TRANSAT A.T. INC.
Management's Discussion & Analysis
Year ended October 31, 2012

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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, 2012, compared with the year ended October 31, 2011, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 18, 2012. 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, 2012 and Annual Information Form.

As explained in the *Transition to IFRS* section, Canadian generally accepted accounting principles ("GAAP") that were used to prepare the Corporation's consolidated financial statements were replaced on November 1, 2011 by International Financial Reporting Standards ("IFRS"). As of that date, the Corporation prepares its financial statements in accordance with IFRS. The 2011 comparative figures have been restated. Also, in preparing the consolidated financial statements for the year ended October 31, 2012, the Corporation's management identified an accounting error in the consolidated financial statements for the previous fiscal years, prepared under GAAP, related to the recognition of customer deposits and deferred revenues. For one of its subsidiaries, recognition of these deferred revenues did not account for adjustments required for actual dates of departure of passengers at the time information was transferred between systems. As a result, the Corporation restated its consolidated financial statements for the years ended October 31, 2010 and 2011, prepared under GAAP, prior to preparing the IFRS financial statements. Following these restatements, the net loss for the year ended October 31 increased by $2.9 million ($0.08 per share) and retained earnings as at November 1, 2010 decreased by $11.7 million. This M&DA should also be read in conjunction with the information on the adjustments to the 2011 comparative figures on adoption of IFRS, which are discussed in Note 28 to the audited consolidated financial statements for the year ended October 31, 2012.

We occasionally refer to non-IFRS financial measures in the MD&A. See the Non-IFRS 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.

This Management's Discussion and Analysis consists of the following sections:

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 2013 objectives and continue building on its long-term strategies.
- The outlook whereby our 2012 revenues are expected to be relatively stable with volumes falling slightly below the 2012 level.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2013.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $50.0 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.

TRANSITION TO IFRS

This is the Corporation's first annual report presenting financial information under IFRS. Prior to November 1, 2011, the Corporation prepared its consolidated financial statements under Canadian GAAP. As of that date, the Corporation's consolidated financial statements have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*, published by the International Accounting Standards Board ("IASB"). The 2011 comparative figures have been restated. This M&DA should also be read in conjunction with the information on the adjustments to the 2011 comparative figures on adoption of IFRS, which are discussed in Note 28 to the audited consolidated financial statements for the year ended October 31, 2012.

NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. We occasionally use non-IFRS financial measures. Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. The non-IFRS measures used by the Corporation are as follows:

Operating margin (loss)	Revenues less operating expenses.
Adjusted income (loss)	Pre-tax income (loss) before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary, restructuring charge (gain) and impairment of goodwill.
Adjusted after-tax income (loss)	Net income (loss) attributable to shareholders before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary and restructuring charge (gain) and impairment of goodwill, 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 off-balance sheet arrangements, excluding agreements with service providers, reported on page 21.
Total net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

The above-described financial measures have no prescribed meaning under IFRS 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 IFRS financial performance measures. 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 IFRS 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 total net debt to assess the Corporation's debt 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 table reconciles the non-IFRS financial measures to the most comparable IFRS financial measures:

(in thousands of dollars)	2012 (IFRS) $	2011 (IFRS) $	2010 (GAAP) (restated) $
Revenues	3,714,219	3,654,167	3,497,408
Operating expenses	3,697,264	3,627,654	3,371,295
Margin	16,955	26,513	126,113
Income (loss) before income tax expense	(16,950)	(17,427)	91,668
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(701)	1,278	(9,341)
Gain on investments in ABCP	(7,936)	(8,113)	(4,648)
Gain on disposal of a subsidiary	(5,655)	—	—
Impairment of goodwill	15,000	—	—
Restructuring charge (gain)	—	16,543	(1,157)
Adjusted income (loss)	(16,242)	(7,719)	76,522
Net income (loss) attributable to shareholders	(16,669)	(14,711)	64,546
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(701)	1,278	(9,341)
Gain on investments in ABCP	(7,936)	(8,113)	(4,648)
Gain on disposal of a subsidiary	(5,655)	—	—
Impairment of goodwill	15,000	—	—
Restructuring charge (gain)	—	16,543	(1,157)
Tax impact	689	(4,699)	3,202
Adjusted after-tax income (loss)	(15,272)	(9,702)	52,602
Adjusted after-tax income (loss)	(15,272)	(9,702)	52,602
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	38,142	37,930	37,993
Adjusted after-tax income (loss) per share	(0.40)	(0.26)	1.38

	October 31, 2012 $	October 31, 2011 $	As at November 1, 2010 $
Payments on current portion of long-term debt	—	—	13,768
Long–term debt	—	—	15,291
Off-balance sheet arrangements, excluding agreements with service providers	557,133	653,663	643,750
Total debt	557,133	653,663	672,809
Total debt	557,133	653,663	672,809
Cash and cash equivalents	(171,175)	(181,576)	(180,627)
Investments in ABCP	(27,350)	(78,751)	(72,346)
Total net debt	358,608	393,336	419,836

FINANCIAL HIGHLIGHTS

(in thousands of dollars)	2012 (IFRS) $	2011 (IFRS) $	2010 (GAAP) (restated) $	Change 2012 %	Change 2011 %
Consolidated Statements of Income (Loss)					
Revenues	3,714,219	3,654,167	3,497,408	1.6	4.5
Margin [1]	16,955	26,513	126,113	(36.1)	(79.0)
Net loss	(13,536)	(11,652)	n/a	(16.2)	n/a
Net income (loss) attributable to shareholders	(16,669)	(14,711)	64,546	(13.3)	(122.8)
Basic earnings (loss) per share	(0.44)	(0.39)	1.71	(12.8)	(122.8)
Diluted earnings (loss) per share	(0.44)	(0.39)	1.70	(12.8)	(122.9)
Adjusted after-tax income (loss) [1]	(15,272)	(9,702)	52,602	(57.4)	(118.4)
Adjusted after-tax income (loss) per share	(0.40)	(0.26)	1.38	(53.8)	(118.8)
Consolidated Statements of Cash Flows					
Operating activities	8,872	90,673	119,131	(90.2)	(23.9)
Investing activities	(11,024)	(56,683)	(27,819)	80.6	(103.8)
Financing activities	(4,361)	(29,470)	(81,034)	85.2	63.6
Effect of exchange rate changes on cash and cash equivalents	(3,888)	(3,571)	(10,203)	(8.9)	65.0
Net change in cash and cash equivalents	(10,401)	949	75	n/a	n/a

	As at October 31, 2012 $	As at October 31, 2011 $	As at November 1, 2010 $	Change 2012 %	Change 2011 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	171,175	181,576	180,627	(5.7)	0.5
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	370,291	359,545	352,650	3.0	2.0
Investments in ABCP	27,350	78,751	72,346	(65.3)	8.9
Total assets	1,163,301	1,226,570	1,193,184	(5.2)	2.8
Debt (current and non-current)	—	—	29,059	—	(100.0)
Total debt[1]	557,133	653,663	672,809	(14.8)	(2.8)
Total net debt[1]	358,608	393,336	419,836	(8.8)	(6.3)

[1] See Non-IFRS 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 tour operators in the world. 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 primarily in Canada, France, the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel distribution strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat offers destination services to Canada, Mexico, Dominican Republic and Greece. Transat holds an interest in a hotel business that owns and operates properties in Mexico and the Dominican Republic.

VISION

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. 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 driver is its 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.

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, among other things, the following benefits: 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 2013, Transat has set the following targets:

- Optimize financial performance and market strategy. Measures include optimizing the aircraft fleet and the hotel portfolio in sun destinations, controlling and reducing certain costs, continuing IT upgrade projects, managing revenues and increasing controlled sales.
- Enhance product and customer experience. Measures include developing a distinctive hotel product in sun destinations, expanding the offering, continuing the fleet modernization program and improving performance in customer relations centres.
- Increase organizational efficiency and implement a vision focused on customers and sustainable development. Measures include implementing a customer experience enhancement program, upgrading the human resource programs concerned and continuing the sustainable development program launched in 2007.

REVIEW OF 2012 OBJECTIVES AND ACHIEVEMENTS

The main goals and achievements for fiscal 2012 were as follows:

1. Increase organizational efficiency and profitability

We put into place an action plan for returning to profitability, based particularly on the dynamism of sun destinations departing from Canada. Transat's performance in the transatlantic market during the summer of 2012 was satisfactory.

The Corporation reduced its administrative costs, scaled back its workforce in Canada and improved revenue management following implementation of a new management system for marketing its products. These measures, which are ongoing, generated a favourable impact of about $20 million on the 2012 margin. The Corporation is also working on creating an exclusive product as part of the review of its sun destination hotel strategy and on adjusting its airline strategy in Canada while continuing cost reduction efforts. Transat expects all these measures (cost reductions, additional revenues and performance improvements) to make a favourable contribution to the margin of between $35 million and $40 million in 2013 and $50 million in 2014.

2. Make Transat more competitive in Canada

Besides cost control and reduction, products were substantially changed to make them more distinctive, sales and marketing efforts were intensified, and the Corporation reviewed its approach to revenue management and capacity deployment.

3. Maintain business volumes and improve profitability at Transat France

Fiscal 2012 proved to be difficult in France. A number of destinations, some traditionally important, were adversely affected by the combination of high fuel prices, a weak euro, social upheaval in certain destinations, and competition, against a backdrop of a persistently gloomy economic climate in Europe. The unfavourable impact on results was limited by actions taken, particularly relating to alternative destinations.

4. Continue profitable development of our destination services

Our incoming operations in Mexico and Dominican Republic generated slightly lower profitability in 2012 owing to increased transportation costs (mainly fuel) that were not fully offset by higher traveller volumes, particularly from the U.S. market. We had a very difficult year in Greece, following a decline in travellers to this destination, but with additional prospecting efforts and tight cost control, we ended the year without substantial losses.

5. Optimize airline operations

Airline costs were tightened in 2012, particularly through the renegotiation of collective agreements, and these efforts are ongoing. In the medium term, airline operations optimization depends on the success of our efforts to sublease our wide-body aircraft during low season, and these efforts must be intensified, optimization of our narrow-body aircraft strategy, which is currently under active review, and our agreements in Europe with XL Airways and Transavia.

6. Finalize and implement the development strategy for the operational information systems

In 2012, as planned, Transat implemented the TTS system in Canada to streamline inventory management. The resulting benefits are expected to increase as teams gain experience. Other IT projects proceeded according to plan, including the implementation of a new system in France, slated for completion at the end of 2013. The expected benefits from systems will gradually materialize over periods through to 2014.

7. Enhance the strategic value of our brand, as well as customer satisfaction and loyalty

Our brand platform was deployed as planned and the Corporation completed certain initiatives aimed at enhancing customer experience, which is central to its vision for the future. In 2012, among other initiatives, we enhanced our product, particularly in sun destinations, reviewed general selling conditions and undertook to improve certain processes. We also began refurbishing cabins in our wide-bodied A330s to enhance customer experience. These initiatives are ongoing. Air Transat was named the world's Best Leisure Airline in 2012 by Skytrax.

8. Pursue our plan to make Transat one of the industry's most responsible companies

In 2012, Transat continued implementing its corporate responsibility program. For the first time, the Corporation showcased the environmental certifications of its hotel partners in sun destinations. The program for increasing awareness and training for combating child sex tourism was continued. Transat's partnership with SOS Children's Villages was renewed and philanthropic activities were maintained, although on a reduced scale. For the second consecutive year, Air Transat's efforts relating to greenhouse gas emissions were recognized by Atmosfair, a German organization: in 2011, Air Transat was ranked the world's top airline company in the long haul category, and in 2012, as the number one airline company in North America.

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 \$171.2 million as at October 31, 2012. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels.
Credit facility	We have a revolving credit facility totalling \$50.0 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 sun 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 2013 objectives and continue building on its long-term strategies.

BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5.8 million. TMR specializes in the sale of packages to sun destinations for Canadian travellers, including Cuba, the Dominican Republic and Mexico, and a large portion of the flights are provided by Transat. With this acquisition, the Corporation extends its offering and services to customers in its existing markets.

The Corporation has completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. The excess of the total consideration over the fair value of net assets acquired was allocated to the trademark in the amount of $4.5 million.

The results of the acquired business have been consolidated as of the date of acquisition. Since that date, TMR has generated revenues of $97.2 million with a pre-tax loss of $5.4 million, which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated results would have included additional revenues of $37.2 million and a pre-tax loss of $0.9 million.

DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex, which provides airport ground-handling services at Montréal, Toronto and Vancouver international airports, to Servisair Holding Canada Inc. for a total consideration of $9.0 million, of which $6.0 million is receivable in two equal annual payments. The balance of sale price receivable bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation. The carrying amount of the net assets disposed of on June 12, 2012 amounted to $3.3 million, which gave rise to a $5.7 million gain on disposal of a subsidiary. The transaction did not trigger any tax expense, as the Corporation used unrecognized capital losses to eliminate the taxation of the capital gain realized on the transaction. The transaction includes a service agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operating hubs.

CONSOLIDATED OPERATIONS

REVENUES

Revenues by geographic area				Change	
(in thousands of dollars)	2012 $	2011 $	2010 (GAAP) (restated) $	2012 %	2011 %
Americas	2,850,874	2,762,351	2,567,983	3.2	7.6
Europe	863,345	891,816	929,425	(3.2)	(4.0)
	3,714,219	3,654,167	3,497,408	1.6	4.5

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, 2012, our revenues rose $60.1 million, driven by the acquisition of TMR, which contributed an additional $97.2 million to revenues for the fiscal year. Generally speaking, average selling prices during the fiscal year were slightly higher than in 2011 while traveller volumes were down 2.5% (2.8% excluding TMR travellers not flying with Transat). During the fiscal year, revenues rose 3.2% in the Americas but fell 3.2% in Europe, owing primarily to French subsidiaries.

Our 2013 revenues are expected to be relatively stable with traveller volumes falling slightly below the 2012 level. 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)	2012 $	2011 $	2010 (GAAP) (restated) $	2012 %	2011 %	2010 %	2012 %	2011 %
Costs of providing tourism services	1,975,892	1,999,935	2,047,713	53.2	54.7	58.5	(1.2)	(2.3)
Aircraft fuel	505,422	447,625	302,333	13.6	12.2	8.6	12.9	48.1
Salaries and employee benefits	374,980	375,137	349,323	10.1	10.3	10.0	0.0	7.4
Commissions	158,357	166,813	155,357	4.3	4.6	4.4	(5.1)	7.4
Aircraft maintenance	119,613	108,399	85,731	3.2	3.0	2.5	10.3	26.4
Airport and navigation fees	108,112	104,987	85,321	2.9	2.9	2.4	3.0	23.0
Aircraft rent	88,361	68,850	52,949	2.4	1.9	1.5	28.3	30.0
Other	366,527	349,395	292,568	9.9	9.6	8.4	4.9	19.4
Restructuring charge	—	6,513	—	—	0.2	—	(100.0)	n/a
Total	3,697,264	3,627,654	3,371,295	99.5	99.3	96.4	1.9	7.6

Our seat purchase agreement with Thomas Cook on some Canada-U.K. destinations expired on October 31, 2011 and was not renewed. This sparked a shift in the nature of our operating expenses, as the cost of carrying travellers previously incurred with Thomas Cook and recorded under Costs of providing tourism services is now borne by our aircraft fleet carrying travellers on our Canada-U.K. route, resulting in a rise in operating expenses related to our aircraft fleet. Compared with the corresponding fiscal year, changes were also made to our fleet with the addition of two Airbus A330 and retirement of one Airbus A310.

Total operating expenses grew by $69.6 million or 1.9% during the fiscal year compared with 2011, driven primarily by the acquisition of TMR, with the cost of providing tourism services rising in the winter season. Fuel cost increases were also a factor, including those built into cost of seats booked with carriers other than Air Transat, reported through Costs of providing tourism services. Expenses also rose on higher hotel room costs. As a result, operating expenses were up 1.8% and 2.2%, respectively, in the Americas and Europe.

COSTS OF PROVIDING TOURISM SERVICES

The costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Costs of providing tourism services were down $24.0 million or 1.2% compared with the fiscal year ended October 31, 2011, owing to the expiry of the seat purchase agreement with Thomas Cook in 2011, offset by the additional costs resulting from the TMR acquisition.

AIRCRAFT FUEL

Aircraft fuel costs rose $57.8 million or 12.9% during the year, due to a greater number of flight hours logged by our fleet of aircraft and higher fuel prices.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were down $0.2 million to $375.0 million. During the fiscal year, salaries and employee benefits rose following the new hires required by the addition of aircraft to our fleet since fiscal 2011 but this increase was offset by the decrease in costs stemming from the disposal of our subsidiary Handlex and cost savings from the 2011 restructuring.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense amounted to $158.4 million, down $8.5 million or 5.1% from fiscal 2011. As a percentage of revenues, commissions fell to 4.3% from 4.6% for 2011, stemming primarily from the lower revenue base 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 $11.2 million or 10.3% for the fiscal year, compared with 2011, mainly due to the higher number of flights logged by our fleet and the addition of aircraft since fiscal 2010.

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 $3.1 million or 3.0% compared with 2011, owing primarily to the increase in the number of flights logged by our fleet.

AIRCRAFT RENT

Aircraft rent rose $19.5 million or 28.3% in fiscal 2012 due mainly to addition of aircraft to our fleet since fiscal 2010.

