TRANSAT A.T. INC.
Management's Discussion & Analysis
Year ended October 31, 2011

DECEMBER 14, 2011

Investor Relations
Denis Pétrin
Chief Financial Officer
investorrelations@transat.com

Trading symbols
TSX: TRZ.B, TRZ.A

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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2011, compared with the year ended October 31, 2010, and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto. The information contained herein is dated as of December 14, 2011. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2011 and Annual Information Form.

Our financial statements are prepared in accordance with Canadian generally accepted accounting principles [GAAP]. We occasionally refer to non-GAAP financial measures in the MD&A. See the Non-GAAP financial measures section for more information. All dollar figures in this MD&A are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "will," "would," the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, statutory changes, adverse regulatory developments or procedures, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

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

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

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

- The outlook whereby the Corporation should have the resources it needs to meet its 2012 objectives and continue building on its long-term strategies.
- The outlook whereby our 2012 revenues are expected to be higher with a volume of travellers similar to or slightly greater than in 2011.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2012.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $60.0 million.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working

capital requirements for the full fiscal year and that fuel prices, foreign exchange rates and hotel and other destination-based costs will remain steady. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

NON-GAAP FINANCIAL MEASURES

This MD&A was drawn up using results and financial information determined under GAAP. We occasionally refer to non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that excludes or includes amounts that that would not be so adjusted in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP measures used by the Corporation are as follows:

Measure	Definition
Margin (operating loss)	Revenues less operating expenses.
Adjusted income (loss)	Income (loss) before non-controlling interest in subsidiaries' results, income taxes, change in fair value of derivative financial instruments related to aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain).
Adjusted after-tax income (loss)	Net income (loss) before change in fair value of derivative financial instruments related to aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain), net of related taxes.
Adjusted after-tax income (loss) per share	Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus the debenture and off-balance sheet arrangements, excluding agreements with service providers, reported on page 15.
Net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

The above-described financial measures have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers or those used by financial analysts. They are furnished to provide additional information and should not be considered in isolation or as a substitute for financial performance measures calculated in accordance with GAAP. Management believes that readers of our MD&A use these measures, or a subset thereof, to analyze the Corporation's results, its financial performance and its financial position.

In addition to GAAP financial measures, management uses adjusted income (loss) and adjusted after-tax income (loss) to measure the Corporation's ongoing and recurring operational performance. Management considers these measures important as they exclude from results items that arise mainly from long-term strategic decisions, reflecting instead the Corporation's day-to-day operating performance. Management believes these measures to be useful in assessing the Corporation's capacity to discharge its financial obligations.

Management also uses total debt and net debt to calculate the Corporation's indebtedness level, cash position, future cash needs and financial leverage ratio. Management believes these measures to be useful in gauging the Corporation's financial leveraging.

The following tables reconciles the non-GAAP financial measures to the most comparable GAAP financial measures:

(In thousands of dollars)	2011 $	2010 $	2009 $
Revenues	**3,658,164**	3,498,877	3,545,341
Operating expenses	**3,628,180**	3,371,295	3,451,946
Margin	**29,984**	127,582	93,395
Income (loss) before non-controlling interest in subsidiaries' results	**(9,154)**	69,331	64,894
Income taxes (recovery)	**(4,802)**	23,806	30,916
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**1,278**	(9,341)	(68,267)
Non-monetary gain on investments in ABCP			
Decline (increase) in value of investments in ABCP	**(8,113)**	(4,648)	5,993
Adjustment related to January 21, 2009 restructuring plan implementation	**—**	—	1,759
Remeasurement of options related to repayment of revolving credit facilities	**—**	—	(800)
	(8,113)	(4,648)	6,952
Restructuring charge (gain)	**16,543**	(1,157)	11,967
Adjusted income (loss)	**(4,248)**	77,991	46,462
Net income (loss)	**(12,213)**	65,607	61,847
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**1,278**	(9,341)	(68,267)
Writedown of investments in ABCP (provision reversal)	**(8,113)**	(4,648)	6,952
Restructuring charge (gain)	**16,543**	(1,157)	11,967
Tax impact	**(4,699)**	3,202	21,224
Adjusted after-tax income (loss)	**(7,204)**	53,663	33,723
Adjusted after-tax income (loss)	**(7,204)**	53,663	33,723
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,930**	37,993	33,485
Adjusted after-tax income (loss) per share	**(0.19)**	1.41	1.01

	2011 $	2010 $	2009 $
Payments on current portion of long-term debt	**—**	13,768	24,576
Long-term debt	**—**	15,291	83,108
Debenture	**—**	—	3,156
Off-balance sheet arrangements, excluding agreements with service providers	**653,663**	643,750	396,433
Total debt	**653,663**	672,809	507,273
Total debt	**653,663**	672,809	507,273
Cash and cash equivalents	**(181,576)**	(180,627)	(180,552)
Investments in ABCP	**(78,751)**	(72,346)	(71,401)
Net debt	**393,336**	419,836	255,320

FINANCIAL HIGHLIGHTS

(In thousands of dollars)	2011 $	2010 $	2009 $	Change 2011 %	Change 2010 %
Consolidated Statements of Income (Loss)					
Revenues	**3,658,164**	3,498,877	3,545,341	4.6	(1.3)
Margin[1]	**29,984**	127,582	93,395	(76.5)	36.6
Net income (loss)	**(12,213)**	65,607	61,847	(118.6)	6.1
Basic earnings (loss) per share	**(0.32)**	1.74	1.86	(118.4)	(6.5)
Diluted earnings (loss) per share	**(0.32)**	1.73	1.85	(118.5)	(6.5)
Adjusted after-tax income (loss)[1]	**(7,204)**	53,663	33,723	(113.4)	59.1
Adjusted after-tax income (loss) per share	**(0.19)**	1.41	1.01	(113.5)	39.6
Dividend – Class A and Class B shares	**—**	—	0.09	—	(100.0)
Consolidated Statements of Cash Flows					
Operating activities	**90,673**	119,131	45,234	(23.9)	163.4
Investing activities	**(56,683)**	(27,819)	(26,662)	(103.8)	(4.3)
Financing activities	**(29,470)**	(81,034)	18,303	(63.6)	(542.7)
Effect of exchange rate changes on cash and cash equivalents	**(3,571)**	(10,203)	(2,090)	65.0	(388.2)
Net change in cash and cash equivalents	**949**	75	34,785	n/a	(99.8)

	As at October 31, 2011 $	As at October 31, 2010 $	As at October 31, 2009 $	Change 2011 %	Change 2010 %
Consolidated Balance Sheets					
Cash and cash equivalents	**181,576**	180,627	180,552	0.5	0.0
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	**359,545**	352,650	272,726	2.0	29.3
Investments in ABCP	**78,751**	72,346	71,401	8.9	1.3
Total assets	**1,221,965**	1,189,458	1,129,503	2.7	5.3
Debt (short-term and long-term)	**—**	29,059	110,840	(100.0)	(73.8)
Total debt[1]	**653,663**	672,809	507,273	(2.8)	32.6
Net debt[1]	**393,336**	419,836	255,320	(6.3)	64.4

[1] SEE NON-GAAP FINANCIAL MEASURES

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

The "holiday travel" industry consists mainly of tour operators, traditional and online travel agencies, destination service providers or hotel operators, and air carriers. Each of these subsectors includes companies with different operating models.

Generally, "outgoing" tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, through travel agencies or via the Web. "Incoming" tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground transfers between airports and hotels. Travel agencies, operating independently or in networks, are distributors serving as intermediaries between tour operators and consumers. Air carriers sell seats through travel agencies or through tour operators that use them in building packages, or directly to consumers.

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

Transat is one of the largest fully integrated world-class tour operators in North America. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in ten other European countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with a total of 542 travel agencies (including 402 franchisees) and a multi-channel distribution system incorporating web-based sales. Transat holds an interest in a hotel business that owns and operates properties in Mexico and the Dominican Republic. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat also offers destination and airport services.

VISION

Transat's vision is to become a leading player in the Americas and build strong competitive positioning in several European countries by 2014. At present, we are a market leader in Canada, operating as an outgoing and incoming tour operator. We are a well-established outgoing tour operator in France, the U.K., and an incoming tour operator in Greece and the Dominican Republic; we have both incoming and outgoing operations in Mexico. We offer customers a broad range of international destinations spanning some 60 countries and market products in over 50 countries. Over time, we intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

To deliver on its vision, the Corporation intends to continue: deriving synergies from its vertical integration model, which distinguishes it from several of its rivals; growing its market share in France, where it ranks among the largest tour operators; and tapping into new markets or expanding operations in markets not yet fully served. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

With regard to vertical integration, the key growth drivers are multichannel distribution, which Transat will continue developing by expanding its physical market presence and by investing in technological solutions to better the increasingly varied expectations of consumers through a heightened presence at destination, either in the form of hotels, incoming tour operators or destination-based service providers.

Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure to improve its margin and maintain or grow market share in all its markets. Cost management remains a core strategic issue in light of the tourism industry's slim margins.

Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. This phenomenon, heightened by the anticipated growth in tourism and air travel, manifests itself in various ways, particularly through regulations and tariffs on greenhouse gas emissions and higher customer and investor expectations in this area. Given this trend and the vested interest tourism companies have in seeing the environment protected and destination communities remaining amenable to tourism, Transat undertook to adopt avant-garde policies on corporate responsibility and sustainable tourism. In doing so, the Corporation targets the following benefits, in particular: lower resource consumption, with the associated cost savings; brand differentiation and greater customer loyalty, potentially boosting our commercial benefits; and enhanced employee loyalty and motivation.

