Financially literacy is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements.

- V. Review and recommend acceptance to the Board of Directors of the audited annual financial statements, as well as all other financial statements and reports that may require review by the Audit Committee under the applicable laws or in respect of which the Board of Directors requests a review and any financial information pertaining thereto; including the press release, message to shareholders and management's discussion and analysis for annual report purposes, prior to publication;
- VI. Obtain the annual certificate signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 *respecting certification of disclosure in issuers' annual and interim filings*;
- VII. Review and recommend acceptance to the Board of Directors of the unaudited quarterly financial statements and any related financial information; including the press release, message to shareholders and management's discussion and analysis for quarterly report purposes;
- VIII. Obtain the certification of the interim (quarterly) documents signed personally by the Vice-President, Finance and Administration and Chief Financial Officer and by the President and Chief Executive Officer pursuant to the National Instrument 52-109 *respecting certification of disclosure in issuers' annual and interim filings*;
- IX. Receive and examine the reports of the external auditors following their year-end audit and their interim review, as the case may be, and ensure follow-up on the letter they subsequently address to management containing the latter's comments. Also ensure, with the assistance of management and the external auditors, that these financial statements fairly present the financial position of the Corporation according to GAAP and, starting November 1st, 2011, according to IFRS. Furthermore, the Audit Committee evaluates the work of the external auditors as to quality, and not just acceptability, of the accounting principles and policies adopted by the Corporation, the consistency of the accounting estimates and the clarity of the financial information disclosed in the financial statements. The Audit Committee ensures that the procedures performed by the external auditors for the audit and the interim review, as the case may be, as well as the nature of the items communicated to the Audit Committee, are in accordance with GAAS;
- X. Supervise the internal auditor and monitor the scope of the plan and review the work of the internal audit functions. The internal auditor has the responsibility, among others, to assess the internal controls put in place by management to:
- determine whether they are effective and efficient; and
 - identify and disclose any weaknesses noted to the Audit Committee and the parties concerned;
- XI. Oversee follow-up of the policy respecting the external communication of financial information and ensure that the quality, scope and communication process are in keeping with the said policy;
- XII. Draft and ensure follow-up of a policy on complaint procedures for accounting and auditing matters for the Corporation and its subsidiaries and ensure compliance therewith;
- XIII. Establish procedures for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;
- XIV. Evaluate, from time to time, the competence and independence of the external auditors in the performance of their duties and recommend to the Board of Directors, if it is deemed appropriate, to call a shareholders' meeting in order to consider the removal of the external auditors;

- XV. Obtain annual confirmation of the independence of the Corporation's external auditors, including the filing of any written confirmation required by the standards and by-laws;
- XVI. Receive and review the quarterly report of the Vice-President, Finance and Chief Financial Officer and study, if applicable, the provisions and adjustments made, the acquisition and disposition of assets, the risk factors that could influence the financial results or financial structure of the Corporation, the redemption of shares and derivatives;
- XVII. Identify and evaluate, in collaboration with the Corporate Governance and Nominating Committee, the principal financial risk factors pertaining to the Corporation's business and approve the strategies and systems proposed to manage such risks, including, in particular, those related to the derivatives relating to fuel, foreign currency and interest and any other factor considered relevant. Furthermore, the Audit Committee shall be kept informed by management, either on request or periodically, regarding the management of the Corporation's risks related to the aviation industry;
- XVIII. Review the status of capital expenditures;
- XIX. Review the status of current and potential litigation and insurance coverage;
- XX. Retain independent counsel and external advisors or consultants, whose compensation it sets, to assist it in its duties, when necessary;
- XXI. Ensure that management of the Corporation maintains effective internal control and risk management systems, see to the efficient operation of the internal control system and periodically receive from management and, as the case may be, from the internal auditor, confirmation as to:
- the efficiency of operations;
 - the reliability of the financial information disclosed;
 - compliance with laws and regulations;
- XXII. Review the loans, financings, granting of security, guarantees and other material financial commitments and ensure that the Corporation and its subsidiaries are in compliance with their obligations;
- XXIII. Maintain structures and procedures in place to meet separately with the President and Chief Executive Officer, the Vice-President, Finance and Administration and Chief Financial Officer, and the internal auditor and the external auditors;
- XXIV. Review and approve the hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation;
- XXV. Approve the audit services, which may be provided by the external auditors within the framework of their independence and the restrictions imposed on non-audit services. "Audit services" means the professional services rendered by the external auditors for the audit and review of the issuer's financial statements or services that are normally provided by the external auditors in connection with statutory and regulatory filings or engagements.

The external auditors may perform all other non-audit services, including taxation services, provided that the services offered are pre-approved by the Audit Committee⁴.

Moreover, the Audit Committee shall oversee the audit engagement, as needed, and approve, where applicable, any change in the conditions and fees resulting from a change in the scope of the audit, the corporate structure, or any other element.

The non-audit services that are prohibited include, on the date hereof:

- bookkeeping or other services related to the accounting records or the financial statements;
- valuation services, opinions on the fairness of the price offered or reports on contributions in kind;
- internal audit outsourcing services;
- management functions;
- human resources services;
- expert services prohibited by regulatory authorities;
- design and implementation of a financial information system;
- legal services;
- actuarial services; and
- brokerage, investment counsel and investment agreement services;

XXVI. Review, with the Corporation's external auditors, the findings resulting from their audit, if any, and report to the Board of Directors on the following points:

- the effectiveness of the registers and the accounting, internal control and information systems of the Corporation and the extent to which such registers are appropriately kept and such systems are uniformly applied;
- in collaboration with the Human Resources and Compensation Committee, the competence and efficiency of personnel assigned to finance, accounting and internal control of the activities of the Corporation; and
- examine any other issue or perform any other work that the Board of Directors may deem appropriate to entrust to the Audit Committee from time to time.

Annual Work Program

The Audit Committee has elaborated and adopted its annual work program, which appears in the Corporation's Corporate Governance Manual.

⁴ For this purpose, the Audit Committee has adopted a Policy Respecting the Pre-Approval of Audit Services and Non-Audit Services, which is referred to in this AIF.

Additional Comments

The Audit Committee approves the disclosure policy and reviews it periodically. When a follow-up is required of the Audit Committee, the latter coordinates the appropriate solution and supervises disclosure to ensure the consistency of any information that is disseminated regarding the Corporation.