OTHER

Other expenses for the fiscal year rose $17.1 million or 4.9% from 2011, prompted mainly by other air costs included under this item, which increased following the greater number of flights logged by our aircraft. As a percentage of revenues, other expenses rose from 9.6% in 2011 to 9.9% in 2012.

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 amounted to $16.5 million, consisting of termination 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 $17.0 million for the fiscal year compared with $26.5 million in the previous year. As a percentage of revenues, our margins decreased from 0.7% in 2011 to 0.5% in 2012. We recorded an operating loss of $58.1 million during the winter season (operating loss of $5.2 million in 2011) owing to higher fuel and hotel room costs and intense competition. The summer season generated a margin of $75.0 million (margin of $31.7 million in 2011). The improved margin resulted from higher selling prices and a better load factor.

GEOGRAPHIC AREAS

AMERICAS

Americas				Change	
(in thousands of dollars)	2012 $	2011 $	2010 (GAAP) (restated) $	2012 %	2011 %
Winter season					
Revenues	1,727,821	1,584,037	1,543,546	9.1	2.6
Operating expenses	1,766,558	1,580,095	1,534,387	11.8	3.0
Margin	(38,737)	3,942	9,159	(1,082.7)	(57.0)
Margin (%)	(2.2)	0.2	0.6	(1,000.9)	(58.1)
Summer season					
Revenues	1,123,053	1,178,314	1,024,437	(4.7)	15.0
Operating expenses	1,056,037	1,191,702	946,430	(11.4)	25.9
Operating margin (loss)	67,016	(13,388)	78,007	600.6	(117.2)
Margin (%)	6.0	(1.1)	7.6	625.2	(114.9)

Revenues at our North American subsidiaries, stemming from sales in Canada and abroad, were up $143.8 million or 9.1% during the winter season, compared with 2011. Revenue growth was driven primarily by the acquisition of TMR, which helped bolster revenues by $69.5 million, combined with an overall increase in traveller volumes of 3.7% (3.2% excluding TMR customers not flying with Transat). Compared with 2011, the number of travellers departing from Canada to sun destinations was down (as a result of our decision to reduce our capacity during the first quarter) while average prices were on the rise. The number of travellers to European destinations as well as average selling prices were up. We recorded an operating loss of 2.2% for the winter season compared with a margin of 0.2% in 2011, mainly due to intense competition.

Revenues for the summer season were down $55.3 million (4.7%). The drop in revenues was largely a result of our decision to reduce capacity for sun destinations and, to a lesser extent, the transatlantic market. As a result, traveller volumes slid 9.2% (9.5% excluding TMR travellers not flying with Transat). Average selling prices during the summer season tracked higher than in 2011. The Corporation reported an operating margin of $67.0 million (6.0%) compared with an operating loss of $13.4 million (1.1%) for 2011. The turnaround in our margin was fuelled in particular by cost reductions combined with higher average selling prices, improved load factors and the absence of a restructuring charge in 2012.

EUROPE

Europe				Change	
(in thousands of dollars)	2012 $	2011 $	2010 (GAAP) (restated) $	2012 %	2011 %
Winter season					
Revenues	313,901	327,226	309,402	(4.1)	5.8
Operating expenses	333,229	336,375	322,772	(0.9)	4.2
Operating margin (loss)	(19,328)	(9,149)	(13,370)	(111.3)	31.6
Margin (%)	(6.2)	(2.8)	(4.3)	(120.2)	35.3
Summer season					
Revenues	549,444	564,590	620,023	(2.7)	(8.9)
Operating expenses	541,440	519,482	567,706	4.2	(8.5)
Margin	8,004	45,108	52,317	(82.3)	(13.8)
Margin (%)	1.5	8.0	8.4	(81.8)	(5.3)

Compared with 2011, revenues at our European subsidiaries, stemming from sales in Europe and Canada, were down $13.3 million or 4.1% during the winter. Excluding a slight decline at our U.K. subsidiary, revenues from our main European subsidiaries held steady but were dampened on translation into Canadian dollars. Traveller volumes were down 9.9% compared with 2011, while average selling prices were higher. Our European operations reported an operating loss of $19.3 million or 6.2% for the winter season compared with $9.1 million or 2.8% in the corresponding period of 2011, with intense competition in the French market mainly responsible for driving down margins.

For the summer season, revenues at our European subsidiaries were down $15.1 million (2.7%). Excluding a slight increase at our U.K. subsidiary, revenues at our European subsidiaries were lower in the aggregate. The decline in revenues at our euro zone subsidiaries was also accentuated on translation into Canadian dollars due to the euro's weakening against the Canadian dollar. Sales to destinations in Tunisia and Egypt, which were very popular destinations for French tourists, remain very weak. Traveller volumes at our French subsidiaries fell 2.2% for the season compared with 2011, while the number of travellers at our U.K. subsidiary was up 15.5%. Our average selling prices also finished higher. Our European operations reported an operating margin of $8.0 million (1.5%) compared with $45.1 million (8.0%) in 2011. The slimmer margin arose primarily from the expiration of our seat purchase contract with Thomas Cook and intense competition in the French market where conditions remain very difficult for the entire industry, particularly on North African routes.

OTHER EXPENSES (REVENUES)

(in thousands of dollars)	2012 $	2011 $	2010 (GAAP) (restated) $	Change 2012 %	Change 2011 %
Depreciation and amortization	40,793	43,814	48,662	(6.9)	(10.0)
Financing costs	2,962	3,499	4,584	(15.3)	(23.7)
Financing income	(6,693)	(7,395)	(3,036)	(9.5)	(143.6)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(701)	1,278	(9,341)	(154.9)	(113.7)
Foreign exchange (gain) loss on long-term monetary items	(370)	1,654	(1,109)	(122.4)	249.1
Gain on investments in ABCP	(7,936)	(8,113)	(4,648)	2.2	(74.5)
Gain on disposal of a subsidiary	(5,655)	—	—	n/a	—
Impairment of goodwill	15,000	—	—	n/a	—
Restructuring charge (gain)	—	10,030	(1,157)	(100.0)	(966.9)
Share of net (income) loss of an associate	(3,495)	(827)	490	(322.6)	268.8

DEPRECIATION AND AMORTIZATION

Depreciation and amortization, which includes depreciation of property, plant and equipment, and amortization of intangible assets subject to amortization and deferred lease inducements, was down $3.0 million in fiscal 2012, mainly due to fewer additions to property, plant and equipment and intangible assets in recent fiscal years.

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Financing costs were down $0.5 million in 2012 compared with 2011, as a result of repayments of long-term debt in fiscal 2011.

FINANCING INCOME

Financing income in fiscal 2012 was down $0.7 million from the previous year, due primarily to lower interest rates compared with 2011.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value, for the period, of the 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 rose by $0.7 million compared with a $1.3 million decrease in 2011.

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

The foreign exchange gain on long-term monetary items of $0.4 million in fiscal 2012 arose mainly from a favourable 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 2012 amounted to $7.9 million compared with $8.1 million in 2011. *See Investments in ABCP* for more information.

GAIN ON DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex. The Corporation reported a gain on disposal of a subsidiary of $5.7 million. *See Disposal of a subsidiary* for more information.

IMPAIRMENT OF GOODWILL

The Corporation performed an impairment test on October 31, 2012 to determine whether the carrying amount of cash generating units (CGUs) were higher than their recoverable amount. Following the impairment test, the Corporation recognized an impairment loss on goodwill of $15.0 million for a CGU in France, which includes outgoing tour operators that generate a significant percentage of its revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt, and a travel agency network. The recognized impairment loss resulted primarily from the decrease in the sale of products to North African countries and the CGU's lower profitability. In performing the test, management considered, among other factors, the potential impact on its future results of the prevailing political climate in North Africa and current economic conditions in Europe.

RESTRUCTURING CHARGE (GAIN)

The restructuring charge of $10.0 million recorded during the year ended October 31, 2011 comprises write-offs of intangible assets. *See Operating expenses* for more information.

SHARE OF NET (INCOME) LOSS OF AN ASSOCIATE

Our share of net (income) loss of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of net income of an associate for the current fiscal year rose to $3.5 million from $0.8 million for 2011, driven primarily by improved operating profitability.

INCOME TAXES

Income tax recovery for the fiscal year ended October 31, 2012 amounted to $3.4 million compared with $5.8 million for the previous fiscal year. Excluding the share in net income of an associate, the effective tax rate stood at 16.7% for the fiscal year ended October 31, 2012 and 31.6% for the preceding year.

The change in tax rates between fiscal 2012 and 2011 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

NET INCOME (LOSS) AND NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed in *Consolidated operations*, net loss for the year ended October 31, 2012 totalled $13.5 million compared with $11.7 million in 2011. Net loss attributable to shareholders stood at $16.7 million or $0.44 per share (basic and diluted) compared with $14.7 million or $0.39 per share (basic and diluted) for the previous year. The weighted average number of outstanding shares used to compute per share amounts was 38,142,000 for fiscal 2012 and 37,930,000 for fiscal 2011.

For fiscal 2012, the Corporation reported an adjusted after-tax loss of $15.3 million ($0.40 per share) compared with $9.7 million ($0.26 per share) for fiscal 2011.

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 for the winter season and down for the summer season (compared with the quarters for corresponding periods in previous fiscal years). Overall, average selling prices rise during the winter season when traveller volumes rise, and decline during the summer season. 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 data)	Q1-2011 $	Q2-2011 $	Q3-2011 $	Q4-2011 $	Q1-2012 $	Q2-2012 $	Q3-2012 $	Q4-2012 $
Revenues	810,154	1,101,109	936,974	805,930	829,296	1,212,426	909,056	763,441
Operating margin (loss)	(14,506)	9,299	14,736	16,984	(31,839)	(26,226)	22,074	52,946
Net income (loss)	(12,525)	10,095	(2,567)	(6,655)	(28,580)	(11,774)	9,664	17,154
Net income (loss) attributable to shareholders	(13,378)	8,715	(2,782)	(7,266)	(29,489)	(13,199)	9,405	16,614
Basic earnings (loss) per share	(0.35)	0.23	(0.07)	(0.19)	(0.77)	(0.35)	0.25	0.43
Diluted earnings (loss) per share	(0.35)	0.23	(0.07)	(0.19)	(0.77)	(0.35)	0.25	0.43
Adjusted after-tax income (loss)	(19,318)	(576)	2,849	7,343	(29,941)	(24,536)	10,521	28,684
Adjusted after-tax income (loss) per share	(0.51)	(0.02)	0.07	0.19	(0.79)	(0.64)	0.28	0.75

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $763.4 million in revenues, down $42.5 million, or 5.3%, from $805.9 million for the corresponding period in 2011. The drop in revenues was largely a result of our decision to reduce capacity for sun destinations and, to a lesser extent, the transatlantic market. Traveller volumes for the quarter fell 6.3% while average selling prices were higher than in the same period of 2011.

In the Americas, revenues at our subsidiaries were down $39.6 million (7.2%) compared with the same period of 2011, owing to a decrease in the volume of travellers and despite higher average selling prices. North American operations reported a margin of $55.9 million, up from a margin of $15.4 million for the same period of 2011, primarily as a result of increases in selling prices and higher aircraft load factors compared with the last quarter of 2011.

Compared with 2011, revenues at our European subsidiaries were down $2.8 million (1.1%), following the euro's strengthening against the dollar. In foreign currencies, these revenues were higher than in 2011 with traveller volumes rising during the quarter. Our European operations recorded an operating loss of $3.0 million for the quarter compared with a margin of $8.1 million in 2011, partly stemming from the expiry of our agreement with Thomas Cook.

The Corporation reported a margin of $52.9 million or 6.9% for the quarter up from $17.0 million or 2.1% in 2011, primarily as a result of increases in selling prices and higher aircraft load factors compared with the last quarter of 2011.

In the fourth quarter, we recorded a $2.1 million gain arising from the change in fair value of derivative financial instruments used for aircraft fuel purchases, compared with a loss of $4.9 million in the corresponding period of 2011. We recorded a gain on ABCP investments of $1.5 million, compared with $1.2 million in 2011, and also recognized a $15.0 million impairment of goodwill.

For the fourth quarter, we recorded net income of $17.2 million compared with a net loss of $6.7 million in 2011. The net income attributable to shareholders reached $16.6 million ($0.43 per share) compared with a net loss attributable to shareholders of $7.3 million ($0.19 per share).

For the fourth quarter, adjusted after-tax income stood at $28.7 million ($0.75 per share) compared with $7.3 million ($0.19 per share) in 2011.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2012, cash and cash equivalents totalled $171.2 million compared with $181.6 million as at October 31, 2011. Cash and cash equivalents in trust or otherwise reserved amounted to $370.3 million as at the end of fiscal 2012, compared with $359.5 million in 2011. The Corporation's statement of financial position reflects a working capital deficiency of $1.2 million and a ratio of 1.0 compared with a working capital deficiency of $23.6 million and a ratio of 0.97 as at October 31, 2011.

Total assets declined $63.3 million or 5.2% to $1,163.3 million as at October 31, 2012 from $1,226.6 million as at October 31, 2011. The decline stemmed primarily from a greater utilization of cash and cash equivalents to pay trade and other payables and a write-down of goodwill. Equity fell $17.9 million to $366.3 million as at October 31, 2012 from $384.2 million as at October 31, 2011, owing mainly to the $13.5 million net loss, the $2.4 million change in fair value of derivatives designated as cash flow hedges and the $2.0 million net actuarial gains/losses related to retirement benefits.

CASH FLOWS

				Change	
	2012	2011	2010	2012	2011
(in thousands of dollars)	$	$	$	%	%
Cash flows related to operating activities	8,872	90,673	119,131	(90.2)	(23.9)
Cash flows related to investing activities	(11,024)	(56,683)	(27,819)	80.6	(103.8)
Cash flows related to financing activities	(4,361)	(29,470)	(81,034)	85.2	63.6
Effect of exchange rate changes on cash	(3,888)	(3,571)	(10,203)	(8.9)	65.0
Net change in cash	(10,401)	949	75	n/a	n/a

OPERATING ACTIVITIES

Operating activities generated $8.9 million in cash flows, compared with $90.7 million in 2011. This $81.8 million decrease for the year resulted mainly from the $80.7 million decrease in the net change in non-cash working capital balances related to operations, which was primarily due to a larger decrease in trade payables compared with 2011.

We expect to continue to generate positive cash flows from our operating activities in 2013.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $11.0 million for the year, down $45.7 million from 2011. Compared with fiscal 2011, additions to property, plant and equipment and other intangible assets rose $10.4 million to $64.6 million and consisted mainly of purchases of computer hardware and software and aircraft enhancements following our cabin refurbishment program. During the year, we received cash proceeds of $57.4 million from the sale of investments in ABCP as well as $1.9 million in principal repayments. We acquired certain assets and assumed certain liabilities of TMR for a total consideration of $5.0 million, net of cash acquired. Following the increase in some of our letters of credit, the cash and cash equivalents balance reported as a long-term asset rose $2.9 million. Last, we also received net proceeds of $2.1 million from the sale of one of our subsidiaries.

In 2013, additions to property, plant and equipment and intangible assets could amount to approximately $50.0 million.

FINANCING ACTIVITIES

Cash flows used in financing activities totalled $4.4 million, down $25.1 million from $29.5 million in 2011, owing mainly to repayments of long-term debt during fiscal 2011. During the year, a share issuance generated proceeds of $1.3 million for the Corporation while a subsidiary paid dividends in the amount of $5.6 million to a non-controlling shareholder compared with $2.5 million in 2011.

FINANCING

As at October 31, 2012, the Corporation had several types of financing, consisting primarily of two revolving term credit facilities as well as lines of credit for issuing letters of credit.

On June 13, 2012, the Corporation arranged to reduce its credit by $50.0 million. Accordingly, the Corporation now has a $50.0 million revolving term credit facility for its operations, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms of the 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. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions, and will be further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rates, the financial institution's prime rate or LIBOR (London Interbank Offered Rate), plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2012, all the financial ratios and criteria were met and the credit facility was undrawn.

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 totalling 105% of the amount of the letters of credit as collateral security. As at October 31, 2012, $52.5 million had been drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$14.9 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 statements of financial position as at October 31, 2012 and October 31, 2011.

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 16 and 26 to the audited consolidated financial statements)
- Operating leases (see note 25 to the audited consolidated financial statements)
- Agreements with suppliers (see note 25 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated amounted to approximately $710.8 million as at October 31, 2012 compared with $797.0 million as at October 31, 2011, and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS	2012 $	2011 $
Guarantees		
Irrevocable letters of credit	25,118	15,832
Collateral security contracts	1,108	1,213
Operating leases		
Obligations under operating leases	530,907	636,618
	557,133	653,663
Agreements with suppliers	153,700	143,324
	710,833	796,987

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.

As at October 31, 2012, off-balance sheet arrangements declined by $85.6 million following repayments made during the year.

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, 2012, $20.6 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	2013 $	2014 $	2015 $	2016 $	2017 $	2018 and beyond $	Total $
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	82,062	72,643	52,868	49,554	42,229	62,640	361,996
Leases (other)	24,406	20,176	16,968	14,147	12,184	81,030	168,911
Agreements with suppliers and other obligations	126,872	16,590	4,560	4,621	4,684	26,723	184,050
	233,340	109,409	74,396	68,322	59,097	170,393	714,957

DEBT LEVELS

The Corporation's debt levels as at October 31, 2012 were lower than as at October 31, 2011.