For fiscal 2012, Transat has set the following targets:

- Increase organizational efficiency and profitability
- Make Transat more competitive in Canada
- Maintain business volumes and improve profitability at Transat France
- Continue profitable development of our destination services
- Optimize airline operations
- Finalize and implement the development strategy for the operational information systems

- Enhance the strategic value of our brand, as well as customer satisfaction and loyalty
- Pursue our plan to make Transat one of the industry's most responsible companies.

REVIEW OF 2011 OBJECTIVES AND ACHIEVEMENTS

The main goals and achievements for fiscal 2011 were as follows:

1. Continue the organizational transformation with the harmonized implementation of new information systems and related operating processes.

Transat has developed a transformation plan including a significant component to gradually replace "core business" information management systems, complete with a tailored communication strategy. The main goal is to implement one or more software packages to replace the existing system with a system capable of providing a broader, more precise snapshot of inventories and sales, while supporting more dynamic sales and pricing management. This project comprises a number of phases spanning several years. Certain parts of the plan were completed in 2011. In-depth studies were conducted in 2011 with a view to delivering a major implementation project in 2012 and gave rise to changes in strategic direction, resulting in a restructuring charge of approximately $10.0 million (see Operating expenses section).

2. Grow revenues and profitability at Transat France to become France's third largest tour operator by 2013.

Revenues held steady at Transat France in 2011, while profitability declined. Several factors were involved, consisting primarily of the turmoil in North Africa and the Middle East, which caused shifts in tourist flows and effects that were only partially offset. In addition, costs remained relatively high, particularly airline costs owing to fuel prices.

3. Strengthen our presence, expand sales and improve our bottom line in certain foreign markets.

We strengthened our presence in Mexico and embarked on business initiatives targeting several European markets. However, the economic climate, particularly in Europe but most markedly in major Transat markets, such as Greece, Italy, Span, France and the United Kingdom, was not conducive to improving performance.

4. Enhance the strategic value of our brand.

Following an initiative launched in 2010, Transat developed and began implementing a new brand strategy in 2011. The project is proceeding according to schedule. Late in 2011, the Transat brand was repositioned, and the organization's commercial banners in the Canadian and transatlantic markets (Transat Holidays, Nolitours and Air Transat) adopted a new strategic positioning, and their respective new visual identities have been successfully implemented. In 2011, strategic planning for commercial banners used in the U.K., France, Greece and Canada for the incoming tour operator market was completed for implementation in 2012 as planned. The brand strategy for distribution in Canada was also developed in 2011 and will be implemented in 2012. Lastly, Transat created the Transat Discoveries banner under an expansion initiative of its subsidiary formerly known as Rêvatours, which tapped into the Ontario market in 2011.

5. Actively pursue our plan to make Transat one of the industry's most responsible companies.

In 2011, Transat released its second *Corporate Responsibility Report* (www.resp.transat.com), which highlighted accomplishments to date and the road map through to 2012. This program is generally proceeding as planned. The 2011 highlights include: developing and deploying a program to combat child sexual exploitation in tourism; adopting a responsible procurement policy and gradually implementing clauses in Transat's contracts with partners and service providers to encourage them to adopt responsible management practices; continuing the hotelier program, including partnerships and a commitment to recognize environmental certifications; continuing the financial support program for sustainable destination tourism projects; and continuing Transat's major humanitarian partnership with SOS Children's Villages. In 2011, Transat won the World Travel Market Global Award for its overall efforts, and Air Transat was recognized as the world's best long-haul airline for its efforts to reduce greenhouse gas emissions.

6. Improve our competitiveness in terms of service quality and operating costs in the air carrier industry.

In 2011, Transat finished developing and began implementing an investment program to refurbish the cabins of its Airbus A330 aircraft, based on an operating cost and configuration analysis, to optimize financial and business performance. The program will be deployed gradually with the first newly configured aircraft slated to debut in spring 2012. The project primarily seeks to replace seats

and lavatories, install individual entertainment systems and launch a new colour palette. Projects are underway at the same time to enhance the in-flight experience.

7. **Improve our organization's adaptability.**

The transformation plan consists of a wide range of existing and new programs and projects to allow Transat to achieve its vision of becoming a vertically integrated tour operator that is a leader of Americas and has a strong competitive position in several European countries. There are a number of expected benefits: a return to profitability, wider margins and expanded market share. The program entails improving system processes, developing brand value while improving the customer experience, enhancing and differentiating our products, particularly for southern destinations, and ensuring dynamic airline capacity management. All of these projects are underway. In addition, in 2011, Transat simplified and streamlined its organizational structure for greater accountability and efficiency. Transat Canada now brings together all Transat entities that directly serve the Canadian and transatlantic markets in their day-to-day operations.

KEY PERFORMANCE DRIVERS

The following key performance drivers are essential to the successful implementation of our strategy and to the achievement of our objectives:

MARKET SHARE	Remain the leader in Canada in all provinces and increase market share in Ontario, across the rest of the country and in Europe.
REVENUE GROWTH	Grow revenues by more than 3%, excluding acquisitions.
MARGIN	Generate margins higher than 3%.

ABILITY TO DELIVER ON OUR OBJECTIVES

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives.

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $181.6 million as at October 31, 2011. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels.
Credit facilities	We have revolving term credit facilities currently totalling $200.0 million, up for renewal in 2015.

Our non-financial resources include:

Brand	The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.
Structure	Our vertically integrated structure enables us to ensure better quality control of our products and services.

Employees In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.

Supplier relationships We have exclusive access to certain hotels at sunshine destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2012 objectives and continue building on its long-term strategies.

CONSOLIDATED OPERATIONS

REVENUES

Revenues by geographic area				Change	
(In thousands of dollars)	2011 $	2010 $	2009 $	2011 %	2010 %
Americas	**2,762,351**	2,567,983	2,552,348	7.6	0.6
Europe	**895,813**	930,894	992,993	(3.8)	(6.3)
	3,658,164	3,498,877	3,545,341	4.6	(1.3)

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

For the year ended October 31, 2011, revenues were up $159.3 million, driven by higher average selling prices resulting from fuel surcharge increases and the end of the seat purchase/sale agreement with Sunquest, particularly in the winter season. Revenue growth was however reined in by a 0.5% aggregate decline in the volume of travellers. During the year, revenues rose 7.6% in the Americas but fell 3.8% in Europe. In the Americas, throughout fiscal 2011 selling prices trended generally higher than in 2010. In Europe, revenues from our European subsidiaries in local currencies held steady compared with 2010, except for revenues generated by our subsidiary specialized in marketing products to Tunisia, which fell well short of 2010 results, and U.K. revenues.

Our 2012 revenues are expected to be higher with a volume of travellers similar to or slightly greater than in 2011. We expect competition to remain very intense throughout the first half of the fiscal year for sun destinations departing from Canada.

OPERATING EXPENSES

Operating expenses				% of revenues			Change	
(In thousands of dollars)	2011 $	2010 $	2009 $	2011 %	2010 %	2009 %	2011 %	2010 %
Direct costs	**1,999,935**	2,047,713	2,062,626	54.7	58.5	58.2	(2.3)	(0.7)
Aircraft fuel	**447,625**	302,333	319,224	12.2	8.6	9.0	48.1	(5.3)
Salaries and employee benefits	**375,663**	349,323	364,642	10.3	10.0	10.3	7.5	(4.2)
Commissions	**166,813**	155,357	177,166	4.6	4.4	5.0	7.4	(12.3)
Aircraft maintenance	**108,399**	85,731	89,896	3.0	2.5	2.5	26.4	(4.6)
Airport and navigation fees	**104,987**	85,321	90,611	2.9	2.4	2.6	23.0	(5.8)
Aircraft rent	**68,850**	52,949	54,287	1.9	1.5	1.5	30.0	(2.5)
Other	**349,395**	292,568	293,494	9.6	8.4	8.3	19.4	(0.3)
Restructuring charge	**6,513**	—	—	0.2	—	—	n/a	—
Total	**3,628,180**	3,371,295	3,451,946	99.4	96.3	97.4	7.6	(2.3)

Our total operating expenses rose $256.9 million or 7.6% from 2010, mainly due to higher fuel costs and the addition of five Airbus 330 aircraft during the year. Operating expenses in the Americas were up 11.8%, offset by a 3.9% decline in Europe. As a percentage of revenues, operating expenses increased to 99.2% from 96.4% in 2010.

DIRECT COSTS

Direct costs are incurred by our tour operators. They consist primarily of hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Direct costs were down $47.8 million or 2.3% compared with the fiscal year ended October 31, 2010. The decrease arose primarily from lower seat purchases following the end of our seat purchase agreement with Sunquest, a decline in our seat purchases from Thomas Cook in the U.K. due to greater use of our own fleet, and the dollar's strength, offset by higher hotel room costs. In 2011, these costs represented 54.7% of revenues, down from 58.5% in 2010.