The Corporation did not report any debt on its statement of financial position as debts had been fully repaid during fiscal 2011 while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, decreased $96.5 million to $557.1 million from $653.7 million, collectively representing an $86.1 million decrease in total debt compared with October 31, 2011. The $96.5 million decrease in our off-balance sheet arrangements resulted mainly from repayments made during the fiscal year.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $358.6 million in net debt as at October 31, 2012, down 8.8% from $393.3 million as at October 31, 2011.

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 November 30, 2012, there were 885,784 Class A Variable Voting Shares outstanding and 37,428,160 Class B Voting Shares outstanding.

STOCK OPTIONS

As at December 18, 2012, there were a total of 2,199,810 stock options outstanding, 881,736 of which were exercisable.

INVESTMENTS IN ABCP

During the year ended October 31, 2012, the Corporation received proceeds totalling $57.4 million from the sale of ABCP with a nominal value of $80.0 million ($78.8 million of ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] and $1.2 million of ABCP supported solely by traditional securitized assets [MAV3 Traditional]). The Corporation also received $1.9 million in principal repayments on ABCP supported solely by traditional securitized assets [MAV3 Traditional].

On October 31, 2012, the Corporation remeasured its new ABCP at fair value. The Corporation considered available market information in determining the fair value of ABCP. Subsequent to this new valuation, the Corporation recognized increases, on October 31, 2012, in the fair value of its investments in ABCP of $7.9 million [$8.1 million for the year ended October 31, 2011]. The ABCP investment portfolio had a fair value of $27.4 million and the provision for impairment totalled $7.2 million, representing 20.8% of the notional value of $34.5 million.

The following table details the change in balances of investments in ABCP in the consolidated statement of financial position and the composition of Gain on investments in ABCP in net loss:

	Notional value $	Provision for impairment $	Investments $	Gain $
Balance as at November 1, 2010	118,122	(45,776)	72,346	
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)
Increase in value of investments in ABCP	—	7,936	7,936	(7,936)
Principal repayments	(1,889)	—	(1,889)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Balance as at October 31, 2012/Impact on results for the year ended October 31, 2012	34,525	(7,175)	27,350	(7,936)

The balance of investments in ABCP as at October 31, 2012 is detailed as follows:

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $
MAV2 Eligible			
Class A-1	10,478	(1,792)	8,686
Class A-2	19,452	(4,080)	15,372
Class B	3,531	(860)	2,671
Class C	1,036	(415)	621
	34,497	(7,147)	27,350
MAV3 Traditional	28	(28)	—
	34,525	(7,175)	27,350

Subsequent to the end of the year, the Corporation sold its ABCP for a total consideration of $27.4 million.

OTHER

FLEET

During the year ended October 31, 2012, two Airbus A330 were commissioned and one Airbus A310 was retired. During November 2012, the Corporation retired two Airbus A310 from its fleet. Air Transat's fleet currently consists of 9 Airbus A310 aircraft (249 seats), which will be gradually retired, and 12 Airbus A330 (342 seats).

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements requires management to make estimates and judgments about the future. We periodically review these estimates, which are based on historical experience, changes in the business environment and other factors, including expectations of future events, that management considers reasonable under the circumstances. Our estimates involve judgments we make based on the information available to us. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Corporation's control. Such changes are reflected in the assumptions when they occur.

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.

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

GOODWILL AND INTANGIBLE ASSETS

Material amounts recorded under goodwill and intangible assets in the statement of financial position are calculated using the historical cost method. We are required to perform impairment tests on goodwill and intangible assets with indefinite lives such as trademarks, annually or when events or circumstances indicate that the carrying amount may be impaired.

Impairment exists when the carrying amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are generally derived from the budget or forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These analyses require us to make a variety of judgments concerning our future operations. The cash flow forecasts used to determine the values of assets of CGUs may change in the future due to market conditions, competition and other risk factors (see Risks and uncertainties).

The Corporation performed an impairment test on October 31, 2012 to determine whether the carrying amount of CGUs was higher than their recoverable amount. Except for a CGU in France, no impairment was identified. Following the impairment test performed on a CGU in France, which includes outgoing tour operators that generate a significant percentage of their revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt, and a travel agency network, the Corporation recognized an impairment loss on goodwill of $15.0 million. Net of impairment, goodwill of the CGU in France amounted to $13.5 million. The recoverable amount of the CGU in France was determined based on its value in use, using a discounted cash flow model. In establishing its key assumptions, management considered, among other factors, the potential impact on its future results of the prevailing political climate in North Africa and current economic conditions in Europe. The cash flows used are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the CGU's performance. An after-tax discount rate of 11.5% and a long-term growth rate of 1% were used for the impairment test. The recognized impairment loss resulted primarily from the decrease in revenues from the sale of products to North African countries (Tunisia, Morocco and Egypt) and Greece, and the CGU's lower profitability.

An after-tax discount rate of 11.5% was used for testing other CGUs for impairment as at October 31, 2012. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and three-year plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond four years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets. The growth rate is based on industry trend. The growth rate used for impairment reviews was 1% as at October 31, 2012.

On October 31, 2012, a 1% increase in the after-tax discount rate used for impairment tests, assuming that all other variables had remained the same, would have resulted in a $1.5 million increase in the impairment loss for the CGU in France, and would not have required any other impairment charge.

On October 31, 2012, a 1% decrease in the long-term growth rate used for impairment tests, assuming that all other variables had remained the same, would have resulted in a $1.0 million increase in the impairment loss for the CGU in France, and would not have required any other impairment charge.

On October 31, 2012, a 10% decrease in the cash flows used for impairment tests, assuming that all other variables had remained the same, would have resulted in a $1.0 million increase in the impairment loss for the CGU in France, and would not have required any other impairment charge.

On October 31, 2012, the Corporation performed its annual tests for impairment of trademarks and no impairment was detected. Management is of the opinion that no reasonable change in the key assumptions used in the annual impairment test could have produced carrying amounts for trademarks that are significantly higher than the calculated fair values.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

Property, plant and equipment reported in the statement of financial position represent material amounts based on historical costs. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major class of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal. 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 depreciation expense. Generally speaking, the main assumptions would have to be reduced by 10% 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.

No event or change in situation arising during the year ended October 31, 2012 could have required an impairment of property, plant and equipment and intangible assets with finite lives. 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.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. 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.

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. The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, and other facts and reasonable assumptions in the circumstances. 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.

NON-CONTROLLING INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using the value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Generally speaking, the main assumptions used to calculate this provision would have to be adversely changed by between 25% and 50% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. The pension expense for these employees is determined from annual actuarial calculations using the projected unit credit method and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Plan obligations are discounted using current market interest rates. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

A 0.25% increase in the actuarial assumptions below would have the following impacts, all other actuarial assumption remaining the same:

Increase (decrease)	Cost of retirement benefits for the year ended October 31, 2012 $	Retirement benefit obligation as at October 31, 2012 $
Discount rate	(2)	(900)
Rate of increase in eligible earnings	7	36

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 uses derivative financial instruments only 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, long-term debt and 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, as the case may be. 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 10% 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.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. 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 through profit or 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 Unrealized gain (loss) on cash flow hedges 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 Unrealized gain (loss) on cash flow hedges are reclassified to the same income (loss) statement account in which the hedged item is recognized.

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 mitigate fuel price fluctuations, 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 customers, 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 under Trade and other receivables in the statement of financial position totalled $58.0 million as at October 31, 2012. 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, 2012, approximately 8% of accounts receivable were over 90 days past due, whereas approximately 79% 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 certain 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, 2012, these deposits totalled $31.4 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 $12.3 million as at October 31, 2012 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. 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, 2012, the cash security deposits with lessors that had been claimed totalled $18.8 million and have been included under Trade and other receivables. 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, 2012 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 only 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.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2012.

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 credit facility. 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 carried out at arm's length. During the year, the Corporation recorded $10.3 million in person-nights purchased at hotels belonging to its associate CIBV, compared with $12.2 million in 2011. As at October 31, 2012, a $0.1 million payable to CIBV was included under trade and other payables ($0.1 million as at October 31, 2011).

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.

To improve its risk management capacities, the Corporation has set up a framework for identifying, assessing and managing the different risks applicable to its industry and to companies in general. This framework is based on the following principles:

- Promote a culture of risk awareness at the head office and in subsidiaries
- Integrate risk management into strategic, financial and operating objectives
- Implement a rigorous process of risk management and communication by introducing a scorecard for each risk owner. This tool makes it possible to design and implement measures to mitigate risks and/or to limit the likelihood of risks materializing.

Business risks are classified to facilitate an overall understanding of all the risks to which the Corporation is exposed. The different types of business risks are discussed below:

ECONOMIC AND GENERAL RISKS

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 RISKS

Transat operates in an industry where competition is intense. In recent years, a number of tour operators and air carriers have entered or expanded their presence into markets served by Transat. 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. Their business model is different from ours and available seat capacity is increasingly subject to market forces. We also face competition from travel suppliers selling directly to travellers at very competitive prices.

Moreover, 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.

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.

FINANCIAL RISKS

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.

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.

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.

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.

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.

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. Moreover, these advance payments generate interest income for Transat. 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.

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.

KEY SUPPLIES AND SUPPLIER RISKS

Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. 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, among others, 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.

We are also dependent 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.

AVIATION RISKS

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.

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. If our operations are disrupted due to aircraft unavailability, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

The Corporation also 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.

TECHNOLOGICAL RISKS

Transat relies heavily on various information and telecommunications technologies to operate its business, increase its revenues and reduce its operating expenses. 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. Rapid changes in these technologies could require higher-than-anticipated capital expenditures to improve customer service; this could impact our operating results.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunication systems failures, power failures, computer viruses, computer hacking, unauthorized or fraudulent users, and other operational and security issues. While Transat continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any systems failures or outages could materially and adversely affect the Corporation's operations and its customer relationships and could have an adverse effect on its operating results and financial position.

REGULATORY RISKS

The industry in which Transat operates is subject to extensive Canadian and foreign government regulations relating to, among other things, security, safety, consumer rights, permits, licensing, intellectual property rights, privacy, competition, pricing and environment. 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.

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.

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.

HUMAN RESOURCE RISKS

Labour costs constitute one of Transat's largest operating cost items in 2012. There can be no assurance that Transat will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial position.

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.

As at October 31, 2012, the Corporation had approximately 5,000 employees, including nearly 50% unionized personnel covered by six collective agreements. The collective agreements of the three main personnel groups (pilots, flight attendants and maintenance workers) have been ratified up to April 2015, October 2015 and April 2016, respectively. Those of the other three groups (air traffic controllers, crew planning and scheduling personnel and customer service agents) will be renewed during the first and second quarters of fiscal 2013.

Furthermore, the collective agreements covering our pilots, flight attendants and maintenance workers include an agreement relating to a salary freeze, which, in the event of non-compliance, could lead to the payment of significant monetary compensation, thereby adversely impacting our operating results.

INSURANCE COVERAGE RISKS

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.

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.

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 (DC&P) and the design and effectiveness of internal control over financial reporting (ICFR).

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have designed DC&P or caused them to be designed under their supervision to provide reasonable assurance that material information relating to the Corporation has been made known to them and that information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

Also, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have designed 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 IFRS.

EVALUATION OF DC&P AND ICFR

An evaluation of the design and operating effectiveness of DC&P and 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. 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.

MATERIAL WEAKNESS

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission on Internal Control – Integrated Framework, the two certifying officers have identified, in preparing the year-end financial statements, a deficiency in ICFR caused by an accounting error regarding a foreign subsidiary, which accounts for about 5% of Transat's consolidated revenues.

In preparing the consolidated financial statements for the year ended October 31, 2012, the Corporation's management identified an accounting error in the consolidated financial statements for the previous fiscal years, prepared under Canadian GAAP, related to the recognition of customer deposits and deferred revenues by a foreign subsidiary of the Corporation. According to the Corporation's accounting policy for revenue recognition, amounts received from customers for services not yet rendered have not been properly recorded in current liabilities under Customer deposits and deferred income for fiscal years 2006 to 2011. Based on the Corporation's evaluation, the recognition of deferred income of this subsidiary did not take into account the adjustments required to reflect customers' actual departure dates when transactional data was transferred from one system to another for processing. In short, this subsidiary had recognized revenues prematurely whereas these revenues should have been recorded in the fiscal years in which departures took place. See note 28 for further details on this adjustment.

The impacts of this improper cutoff require the Corporation to restate its published financial statements for the year ended October 31, 2011. This adjustment represents amounts accumulated over the past six fiscal years. The Corporation reduced its retained earnings as at November 1, 2010 by $11.7 million, increased income taxes receivable as at October 31, 2011 by $2.3 million and increased customer deposits and deferred revenues by $16.7 million dollars. For the year ended October 31, 2011, the Corporation increased its net loss by $2.9 million or $0.08 per share. See note 28 for further details on this adjustment.

Although the ICFR relating to the recognition of the accounts of the subsidiary in question was designed such that it operates as intended, the observed deficiency prevented the ICFR from detecting, on a timely basis, a material misstatement in an amount reported in the Corporation's financial statements for prior fiscal years. Accordingly, this ICFR is considered deficient in design and in operation, as defined in National Instrument 52-109.

REMEDIAL ACTIONS

Following this incident, remedial actions were decided upon and implemented or are currently under implementation to rectify this material weakness and also to strengthen the Corporation's DC&P and ICFR, particularly the following:

- Review and validation of key items in the subsidiary's balance sheet by a senior financial executive at head office.
- Review of the subsidiary's period-end financial statement closing processes.
- Review of the subsidiary's information technology related controls.
- Strengthening of the main reporting channels from the subsidiary's head of finance directly to financial management at head office.
- Periodic review of the existence and effectiveness of the newly adopted remedial actions by internal audit.

Final procedures and approvals regarding the financial statements of this subsidiary are expected to be determined during the coming quarter, including the review of the subsidiary's information technology controls. Furthermore, the Corporation's management will continue to consider and, if appropriate, implement additional remedial actions.

As a preventive control, these measures will also be reviewed and strengthened for all subsidiaries of the Corporation. Nonetheless, the Corporation's internal controls and procedures remain very solid overall and limit the risk of a similar error occurring in the future.

Last, apart from this deficiency, and although certain organizational changes have been made after the past quarter, we can state that, based on our evaluation, no other element indicates the existence of other material weaknesses that affected, or are reasonably likely to have an overall impact on ICFR during the quarter ended October 31, 2012. Furthermore, except for the situation described previously, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2012 that materially affected, or are likely to materially affect, the Corporation's ICFR.

OUTLOOK

The Canadian Sun destinations market accounts for a substantial portion of Transat's business during the winter season. With regard to this market, we are early in the season and a significant number of seats remains to be sold, thus the trend toward last-minute bookings and margin volatility make forecasting difficult.

On this market, Transat's capacity is approximately 10% lower than what was marketed last year. Load factors are similar to those recorded last year at the same date, while average selling prices are higher.

In France, where winter is low season, medium-haul bookings are 30% higher compared to last year at this time, long-haul bookings are down 8% (a reflection of the Corporation's decision to reduce capacity), and prices are similar in both cases.

On the transatlantic market, Transat's capacity is approximately 18% lower than that marketed last winter, load factors are similar, and selling prices are higher.

MANAGEMENT'S REPORT

The consolidated financial statements of Transat A.T. Inc. are the responsibility of management and have been approved by the Board of Directors. Management's responsibility in this respect includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with Canadian generally accepted accounting principles which are adequate in the circumstances. The financial information presented throughout this annual report is consistent with that appearing in the financial statements.

The Corporation and its affiliated companies have set up accounting and internal control systems designed to provide reasonable assurance that the Corporation's assets are safeguarded against loss or unauthorized use and that its books of account may be relied upon for the preparation of financial statements.

The Board of Directors is responsible for the consolidated financial statements through its Audit Committee. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors, the accounting methods and policies used as well as the internal control systems set up by the Corporation. These financial statements have been audited by Ernst & Young LLP, the external auditors. Their report on the consolidated financial statements appears on the next page.

Jean-Marc Eustache
Chairman of the Board, President
and Chief Executive Officer

Denis Pétrin
Vice-President, Finance and Administration
and Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Transat A.T. Inc.

We have audited the accompanying consolidated financial statements of Transat A.T. Inc., which comprise the consolidated statements of financial position as at October 31, 2012 and 2011 and November 1, 2010, and the consolidated statements of loss, comprehensive loss, changes in equity and cash flows for the years ended October 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transat A.T. Inc. as at October 31, 2012 and 2011 and November 1, 2010 and its financial performance and its cash flows for the years ended October 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Ernst & Young LLP[1]

Montréal, Canada
December 19, 2012
[1] CPA auditor, CA, public accountancy permit No. A109499

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	As at October 31, 2012 $	As at October 31, 2011 $	As at November 1, 2010 $
ASSETS			
Cash and cash equivalents	171,175	181,576	180,627
Cash and cash equivalents in trust or otherwise reserved *[note 7]*	331,172	323,314	320,428
Trade and other receivables *[note 8]*	111,525	124,000	146,944
Income taxes receivable	14,690	20,074	5,962
Inventories	11,469	11,096	9,867
Prepaid expenses	57,234	55,196	50,297
Derivative financial instruments	7,460	7,935	868
Current portion of deposits	12,968	15,599	12,554
Current assets	717,693	738,790	727,547
Cash and cash equivalents reserved	39,119	36,231	32,222
Investments in ABCP *[note 9]*	27,350	78,751	72,346
Deposits *[note 11]*	30,735	33,907	29,837
Deferred tax assets *[note 22]*	24,338	26,723	15,047
Property, plant and equipment *[note 12]*	96,415	86,520	88,376
Goodwill *[note 13]*	91,494	109,495	112,454
Intangible assets *[note 13]*	66,531	52,347	50,464
Derivative financial instruments	—	—	23
Investments and other assets *[note 14]*	69,626	63,806	64,868
Non-current assets	445,608	487,780	465,637
	1,163,301	1,226,570	1,193,184
LIABILITIES			
Trade and other payables *[note 15]*	307,219	381,748	300,239
Current portion of provision for overhaul of leased aircraft	19,513	19,088	18,301
Income taxes payable	932	7,943	14,608
Customer deposits and deferred income	382,823	347,957	326,589
Derivative financial instruments	8,416	5,659	4,116
Current portion of long-term debt	—	—	13,768
Current liabilities	718,903	762,395	677,621
Long-term debt *[note 17]*	—	—	15,291
Provision for overhaul of leased aircraft *[note 16]*	12,356	14,230	12,408
Other liabilities *[notes 18 and 28]*	54,448	51,430	71,486
Deferred tax liabilities *[note 22]*	11,268	14,274	12,476
Non-current liabilities	78,072	79,934	111,661
EQUITY			
Share capital *[note 19]*	220,736	219,462	217,604
Share-based payment reserve	13,336	11,063	9,090
Retained earnings	145,198	161,726	178,730
Unrealized gain (loss) on cash flow hedges	(475)	1,948	(1,522)
Cumulative exchange differences	(12,469)	(9,958)	—
	366,326	384,241	403,902
	1,163,301	1,226,570	1,193,184

Commitments and contingencies *[note 25]*
See accompanying notes to consolidated financial statements

On behalf of the Board:

Director

Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF LOSS

Years ended October 31 (in thousands of Canadian dollars, except per share amounts)	2012 $	2011 $
Revenues	3,714,219	3,654,167
Operating expenses		
Cost of providing tourism services	1,975,892	1,999,935
Aircraft fuel	505,422	447,625
Salaries and employee benefits *[note 20]*	374,980	375,137
Commissions	158,357	166,813
Aircraft maintenance	119,613	108,399
Airport and navigation fees	108,112	104,987
Aircraft rent	88,361	68,850
Other	366,527	349,395
Restructuring – Termination benefits *[note 20]*	—	6,513
	3,697,264	3,627,654
	16,955	26,513
Depreciation and amortization *[note 20]*	40,793	43,814
Financing costs	2,962	3,499
Financing income	(6,693)	(7,395)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(701)	1,278
Foreign exchange (gain) loss on long-term monetary items	(370)	1,654
Gain on investments in ABCP *[note 9]*	(7,936)	(8,113)
Gain on disposal of a subsidiary	(5,655)	—
Impairment of goodwill *[note 13]*	15,000	—
Restructuring – Impairment of assets *[note 21]*	—	10,030
Share of net income of an associate *[note 14]*	(3,495)	(827)
	33,905	43,940
Loss before income taxes	(16,950)	(17,427)
Income taxes (recovery) *[note 22]*		
Current	(4,301)	5,881
Deferred	887	(11,656)
	(3,414)	(5,775)
Net loss for the year	(13,536)	(11,652)
Net income (loss) attributable to:		
Shareholders	(16,669)	(14,711)
Non-controlling interests	3,133	3,059
	(13,536)	(11,652)
Loss per share *[note 19]*		
Basic	(0.44)	(0.39)
Diluted	(0.44)	(0.39)

See accompanying notes to consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	2012 $	2011 $
Net loss for the year	(13,536)	(11,652)
Other comprehensive income (loss)		
Items that will be reclassified to net loss		
Change in fair value of derivatives designated as cash flow hedges	(7,044)	15,812
Reclassification to net loss	3,652	(10,620)
Deferred taxes	969	(1,722)
	(2,423)	3,470
Foreign exchange losses on translation of financial statements of foreign subsidiaries	(2,511)	(9,958)
Items that will never be reclassified to net loss		
Retirement benefits – Net actuarial gains and losses	(2,405)	220
Deferred taxes	435	(66)
	(1,970)	154
Total other comprehensive loss	(6,904)	(6,334)
Comprehensive loss for the year	(20,440)	(17,986)
Attributable to:		
Shareholders	(23,654)	(21,140)
Non-controlling interests	3,214	3,154
	(20,440)	(17,986)

See accompanying notes to consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at November 1, 2010	217,604	9,090	178,730	(1,522)	—	403,902	—	403,902
Net income (loss) for the year	—	—	(14,711)	—	—	(14,711)	3,059	(11,652)
Other comprehensive income (loss)	—	—	154	3,470	(10,053)	(6,429)	95	(6,334)
Comprehensive income (loss) for the year	—	—	(14,557)	3,470	(10,053)	(21,140)	3,154	(17,986)
Issued from treasury	1,361	—	—	—	—	1,361	—	1,361
Exercise of options	497	(127)	—	—	—	370	—	370
Share-based payment expense	—	2,100	—	—	—	2,100	—	2,100
Other changes in non-controlling interest liability	—	—	(2,447)	—	—	(2,447)	2,447	—
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(5,506)	(5,506)
Reclassification of non-controlling interest exchange difference	—	—	—	—	95	95	(95)	—
	1,858	1,973	(2,447)	—	95	1,479	(3,154)	(1,675)
Balance as at October 31, 2011	219,462	11,063	161,726	1,948	(9,958)	384,241	—	384,241
Net income (loss) for the year	—	—	(16,669)	—	—	(16,669)	3,133	(13,536)
Other comprehensive income (loss)	—	—	(1,970)	(2,423)	(2,592)	(6,985)	81	(6,904)
Comprehensive income (loss) for the year	—	—	(18,639)	(2,423)	(2,592)	(23,654)	3,214	(20,440)
Issued from treasury	1,274	—	—	—	—	1,274	—	1,274
Exercise of options	—	—	—	—	—	—	—	—
Share-based payment expense	—	2,273	—	—	—	2,273	—	2,273
Other changes in non-controlling interest liability	—	—	2,111	—	—	2,111	(2,111)	—
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(1,022)	(1,022)
Reclassification of non-controlling interest exchange difference	—	—	—	—	81	81	(81)	—
	1,274	2,273	2,111	—	81	5,739	(3,214)	2,525
Balance as at October 31, 2012	220,736	13,336	145,198	(475)	(12,469)	366,326	—	366,326

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

Years ended October 31 (in thousands of Canadian dollars)	2012 $	2011 $
OPERATING ACTIVITIES		
Net loss for the year	(13,536)	(11,652)
Operating items not involving an outlay (receipt) of cash:		
Depreciation and amortization	40,793	43,814
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(701)	1,278
Foreign exchange (gain) loss on long-term monetary items	(370)	1,654
Gain on investments in ABCP	(7,936)	(8,113)
Gain on disposal of a subsidiary	(5,655)	—
Impairment of goodwill	15,000	—
Restructuring charge	—	10,030
Share of net income of an associate	(3,495)	(827)
Deferred taxes	887	(11,656)
Employee benefits	2,088	2,349
Share-based payment expense	2,273	2,100
	29,348	28,977
Net change in non-cash working capital balances related to operations	(5,646)	75,006
Net change in provision for overhaul of leased aircraft	(1,449)	2,609
Net change in other assets and liabilities related to operations	(13,381)	(15,919)
Cash flows related to operating activities	8,872	90,673
INVESTING ACTIVITIES		
Additions to property, plant and equipment and other intangible assets	(64,639)	(54,194)
Realization of principal of investments in ABCP	1,889	1,708
Proceeds from sale of investments in ABCP	57,448	—
Increase in cash and cash equivalent reserved	(2,871)	(4,197)
Net consideration paid for acquired business	(4,961)	—
Net proceeds from disposal of subsidiary	2,110	—
Cash flows related to investing activities	(11,024)	(56,683)
FINANCING ACTIVITIES		
Net change in credit facilities and other debt	—	(15,475)
Repayment of long-term debt	—	(13,198)
Proceeds from issuance of shares	1,274	1,731
Dividends paid by a subsidiary to a non-controlling shareholder	(5,635)	(2,528)
Cash flows related to financing activities	(4,361)	(29,470)
Effect of exchange rate changes on cash and cash equivalents	(3,888)	(3,571)
Net change in cash and cash equivalents	(10,401)	949
Cash and cash equivalents, beginning of year	181,576	180,627
Cash and cash equivalents, end of year	171,175	181,576
Supplementary information (as reported in operating activities)		
Income taxes paid (recovery)	(1,449)	25,017
Interest paid	1,485	2,007

See accompanying notes to consolidated financial statements

October 31, 2012 and 2011
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the *Canada Business Corporations Act*. The Class A variable voting shares and Class B voting shares are listed on the Toronto Stock Exchange.

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of tour operators based in Canada and Europe which are vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations, and accommodations.

The consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2012 were approved by the Corporation's Board of Directors on December 19, 2012.

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These consolidated financial statements represent the first annual financial statements of the Corporation and its subsidiaries prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and adopted by the Accounting Standards Board of Canada. These consolidated financial statements have been prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

These consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, except where otherwise indicated. Each entity of the Corporation determines its own functional currency, which it uses to measure its financial statement items.

Note 28 reconciles and describes the effect of the transition from previous Canadian GAAP to IFRS on equity, loss, comprehensive loss and cash flows, and provides line-by-line reconciliations of the statements of financial position as at October 31, 2011 and November 1, 2010, and the statement of loss and statement of comprehensive loss for the year ended October 31, 2011.

These consolidated financial statements have been prepared on a going concern basis, using historical cost accounting, except for certain financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries. In accordance with SIC 12, *Consolidation: Special Purpose Entities*, issued by the International Financial Reporting Interpretations Committee ["IFRIC"], which requires the consolidation of special purpose entities under certain conditions, one special purpose entity formed to lease three aircraft was also consolidated.

SUBSIDIARIES

Subsidiaries are entities over which the Corporation has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date when such control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- Cost is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of income (loss);
- Contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the statement of income (loss) when the contingent consideration is a financial liability;
- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income (loss); and
- For each business combination including non-controlling interests, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Non-controlling interests, which represent the portion of net income (loss) and net assets in subsidiaries that are not 100% owned by the Corporation, are reported separately within equity in the consolidated statement of financial position. 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 estimated redemption value. Any changes in the estimated redemption value are recognized as equity transactions in retained earnings.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies. All intragroup balances, transactions, unrealized gains and losses resulting from intragroup transactions and dividends are fully eliminated on consolidation.

INVESTMENT IN AN ASSOCIATE

An associate is an entity over which the Corporation has significant influence, but no control. The Corporation's investment in an associate is accounted for using the equity method as follows:

- Investment is initially recognized at cost;
- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;
- The Corporation's share of post-acquisition net income (loss) is recognized in the statement of income (loss) and is also netted against the carrying amount of the investment; and
- Gains on transactions between the Corporation and its equity method investee are eliminated to the extent of the Corporation's interest in this entity and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

FOREIGN CURRENCY TRANSLATION

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary are recognized in the statement of income (loss), except for qualifying cash flow hedges, which are deferred and presented as Unrealized gain (loss) on cash flow hedges in Accumulated other comprehensive income (loss) in the statement of changes in equity.

GROUP COMPANIES

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated at the period-end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The exchange differences arising from translation are recognized in Foreign currency translation differences in Accumulated other comprehensive income in equity. On disposal of an interest, the component of Foreign currency translation differences relating to that particular foreign interest is recognized in the consolidated statement of income (loss).

CASH EQUIVALENTS

Cash equivalents consist primarily of term deposits and bankers' acceptances that are highly liquid and readily convertible into known amounts of cash with initial maturities of less than three months.

INVENTORIES

Inventories, consisting primarily of supplies and aircraft parts, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be used as input for net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Depreciation on property, plant and equipment is calculated on a straight line basis, unless otherwise specified, and serves to write down the cost of the assets to their estimated residual value over their expected useful lives as follows:

Aircraft equipment, including spare engines and rotable spare parts	5–10 years or use
Office furniture and equipment	3–10 years
Leasehold improvements	Lease term or useful life
Administrative building	10–45 years

The fleet includes owned aircraft and improvements to aircraft under operating leases. A portion of the cost of owned aircraft is allocated to the "major maintenance activities" subclass, which relates to airframe, engine and landing gear overhaul costs, and the remaining cost is allocated to Aircraft. Aircraft and major maintenance activities are depreciated taking into account their expected estimated residual value. Aircraft are depreciated on a straight-line basis over seven- to ten-year periods, and major maintenance activities are depreciated according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are depreciated according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income (loss) as incurred. Improvements to aircraft under operating leases are depreciated on a straight-line basis over the shorter of the corresponding lease term and their useful life.

Estimated residual values and useful lives are reviewed annually and adjusted if appropriate.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash-generating units ["CGUs"] that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

INTANGIBLE ASSETS

Intangible assets are recorded at cost. The cost of intangible assets acquired in a business combination is recorded at fair value as at the acquisition date. Internally generated intangible assets include developed or modified application software. These costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software product and make it available for use;
- Management intends to complete the software product and use it;
- The Corporation has ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and use the software product are available;
- The expenditures attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project.

Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over their respective useful economic lives, as follows:

Software	3–10 years
Customer lists	7–10 years

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually and adjusted if appropriate.

Intangible assets with indefinite useful lives, consisting mainly of trademarks, are not amortized but are tested for impairment at least annually, either individually or at the CGU level. The useful life of those assets is reviewed annually, at a minimum, to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. If they do not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

OPERATING LEASE AND DEFERRED LEASE INDUCEMENTS

Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the related lease term.

Deferred lease inducements consist of lease incentive amounts received from landlords and rent-free lease periods. These lease inducements are recognized through other liabilities and are amortized over the life of the initial lease term on a straight-line basis as a reduction of amortization expense.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, trade and other receivables, deposits on leased aircraft and engines, investments in ABCP and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, derivative financial instruments with a negative fair value and put options held by non-controlling interests.

Financial assets and financial liabilities, including derivative financial instruments are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial assets/liabilities at fair value through profit or loss, loans and receivables, or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or liabilities at fair value through profit or loss unless they are designated within an effective hedging relationship. Classification is determined by management on initial recognition based on the purpose for their acquisition.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and liabilities at fair value through profit or loss

Financial assets, financial liabilities and derivative financial instruments classified as financial assets or liabilities at fair value through net income (loss) are measured at fair value at the period-end date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of income (loss) as they occur.

Loans and receivables and other financial liabilities

Financial assets as loans and receivables and financial liabilities classified as other financial liabilities are recorded at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Corporation uses derivative financial instruments to hedge against future foreign currency fluctuations in relation to its operating lease payments, receipts of revenues from certain tour operators and disbursements pertaining to certain operating expenses in foreign currencies. For hedge accounting purposes, the Corporation designates its derivative financial instruments related to foreign currencies as hedging instruments.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. This process includes linking all derivative financial instruments to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

These derivative financial instruments are designated as cash flow hedges except for the 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 consolidated statements of financial position. For the derivative financial instruments designated as cash flow hedges, changes in the fair value of the effective portion are recognized in "Other comprehensive income (loss)" in the consolidated statement of comprehensive income (loss). Any ineffective portion 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 cash flow hedge cease to be effective, previously unrealized gains and losses remain within "Accumulated other comprehensive income (loss)" as "Unrealized gain (loss) on cash flow hedges" until the hedged item is settled, and future changes in value of the derivative instrument are recognized in income (loss) prospectively. Changes in value of the effective portion of a cash flow hedge remain in "Accumulated other comprehensive income (loss)" as "Unrealized gain (loss) on cash flow hedges" until the related hedged item is settled, at which time amounts recognized in "Unrealized gain (loss) on cash flow hedges" are reclassified to the same account in the consolidated statement of income (loss) in which the hedged item is recorded. For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in the same account in the consolidated statement of income (loss) as the hedged item.

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

In the normal course of business and to manage exposure to fuel pricing instability, the Corporation also enters into derivative financial instruments used for aircraft fuel purchases that have not been designated for hedge accounting. These derivatives are measured at fair value at the end of each period, and the unrealized gains or losses on remeasurement are recorded and presented 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."

It is the Corporation's policy not to speculate on derivative financial instruments; accordingly, these instruments are normally purchased for risk management purposes and held to maturity.

TRANSACTION COSTS

Transaction costs related to financial assets and financial liabilities classified as financial assets or liabilities at fair value through profit or loss are expensed as incurred. Transactions costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

FAIR VALUE

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted prices in an active market at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets accessible to the Corporation at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

IMPAIRMENT OF FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset [an incurred "loss event"] and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Impairment losses are recognized through profit or loss.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Value in use is calculated using estimated net cash flows, typically based on detailed projections over a five-year period with subsequent years extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model may be used. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized through profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

GOODWILL

Goodwill is tested annually [as at October 31] for impairment and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU [or group of CGUs] to which the goodwill relates. Where the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized.

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment annually [as at October 31] either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

REVERSAL OF IMPAIRMENT LOSSES

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. The reversal is recognized in the statement of income (loss). Impairment losses relating to goodwill cannot be reversed in future periods.

PROVISIONS

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Provisions are measured at their present value.

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 adhere to 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. The excess of the maintenance obligation over maintenance deposits made to lessors and unclaimed is included in liabilities under "Provision for overhaul of leased aircraft."

EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. Certain non-Canadian employees also benefit from post-employment benefits. The net periodic pension expense for these plans is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of income (loss). The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits vest.