AIRCRAFT FUEL

Aircraft fuel costs rose $145.3 million or 48.1% during the year, driven mainly by the surge in fuel prices and a higher number of flights logged by our fleet of aircraft. Our average fuel price for the year was considerably higher than in fiscal 2010.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits rose $26.3 million, or 7.5%, to $375.7 million. This increase stemmed among others from new hires, primarily following the addition of new aircraft to our fleet and, to a lesser degree, annual salary increases.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense totalled $166.8 million, up $11.5 million or 7.4% from its fiscal 2010 level. As a percentage of revenues, commissions rose to 4.6% from 4.4% in 2010, owing primarily to higher revenue levels used to calculate commissions.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. These costs were up $22.7 million or 26.4% during the fiscal year, mainly due to higher number of flights logged by our fleet. Also, in 2010, we had also revised downwards some of our assumptions related to future maintenance costs following new agreements entered into with certain suppliers and optimization of the future maintenance schedule, which resulted in lower aircraft maintenance costs for the fiscal year.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Fees for the fiscal year were up $19.7 million or 23.0% compared with 2010, owing primarily to the increase in the number of flights logged by our fleet, offset by the dollar's strength.

AIRCRAFT RENT

Aircraft rent rose $15.9 million or 30.0% during the year, due to the addition of five Airbus A330 in fiscal 2011, partly offset by the withdrawal of one Airbus A310 and the Canadian dollar's strength against the U.S. currency.

OTHER

Other expenses were up $56.8 million or 19.4% in fiscal 2011, compared with 2010, due mainly to the rise in flights logged by our fleet. As a percentage of revenues, other expenses rose from 8.4% in 2010 to 9.6% in 2011.

RESTRUCTURING CHARGE

In fiscal 2011, the Corporation undertook a restructuring program aimed particularly at reducing direct costs and operating expenses and adjusting its information systems approach. The plan also provides for changes in IT solutions to facilitate a faster deployment of proven solutions at lower cost. As a result, the total restructuring charge amounts to $16.5 million, consisting of severance benefits of $6.5 million, reported under operating expenses, and write-offs of intangible assets totalling $10.0 million, reported under other expenses.

MARGIN

In light of the foregoing, the Corporation recorded a margin of $30.0 million for the year compared with $127.6 million in the previous year. As a percentage of revenues, our margins decreased from 3.6% in 2010 to 0.8% in 2011. Soaring fuel prices conspired with lower load factors, higher overall transatlantic capacity and downward pressure on selling prices to compress our margins.

GEOGRAPHIC AREAS

AMERICAS

Americas				Change	
(In thousands of dollars)	2011 $	2010 $	2009 $	2011 %	2010 %
Winter season					
Revenues	**1,584,037**	1,543,546	1,653,636	2.6	(6.7)
Operating expenses	**1,580,437**	1,534,387	1,613,468	3.0	(4.9)
Margin	**3,600**	9,159	40,168	(60.7)	(77.2)
Margin (%)	**0.2**	0.6	2.4	(61.7)	(75.6)
Summer season					
Revenues	**1,178,314**	1,024,437	898,712	15.0	14.0
Operating expenses	**1,192,043**	946,430	869,276	26.0	8.9
Margin (operating loss)	**(13,729)**	78,007	29,436	(117.6)	165.0
Margin (%)	**(1.2)**	7.6	3.3	(115.3)	132.5

Revenues at our North American subsidiaries, stemming from sales in Canada and abroad, were up $40.5 million or 2.6% during the winter season, compared with 2010. Revenue growth resulted from higher average selling prices compared with winter 2010 while the total volume of travellers remained stable. However, Canadian travellers to sun destination rose about 12%. Our margin for the winter season fell to 0.2% from 0.6% in 2010, mainly due to higher fuel prices.

For the summer season, revenues were up 15.0%, driven by a 16.3% rise in traveller volumes, while average selling prices eased slightly lower from summer 2010. We are reporting an operating loss of 1.2% compared with a 7.6% margin in 2010. The margin loss is primarily due to higher fuel costs, and lower average selling prices resulting from excess supply in the market during summer, and to a lesser extent, to severance benefits recognized during the season under the restructuring charge.

EUROPE

Europe				Change	
(In thousands of dollars)	2011 $	2010 $	2009 $	2011 %	2010 %
Winter season					
Revenues	**327,226**	309,402	352,695	5.8	(12.3)
Operating expenses	**336,296**	322,772	362,231	4.2	(10.9)
Margin (operating loss)	**(9,070)**	(13,370)	(9,536)	32.2	(40.2)
Margin (%)	**(2.8)**	(4.3)	(2.7)	35.9	(59.8)
Summer season					
Revenues	**568,587**	621,492	640,298	(8.5)	(2.9)
Operating expenses	**519,404**	567,706	606,971	(8.5)	(6.5)
Margin	**49,183**	53,786	33,327	(8.6)	61.4
Margin (%)	**8.7**	8.7	5.2	0.0	66.3

Compared with 2010, revenues at our European subsidiaries, stemming from sales in Europe and Canada, were up $17.8 million or 5.8% during the winter. Except for our subsidiary Amplitravel, which sells packages to Tunisia, revenues at our European subsidiaries were all higher, owing primarily to increased average selling prices and despite a 10.0% decline in traveller volumes. Revenue growth was further curbed by the Canadian dollar's strength against the euro and the pound sterling. Our European operations reported an operating loss of $9.1 million or 2.8% for the winter compared with an operating loss of $13.4 million or 4.3% in 2010. The margin for the winter was affected

by turmoil in Northern Africa, which resulted in the temporary suspension of sales of travel to Tunisia and Egypt during the season. In fiscal 2010, our margin was reduced by additional costs incurred by our European companies owing to volcanic activity in Iceland.

Revenues for the summer season were down $52.9 million or 8.5% following a 27.3% decline in the volume of travellers. These decreases stem primarily from the significant decline in sales at our Amplitravel subsidiary, which generated most of its revenues during the summer, and lower revenues in the U.K. (Since the beginning of the summer season, our English subsidiary has reduced its seat purchase commitments with Thomas Cook to purchase seats, without commitment, from our airline). We generated a margin of $49.2 million or 8.7% for the summer season compared with $53.8 million or 8.7% in 2010.

OTHER EXPENSES (REVENUES)

				Change	
(In thousands of dollars)	2011 $	2010 $	2009 $	2011 %	2010 %
Amortization	**43,814**	48,662	51,155	(10.0)	(4.9)
Interest on long-term debt	**1,250**	2,225	4,866	(43.8)	(54.3)
Other interest and financial expenses	**2,249**	2,359	2,679	(4.7)	(11.9)
Interest income	**(7,395)**	(3,036)	(4,588)	143.6	(33.8)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**1,278**	(9,341)	(68,267)	(113.7)	(86.3)
Foreign exchange loss (gain) on long-term monetary items	**1,654**	(1,109)	(135)	249.1	721.5
Gain on investments in ABCP	**(8,113)**	(4,648)	(68)	(74.5)	n/a
Restructuring charge (gain)	**10,030**	(1,157)	11,967	(966.9)	109.7
Share of net loss (income) of a company subject to significant influence	**(827)**	490	(24)	268.8	n/a

AMORTIZATION

Amortization includes amortization of property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. Amortization expense was down $4.8 million in fiscal 2011, mainly due fewer additions to property, plant and equipment and intangible assets in fiscal 2010 and 2009. The amortization expense for the years ended October 31, 2010 and 2009 includes the amortization of a deferred gain on options in the amount of $4.2 million.

INTEREST ON LONG-TERM DEBT

Interest on long-term debt and the debenture was down $1.0 million in fiscal 2011 as average debt levels were lower than in 2010.

OTHER INTEREST AND FINANCIAL EXPENSES

Other interest and financial expenses were down $0.1 million in fiscal 2011 compared with the previous year.

INTEREST INCOME

Interest income rose $4.4 million in fiscal 2011, driven mainly by higher average balances of cash and cash equivalents than in fiscal 2010.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the period of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices. For the year, the fair value of derivative financial instruments used for aircraft fuel purchases decreased by $1.3 million compared with a $9.3 million increase in 2010.

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

The foreign exchange loss on long-term monetary items of $1.7 million in fiscal 2011 arose mainly from an unfavourable foreign exchange effect on our foreign currency deposits.

GAIN ON INVESTMENTS IN ABCP

The gain on investments in ABCP results from the change in the fair value of investments in ABCP during the period. The gain on investments in ABCP for fiscal 2011 amounted to $8.1 million compared with $4.6 million in 2010. *See Investments in ABCP for more information.*

RESTRUCTURING CHARGE (GAIN)

The restructuring charge of $10.0 million comprises write-offs of intangible assets. *See Operating expenses for more information.*

On September 24, 2009, we announced a restructuring plan to make structural changes to our distribution network in France. These structural changes resulted in the closure of an administrative centre. These changes also led to the closure of some agencies while others were sold. Following this announcement, we recognized a $12.0 million restructuring charge for fiscal 2009. During the year ended October 31, 2010, the Corporation recorded a $1.2 million gain on disposal of held-for-sale assets related to the restructuring, consisting mainly of gains on the sale of agencies for which no restructuring charge had been recognized in 2009.

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

Our share of net loss (income) of a company subject to significant influence represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of net income of a company subject to significant influence for the year amounted to $0.8 million compared with a share of net loss of $0.5 million for 2010. This increase in our share arises mainly from improved operational profitability.

INCOME TAXES

Income tax recovery for the fiscal year ended October 31, 2011 amounted to $4.8 million compared with a $23.8 million income tax expense for the previous fiscal year. Excluding the share in net income (loss) of companies subject to significant influence, the effective tax rates were 32.5% for the fiscal year ended October 31, 2011 and 25.4% for the preceding year.