The liability recognized in the statements of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in retained earnings and included in the statement of comprehensive income (loss).

Contributions to defined contribution pension plans are expensed as incurred, which is as the related employee service is rendered.

Termination benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Corporation recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

REVENUE RECOGNITION

The Corporation recognizes revenue once the service is rendered all the significant risks and rewards of the service have been transferred to the customer. As a result, revenue earned from passenger transportation is recognized upon each return flight. Revenue from tour operators and the related costs are recognized when passengers depart. Commission revenue from travel agencies is recognized when travel is reserved. Amounts received from customers for services not yet rendered are included in current liabilities as "Customer deposits and deferred income."

Revenue for which the Corporation provides multiple services such as air transportation, tour operator and travel agency services is deferred and only recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. The Corporation treats these different services as separate units of accounting as each service has a value to the customer on a stand-alone basis and the consideration paid for these services is allocated using the relative fair value of each deliverable.

INCOME TAXES

The Corporation provides for income taxes using the liability method. Under this method, deferred tax assets and liabilities are calculated based on differences between the carrying value and tax basis of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Deferred tax assets and liabilities are recognized directly through profit or loss, other comprehensive income, or equity based on the classification of the item to which they relate.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforwards of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

SHARE-BASED PAYMENT PLANS

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash payments.

<u>EQUITY-SETTLED TRANSACTIONS</u>

For equity-settled share-based compensation [stock option plan], expense is based on the grant date fair value of the awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. The value of the compensation is measured using a Black-Scholes option pricing model. For awards with graded vesting, the fair value of each tranche is recognized through profit or loss over its respective vesting period. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to share-based payment reserve are credited to share capital.

<u>CASH-SETTLED TRANSACTIONS</u>

For cash-settled share-based compensation [deferred share unit plan and restricted share unit plan], the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The value of the compensation is measured based on the closing price of Class B shares of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance or service conditions are satisfied. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions through profit or loss.

EMPLOYEE SHARE PURCHASE PLANS

The Corporation's contributions to the employee share purchase plans [stock ownership incentive and capital accumulation plan and permanent stock ownership incentive plan] consist of shares acquired in the marketplace by the Corporation. These contributions are measured at cost and are recognized over the period from the acquisition date to the date that the award vests to the participant. Any consideration paid by the participant to purchase shares under the share purchase plan is credited to share capital.

LOSS PER SHARE

Basic loss per share is computed based on net loss attributable to shareholders of the Corporation, divided by the weighted-average number of Class A variable voting shares and Class B voting shares outstanding during the year.

Diluted loss per share is calculated by adjusting net loss attributable to shareholders of the Corporation for any changes in income or expense that would result from the exercise of dilutive elements. The weighted-average number Class A variable voting shares and Class B voting shares outstanding is increased by the weighted-average number of additional Class A variable voting shares and Class B voting shares that would have been outstanding assuming the exercise of all dilutive elements.

Note 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Corporation's control. Such changes are reflected in the assumptions when they occur.

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

Property, plant and equipment, intangible assets and goodwill represented $96,415, $66,531 and $91,494, respectively, of total assets in the consolidated statement of financial position as at October 31, 2012. Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of fair value less costs to sell and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget and the financial projections for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the various CGUs, including a sensitivity analysis, are discussed in Note 13.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major subclass of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal.

Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. 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.

ASSET BACKED COMMERCIAL PAPER

The fair value of the asset backed commercial paper recorded in the statement of financial position may not be entirely derived from active markets. Where it is not, fair value is determined using the discounted cash flow model. The inputs to that model are derived from observable markets where possible, otherwise judgment is required to determine fair value. Management's judgment takes into account inputs such as credit risk exposures attributable to the underlying assets, prevailing interest rates in the relevant markets and the amounts receivable. Actual results differed from estimated results based on assumptions. As at October 31, 2012, the fair value of ABCP was calculated using information available in the market.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. 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.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, the U.S. dollar exchange rate and other facts and reasonable assumptions in the circumstances. Given that various assumptions are used in determining the provision for overhaul of leased aircraft, the calculation involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

NON-CONTROLLING INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using the value in use. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

EMPLOYEE FUTURE BENEFITS

The cost of defined benefit pension plans and other post-employment benefits and the present value of the associated obligations are determined using actuarial valuations. These actuarial valuations require the use of assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

TAXES

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax legislation and the amount and timing of future taxable income. Given the Corporation's wide range of international business relationships, differences arising between actual results and the assumptions made, or future changes in such assumptions, could give rise to future adjustments in the amounts of income taxes previously reported. Such interpretive differences may arise in a variety of areas depending on the conditions specific to the respective tax jurisdiction of the Corporation's subsidiaries. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgment is required by management to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards and has yet to determine the impact of adopting these standards on the consolidated financial statements.

IFRS 9, *FINANCIAL INSTRUMENTS*

In October 2010, the IASB issued IFRS 9, *Financial Instruments*, which represents the completion of the first of a three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*. The first phase addressed the classification and measurement of financial assets and financial liabilities, whereas the other two phases will cover impairment of financial assets and hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Under the new requirements, an entity choosing to measure a liability at fair value is to present the portion of the change in fair value attributable to changes in credit risk related to equity in other comprehensive income (loss), rather than within the statement of income (loss). IFRS 9 will be effective for the Corporation's fiscal years beginning on or after November 1, 2015, with earlier adoption permitted.

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

In May 2011, the IASB issued IFRS 10, *Consolidated Financial Statements*, which replaces SIC-12, *Consolidation: Special Purpose Entities*, and parts of IAS 27, *Consolidated and Separate Financial Statements*. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. IFRS 10 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

In May 2011, the IASB issued IFRS 12, *Disclosure of Interests in Other Entities*. IFRS 12 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. IFRS 12 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IFRS 13, *FAIR VALUE MEASUREMENT*

In May 2011, the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 will improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS. IFRS 13 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

In June 2011, the IASB amended IAS 1, *Presentation of Financial Statements*. The principal change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income (loss) that may be reclassified to the statement of income (loss). The amendments also reaffirm existing requirements that items in other comprehensive income (loss) and net income (loss) should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 will be effective for the Corporation's fiscal years beginning on or after November 1, 2012, with earlier adoption permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment, as the items within other comprehensive income (loss) that may be reclassified to the statement of income (loss) are already grouped together.

IAS 19, *EMPLOYEE BENEFITS*

In June 2011, the IASB amended IAS 19, *Employee Benefits*. The amendments eliminate the option to defer the recognition of gains and losses, known as the corridor method, which will improve comparability and faithfulness of presentation. The amendments will also streamline the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income (loss), thereby separating those changes from changes that many perceive to be the result of an entity's day-to-day operations. Finally, the amendments enhance the disclosure requirements for defined benefit plans, providing better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans. The amendments to IAS 19 will be effective for the Corporation's fiscal years beginning on or after November 1, 2013, with earlier adoption permitted.

Note 5 BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5,778. TMR specializes in the sale of packages to sun destinations for Canadian travellers, including Cuba, the Dominican Republic and Mexico, and a large portion of the flights are provided by Transat. With this acquisition, the Corporation extends its offering and services to customers in its existing markets.

The Corporation has completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. The excess of the total consideration over the fair value of net assets acquired was allocated to the trademark. The net amounts of assets acquired and liabilities assumed are detailed as follows:

	$
Cash and cash equivalents in trust or otherwise reserved	23,976
Trade and other receivables	6,566
Prepaid expenses	11,238
Property, plant and equipment	291
Intangible assets	4,483
Trade and other payables	(7,766)
Customer deposits and deferred income	(33,827)
Net assets at fair value	4,961
Cash and cash equivalents of acquired business	817
Total consideration	5,778

The results of the acquired business have been consolidated as of the date of acquisition. Since that date, TMR has generated revenues of $97,241 with a pre-tax loss of $5,372, which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated net loss would have included additional revenues of $37,200 and a pre-tax loss of $863.

Note 6 DISPOSAL OF A SUBSIDIARY

On June 12, 2012, the Corporation concluded the sale of its subsidiary Handlex, which provides airport ground-handling services at Montréal, Toronto and Vancouver international airports, to Servisair Holding Canada Inc. for a total consideration of $9,000, of which $6,000 is receivable in two equal annual payments. The balance of sale price receivable bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation. The carrying amount of the net assets disposed of on June 12, 2012 amounted to $3,345, which gave rise to a $5,655 gain on disposal of a subsidiary. The transaction did not trigger any tax expense, as the Corporation used unrecognized capital losses to eliminate the taxation of the capital gain realized on the transaction. The transaction includes a service agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operating hubs.

The carrying value of net assets sold is detailed as follows:

	$
Cash and cash equivalents	890
Trade and other receivables	3,277
Income taxes receivable	598
Inventories	395
Prepaid expenses	506
Property, plant and equipment	3,910
Intangible assets	297
Trade and other payables	(6,333)
Deferred tax liabilities	(195)
Net assets sold	3,345

Note 7 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2012, cash and cash equivalents in trust or otherwise reserved included $288,789 [$281,292 as at October 31, 2011 and $266,617 as at November 1, 2010] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulators and the Corporation's business agreement with one of its credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $81,502, of which $39,119 was recorded as non-current assets [$78,253 as at October 31, 2011, of which $36,231 was recorded as non-current assets and $86,033 as at November 1, 2010, of which $32,222 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 8 TRADE AND OTHER RECEIVABLES

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Trade receivables	57,983	71,954	75,351
Taxes receivable	15,136	15,647	26,296
Other receivables	38,406	36,399	45,297
	111,525	124,000	146,944

Note 9 INVESTMENTS IN ABCP

During the year ended October 31, 2012, the Corporation received proceeds totalling $57,448 from the sale of ABCP with a notional value of $80,000 ($78,814 of ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] and $1,186 of ABCP supported solely by traditional securitized assets [MAV3 Traditional]). The Corporation also received $1,889 in principal repayments on ABCP supported solely by traditional securitized assets [MAV3 Traditional].

On October 31, 2012, the Corporation remeasured its new ABCP at fair value. The Corporation considered available market information in determining the fair value of ABCP. Subsequent to this new valuation, the Corporation recognized an increase, on October 31, 2012, in the fair value of its investments in ABCP of $7,936 [$8,113 for the year ended October 31, 2011]. The ABCP investment portfolio had a fair value, as observed in an active market, of $27,350 and the provision for impairment totalled $7,175, representing 20.8% of the notional value of $34,525.

The following table details the change in balances of investments in ABCP in the statements of financial position and the composition of Gain on investments in ABCP in net loss:

	Notional value $	Provision for impairment $	Investments $	Gain $
Balance as at November 1, 2010	118,122	(45,776)	72,346	
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)
Increase in value of investments in ABCP	—	7,936	7,936	(7,936)
Principal repayments	(1,889)	—	(1,889)	—
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Balance as at October 31, 2012 / Impact on results for the year ended October 31, 2012	34,525	(7,175)	27,350	(7,936)

The balance of investments in ABCP as at October 31, 2012 is detailed as follows:

	Notional value $	Provision for impairment $	Investments $
MAV2 Eligible			
Class A-1	10,478	(1,792)	8,686
Class A-2	19,452	(4,080)	15,372
Class B	3,531	(860)	2,671
Class C	1,036	(415)	621
	34,497	(7,147)	27,350
MAV3 Traditional	28	(28)	—
	34,525	(7,175)	27,350

Subsequent to the end of the year, the Corporation sold its ABCP for a total consideration of $27,350.

Note 10 FINANCIAL INSTRUMENTS

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The classification of financial instruments, other than financial derivative instruments designated as hedges, and their carrying amounts and fair values are detailed as follows:

	Carrying amount				Fair value
	Financial assets/liabilities at fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	$
As at October 31, 2012					
Financial assets					
Cash and cash equivalents	171,175	—	—	171,175	171,175
Cash and cash equivalents in trust or otherwise reserved	370,291	—	—	370,291	370,291
Trade and other receivables	—	111,525	—	111,525	111,525
Investments in ABCP	27,350	—	—	27,350	27,350
Deposits on leased aircraft and engines	—	12,297	—	12,297	12,297
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,159	—	—	4,159	4,159
	572,975	123,822	—	696,797	696,797
Financial liabilities					
Trade and other payables	—	—	285,828	285,828	285,828
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,202	—	—	4,202	4,202
Non-controlling interests	—	—	24,193	24,193	24,193
	4,202	—	310,021	314,223	314,223

	Carrying amount				Fair value
	Financial assets/liabilities at fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	$
As at October 31, 2011					
Financial assets					
Cash and cash equivalents	181,576	—	—	181,576	181,576
Cash and cash equivalents in trust or otherwise reserved	359,545	—	—	359,545	359,545
Trade and other receivables	—	124,000	—	124,000	124,000
Investments in ABCP	78,751	—	—	78,751	78,751
Deposits on leased aircraft and engines	—	12,597	—	12,597	12,597
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	2,048	—	—	2,048	2,048
	621,920	136,597	—	758,517	758,517
Financial liabilities					
Trade and other payables	—	—	355,130	355,130	355,130
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	2,772	—	—	2,772	2,772
Non-controlling interests	—	—	28,910	28,910	28,910
	2,772	—	384,040	386,812	386,812

	Carrying amount				Fair value
	Financial assets/liabilities at fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	$
As at November 1, 2010					
Financial assets					
Cash and cash equivalents	180,627	—	—	180,627	180,627
Cash and cash equivalents in trust or otherwise reserved	352,650	—	—	352,650	352,650
Trade and other receivables	—	146,944	—	146,944	146,944
Investments in ABCP	72,346	—	—	72,346	72,346
Deposits on leased aircraft and engines	—	10,554	—	10,554	10,554
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	634	—	—	634	634
	606,257	157,498	—	763,755	763,755
Financial liabilities					
Trade and other payables	—	—	300,239	300,239	300,239
Long–term debt	—	—	29,059	29,059	29,059
Derivative financial instruments					
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	105	—	—	105	105
Non-controlling interests	—	—	26,062	26,062	26,062
	105	—	355,360	355,465	355,465

DETERMINATION OF FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions were used to measure fair value:

The fair value of trade and other receivables, and accounts payable and accrued liabilities approximates their carrying amount due to the short-term maturity of these financial instruments.

The fair value of investments in ABCP was determined based on available market information; see note 9.

The fair value of deposits on leased aircraft and engines approximates their carrying amount given that they are subject to terms and conditions similar to those available to the Corporation for instruments with comparable terms.

The estimated redemption value of non-controlling interests in respect of which non-controlling shareholders hold an option to require the Corporation to buy back their shares was determined using a discounted cash flow model.

The fair value of long-term debt approximates its carrying amount given that it is subject to terms and conditions, including variable interest rates, similar to those available to the Corporation for instruments with comparable terms.

The following table details the fair value hierarchy of financial instruments by level:

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2012				
Financial assets				
Investments in ABCP	27,350	—	—	27,350
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	4,159	—	4,159
– Foreign exchange forward contracts – designed as cash flow hedges	—	3,301	—	3,301
	27,350	7,460	—	34,810
Financial liabilities				
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	4,202	—	4,202
– Foreign exchange forward contracts – designed as cash flow hedges	—	4,214	—	4,214
Non-controlling interests	—	—	24,193	24,193
	—	8,416	24,193	32,609

Investments in ABCP were reclassified to Level 1 from Level 3 since they have been evaluated using quoted prices in active markets.

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2011				
Financial assets				
Investments in ABCP	—	—	78,751	78,751
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	2,048	—	2,048
– Foreign exchange forward contracts – designated as cash flow hedges	—	5,887	—	5,887
	—	7,935	78,751	86,686
Financial liabilities				
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	2,772	—	2,772
– Foreign exchange forward contracts – designated as cash flow hedges	—	2,887	—	2,887
Non-controlling interests	—	—	28,910	28,910
	—	5,659	28,910	34,569

	Quoted prices in active market (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at November 1, 2010				
Financial assets				
Investments in ABCP	—	—	72,346	72,346
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	634	—	634
– Foreign exchange forward contracts – designated as cash flow hedges	—	234	—	234
	—	868	72,346	73,214
Financial liabilities				
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	105	—	105
– Foreign exchange forward contracts – designated as cash flow hedges	—	4,011	—	4,011
Non-controlling interests	—	—	26,062	26,062
	—	4,116	26,062	30,178

MANAGEMENT OF RISKS ARISING FROM 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.

CREDIT AND COUNTERPARTY RISK

Credit risk stems primarily from the potential inability of customers, 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 under trade and other receivables in the statements of financial position totalled $57,983 as at October 31, 2012 [$71,954 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, 2012 and 2011. As at October 31, 2012, approximately 8% [approximately 6% as at October 31, 2011] of accounts receivable were over 90 days past due, whereas approximately 79% [approximately 82% as at October 31, 2011] were up to date, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Pursuant to certain 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, 2012, these deposits totalled $31,406 [$36,909 as at October 31, 2011] 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 $12,297 as at October 31, 2012 [$12,597 as at October 31, 2011] and are returned as leases expire. 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 generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2012, the cash security deposits with lessors that have been claimed totalled $18,801 [$19,309 as at October 31, 2011] and are included in Trade and other receivables. 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, 2012 relates to cash and cash equivalents, including cash and cash equivalents in trust and otherwise 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 only 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 Dominion Bond Rating Service (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.

The Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2012.

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.