The change in tax rates between fiscal 2011 and 2010 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

NET INCOME (LOSS)

In light of the items discussed in *Consolidated Operations*, our net loss for the year ended October 31, 2011 totalled $12.2 million, or $0.32 per share, compared with a net income of $65.6 million, or $1.74 per share, for the previous year. The weighted average number of outstanding shares used to compute per share amounts was 37,930,000 for fiscal 2011 and 37,796,000 for fiscal 2010.

On a diluted per share basis, the loss per share amounted to $0.32 for fiscal 2011, compared with an income per share of $1.73 in 2010. The adjusted weighted average number of shares used to determine these amounts was 37,930,000 for the current year and 37,993,000 for fiscal 2010. *See note 13 to the audited Consolidated Financial Statements*.

In fiscal 2011, our adjusted after-tax loss stood at $7.2 million ($0.19 per share) compared with an adjusted after-tax income of $53.7 million ($1.41 per share) for fiscal 2010.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are up compared with the corresponding quarters of previous years, owing primarily to increases in traveller volumes and/or average selling prices. Margins have fluctuated from quarter to quarter, mainly due to competitive price pressures. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(In thousands of dollars, except per share amounts)	**Q1-2010** $	**Q2-2010** $	**Q3-2010** $	**Q4-2010** $	**Q1-2011** $	**Q2-2011** $	**Q3-2011** $	**Q4-2011** $
Revenues	792,562	1,060,386	867,344	778,585	**810,154**	**1,101,109**	**936,974**	**809,927**
Margin	(12,409)	8,198	53,941	77,852	**(14,638)**	**9,168**	**14,604**	**20,850**
Net income (loss)	(13,872)	6,198	20,925	52,356	**(13,473)**	**8,620**	**(2,877)**	**(4,483)**
Basic earnings (loss) per share	(0.37)	0.16	0.55	1.38	**(0.36)**	**0.23**	**(0.08)**	**(0.12)**
Diluted earnings (loss) per share	(0.37)	0.16	0.55	1.37	**(0.36)**	**0.23**	**(0.08)**	**(0.12)**
Diluted adjusted after-tax income (loss) per share	(0.48)	(0.07)	0.70	1.25	**(0.51)**	**(0.02)**	**0.07**	**0.27**

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $809.9 million in revenues, up $31.3 million, or 4.0%, from $778.6 million for the corresponding period in 2010. This increase resulted mainly from higher average selling prices offset by a 3.8% decrease in the volume of travellers compared with the fourth quarter of 2010.

In the Americas, revenues at our subsidiaries were up $73.6 million (15.3%) compared with the same period of 2010, driven by increases in the volume of travellers and average selling prices. Total market supply for the quarter remained higher than in 2010, owing to moves by several air carriers to transfer capacity into the transatlantic market following the March tsunami in Japan. Excess supply and difficult economic conditions in Europe continued to spark competition in the transatlantic market. This excess market capacity further resulted in lower load factors than in the fourth quarter of 2010, making it impossible for the Corporation to fully offset the sharp increase in fuel prices. In light of the foregoing, our North American operations reported a margin of $2.2 million, down from a $51.4 million margin for the same period of 2010.

Year over year, revenues at our European subsidiaries were down $42.2 million (14.2%), owing primarily to the lower volume of travellers. Our European operations recorded a margin of $18.6 million for the quarter, down from $26.4 million for the same period of 2010, due mainly to a decline in the volume of travellers.

The Corporation reported a margin of $20.9 million or 2.6% for the quarter compared with $77.9 million or 10.0% in 2010. The slimmer margin stems mainly from higher fuel costs and lower aircraft load factors compared with the last quarter of 2010.

In the fourth quarter, we recorded a $4.9 million loss arising from the change in fair value of derivative financial instruments used for aircraft fuel purchases, compared with a gain of $2.0 million in the corresponding period of 2010. We also recorded a $1.2 million gain on investments in ABCP compared with $3.2 million for the same period of fiscal 2010.

The Corporation reported a net loss for the fourth quarter of $4.5 million, or $0.12 per share on a diluted basis, compared with a net income of $52.4 million, or $1.37 per share in 2010.

For the fourth quarter of fiscal 2011, adjusted after-tax income stood at $10.1 million ($0.27 per share) compared with $47.7 million ($1.25 per share) in 2010.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2011, cash and cash equivalents totalled $181.6 million compared with $180.6 million as at October 31, 2010. Cash and cash equivalents in trust or otherwise reserved amounted to $359.5 million as at the end of fiscal 2011, compared with $352.7 million in 2010. The Corporation's balance sheet reflects working capital of $22.8 million and a ratio of 1.03 compared with $64.3 million and 1.1 as at October 31, 2010.

Total assets rose $32.5 million (2.7%) to $1,222.0 million as at October 31, 2011 from $1,189.5 million as at October 31, 2010, driven mainly by increases in income taxes receivable and future income tax assets of $13.0 million and $11.9 million, respectively. Shareholders' equity fell $15.1 million to $424.0 million as at October 31, 2011 from $439.1 million as at October 31, 2010. This decline stemmed mainly from a $12.2 million net loss and a $10.2 million foreign exchange loss on translation of the financial statements of our self-sustaining operations, offset by a $3.5 million change in fair value of derivatives designated as cash flow hedges with these losses accounted for in other comprehensive income (loss).

CASH FLOWS

				Change	
	2011	2010	2009	2011	2010
(In thousands of dollars)	$	$	$	%	%
Cash flows related to operating activities	**90,673**	119,131	45,234	(23.9)	163.4
Cash flows related to investing activities	**(56,683)**	(27,819)	(26,662)	(103.8)	(4.3)
Cash flows related to financing activities	**(29,470)**	(81,034)	18,303	63.6	(542.7)
Effect of exchange rate changes on cash	**(3,571)**	(10,203)	(2,090)	65.0	(388.2)
Net change in cash	**949**	75	34,785	n/a	(99,8)

OPERATING ACTIVITIES

Operating activities generated $90.7 million in cash flows, compared with $119.1 million in 2010. This $28.5 million or 23.9% decrease during the year resulted mainly from lower profitability, offset by a $59.0 million increase in the net change in non-cash working capital balances related to operations, which was primarily due to a larger increase in accounts payable compared with 2010.

We expect to continue to generate positive cash flows from our operating activities in 2012.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $56.7 million for the year, up $28.9 million from 2010: additions to property, plant and equipment and other intangible assets rose $25.2 million to $54.2 million and consisted mainly of purchases of computer hardware and software and aircraft enhancements. Following the increase in some of our letters of credit, the cash and cash equivalents balance reported as a long-term asset rose $4.2 million. Last, we received $1.7 million from investments in ABCP compared with $3.7 million in 2010.

In 2012, additions to property, plant and equipment and intangible assets could amount to approximately $60.0 million.

FINANCING ACTIVITIES

Cash flows used by financing activities totalled $29.5 million, down $51.6 million from $81.0 million in 2010, due primarily to a $51.7 million decrease in repayments of our credit facilities and other debt compared with fiscal 2010. During the year, a share issuance generated proceeds of $1.7 million for the Corporation, up $0.4 million from 2010, while a subsidiary paid dividends in the amount of $2.5. million to a non-controlling shareholder compared with $2.1 million in 2010.

FINANCING

As at October 31, 2011, the Corporation had several types of financing, consisting primarily of two revolving term credit facilities and lines of credit.

On July 29, 2011, the Corporation renewed the agreements for its revolving credit facilities for operations and issuance of letters of credit. Under the new agreements, the Corporation 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. The Corporation has a $60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash as collateral security against 105% of the amount of the letters of credit. Under the terms and conditions of the agreement for the revolving credit facility for operations, 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 Corporation 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 options, now in effect following implementation of the ABCP restructuring plan, allowing the Corporation, 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. This option is reported at fair value at each balance sheet date under *Derivative financial instruments*, and any change in fair value of the options is recorded in net income (loss) under *Gain on investments in ABCP*.

As at October 31, 2011, these credit facilities were undrawn, except for the $60.0 million facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued, under which $48.1 million was drawn down. The terms of the agreements require the Corporation to comply with financial criteria and ratios. As at October 31, 2011, all financial ratios were met.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$15.9 million].

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the Consolidated Financial Statements. The Corporation did not report any obligations in the balance sheet as at October 31, 2011 compared with $29.1 million of obligations as at October 31, 2010.

Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and consist of the following:

- Guarantees (see notes 11 and 22 to the audited Consolidated Financial Statements)
- Operating leases (see note 21 to the audited Consolidated Financial Statements)
- Agreements with suppliers (see note 21 to the audited Consolidated Financial Statements)

Off-balance sheet arrangements that can be estimated amounted to approximately $797.0 million as at October 31, 2011 compared with $916.1 million as at October 31, 2010, and is detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS	2011 $	2010 $
Guarantees		
Irrevocable letters of credit	**2,798**	5,273
Collateral security contracts	**14,247**	957
Operating leases		
Obligations under operating leases	**636,618**	637,520
	653,663	643,750
Agreements with suppliers	**143,324**	272,334
	796,987	916,084

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

In addition, the Corporation agrees to commitments with certain providers from time to time to purchase person-nights, airplane seats and other services to benefit from better prices or conditions. As at October 31, 2011, such agreements were down $129.0 million, owing primarily to the non-renewal of the seat purchase agreement with Thomas Cook in the U.K.