The maturities of the Corporation's financial liabilities as at October 31, 2012 are summarized in the following table:

	Maturing in under 1 year $	Maturing in 1 to 2 years $	Maturing in 2 to 5 years $	Contractual cash flows Total $	Carrying amount Total $
Accounts payable and accrued liabilities	285,828	—	—	285,828	285,828
Non-controlling interests	21,391	—	2,802	24,193	24,193
Derivative financial instruments	8,505	—	—	8,505	8,416
Total	315,724	—	2,802	318,526	318,437

MARKET RISK

FOREIGN EXCHANGE RISK

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, long-term debt and 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, as the case may be. 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 10% 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.

Expressed in Canadian dollar terms, the net financial assets and net financial liabilities of the Corporation and its subsidiaries denominated in currencies other than the measurement currency of the financial statements as at October 31, based on their financial statement measurement currency, are summarized in the following table:

Net assets (liabilities)	U.S. dollar $	Euro $	Pound sterling $	Canadian dollar $	Other currencies $	Total $
2012						
Financial statement measurement currency of the group's companies						
Euro	(7,080)	—	526	2,520	(680)	(4,714)
Pound sterling	37	518	—	1,509	—	2,064
Canadian dollar	(143)	(1,780)	3,109	—	(314)	872
Other currencies	846	44	—	(14)	368	1,244
Total	(6,340)	(1,218)	3,635	4,015	(626)	(534)

Net assets (liabilities)	U.S. dollar $	Euro $	Pound sterling $	Canadian dollar $	Other currencies $	Total $
2011						
Financial statement measurement currency of the group's companies						
Euro	(6,666)	—	175	4,754	(1,964)	(3,701)
Pound sterling	406	2,721	—	6,412	—	9,539
Canadian dollar	(19,627)	(13,489)	(2,027)	—	(1,333)	(36,476)
Other currencies	92	50	—	—	613	755
Total	(25,795)	(10,718)	(1,852)	11,166	(2,684)	(29,883)

On October 31, 2012, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $226 increase or decrease [$1,270 as at October 31, 2011], respectively, in the Corporation's net loss for the year ended October 31, 2012, whereas other comprehensive loss would have increased or decreased by $1,300 [$8,800 as at October 31, 2011], respectively.

RISK OF FLUCTUATIONS IN FUEL PRICES

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 mitigate fuel price fluctuations, 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.

On October 31, 2012, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $12,064 increase or decrease [$13,200 as at October 31, 2011], respectively, in the Corporation's net loss for the year ended October 31, 2012.

As at October 31, 2012, 34% of estimated fuel requirements for fiscal 2013 were covered by fuel-related derivative financial instruments [25% of estimated requirements for fiscal 2012 were covered as at October 31, 2011].

INTEREST RATE RISK

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate credit facility. 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.

For the year ended October 31, 2012, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $1,400 increase or decrease [$1,400 in 2011], respectively, in the Corporation's net loss.

CAPITAL RISK MANAGEMENT

The Corporation's capital management objectives are first to ensure the longevity of its capital so as to support continued operations, provide its shareholders with a return, generate benefits for its other stakeholders and maintain the most optimal capitalization possible with a view to keeping capital costs to a minimum.

The Corporation manages its capitalization in accordance with changes in economic conditions. In order to maintain or adjust its capitalization, the Corporation may elect to declare dividends to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issue new shares.

The Corporation monitors its capitalization using the adjusted debt/equity ratio. This ratio is calculated as follows: net debt/equity. Net debt is equal to the aggregate of long-term debt and obligations under operating leases, less cash and cash equivalents [not held in trust or otherwise reserved] and investments in ABCP.

The Corporation's strategy is to maintain its debt/equity ratio below 1. The calculation of the debt/equity ratio is summarized as follows:

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Net debt			
Long–term debt	—	—	29,059
Obligations under operating leases *[note 25]*	530,907	636,618	637,520
Cash and cash equivalents	(171,175)	(181,576)	(180,627)
Investments in ABCP	(27,350)	(78,751)	(72,346)
	332,382	376,291	413,606
Equity	368,661	386,566	406,269
Debt/equity ratio	90.2%	97.3%	101.8%

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2012, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third- party capital requirements.

Note 11 DEPOSITS

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Deposits on leased aircraft and engines	12,297	12,597	10,554
Deposits with suppliers	31,406	36,909	31,837
	43,703	49,506	42,391
Less current portion	12,968	15,599	12,554
	30,735	33,907	29,837

Note 12 PROPERTY, PLANT AND EQUIPMENT

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2011	214,953	95,574	68,348	45,968	424,843
Additions	36,017	3,327	4,767	1,244	45,355
Disposals	—	(16,866)	(4,517)	(2,788)	(24,171)
Transfers	3,947	(3,947)	—	—	—
Exchange difference	—	—	(680)	(873)	(1,553)
Balance as at October 31, 2012	254,917	78,088	67,918	43,551	444,474
Accumulated amortization					
Balance as at October 31, 2011	177,071	77,394	56,531	27,327	338,323
Amortization	17,889	3,783	5,749	3,399	30,820
Disposals	—	(13,168)	(4,416)	(2,780)	(20,364)
Transfers	3,809	(3,809)	—	—	—
Exchange difference	—	—	(457)	(263)	(720)
Balance as at October 31, 2012	198,769	64,200	57,407	27,683	348,059
Net book value as at October 31, 2012	56,148	13,888	10,511	15,868	96,415

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Building and leasehold improvements $	Total $
Cost					
Balance as at November 1, 2010	194,181	93,150	77,263	41,455	406,049
Additions	20,772	2,424	4,617	4,800	32,613
Disposals	—	—	(13,303)	—	(13,303)
Exchange difference	—	—	(229)	(287)	(516)
Balance as at October 31, 2011	214,953	95,574	68,348	45,968	424,843
Accumulated amortization					
Balance as at November 1, 2010	157,315	73,167	63,115	24,076	317,673
Amortization	19,756	4,227	6,860	3,397	34,240
Disposals	—	—	(13,303)	—	(13,303)
Exchange difference	—	—	(141)	(146)	(287)
Balance as at October 31, 2011	177,071	77,394	56,531	27,327	338,323
Net book value as at October 31, 2011	37,882	18,180	11,817	18,641	86,520

Note 13 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at October 31, 2011	109,495	100,584	14,694	12,145	236,918
Additions	—	20,313	4,487	—	24,800
Disposals	—	(2,630)	—	—	(2,630)
Exchange difference	(3,001)	(593)	51	42	(3,501)
Balance as at October 31, 2012	106,494	117,674	19,232	12,187	255,587
Accumulated amortization and impairment					
Balance as at October 31, 2011	—	68,206	—	6,870	75,076
Amortization	—	8,241	—	1,334	9,575
Impairment	15,000	—	—	—	15,000
Disposals	—	(1,713)	—	—	(1,713)
Exchange difference	—	(409)	—	33	(376)
Balance as at October 31, 2012	15,000	74,325	—	8,237	97,562
Net book value as at October 31, 2012	91,494	43,349	19,232	3,950	158,025

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at November 1, 2010	112,454	89,432	14,687	12,040	228,613
Additions	—	22,252	213	209	22,674
Disposals	—	(10,870)	—	—	(10,870)
Exchange difference	(2,959)	(230)	(206)	(104)	(3,499)
Balance as at October 31, 2011	109,495	100,584	14,694	12,145	236,918
Accumulated depreciation and impairment					
Balance as at November 1, 2010	—	60,126	—	5,569	65,695
Amortization	—	8,241	—	1,316	9,557
Disposals	—	(36)	—	—	(36)
Exchange difference	—	(125)	—	(15)	(140)
Balance as at October 31, 2011	—	68,206	—	6,870	75,076
Net book value as at October 31, 2011	109,495	32,378	14,694	5,275	161,842

The aggregate carrying amounts of goodwill and trademarks allocated to each CGU are as follows:

	October 31, 2012		October 31, 2011		November 1, 2010	
	Goodwill	Trademarks	Goodwill	Trademarks	Goodwill	Trademarks
	$	$	$	$	$	$
Canada – United Kingdom – Netherlands *	64,262	19,921	64,404	14,683	64,856	14,671
France *	18,471	—	35,687	—	41,433	—
Other *	8,761	11	9,404	11	6,165	16
Net book value as at October 31, 2011	91,494	19,932	109,495	14,694	112,454	14,687

* Multiple individual CGUs

The Corporation performed an impairment test as at October 31, 2012 to determine whether the carrying amount of CGUs were higher than their recoverable amount. Except for a CGU in France, no impairment was identified.

Following the impairment test performed on a CGU in France, which includes outgoing tour operators that generate a significant percentage of their revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt, and a travel agency network, the Corporation recognized an impairment loss on goodwill of $15,000. Goodwill for the CGU in France totalled $13,544, net of impairment loss.

The recoverable amount of the CGU in France was determined based on its value in use, using a discounted cash flow model. In establishing its key assumptions, management considered, among other factors, the potential impact on its future results of the prevailing political climate in North Africa and current economic conditions in Europe. The cash flows used are derived from the budget and the financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the CGU's performance. An after-tax discount rate of 11.5% and a long-term growth rate of 1% were used for the impairment test. The recognized impairment loss resulted primarily from the decrease in revenues from the sale of products to North African countries (Tunisia, Morocco and Egypt) and Greece, and the CGU's lower profitability.

An after-tax discount rate of 11.5% was used for testing the other CGUs for impairment as at October 31, 2012. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and three-year plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond four years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets. The growth rate is based on industry trend. The growth rate used for impairment reviews was 1% as at October 31, 2012.

On October 31, 2012, a 1% increase in the after-tax discount rate used for impairment tests, assuming that all other variables had remained the same, would have resulted in a $1,500 increase in the impairment loss for the CGU in France, and would not have required any other impairment charge.

On October 31, 2012, a 1% decrease in the long-term growth rate used for impairment tests, assuming that all other variables had remained the same, would have resulted in a $1,000 increase in the impairment loss for the CGU in France, and would not have required any other impairment charge.

On October 31, 2012, a 10% decrease in the cash flows used for impairment tests, assuming that all other variables had remained the same, would have resulted in a $1,000 increase in the impairment loss for the CGU in France, and would not have required any other impairment charge.

On October 31, 2012, the Corporation performed its annual tests for impairment of trademarks and no impairment was detected. Management is of the opinion that no reasonable change in the key assumptions used in the annual impairment test could have produced carrying amounts for trademarks that are significantly higher than the calculated fair values.

Note 14 INVESTMENTS AND OTHER ASSETS

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Investment in an associate – Caribbean Investments B.V. ["CIBV"]	64,189	60,612	61,239
Balance of sale price receivable	3,000	—	—
Deferred costs, unamortized balance	793	1,301	1,868
Sundry	1,644	1,893	1,761
	69,626	63,806	64,868

Transat has a 35% interest in CIBV, an associate which owns and operates hotels in Mexico, the Dominican Republic and Cuba. CIBV's fiscal year-end is December 31 and the Corporation recognizes its investment using the equity method and results for the 12-month period ended September 30 of each year.

The balance of sale price receivable related to the sale of the Handlex subsidiary is payable on June 12, 2014, bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation.

The change in the investment in CIBV is detailed as follows:

	2012 $	2011 $
Balance, beginning of year	60,612	61,239
Share of net income	3,495	827
Translation adjustment	82	(1,454)
	64,189	60,612

The financial information regarding the Corporation's investment in CIBV are summarized in the following table:

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Share of statement of financial position:			
Total assets	109,071	113,531	118,924
Total liabilities	44,882	52,919	57,685
Carrying amount of investment in CIBV	64,189	60,612	61,239
Share of revenues and net income			
Revenues	29,365	25,766	23,202
Net income (loss)	3,495	827	(490)

CIBV's majority shareholder may demand that the Corporation provide the necessary funds to repay one of CIBV's long-term debts should CIBV be unable to cover the scheduled repayments. However, the maximum amount that the Corporation could be required to provide may not exceed its 35% share of said long-term debt. As at October 31, 2012, the Corporation's share of the long-term debt amounted to $4,016 [US$4,017].

Note 15 TRADE AND OTHER PAYABLES

	October 31, 2012	October 31, 2011	November 1, 2010
	$	$	$
Trade payables	157,811	216,364	178,958
Frais courus	64,381	69,120	54,004
Salaries and employee benefits payable	54,579	59,854	60,416
Non-controlling interests	21,391	26,618	—
Amounts due to the government	9,057	9,792	6,861
	307,219	381,748	300,239

Note 16 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

	$
Balance as at October 31, 2011	33,318
Additional provisions	11,574
Utilization of provisions	(10,441)
Unused amounts released	(2,582)
Balance as at October 31, 2012	31,869
Current provisions	19,513
Non-current provisions	12,356
Balance as at October 31, 2012	31,869

	$
Balance as at November 1, 2010	30,709
Additional provisions	15,949
Utilization of provisions	(11,348)
Unused amounts released	(1,992)
Balance as at October 31, 2011	33,318
Current provisions	19,088
Non-current provisions	14,230
Balance as at October 31, 2011	33,318

The provision for overhaul of leased aircraft relates to maintenance on leased aircraft and spares used by the Corporation's airline in respect of operating leases.

Note 17 LONG–TERM DEBT

Long-term debt is summarized as follows:

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Loans secured by aircraft repaid during the year [US$13,333 as at November 1, 2010]	—	—	13,584
Drawdowns under the revolving term credit facilities maturing from 2010 to 2015	—	—	15,000
Other	—	—	475
	—	—	29,059
Less current portion	—	—	13,768
	—	—	15,291

On June 13, 2012, the Corporation arranged to reduce its credit by $50,000. Accordingly, the Corporation now has a $50,000 revolving term credit facility for its operations, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms of the 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. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and will be further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rates, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at October 31, 2012, all financial ratios were met and the credit facility was undrawn.

The Corporation also has a $60,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at October 31, 2012, $52,525 had been drawn down.

Operating lines of credit totalling €11,500 [$14,896] [€11,500 [$15,934] in 2011] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2012 and 2011, and November 1, 2010.

Note 18 OTHER LIABILITIES

	October 31, 2012 $	October 31, 2011 $	As at November 1, 2010 $
Employee benefits *[note 24]*	31,961	28,307	26,924
Deferred lease inducements	19,685	20,831	18,500
Non-controlling interests	24,193	28,910	26,062
	75,839	78,048	71,486
Less non-controlling interests included in Trade and other payables	21,391	26,618	—
	54,448	51,430	71,486

NON-CONTROLLING INTERESTS

a] The minority shareholder in the subsidiary Jonview Canada Inc., which is also a shareholder of the Corporation, may require the Corporation to buy its Jonview Canada Inc. shares at a price equal to their fair market value. The price paid may be settled, at the Corporation's option, in cash or by a share issue. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

b] Between 2014 and 2018, the minority shareholders of the subsidiary Travel Superstore Inc. could require that the Corporation purchase their Travel Superstore Inc. shares at a price equal to their fair market value, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

c] The minority shareholder of the subsidiary Trafictours Canada Inc. could require, in certain circumstances, that the Corporation purchase its Trafictours Canada Inc. shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

Note 19 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

Each issued and outstanding Class A Share shall be automatically converted into one Class B Voting Share without further action on the part of the Corporation or of the holder if [i] the Class A Share is or becomes owned and controlled by a Canadian as defined by the CTA; or [ii] the provisions contained in the CTA relating to foreign ownership restrictions are repealed and not replaced with other similar provisions.

CLASS B VOTING SHARES

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation. Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	$
Balance as at November 1, 2010	37,849,834	217,604
Issued from treasury	129,067	1,361
Exercise of options	42,819	497
Balance as at October 31, 2011	38,021,720	219,462
Issued from treasury	273,948	1,274
Balance as at October 31, 2012	38,295,668	220,736

As at October 31, 2012, the number of Class A Shares and Class B Shares stood at 884,484 and 37,411,184, respectively [933,731 and 37,087,989 as at October 31, 2011].

SUBSCRIPTION RIGHTS PLAN

At the Annual General Meeting [AGM] held on March 10, 2011, the shareholders ratified the shareholders' subscription rights plan amended and updated on January 12, 2011 [the "rights plan"]. The rights plan entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider offers, thus allowing shareholders to receive full and fair value for their shares. The rights plan will terminate at the 2014 shareholders' AGM, unless terminated prior to said AGM.

STOCK OPTION PLAN

Under the stock option plan, the Corporation may grant up to a maximum of 1,945,000 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted are exercisable over a ten-year period, provided the performance criteria determined on each grant are met. The remaining options available for grant under the former plan totalled 813,474. The options granted are exercisable over a ten-year period in three tranches of 33.33% as of mid-December of each year provided the performance criteria determined on each grant are met. Provided that the performance criteria set on grant are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

Under the former stock option plan, the Corporation may grant up to a maximum of 178,937 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Under the plan, cancelled options will be available for grant in future. Options granted in the past are exercisable over a ten-year period; a maximum of one-third of options is exercisable in the second year after the grant date, a maximum of two thirds of options in the third year subsequent to the grant, with all options exercisable at the outset of the fourth year.