In addition, the Corporation has a $50.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2011, $13.6 million was drawn down under these credit facilities for issuing letters of credit to some of our service providers.

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

CONTRACTUAL OBLIGATIONS BY YEAR Year ending October 31	2012 $	2013 $	2014 $	2015 $	2016 $	2017 and later $	Total $
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	88,525	84,263	72,200	52,546	49,252	104,229	451,015
Leases (other)	26,972	22,842	18,105	14,885	12,863	89,936	185,603
Agreements with suppliers and other obligations	76,658	38,800	25,055	5,671	715	23,007	169,906
	192,155	145,905	115,360	73,102	62,830	217,172	806,524

DEBT LEVELS

The Corporation's debt levels as at October 31, 2011 were lower than as at October 31, 2010.

The balance sheet debt of $29.1 million as at October 31, 2010 was fully repaid during the fiscal year while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, increased $9.9 million to $653.7 million from $643.8 million, collectively representing a $19.1 million decrease in total debt compared with October 31, 2010. The $9.9 million increase in our off-balance sheet arrangements arose mainly from the addition of an aircraft, offset by the repayments made during the fiscal year.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $393.3 million in net debt as at October 31, 2011, down 6.3% from $419.8 million as at October 31, 2010.

SHARES ISSUED AND OUTSTANDING

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

As at December 13, 2011, there were 937,441 Class A Variable Voting Shares outstanding and 37,124,469 Class B Voting Shares outstanding.

STOCK OPTIONS

As at December 13, 2011, there were a total of 1,744,477 stock options outstanding, 907,328 of which were exercisable.

INVESTMENTS IN ABCP

RESTRUCTURING

In 2007, the Canadian third-party asset backed commercial paper ["ABCP"] market was hit by a liquidity disruption. Subsequent to this disruption, a group of financial institutions and other parties agreed, pursuant to the Montréal Accord [the "Accord"], to a standstill period in respect of ABCP sold by 23 conduit issuers. A Pan-Canadian Investors Committee was subsequently established to oversee the orderly restructuring of these instruments during this standstill period.

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

On January 21, 2009, the plan implementation date, the Corporation measured its investments in ABCP at fair value prior to the exchange. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions. Subsequent to this valuation, the provision for impairment totalled $47.5 million, and the fair value of the ABCP investment portfolio stood at $96.1 million. The ABCP held by the Corporation was exchanged on that date for new securities. As at that date, the new ABCP had a notional value of $141.7 million.

PORTFOLIO

In fiscal 2011, the Corporation received $1.7 million in principal repayments on ABCP supported solely by traditional securitized assets (Master Asset Vehicle (MAV) 3 Traditional [MAV3 Traditional]).

During fiscal 2010, the Corporation received $3.1 million in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets MAV2 Eligible and ABCP supported solely by traditional securitized assets (MAV3 Traditional). In addition, the Corporation received its share of $0.6 million of the cash accumulated in the conduits. Also during the fiscal year ended October 31, 2010, the Corporation exercised one of its options allowing it to repay a $9.4 million portion of the balance of one its revolving credit facilities using ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) with a carrying amount of nil. The option was initially reported at a fair value, amounting to $8.4 million, with the corresponding initial gain deferred and recognized in net income under amortization over the term of the credit agreements. The option is reported at fair value at each balance sheet date in assets under derivative financial instruments with any change in fair value of the options recorded in net income under loss (gain) in fair value of the investments in ABCP.

The notional value of the new ABCP amounted to $116.4 million as at October 31, 2011 and is detailed as follows:

MAV2 Eligible

The Corporation holds $113.3 million in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through January 2017.

MAV3 Traditional

The Corporation holds $3.1 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2016.

VALUATION

On October 31, 2011, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the year ended October 31, 2011, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. [BlackRock], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation's management measured the fair value of its assets from these classes using said valuations. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also considered the information released by DBRS on September 23, 2011, confirming the A+ rating of Class A-1 ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) and upgrading Class A-2 to a BBB+ rating.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest at rates ranging from 0.0% to 1.16% [weighted average rate of 1.0%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 5.2-year period using discount rates ranging from 6.4% to 30.8% [weighted average rate of 9.9%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized increases, on October 31, 2011, in the fair value of its investments in ABCP of $8.1 million [$4.6 million for the year ended October 31, 2010]. These adjustments do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $78.8 million and the provision for impairment totalled $37.7 million, representing 32.4% of the notional value of $116.4 million.

The Corporation's estimate of the fair value of its ABCP investments is subject to significant uncertainty. The substitution of one or more inputs by one or more assumptions cannot reasonably be completed in these conditions. Management believes that its valuation technique is appropriate in the circumstances; however, changes in significant assumptions could significantly impact the value of ABCP securities over the coming fiscal year. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $3.6 million in the estimated fair value of ABCP held by the Corporation.

The following table details the change in balances of investments in ABCP in the consolidated balance sheet and the composition of loss (gain) on investments in ABCP in the consolidated statement of income (loss):

(In thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2009	128,835	(57,434)	71,401	
Disposal of investments in ABCP	(7,630)	7,630	—	—
Increase in value of investments in ABCP	—	4,648	4,648	(4,648)
Principal repayments	(3,083)	—	(3,083)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at October 31, 2010/Impact on results for the year ended October 31, 2010	118,122	(45,776)	72,346	(4,648)
Increase in value of investments in ABCP	—	8,113	8,113	(8,113)
Principal repayments	(1,708)	—	(1,708)	—
Balance as at October 31, 2011/Impact on results for the year ended October 31, 2011	**116,414**	**(37,663)**	**78,751**	**(8,113)**

The balance of investments in ABCP as at October 31, 2011 is detailed as follows:

(In thousands of dollars)	Notional value $	Provision for impairment $	Investments $
MAV2 Eligible			
Class A-1	34,415	(7,984)	26,431
Class A-2	63,894	(19,899)	43,995
Class B	11,598	(7,578)	4,020
Class C	3,403	(2,680)	723
	113,310	(38,141)	75,169
MAV3 Traditional	3,104	478	3,582
	116,414	**(37,663)**	**78,751**

OTHER

ORGANIZATIONAL CHANGES

The Corporation has implemented changes to streamline organizational structure in Canada and accelerate its processes for making and implementing decisions. Against this background, on September 8, 2011, the Corporation announced the departures of Nelson Gentiletti, Chief Operating Officer and Michael DiLollo, President of Transat Tours Canada. At that time, President and Chief Executive Officer Allen Graham was given oversight of operations at subsidiaries Air Transat, Transat Tours Canada, Transat Distribution Canada, Canadian Affair, Air Consultants Europe and Handlex. André De Montigny was given responsibility for Eleva Travel, Tourgreece, Trafic Tours and Turissimo, as well as hotelling operations, while remaining Vice-President, Corporate Development. The President and Chief Executive Officer will be directly responsible for Transat France, Transat Discoveries, tripcentral.ca and Jonview Canada.

RENEWALS OF COLLECTIVE AGREEMENTS

On February 15, 2011, Handlex, one of the Corporation's subsidiaries, locked out 400 of its ramp and baggage workers at airports in Toronto and Montréal, following the rejection of its most recent offer to renew the collective 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 baggage workers at airports in Toronto and Montréal agreed to renew the collective agreement.

On August 4, 2011, the Corporation announced that the flight attendants of Air Transat, represented by the Canadian Union of Public Employees (CUPE), had ratified the agreement in principle to renew their collective agreement. The new five-year agreement will expire in 2015.

ADDITION OF A CREDIT CARD PROCESSOR

On February 28, 2011, we announced the signing of an agreement with a second credit card processor in Canada effective immediately, 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 to those set out in its bank credit agreements. The Corporation'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.

FLEET

During the year ended October 31, 2011, one A310 was retired and four A330s were commissioned. And in November 2011, an eleventh A330 was commissioned and an A310 was retired. Air Transat's fleet currently consists of 11 Airbus A310 aircraft (249 seats), which will be gradually retired, and five Airbus A330 (342 seats). A twelfth A330 is slated for commissioning in the first quarter of fiscal 2012.

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make certain estimates. We periodically review these estimates, which are based on historical experience, changes in the business environment and other factors that management considers reasonable under the circumstances. The main estimates include the measurement of fair value of the financial instruments, including derivatives and investments in ABCP, the provision for overhaul of leased aircraft and the amortization and impairment of property, plant and equipment and intangible assets including goodwill as well as the accrued benefit liability. Our estimates involve judgments we make based on the information available to us. Actual results may differ materially from these estimates.

We discuss below the critical accounting estimates that required us to make assumptions about matters that were uncertain at the time the estimates were made. Our results, financial position and liquidity could be substantially different if we had used different estimates in the current period or were these estimates to change in the future.

This discussion addresses only those estimates that we consider important based on the degree of uncertainty and the likelihood of a material impact if we had used different estimates. There are many other areas in which we use estimates about uncertain matters.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved. The fair value of options related to repayment of revolving credit facilities was determined using the Black & Scholes option pricing model.

FAIR VALUE OF INVESTMENTS IN ABCP

See Investments in ABCP.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under the aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by 5% to 15%, to result in additional expenses that could have a material impact on our results, financial position and cash flows.

AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

GOODWILL AND INTANGIBLE ASSETS

We record material balance sheet amounts under goodwill and other intangible assets calculated using the historical cost method. Goodwill and other intangible assets stem primarily from business acquisitions. We are required to test goodwill and intangible assets with indefinite lives, such as trademarks, for impairment each year or more often if events or changes in circumstances indicate it is more likely than not that they might be impaired.

The impairment test to identify a potential impairment in goodwill is performed in two steps. The first step consists in comparing the fair value of a reporting unit with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. When the carrying amount of a reporting unit exceeds its fair value, the second step, where necessary, consists in comparing the fair value of any goodwill associated with

its carrying amount to measure the amount of the impairment loss, if any. The Corporation uses the discounted cash flow method to measure the fair value of its reporting units. We carry out an analysis by estimating the discounted cash flows attributable to each reporting unit. This analysis requires us to make a variety of judgments concerning our future operations. The cash flow forecasts used to determine asset values may change in the future due to market conditions, competition and other risk factors (see Risks and uncertainties). During fiscal 2011 and 2010, we determined that the fair value of our reporting units exceeded their carrying amount; as a result, we did not carry out step 2 of the test for any of our reporting units. No impairment was recognized except for an $8.5 million charge recognized in 2009 in connection with our distribution network restructuring in France.

The impairment test for identifying a possible impairment of intangible assets with an indefinite life such as trademarks consists in comparing their fair value with their carrying amount. When the carrying amount of an intangible asset exceeds its fair value, an impairment charge in the amount of the excess amount is recognized in the consolidated statement of income. The Corporation uses the discounted cash flow method to measure the fair value of its trademarks. Similarly to the review of goodwill, this analysis requires us to make a variety of judgments concerning our future operations.

Generally, we consider that our main assumptions regarding the cash flow forecasts would have to be reduced by 5% to 10%, depending on the reporting unit or the trademark, in order to trigger a loss in fair value of a reporting unit or trademark such that its fair value would be less than its carrying amount and to require the Corporation, in the case of goodwill, to carry out step 2 of the impairment test and determine the impairment loss.

On October 31, 2011, the Corporation performed its annual test for impairment of goodwill, and no impairment was detected [no impairment in 2010]. The Corporation's management is of the opinion that no significant change in the key assumptions used to calculate the fair value of each of its reporting units could produce carrying amounts higher than those fair values, with the exception of one reporting unit in France. This reporting unit, which includes outgoing tour operators and a travel agency network, generates a significant percentage of its revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt. In establishing its assumptions for the measurement of this reporting unit, management considered, among other factors, the potential impact on its future results of the prevailing political climate in certain North African countries and current economic conditions in Europe. The fair value calculated for this reporting unit was higher than its carrying amount, which includes a goodwill of $30.6 million. However, a change in the assumptions used could result in an impairment in goodwill for this reporting unit. Furthermore, outcomes could be different if political instability in certain North African countries does not subside in the medium term.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

Property, plant and equipment in the balance sheet represent material amounts based on historical costs. Property, plant and equipment are amortized, taking into account their residual value, over their estimated useful life. Aircraft and aircraft components account for a major class of property, plant and equipment. The amortization period is determined based on the fleet renewal schedule, currently slated for completion by 2014. The estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on amortization expense. Generally speaking, the main assumptions would have to be reduced by 60% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the year ended October 31, 2011, the Corporation recorded a $10.0 million write-off in respect of software in development under its restructuring program. No other events or changes in circumstances of this nature have occurred in recent fiscal years.

ACCRUED BENEFIT LIABILITY

The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by employees is determined from actuarial calculations, performed annually, using the projected benefit method prorated on services and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Past service costs and amendments to the arrangements are amortized on a straight-line basis over the average remaining service period of active employees generally affected thereby. The excess of net actuarial gains and losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which was 7.7 years as at November 1, 2010. Plan obligations are discounted using current market interest rates.

CHANGEOVER TO IFRS

In February 2008, the AcSB confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012. The Corporation has prepared an IFRS transition plan consisting of three phases: design and planning; identification of differences and development of solutions; and implementation and review.

Under Phase 1, consisting of design and planning, an IFRS transition plan was prepared based on the results of a preliminary high-level diagnostic review of the differences between IFRS and the Corporation's accounting policies. This analysis provided an overview of key issues raised by the changeover to IFRS and the resulting impacts on the Corporation, including enhanced presentation and disclosure requirements. During Phase 1, the Corporation's management established a formal governance structure for the conversion project, including an IFRS Steering Committee, to oversee the transition process with regard to the impact on financial reporting, operating processes, internal controls and information systems.

Phase 2 consisted of identifying the differences between IFRS and the Corporation's accounting policies, and developing solutions. During this phase, the Corporation performed a detailed analysis of IFRS, which consisted first in identifying the differences between IFRS and the Corporation's current accounting policies to prioritize key areas that will be more significantly impacted by the changeover and then determining the options permitted under IFRS at the effective date and on an ongoing basis in order to finalize conclusions. The second stage of Phase 2 included detailed planning of information technology and human resources requirements as they relate to the changeover. We also identified internal procedures and systems that require updating and adapting, including adjustments to existing internal control procedures and the implementation of additional internal control over financial reporting and disclosure controls and procedures that are necessary to certify financial reporting during the changeover and post-implementation periods.

In Phase 3, the Corporation implemented accounting and other necessary changes to internal procedures, controls and systems to ensure all changes are in place and operating effectively for the first fiscal year under IFRS.

The following table provides a progress update on timelines for core items of the IFRS conversion plan as at October 31, 2011:

	Core item(s)	Progress
Financial information	Identify differences and develop solutions for accounting policy elections, particularly permitted elections under IFRS, including those involving permitted exemptions under IFRS 1.	The analyses are now complete.
	Develop a model set of IFRS financial statements with accompanying notes.	Development of a model set of IFRS financial statements is now complete.
	Prepare an opening balance sheet and compile financial information to prepare (interim and annual) comparative IFRS financial statements.	The preparation of the opening balance sheet and compilation of annual and quarterly comparative financial information are being validated.
Information and data systems	Assess the effects of changes on information and data systems, and make the necessary changes.	Assessment of the effects of changes on information technology and data systems is now complete. No major changes to the information systems were required.

	Core item(s)	Progress
Internal control over financial reporting	Assess the effects of changes on internal control over financial reporting and disclosures controls and procedures and implement modifications as necessary.	Assessment of the effects of changes on internal control over financial reporting is now complete. No significant changes to existing internal controls were required.
Business activity	Assess the conversion's impact on the Corporation's business activity.	Assessment of the conversion's impact on the Corporation's business activity is now complete. Adopting IFRS is not expected to materially affect the Corporation's business operations.
Training and communications	Offer training to affected employees, management and the Board of Directors and its relevant committees, particularly the Audit Committee.	Training was offered in a timely fashion in accordance with conversion timelines and continue to be provided.
	Provide conversion plan status reports to internal and external stakeholders.	Periodic status reports are sent to internal and external stakeholders.

The Corporation has assessed some of the exemptions from full retrospective application under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, on the effective date and their potential impact on the Corporation's Consolidated Financial Statements. The exemptions that will have an impact on the Corporation are as follows:

Exemption	Application of exemption
Business combinations	The Corporation has elected not to retrospectively restate business acquisitions completed prior to November 1, 2010. No adjustments are expected to the opening balance sheet as at the transition date.
Employee benefits	The Corporation has elected to recognize cumulative actuarial gains and losses arising from its defined benefit pension plans through opening retained earnings at the IFRS transition date and prospectively apply IAS 19, *Employee Benefits*. The application of this exemption will result in the recognition, as at November 1, 2010 of a $5.7 million after-tax decrease [$8.2 million before taxes] in the Corporation's opening retained earnings balance at the IFRS transition date.
Cumulative translation adjustments	The Corporation has elected to recognize cumulative translation adjustments through opening retained earnings at the IFRS transition date. The application of this exemption will result in the recognition, as at November 1, 2010 of a $16.8 million decrease in the Corporation's opening retained earnings balance at the IFRS transition date.
Share-based payment transactions	The Corporation has elected to apply the exemption enabling it not to retrospectively apply IFRS 2, *Share-based Payment*, to share-based payment transactions prior to the transition date.

The Corporation has finalized the preliminary quantification of the expected impact of material differences between IFRS and current accounting treatment under Canadian GAAP. The following table shows the preliminary impact of these differences on the Corporation's equity as at November 1, 2010 and the net loss for the fiscal year ended October 31, 2011.

(In thousands of dollars) (unaudited)	Difference	As at November 1, 2010 $
Equity under Canadian GAAP, as reported		**439,072**
Restatement of the measurement and recognition of:		
Pension benefits	(i)	(8,178)
Business combination	(ii)	(17,824)
		(26,002)
Tax impacts	(i)	2,502
Total restatements		(23,500)
Equity under IFRS		**415,572**

(In thousands of dollars) (unaudited)	Difference	Year ended October 31, 2011 $
Net loss under Canadian GAAP, as reported		**(12,213)**
Restatement of the measurement and recognition of:		
Pension benefits	(i)	526
Non-controlling interests	(ii)	3,059
		3,585
Tax impacts	(i)	(146)
Total restatements		3,439
Net loss under IFRS		**(8,669)**
Net income (loss) attributable to:		
Shareholders of the Corporation		(11,728)
Non-controlling interests		3,059
Net loss under IFRS		**(8,669)**
Basic and diluted loss per share under Canadian GAAP, as reported		(0.32)
Impact of IFRS restatements on net loss		0.09
Basic and diluted loss per share under IFRS		(0.23)

The main differences in the accounting policies applied at the IFRS transition date and, subsequently, in the recognition, measurement, presentation and disclosure of financial information in key accounting areas are as follows:

Accounting area	Main differences with impacts for the Corporation
(i) Employee benefits	• Immediate recognition of all actuarial gains and losses and vested past service costs through opening retained earnings at the transition date with a corresponding increase in liabilities. • After IFRS transition, recognition of vested past service costs through income. • After IFRS transition, the Corporation elected to recognize changes in actuarial gains and losses as they occur in comprehensive income with no impact on income. • This change in accounting policy results in a pension expense that is different from that recognized under Canadian GAAP where the excess of net actuarial gains and losses over 10% of the benefit obligation was amortized over the average remaining service period of active employees.

Accounting area	Main differences with impacts for the Corporation
(ii) Business combinations	• Transaction costs related to acquisitions made prior to November 1, 2010 and restructuring costs are expensed as incurred. • Contingent consideration is measured at its acquisition-date fair value with subsequent changes in fair value recognized through income. • Changes in equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. • Non-controlling interests are reported separately from equity. • Non-controlling interests in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares are reclassified as liabilities, deeming exercise of the option. The carrying amount of reclassified interests is also adjusted to match the fair value of options. Any changes in the fair value of options are recognized as equity transactions in retained earnings (deficit). This change resulted in a $17.8 million reduction in equity as at November 1, 2010.
(iii) Property, plant and equipment	• Separate amortization over different useful lives for component parts of significant assets. • These changes had no impact on the November 1, 2010 opening balance sheet and the statement of income (loss) for the year ended October 31, 2011.
(iv) Asset impairment	• Grouping of assets in cash generating units (CGUs) on the basis of largely independent cash inflows for impairment testing purposes, using a discounted future cash flow method in a single-step approach. • Goodwill allocated to and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. • In certain circumstances, previous impairment charges on assets other than goodwill are required to be reversed. • These changes had no impact on the November 1, 2010 opening balance sheet and the statement of income (loss) for the year ended October 31, 2011.
(v) Leases	• IFRS require the use of qualitative versus quantitative thresholds as under Canadian GAAP in accounting for capital leases. • This change had no impact on the November 1, 2010 opening balance sheet and the statement of income (loss) for the year ended October 31, 2011.
(vi) Income taxes	• Recognition and measurement criteria for deferred tax assets and liabilities may differ. • All deferred tax balances are now classified outside of current assets and liabilities.
(vii) Provisions and contingencies	• A different threshold is used to recognize contingent liabilities, which could impact the timing for recognition of provisions. • This change had no impact on the November 1, 2010 opening balance sheet and the statement of income (loss) for the year ended October 31, 2011.
(viii) Financial statement presentation and disclosure	• IFRS require a different format and additional disclosures in the notes to financial statements.

The above table shows the key differences regarding accounting policies applied on or after the IFRS transition date and should not be considered to be a comprehensive list.

As the Corporation assessed its obligations under IFRS, adjustments to internal control over financial reporting and disclosure controls and procedures became necessary and new controls were implemented.

The Company has secured the appropriate internal and external resources to complete the transition plan in a timely fashion. The Corporation has provided and continues to provide sufficient training to all resources concerned. The Corporation is regularly monitoring developments in the standards issued by the International Accounting Standards Board and AcSB, as well as regulatory changes made by the Canadian Securities Administrators, which could impact the adoption of IFRS, and the nature and extent of adjustments that will be made. The Corporation's transition plan is currently on track with its implementation schedule, calling for initial reporting under IFRS as of the quarter ended January 31, 2012.

FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation is exposed to credit and counterparty risk, liquidity risk, and market risk arising from changes in certain foreign exchange rates, changes in fuel prices and changes in interest rates. The Corporation manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates, fuel prices and interest rates on its revenues, expenses and cash flows, the Corporation can avail itself of various derivative financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

FOREIGN EXCHANGE RISK MANAGEMENT

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. Approximately 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas less than 5% of revenues is incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 15 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The Corporation documents its derivative financial instruments related to foreign currencies as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These derivative financial instruments are designated as cash flow hedges except for any contracts related to U.S. dollar loans payable secured by aircraft, which are designated as fair value hedges.

All derivative financial instruments are recorded at fair value in the balance sheet. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in "Other comprehensive income (loss)" in the consolidated statement of comprehensive income (loss). Any ineffectiveness within a cash flow hedge is recognized in net income (loss) as it arises in the same account in the consolidated statement of income (loss) as the hedged item when realized. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within "Accumulated other comprehensive income (loss)" until the hedged item is settled and future changes in value of the derivative are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in accumulated other comprehensive income (loss) until the related hedged item is settled, at which time amounts recognized in accumulated other comprehensive income (loss) are reclassified to the same income (loss) statement account in which the hedged item is recognized. For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in net income and changes in fair value of U.S. dollar loans secured by aircraft are also recorded under the same net income (loss) items.

MANAGEMENT OF FUEL PRICE RISK

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To hedge against sharp increases in fuel prices, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 15 months.

These derivative financial instruments used for fuel purchases are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under change in fair value of derivative financial instruments used for aircraft fuel purchases in the consolidated statement of income (loss). When realized at maturity of these derivative financial instruments, any gains or losses are reclassified to "Aircraft fuel."

CREDIT AND COUNTERPARTY RISK

Credit risk stems primarily from the potential inability of clients, service providers, aircraft and engine lessors and financial institutions, including the other counterparties to cash equivalents, derivative financial instruments and investments in ABCP, to discharge their obligations.

Trade accounts receivable included in accounts receivable in the balance sheet totalled $75.2 million as at October 31, 2011. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts

receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2011, approximately 6% of accounts receivable were over 90 days past due, whereas approximately 82% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to the agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2011, these deposits totalled $36.9 million and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $12.6 million as at October 31, 2011 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2011, the cash security deposits with lessors that have been claimed totalled $19.3 million and have been included in accounts receivable. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2011 relates to cash and cash equivalents, including cash and cash equivalents reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

Except for the investments in ABCP, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2011.

LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

INTEREST RATE RISK

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate long-term debt. The Corporation manages its interest rate exposure and could potentially enter into swap agreements consisting in exchanging variable rates for fixed rates.

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. During the year, the Corporation recorded $12.2 million in person-nights purchased at hotels belonging to CIBV, a company subject to significant influence.

RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation's financial position, operating results and activities. It does not purport to cover all contingencies or to describe all factors that are likely to affect the Corporation or its activities. Moreover, the risks and uncertainties described may or may not materialize, and may develop differently or have consequences other than those contemplated in this MD&A. Additional risks and uncertainties not currently known to the Corporation or that are currently considered immaterial could also materialize in the future and adversely affect the Corporation.

The Corporation has developed and implemented mitigation measures to minimize the impact of risks and/or the likelihood that risks will materialize, and has assigned risks to "owners."

ECONOMIC AND GENERAL FACTORS

The holiday travel industry is sensitive to business conditions. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. Our operating results could also be adversely affected by factors beyond Transat's control, including the following: extreme weather conditions, climate-related or geological disasters, war, political instability, terrorism whether actual or apprehended, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perceptions of destination-based service and airline safety, demographic trends; disruptions to air traffic control systems, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

COMPETITION

We face many competitors in the holiday travel industry. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. These competitive pressures could adversely impact our revenues and margins since we would likely have to match competitors' prices. The Corporation's performance in all of the countries in which it operates will depend on its continued ability to offer quality products at competitive prices.

FLUCTUATIONS IN FOREIGN EXCHANGE AND INTEREST RATES

Transat is exposed, due to its many arrangements with foreign-based suppliers, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. These exchange rate fluctuations could increase our operating costs or decrease our revenues. Changes in interest rates could also impact interest income from our cash and cash equivalents as well as interest expenses on our variable rate debt instruments, which in turn could affect our interest income and interest expenses.

FUEL COSTS AND SUPPLY

Transat is particularly exposed to fluctuations in fuel costs. Due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

CHANGING INDUSTRY DYNAMICS: NEW DISTRIBUTION METHODS

The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thereby bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. For the time being, direct Internet sales remain limited in the vacation travel segment, but shifts in industry dynamics in the distribution business occur rapidly and, in this respect, give rise to certain risks. In order to address this issue, Transat is in the process of developing and implementing a multichannel distribution system to strike a harmonious balance between a variety of distribution strategies such as travel agencies, direct sales (including via Internet), third-party sales and the use of electronic booking systems.

Further, given that we rely to some extent on retail travel agencies for access to travellers and revenues, any consumer shift away from travel agencies and toward direct purchases from travel suppliers could impact the Corporation.

DEPENDENCE ON SUPPLIERS

Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. We are dependent, for example, on non-group airlines and a large number of hotels, several of which are exclusive to the Corporation. In general, these suppliers can terminate or modify existing agreements with us on relatively short notice. The potential inability to replace these agreements, to find similar suppliers, or to renegotiate agreements at reduced rates could have an adverse effect on our business, financial position and operating results.