The following tables summarize all outstanding options:

	2012		2011	
	Number of options	Weighted average price $	Number of options	Weighted average price $
Beginning of year	1,744,477	16.88	1,722,302	16.04
Granted	734,373	7.48	237,239	19.24
Exercised	—	—	(42,819)	8.63
Cancelled	(279,040)	14.88	(172,245)	13.85
End of year	2,199,810	13.99	1,744,477	16.88
Options exercisable, end of year	881,736	18.96	907,328	19.65

2012	Outstanding options			Options exercisable	
Range of exercise price $	Number of options outstanding as at October 31, 2012	Weighted average remaining life	Weighted average price $	Number of options exercisable as at October 31, 2012	Weighted average price $
3.80	1,316	0.5	3.80	1,316	3.80
7.48	712,439	9.2	7.48	—	7.48
10.52–12.25	796,164	7.1	11.81	378,274	11.32
15.68–19.24	217,584	7.3	18.75	29,839	15.68
21.36–24.78	367,357	4.3	21.93	367,357	21.93
37.25	104,950	4.5	37.25	104,950	37.25
	2,199,810	7.2	13.99	881,736	19.65

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2012, the Corporation granted 734,373 stock options [237,239 in 2011] to certain key executives and employees. The average fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

	2012	2011
Risk-free interest rate	1.37%	3.26%
Expected life	6 years	6 years
Expected volatility	52.5%	52.9%
Dividend yield	—	—
Weighted average fair value at date of grant	$3.39	$9.93

During the year ended October 31, 2012, the Corporation recorded a compensation expense of $2,273 [$2,100 in 2011] for its stock option plan.

STOCK PURCHASE PLAN

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2012, the Corporation was authorized to issue up to 385,177 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 273,948 Class B Shares [129,067 Class B Shares in 2011] for a total of $1,274 [$1,361 in 2011] under the share purchase plan.

STOCK OWNERSHIP INCENTIVE AND CAPITAL ACCUMULATION PLAN

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of Class B Shares, the aggregate purchase price of which is equal to an amount ranging from 20% to 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest gradually to the eligible officer, subject to the eligible officer's retaining, during the first six months of the vesting period, all the shares purchased under the Corporation's share purchase plan.

The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' accounts as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2012, the Corporation accounted for a compensation expense of $111 [$141 in 2011] for its stock ownership incentive and capital accumulation plan.

PERMANENT STOCK OWNERSHIP INCENTIVE PLAN

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible senior executive a number of Class B Shares, the aggregate purchase price of which is equal to the maximum percentage of salary contributed, which may not exceed 10%. Shares so awarded by the Corporation will vest gradually to the eligible senior executive, subject to the senior executive's retaining, during the vesting period, all the shares purchased under the Corporation's share purchase plan. The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' account as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2012, the Corporation accounted for a compensation expense of $358 [$260 in 2011] for its permanent stock ownership incentive plan.

DEFERRED SHARE UNIT PLAN

Deferred share units ["DSUs"] are awarded in connection with the senior executive deferred share unit plan and the independent director deferred share unit plan. Under these plans, each eligible senior executive or independent director receives a portion of his or her compensation in the form of DSUs. The value of a DSU is determined based on the average closing price of the Class B Shares for the five trading days prior to the award of the DSUs. The DSUs are repurchased by the Corporation when a senior executive or a director ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the average closing price of the Class B Shares for the five trading days prior to the repurchase of the DSUs.

As at October 31, 2012, the number of DSUs awarded amounted to 103,533 [62,266 as at October 31, 2011]. During the year ended October 31, 2012, subsequent to the decline in its share prices, the Corporation reduced compensation expense by $80 [reduced compensation expense by $405 in 2011] for its deferred share unit plan.

RESTRICTED SHARE UNIT PLAN

Restricted share units ["RSUs"] are awarded annually to eligible employees under the new restricted share unit plan. Under this plan, each eligible employee receives a portion of his or her compensation in the form of RSUs. The value of an RSU is determined based on the weighted average closing price of the Class B Shares for the five trading days prior to the award of the RSUs. The rights related to RSUs are acquired over a period of three years. When acquired, the RSUs are immediately repurchased by the Corporation, subject to certain conditions and certain provisions relating to the Corporation's financial performance. For the purpose of repurchasing RSUs, the value of an RSU is determined based on the weighted average closing price of the Class B Shares for the five trading days prior to the repurchase of the RSUs.

As at October 31, 2012, the number of RSUs awarded amounted to 566,918 [461,371 as at October 31, 2011]. For the year ended October 31, 2012, subsequent to the revaluation of its financial performance covenants, the Corporation did not recognize a compensation expense for its restricted share unit plan [decreased compensation expense by $1,860 in 2011] .

LOSS PER SHARE

Basic and diluted loss per share were computed as follows:

[In thousands, except per share amounts]	2012 $	2011 $
NUMERATOR		
Net loss attributable to shareholders of the Corporation used in computing basic and diluted loss per share	(16,669)	(14,711)
DENOMINATOR		
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,142	37,930
Loss per share		
Basic	(0.44)	(0.39)
Diluted	(0.44)	(0.39)

In light of the net losses recognized for the years ended October 31, 2012 and 2011, the 2,199,810 outstanding stock options [1,744,477 stock options in 2011] were not included in the calculation of diluted loss per share because of their antidilutive effect.

Note 20 ADDITIONAL DISCLOSURE ON EXPENSES

SALARIES AND EMPLOYEE BENEFITS

	2012 $	2011 $
Salaries and short-term employee benefits	370,619	370,688
Long-term employee benefits *[note 24]*	2,088	2,349
Share-based payment expense	2,273	2,100
	374,980	375,137

DEPRECIATION AND AMORTIZATION

	2012 $	2011 $
Property, plant and equipment	30,820	34,240
Intangible assets subject to amortization	9,575	9,557
Other assets	650	886
Deferred lease inducements	(252)	(869)
	40,793	43,814

Note 21 RESTRUCTURING CHARGE

During the last quarter of the year ended October 31, 2011, the Corporation developed a restructuring plan mainly aimed at reducing direct costs and operating expenses, and adjusting its information systems approach. Under this plan, the Corporation recognized a restructuring charge totalling $16,543. The charge consists of $6,513 in termination benefits payable in cash of which an amount of $4,324 was unpaid as at October 31, 2011 and included under accounts payable and accrued liabilities. The plan also provides for changes in IT solutions to facilitate a faster deployment of proven solutions at lower cost. As a result, the Corporation recorded an impairment charge of $10,030 on software under development for the year ended October 31, 2011.

Note 22 INCOME TAXES

The major components of the income tax expense for the years ended October 31 are:

Consolidated statements of loss	2012 $	2011 $
Current		
Current income taxes	(4,073)	6,057
Adjustment to taxes payable for prior years	(228)	(176)
	(4,301)	5,881
Deferred		
Relating to temporary differences	887	(11,656)
Income tax expense (recovery)	(3,414)	(5,775)

Income taxes on items in other comprehensive loss are:

Consolidated statements of comprehensive loss	2012 $	2011 $
Deferred		
Change in fair value of derivatives designated as cash flow hedges	(969)	1,722
Change in defined benefits plans – Actuarial gain (loss) on the obligation	(435)	66
Income tax expense (recovery) on comprehensive loss	(1,404)	1,788

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the years ended October 31:

	2012		2011	
	%	$	%	$
Income taxes at the statutory rate	27.2	(4,602)	28.7	(4,993)
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	24.2	(4,108)	17.5	(3,057)
Non deductible (non taxable) items	(36.0)	6,102	(9.9)	1,719
Recognition of previously unrecorded tax benefits	8.6	(1,457)	—	—
Unrecognized tax benefits	(4.2)	704	(1.5)	238
Adjustments for prior years	0.2	(26)	1.1	(176)
Effect of tax rate changes	0.8	(142)	—	—
Effect of differences in tax rates on temporary items	1.4	(244)	(0.9)	144
Other	(2.1)	359	(1.9)	350
	20.1	(3,414)	33.1	(5,775)

The applicable statutory income tax rates were 27.2% and 28.7%, respectively, for the years ended October 31, 2012 and 2011. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate. The change in statutory tax rates is caused by the decrease in the federal corporate tax rate.

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components of the deferred tax assets and liabilities were as follows:

	Consolidated statements of financial position			Consolidated statements of loss	
	As at October 31, 2012	As at October 31, 2011	As at November 1, 2010	2012	2011
	$	$	$	$	$
Deferred tax losses	15,837	15,516	6,362	80	9,154
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	(7,688)	(7,772)	(11,289)	(245)	3,517
Intangible assets, excluding software	(3,441)	(4,628)	(4,906)	1,187	278
Derivative financial instruments	189	(596)	465	(184)	661
Other financial assets and other assets	(3,479)	(2,827)	(2,292)	(652)	(535)
Provisions	904	2,447	4,170	(1,077)	(1,723)
Employee benefits	8,673	7,872	7,502	366	426
Other financial liabilities and other liabilities	2,075	2,437	2,559	(362)	(122)
Net deferred tax assets	13,070	12,449	2,571	(887)	11,656

The changes in net deferred tax assets are as follows:

	2012	2011
	$	$
Balance, beginning of year	12,449	2,571
Recognized in the consolidated statements of loss	(887)	11,656
ecognized under other comprehensive loss in consolidated statements of comprehensive loss	1,404	(1,788)
Disposal of business	326	—
Other	(222)	10
	13,070	12,449

The deferred tax assets are detailed below:

	2012	2011
	$	$
Deferred tax assets	24,338	26,723
Deferred tax liabilities	(11,268)	(14,274)
Net deferred tax assets	13,070	12,449

As at October 31, 2012, non-capital losses carried forward and other tax deductions for which a writedown was recorded, available to reduce future taxable income of certain subsidiaries in Canada totalled $1,012 [$779 as at October 31, 2011] and MXP 54,412 [$4,326] [MXP 27,340 [$2,238] as at October 31, 2010] in Mexico.

Of these loss carryforwards and deductions, $1,102 expires in 2026 and thereafter, MXP 54,412 ($4,326) expires in 2020 and thereafter.

The Corporation did not recognize any deferred tax liability on retained earnings of its foreign subsidiaries and its associate company as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad. Taxable temporary differences for which no income tax liability has been recognized amount to approximately $1,700.

Note 23 RELATED PARTY TRANSACTIONS AND BALANCES

The consolidated financial statements include those of the Corporation and those of its subsidiaries. The main subsidiaries and associates of the Corporation are listed below:

	Country of incorporation	Interest (%) 2012	Interest (%) 2011
Air Transat A.T. Inc.	Canada	100	100
Vacances Tours Mont-Royal	Canada	100	—
Transat Tours Canada Inc.	Canada	100	100
Transat Distribution Canada inc.	Canada	100	100
Jonview Canada Inc.	Canada	80.1	80.1
Travel Superstore inc.	Canada	64.6	64.6
The Airline Seat Company Ltd.	United Kingdom	100	100
Look Voyages S.A.	France	99.7	99.7
Vacances Transat S.A.S	France	100	100
Eurocharter S.A.S.	France	100	100
L'Européenne de Tourisme S.A.	France	100	100
Tourgreece Tourist Enterprises S.A.	Greece	100	100
Air Consultant Europe B.V.	Netherlands	100	100
Caribbean Investments B.V.	Netherlands	35	35
Caribbean Transportation Inc.	Barbados	70	70
CTI Logistics Inc.	Barbados	70	70
Sun Excursion Inc.	Barbados	70	70
Sun Excursion Caribbean Inc.	Barbados	70	70
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	70	70
Trafictours de Mexico S.A. de C.V.	Mexico	70	70
Promotura Turistica Regiona S.A. de C.V.	Mexico	100	100
Services Aéroportuaires Handlex Inc.	Canada	—	100

The Corporation enters into transactions in the normal course of business with its associate. These transactions are carried out at arm's length. Significant transactions are as follows:

	2012 $	2011 $
Cost of providing tourism services	10,322	12,213

Outstanding balances with our associate are as follows:

	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Trade and other payables	120	141	253

COMPENSATION OF KEY SENIOR EXECUTIVES

The annual compensation and related compensation costs of directors and key senior executives, namely the President and Chief Executive Officer and the Senior Vice Presidents of the Corporation are as follows:

	2012 $	2011 $
Salaries and short-term employee benefits	3,693	4,377
Long-term employee benefits	715	651
Share-based payment expense	1,320	1,301

Note 24 EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees. Employees in some foreign subsidiaries benefit from certain post-employment benefits.

DEFINED BENEFIT ARRANGEMENTS AND POST-EMPLOYMENT BENEFITS

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. The post-employment benefits that employees in some foreign subsidiaries are entitled to comprise an allowance paid upon retirement. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $34,707 letter of credit to the trustee [*see note 7*]. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation and in the other post-employment benefit obligation:

	Retirement benefits		Other benefits		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Present value of obligations, beginning of year	26,582	25,325	1,725	1,599	28,307	26,924
Current service cost	869	961	—	108	869	1,069
Financial costs	1,219	1,231	—	49	1,219	1,280
Benefits paid	(725)	(715)	—	—	(725)	(715)
Experience losses (gains)	(138)	—	—	—	(138)	—
Actuarial loss (gain) on obligation	2,543	(220)	—	—	2,543	(220)
Effect of exchange rate changes	—	—	(114)	(31)	(114)	(31)
Present value of obligations, end of year	30,350	26,582	1,611	1,725	31,961	28,307

The following table provides the components of retirement benefits costs for the years ended October 31:

	Retirement benefits		Other benefits		Total	
	2012 $	2011 $	2012 $	2011 $	2012 $	2011 $
Current service cost	869	961	—	108	869	1,069
Interest cost	1,219	1,231	—	49	1,219	1,280
Total cost of retirement benefits	2,088	2,192	—	157	2,088	2,349

The significant actuarial assumptions adopted to determine the Corporation's retirement benefit obligation and expense were as follows:

	2012 %	2011 %
Retirement benefit obligation		
Discount rate	3.75	4.50
Rate of increase in eligible earnings	2.25	3.00
Retirement benefit cost		
Discount rate	4.50	4.75
Rate of increase in eligible earnings	3.00	3.00

A 0.25 percentage point increase in the actuarial assumptions below would have the following impacts, all other actuarial assumption remaining the same:

Increase (decrease)	Retirement benefit expense for the year ended October 31, 2012 $	Retirement benefit obligations as at October 31, 2012 $
Discount rate	(2)	(900)
Rate of increase in eligible earnings	7	36

The funded status of the benefits and the amounts recorded in the statements of financial position under other liabilities were as follows:

	2012 $	2011 $
Plan assets at fair value	—	—
Accrued benefit obligation	30,350	26,582
Benefit plan deficit	30,350	26,582

Changes in the cumulative amount of net actuarial losses recognized in other comprehensive loss and presented as a separate component of retained earnings were as follows:

Gains (losses)	$
Transition adjustment:	
Actuarial losses	(8,178)
Income taxes	2,502
November 1, 2010	(5,676)
Actuarial gains	220
Income taxes	(66)
October 31, 2011	(5,522)
Actuarial losses	(2,405)
Income taxes	435
October 31, 2012	(7,492)

DEFINED CONTRIBUTION PENSION PLANS

The Corporation offers defined contribution pension plans to certain employees with contributions based on a percentage of salary. Contributions to defined contribution pension plans, which are recognized at cost, amounted to $6,433 for the year ended October 31, 2012 [$7,148 for the year ended October 31, 2011].

Note 25 COMMITMENTS AND CONTINGENCIES

[a] The Corporation's commitments under agreements with suppliers amounted to $153,700, whereas its obligations under operating leases for aircraft, buildings, automotive equipment, telephone systems, maintenance contracts and office premises amounted to $530,907. These commitments total $684,607 and are allocated as follows: $185,114, $371,960 [US$372,109], $125,299 [€96,733], $2,217 [£1,376] and $17 [MXP 215].

The annual payments to be made under these commitments during the next five years are as follows:

	$
2013	232,615
2014	108,684
2015	73,671
2016	67,597
2017	58,372

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position.

Note 26 GUARANTEES

The Corporation has entered into agreements in the normal course of business containing clauses meeting the definition of a guarantee. These agreements provide compensation and guarantees to counterparties in transactions such as operating leases, irrevocable letters of credit and collateral security contracts.

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

Notes 7, 16, 19 and 25 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

COLLATERAL SECURITY CONTRACTS

The Corporation has entered into collateral security contracts with certain suppliers. Under these contracts, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These contracts typically cover a one-year period and are renewable.

The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one- year period and are renewable annually. As at October 31, 2012, these guarantees totalled $1,108. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2012, no amounts have been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $50,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2012, $20,632 had been drawn down under the facility.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €12,747 [$16,511] [€12,729 [$17,637] in 2011]. As at October 31, 2012, letters of guarantee had been issued totalling €3,450 [$4,456] [€3,049 [$4,224] in 2011].

Note 27 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the statements of loss include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and Europe. Sales between geographic areas are accounted for at prices that take into account market conditions and other considerations.

	Americas $	Europe $	Total $
2012			
Revenues from third parties	2,850,874	863,345	3,714,219
Operating expenses	2,822,595	874,669	3,697,264
	28,279	(11,324)	16,955
2011			
Revenues from third parties	2,762,351	891,816	3,654,167
Operating expenses	2,771,797	855,857	3,627,654
	(9,446)	35,959	26,513

	Revenues[1]		Property, plant and equipment, goodwill and other intangible assets		
	2012 $	2011 $	October 31, 2012 $	October 31, 2011 $	November 1, 2010 $
Canada	2,790,181	2,714,169	174,262	149,848	147,247
France *	648,780	677,188	33,166	49,697	57,587
United Kingdom	201,960	196,577	32,984	33,711	34,517
Other	73,298	66,233	14,028	15,106	11,943
	3,714,219	3,654,167	254,440	248,362	251,294

[1]) Revenues are allocated based on the subsidiary's country of domicile.