Furthermore, any decline in the quality of travel products or services provided by these suppliers, or any perception by travellers of such a decline, could adversely affect our reputation. Any loss of contracts, changes to our pricing agreements, access restrictions to travel suppliers' products and services or negative shifts in public opinion regarding certain travel suppliers resulting in lower demand for their products and services could have a significant effect on our results.

DEPENDENCE ON CERTAIN SUPPLIERS OF PRODUCTS AND SERVICES

We source certain goods and services from third-party suppliers. Any significant interruption in the flow of goods and services from these suppliers, which may be outside our control, could have a significant adverse impact on our business, financial position and operating results. Our dependence on Airbus, Rolls-Royce and General Electric means that we could be adversely affected by problems connected with Airbus aircraft and Rolls-Royce or General Electric engines or components, including defective material, mechanical problems or negative perceptions among travellers. Our increasing dependence on a single type of aircraft could result in significant downtime for all or part of our fleet if mechanical problems arise or if the regulator releases any mandatory inspection or maintenance directives applicable to our types of aircraft.

DEPENDENCE ON TECHNOLOGY

Our business depends on our ability to access information, manage reservation systems, including handling high telephone call volumes on a daily basis, protect such information, stave off information system intrusions and distribute our products to retail travel agents and other travel intermediaries. To this end, we rely on a variety of information and telecommunications technologies. Rapid changes in these technologies could require higher-than-anticipated capital expenditures to improve customer service; this could impact our operating results. In addition, any systems failures or outages could adversely affect our business, customer relationships and operating results.

DEPENDENCE ON CREDIT CARD PROCESSORS

As a Corporation that processes, transmits and retains information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

DEPENDENCE ON CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

Transat derives a portion of its interest income from customer deposits and advance payments. In accordance with our investment policy, we are required to invest these deposits and advance payments exclusively in investment-grade securities. Any failure of these investment securities to perform at historical levels could reduce our interest income.

NEGATIVE WORKING CAPITAL

In the normal course of business, we receive customer deposits and advance payments. If funds from advance payments were to diminish or be unavailable to pay our suppliers, we would be required to secure alternative capital funding. There could be no assurance that additional funding would be available under terms and conditions suitable to the Corporation, which could adversely affect its business.

FLUCTUATIONS IN FINANCIAL RESULTS

The travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, comparisons of our operating results between quarters or between six-month periods are not necessarily meaningful and should not be relied on as indicators of future performance. Furthermore, due to the economic and general factors described herein, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

GOVERNMENT REGULATION AND TAXATION

Transat's future results may vary depending on the actions of government authorities with jurisdiction over our operations. These actions include the granting and timing of certain government approvals or licenses; the adoption of regulations impacting customer service standards (such as new passenger security standards); the adoption of more stringent noise restrictions or curfews; and the adoption of provincial regulations impacting the operations of retail and wholesale travel agencies. In addition, the adoption of new or different regulatory frameworks or amendments to existing legislation or regulations and tax policy changes could affect our operations, particularly as regards hotel room taxes, car rental taxes, airline excise taxes and airport taxes and fees.

FUTURE CAPITAL REQUIREMENTS

Transat may need to raise additional funds in the future to capitalize on growth opportunities or to respond to competitive pressures. The availability of financing under our existing credit facilities is subject to compliance with respect to certain covenants, including financial ratios. There can be no guarantee that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized if current recessionary trends persist or worsen. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could be adversely affected as a result.

INTERRUPTION OF OPERATIONS

If our operations are interrupted for any reason, including aircraft unavailability due to mechanical troubles, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

INSURANCE COVERAGE

In the wake of the terrorist attacks of September 11, 2001, the airline insurance market for risks associated with war and terrorist acts has undergone several changes. The limit on third-party civil liability coverage for bodily injury and property damage has been set at US$150 million per claim. As a result, governments are still required to cover air carriers above this US$150 million limit until commercial insurers do so at a reasonable cost. The Canadian government covers domestic air carriers accordingly. In addition, some insurers that could provide coverage in excess of US$150 million are not licensed to transact business in Canada, which further limits availability.

The Canadian government continues to cover its air carriers, prompted by the licensing situation and by the U.S. government's decision to continue covering its own carriers against such risks. However, there can be no assurance that the Canadian government will not withdraw its coverage, particularly if the U.S. government were to change its position. If that were to happen, we would be required to deal with private insurers to attempt to secure such coverage, and there could be no assurance that we would be able to secure coverage at an acceptable level and cost.

CASUALTY LOSSES

We feel that we and our suppliers have adequate liability insurance to cover risks arising in the normal course of business, including claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying our customers. Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

ACCESS TO AIRPORT FACILITIES

To carry on business or extend its outreach, the Corporation requires access to airport facilities in its source markets and multiple destinations. In particular, the Corporation must have access to takeoff and landing slots and gates under conditions that allow it to be competitive. Accordingly, any difficulty in securing such access or disruptions in airport operations caused, for instance by labour conflicts or other factors could adversely affect our business.

With the privatization of airports and air navigation authorities over the past decade in Canada, new airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees. If these user and navigation fees were to increase substantially, our business, financial position and operating results could be adversely affected.

AIRCRAFT LEASE OBLIGATIONS

Transat has significant non-cancellable lease obligations relating to its aircraft fleet. If revenues from aircraft operations were to decrease, the payments to be made under our existing lease agreements could have a substantial impact on our business.

AIRCRAFT AVAILABILITY

To carry on business or extend its outreach, the Corporation requires access to aircraft and, in particular, its own fleet operated by its subsidiary Air Transat. This fleet consists primarily of aircraft leased for several years with varying renewal dates and conditions. If the Corporation were unable to renew its leases, secure timely access to appropriate aircraft under adequate conditions or retire certain aircraft as anticipated, such an outcome could adversely affect the Corporation.

CLIMATE CHANGE REGULATIONS

Numerous jurisdictions around the world have implemented or unveiled measures, particularly taxes, to penalize greenhouse gas emissions, which cover the airline industry, with a view to fighting climate change. Other jurisdictions could follow suit. In light of its airline operations, the Corporation is directly exposed to such measures, which generally give rise to additional costs that the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

LITIGATION

In the course of our business in the air carrier and travel industry, the Corporation is exposed to claims and legal proceedings, including class action suits. Litigation and claims could adversely affect our business and operating results.

KEY PERSONNEL

The Corporation's ability to achieve its business plan is a function of the experience of its key executives and employees, and their expertise in the tourism, travel and air carrier industries. The loss of key employees could adversely affect our business and operating results. Further, our recruitment program, salary structure, performance management programs, succession plan, as well as our training plan carry risks that could have adverse effects on our ability to attract and retain the skilled resources needed to sustain the Corporation's growth and success.

COLLECTIVE AGREEMENTS

As at October 31, 2011, the Corporation had approximately 6,500 employees, including nearly 40% unionized personnel covered by 12 collective agreements. Although most of the agreements were renewed for several years, our inability to renew certain collective agreements, particularly the agreement covering Air Transat maintenance and store personnel that expired on April 30, 2011, could give rise to work stoppages and other disruptions that could adversely impact our business, financial position and operating results.

Furthermore, although the collective agreements covering our pilots and flight attendants were renewed up to April 30, 2014 and October 31, 2015, respectively, they include certain conditions which, in the event of non-compliance, could lead to the payment of significant monetary compensation, thereby adversely impacting our operating results.

CONTROLS AND PROCEDURES

The implementation of the Canadian Securities Administrators National Instrument 52-109 represents a continuous improvement process, which has prompted the Corporation to formalize existing processes and control measures and introduce new ones. Transat has chosen to make this a corporate-wide project, which will result in operational improvements and better management.

In accordance with this instrument, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, report on the design and effectiveness of disclosure controls and procedures and the design of internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have evaluated disclosure controls and procedures (DC&P) or caused them to be evaluated under their supervision to provide reasonable assurance that:

- Material information relating to the Corporation has been made known to them; and
- Information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

An evaluation of the design and operating effectiveness of DC&P was carried out under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. Based on this evaluation, these two certifying officers concluded that the DC&P were adequate and effective as at October 31, 2011. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances. Among other things, the evaluation took into consideration the Corporate Disclosure Policy, the code of professional ethics, the sub-certification process and the operation of the Corporation's Disclosure Committee.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have also designed internal control over financial reporting (ICFR), or have caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for financial reporting purposes in accordance with Canadian GAAP.

An evaluation of the design and operating effectiveness of ICFR was carried out under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. Based on this evaluation, these two certifying officers concluded that ICFR is effective as at October 31, 2011 using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission on Internal Control – Integrated Framework.

Lastly, although there were certain organizational changes, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2011 that materially affected, or are likely to materially affect, the Corporation's ICFR.

OUTLOOK

The Canadian sun destinations market accounts for a very significant portion of Transat's business in the winter. In that market, the fact that, at this time of year, a significant portion of seats remains to be sold, the trend towards last-minute bookings and the volatility of margins make it difficult to make forecasts.

For that market, Transat's capacity is approximately 2% lower than the capacity offered at the same date last year (8% lower in first quarter, and similar capacity in the second quarter, compared to same date last year). Load factors are similar; and selling prices are higher, as are costs, mainly due to the increase in fuel costs in the first quarter and the value of the US dollar versus the Canadian dollar in the second quarter.

In France, medium-haul bookings are down 13%, long-haul bookings are up 8% and prices are up in both cases.

On the transatlantic market, Transat's capacity is 20% higher than last year for the winter, load factors are slightly lower, and prices are slightly higher.

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