Note 28 TRANSITION TO IFRS AND CORRECTION OF AN ERROR

These consolidated financial statements for the year ended October 31, 2012 represent the first annual consolidated financial statements of the Corporation and its subsidiaries prepared in accordance with IFRS. For all periods up to and including the year ended October 31, 2011, the Corporation prepared its financial statements in accordance with previous Canadian GAAP. This note explains how the transition from previous Canadian GAAP to IFRS affected the Corporation's reported financial position as at November 1, 2010 [the "transition date"] and October 31, 2011, as well as comprehensive loss and cash flows for the year ended October 31, 2011.

In summary, following the adoption of IFRS, the carrying amount of total equity decreased by $25,392 and $23,500 as at October 31, 2011 and November 1, 2010, respectively, compared with the corresponding carrying amounts under previous Canadian GAAP at the same dates. For the year ended October 31, 2011, consolidated net loss and consolidated comprehensive loss attributable to shareholders decreased by $380 and $306, respectively, compared with the amount reported under previous Canadian GAAP in the Corporation's consolidated financial statements.

The Corporation applied IFRS 1, *First-time Adoption of International Financial Reporting Standards,* in preparing the consolidated statement of financial position as at November 1, 2010. In accordance with IFRS, the Corporation has provided comparative financial information and applied the same accounting policies as described in note 2 to these financial statements throughout all periods presented. The Corporation has also retrospectively applied all effective IFRS standards as of October 31, 2012, as required, and applied certain optional exemptions and mandatory exceptions available to first-time adopters. The effects of the transition to IFRS from previous Canadian GAAP on equity and comprehensive loss are presented and further explained in the tables of this note.

In preparing the consolidated financial statements for the year ended October 31, 2012, the Corporation's management identified an accounting error in its consolidated financial statements for the previous fiscal years, prepared under Canadian GAAP, related to the recognition of customer deposits and deferred revenues by a foreign subsidiary of the Corporation. Recognition of this subsidiary's deferred revenues did not account for adjustments required for actual dates of departure of passengers at the time information was transferred between systems. As a result, the Corporation restated its consolidated financial statements for the years ended October 31, 2010 and 2011 prepared under previous Canadian GAAP. The restatement gave rise to the following adjustments:

Increase (decrease)	October 31, 2011 $	November 1, 2010 $
Balance sheet:		
Income taxes receivable	2,325	1,224
Customer deposits and deferred revenues	16,677	12,894
Retained earnings	(14,548)	(11,670)
Cumulative exchange differences	196	n/a
Net loss:		
Revenues	(3,997)	n/a
Income taxes	(1,119)	n/a
Comprehensive loss:		
Cumulative exchange differences	(196)	n/a
Loss per share, basic and diluted	(0.08)	n/a

The Corporation has not made any change to the elections for exemption under IFRS 1 or to the accounting policies under IFRS for the year ended October 31, 2012.

1) MANDATORY EXCEPTIONS

The following mandatory exceptions apply to the Corporation:

a) The estimates used by the Corporation under IFRS on the date of transition to IFRS and for the comparative period are consistent with the estimates used under previous Canadian GAAP at the same date, adjusted for accounting policy differences where necessary;

b) Transactions entered into before the date of transition to IFRS were not retrospectively designated as hedges.

c) As of the date of transition, the Corporation prospectively attributed total comprehensive income (loss) to shareholders of the Corporation and non-controlling interests even where it resulted in a deficit balance for non-controlling interests.

2) OPTIONAL EXEMPTIONS FROM RETROSPECTIVE APPLICATION OF IFRS

The Corporation has applied the following exemptions:

a) The Corporation has elected not to apply IFRS 3, *Business Combinations*, retrospectively to business combinations completed prior to the date of transition to IFRS.

b) The Corporation has elected not to apply IFRS 2, *Share-based Payments*, retrospectively, to options granted before November 7, 2002 and to options granted after November 7, 2002 that vested before the IFRS transition date.

c) The Corporation has elected to recognize all cumulative actuarial differences arising from its defined benefit pension plans and other post-employment benefit plans through opening retained earnings at the date of transition to IFRS and prospectively apply IAS 19, *Employee Benefits*. The Corporation has further elected to use the exemption not to disclose defined benefit plan deficit and experience adjustments before the date of transition.

The application of this exemption resulted in the following adjustments:

Increase (decrease)	October 31, 2011 $	November 1, 2010 $
Statements of financial position:		
Deferred tax assets	2,502	2,502
Trade and other payables	(116)	(116)
Other liabilities – Employee benefits	8,294	8,294
Retained earnings		
Employee benefits	(8,178)	(8,178)
Income taxes	2,502	2,502

d) The Corporation has elected to recognize cumulative exchange differences through opening retained earnings at the date of transition to IFRS.

The application of this exemption resulted in the following adjustments:

Increase (decrease)	October 31, 2011 $	November 1, 2010 $
Statements of financial position:		
Retained earnings	(16,803)	(16,803)
Cumulative exchange differences	16,803	16,803

3) Changes in accounting policies

In addition to the above-mentioned exemptions and exceptions, the significant differences between previous Canadian GAAP and IFRS accounting policies as applied by the Corporation are discussed below. Only the differences with an impact on the Corporation have been addressed. The following is not a comprehensive summary of all the differences between Canadian GAAP and IFRS.

a) Business combinations

i) Acquisition costs

Previous Canadian GAAP — Acquisition costs were considered as part of the purchase price consideration, which thus typically resulted in an increase in goodwill.

IFRS — Acquisition costs are expensed as incurred and are not included in the purchase price allocation.

ii) Non-controlling interests

Previous Canadian GAAP — Non-controlling interests were recorded at their proportionate share of the net book value of the acquiree's net assets. Net income was calculated after deduction for the non-controlling interests.

IFRS — Non-controlling interests are recorded at the date of acquisition at the non-controlling interests' proportionate share of the acquiree's net identifiable assets and liabilities assumed. In addition, non-controlling interests are presented as a separate component of shareholders' equity as opposed to previous Canadian GAAP under which equity excluded non-controlling interests. Net income (loss) is allocated between the controlling and the non-controlling interests.

iii) Acquisitions achieved in stages

Previous Canadian GAAP — In a business combination achieved in stages such as certain acquisitions completed by the Corporation before transitioning to IFRS, the acquirer [the Corporation] measured each step of the acquisitions individually and accordingly allocated the purchase price without remeasuring any previous interest acquisition.

IFRS - In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at its acquisition-date fair value and recognizes the resulting gain or loss, if any, in income. Changes in ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. However, non-controlling interests in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares are financial liabilities and are therefore reclassified as liabilities, deeming the option to have been exercised. 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.

This change of accounting policy resulted in the following adjustments:

Increase (decrease)	October 31, 2011 $	November 1, 2010 $
Statements of financial position:		
Trade and other payables – Non-controlling interests	26,618	26,618
Other liabilities – Non-controlling interests	(6,347)	(8,994)
Retained earnings		
Opening balance	(17,824)	(17,824)
Change in fair value of options to sell held by non-controlling interests	(2,447)	—

b) RETIREMENT BENEFITS

Previous Canadian GAAP — The excess of actuarial gains and losses over 10% of the benefit obligation was amortized through income (loss) over the average remaining service period of active employees. Past service costs and amendments to the arrangements were amortized on a straight-line basis over the average remaining service period of active employees generally affected thereby.

IFRS — The Corporation has elected to recognize actuarial differences that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets in other comprehensive income (loss). Vested past service costs of defined benefit arrangements must be recognized in income (loss) immediately as granted.

This change of accounting policy resulted in the following adjustments:

Increase (decrease)	October 31, 2011 $
Statement of financial position:	
Deferred tax assets	(222)
Other liabilities – Employee benefits	(777)
Net loss:	
Salaries – Employee benefits	526
Income taxes	(146)
Comprehensive loss:	
Cumulative exchange differences	21
Actuarial loss	220
Income taxes	(66)

4) PRESENTATION DIFFERENCES

Certain presentation differences between previous Canadian GAAP and IFRS have no impact on reported comprehensive loss or total equity. Some line items are described differently under IFRS compared to previous Canadian GAAP, although the assets and liabilities included in these line items are unaffected. Presentation differences resulted in the following reclassification adjustments:

Increase (decrease)	October 31, 2011 $	November 1, 2010 $
Statements of financial position:		
Future income tax assets (current)	(6,065)	(2,895)
Deferred tax assets	6,065	2,895
Future (current) income tax liabilities	(513)	(106)
Deferred tax liabilities	513	106

5) Reconciliations

The following reconciliations illustrate the reclassifications and restatements from previous Canadian GAAP to IFRS to the consolidated statements of financial position as at November 1, 2010 and October 31, 2011.

Consolidated statement of financial position as at November 1, 2010

(in thousands of dollars)

Canadian GAAP line items	Note 28	Canadian GAAP[1]	Restate-ments	Reclassi-fications	IFRS	IFRS line items
ASSETS						ASSETS
Current assets						Current assets
Cash and cash equivalents		180,627	—	—	180,627	Cash and cash equivalents
Cash and cash equivalents in trust or otherwise reserved		320,428	—	—	320,428	Cash and cash equivalents in trust or otherwise reserved
Accounts receivable		146,944	—	—	146,944	Trade and other receivables
Income taxes receivable		5,962	—	—	5,962	Income taxes receivable
Future tax assets	4	2,895	—	(2,895)		
Inventories		9,867	—	—	9,867	Inventories
Prepaid expenses		50,297	—	—	50,297	Prepaid expenses
Derivative financial instruments		868	—	—	868	Derivative financial instruments
Current portion of deposits		12,554	—	—	12,554	Current portion of deposits
Total current assets		730,442	—	(2,895)	727,547	Current assets
Cash and cash equivalents reserved		32,222	—	—	32,222	Cash and cash equivalents reserved
Investments in ABCP		72,346	—	—	72,346	Investments in ABCP
Deposits		29,837	—	—	29,837	Deposits
Future tax assets	2[c], 4	9,650	2,502	2,895	15,047	Deferred tax assets
Property, plant and equipment		88,376	—	—	88,376	Property, plant and equipment
Goodwill		112,454	—	—	112,454	Goodwill
Other intangible assets		50,464	—	—	50,464	Intangible assets
Derivative financial instruments		23	—	—	23	Derivative financial instruments
Investments and other assets		64,868	—	—	64,868	Investments and other assets
		460,240	2,502	2,895	465,637	Non-current assets
		1,190,682	2,502	—	1,193,184	
LIABILITIES AND SHAREHOLDERS' EQUITY						LIABILITIES AND EQUITY
Current liabilities						Current liabilities
Accounts payable and accrued liabilities	2[c]	300,355	(116)	—	300,239	Trade and other payables
Current portion of provision for overhaul of leased aircraft		18,301	—	—	18,301	Current portion of provision for overhaul of leased aircraft
Income taxes payable		14,608	—	—	14,608	Income taxes payable
Future tax liabilities	4	106	—	(106)		
Customer deposits and deferred income		326,589	—	—	326,589	Customer deposits and deferred income
Derivative financial instruments		4,116	—	—	4,116	Derivative financial instruments
Payments on current portion of long-term debt		13,768	—	—	13,768	Current portion of long-term debt
Total current liabilities		677,843	(116)	(106)	677,621	Current liabilities
Long–term debt		15,291	—	—	15,291	Long–term debt
Provision for overhaul of leased aircraft		12,408	—	—	12,408	Provision for overhaul of leased aircraft
Other liabilities	2[c], 3[a] [iii]	45,368	26,118	—	71,486	Other liabilities
Future tax liabilities	4	12,370	—	106	12,476	Deferred tax liabilities
		85,437	26,118	106	111,661	Non-current liabilities
Shareholders' equity						Equity
Share capital		217,604	—	—	217,604	Share capital
Contributed surplus		9,090	—	—	9,090	Share-based payment reserve
Retained earnings	2[c], [d], 3[a] [iii]	219,033	(40,303)	—	178,730	Retained earnings
Cash flow hedges		(1,522)	—	—	(1,522)	Unrealized gain (loss) on cash flow hedges
Deferred foreign exchange gains/losses	2[d]	(16,803)	16,803	—	—	Cumulative exchange differences
		427,902	(23,500)	—	403,902	
		1,190,682	2,502	—	1,193,184	

[1] Certain account balances have been restated, see above.

Consolidated statement of financial position as at October 31, 2011

(in thousands of dollars)

	Note 28	Canadian GAAP[1]	Restatements	Reclassifications	IFRS
ASSETS					
Current assets					
Cash and cash equivalents		181,576	—	—	181,576
Cash and cash equivalents in trust or otherwise reserved		323,314	—	—	323,314
Trade and other receivables		124,000	—	—	124,000
Income taxes receivable		20,074	—	—	20,074
Future tax assets	4	6,065	—	(6,065)	—
Inventories		11,096	—	—	11,096
Prepaid expenses		55,196	—	—	55,196
Derivative financial instruments		7,935	—	—	7,935
Current portion of deposits		15,599	—	—	15,599
Current assets		744,855	—	(6,065)	738,790
Cash and cash equivalents reserved		36,231	—	—	36,231
Investments in ABCP		78,751	—	—	78,751
Deposits		33,907	—	—	33,907
Deferred tax assets	2[c], 3[b], 4	18,378	2,280	6,065	26,723
Property, plant and equipment		86,520	—	—	86,520
Goodwill		109,495	—	—	109,495
Intangible assets		52,347	—	—	52,347
Derivative financial instruments		—	—	—	—
Investments and other assets		63,806	—	—	63,806
Non-current assets		479,435	2,280	6,065	487,780
Total assets		1,224,290	2,280	—	1,226,570
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	2[c], 3[a][iii]	355,246	26,502	—	381,748
Current portion of provision for overhaul of leased aircraft		19,088	—	—	19,088
Income taxes payable		7,943	—	—	7,943
Future tax liabilities	4	513	—	(513)	—
Customer deposits and deferred income		347,957	—	—	347,957
Derivative financial instruments		5,659	—	—	5,659
Current portion of long-term debt		—	—	—	—
Current liabilities		736,406	26,502	(513)	762,395
Long–term debt		—	—	—	—
Provision for overhaul of leased aircraft		14,230	—	—	14,230
Other liabilities	2[c], 3[a][iii], 3[b]	50,260	1,170	—	51,430
Deferred tax liabilities	4	13,761	—	513	14,274
Non-current liabilities		78,251	1,170	513	79,934
Equity					
Share capital		219,462	—	—	219,462
Share-based payment reserve		11,063	—	—	11,063
Retained earnings	2[c], 2[d], 3[a][iii], 3[b]	203,942	(42,216)	—	161,726
Unrealized gain (loss) on cash flow hedge		1,948	—	—	1,948
Cumulative exchange differences	2[d], 3[b]	(26,782)	16,824	—	(9,958)
Total equity		409,633	(25,392)	—	384,241
Total liabilities and equity		1,224,290	2,280	—	1,226,570

[1] Certain account balances have been restated, see above.

The following tables illustrate the measurement and recognition differences in restating equity, net loss and comprehensive loss reported under previous Canadian GAAP and IFRS for the dates and periods indicated.

(in thousands of dollars)	Note 28	October 31, 2011	November 1, 2010
Equity under Canadian GAAP, as reported		423,985	439,072
Adjustments to opening equity balance		(14,352)	(11,670)
Equity under Canadian GAAP, restated		409,633	427,402
Restatement of the measurement and recognition of:			
Employee benefits	2[c], 3[b]	(7,652)	(8,178)
Changes in fair value of put options held by non-controlling interests	3[a][iii]	(20,271)	(17,824)
Actuarial loss	3[b]	220	—
Cumulative exchange differences	3[b]	21	—
		(27,682)	(26,002)
Income tax impact of all restatements	2[c], 3[b]	2,290	2,502
Total restatements		(25,392)	(23,500)
Equity under IFRS		384,241	403,902

(in thousands of dollars)	Note 28	Year ended October 31, 2011
Net loss under Canadian GAAP, as reported		(12,213)
Adjustments to net loss		(2,878)
Net loss under Canadian GAAP, restated		(15,091)
Restatement of the measurement and recognition of:		
Employee benefits	3[b]	526
Non-controlling interests		3,059
		3,585
Income tax impact of all restatements	3[b]	(146)
Total restatements		3,439
Net loss under IFRS		(11,652)
Basic and diluted loss per share under Canadian GAAP, as reported		(0.32)
Adjustment to basic and diluted loss per share		(0.08)
Basic and diluted loss per share under Canadian GAAP, restated		(0.40)
Impact of IFRS restatements on net loss		0.01
Basic and diluted loss per share attributable to shareholders under IFRS		(0.39)

(in thousands of dollars)	Note 28	Year ended October 31, 2011
Comprehensive loss under Canadian GAAP, as reported		(18,918)
Adjustment to comprehensive income		(2,682)
Comprehensive loss under Canadian GAAP, restated		(21,600)
Total restatements of net income		3,439
Differences affecting comprehensive loss:		
Actuarial loss	3[b]	220
Income tax impact of all restatements	3[b]	(66)
Cumulative exchange differences	3[b]	21
		175
Comprehensive loss under IFRS		(17,986)

The previously described transition adjustments did not have an impact on the reported amount of cash provided by operating activities or amounts of cash used by investing and financing activities. Furthermore, the transition from previous Canadian GAAP to IFRS did not have any significant impact on the components of the consolidated statement of cash flows for the year ended October 31, 2011.

[in thousands of dollars, except per share amounts]

	2012 (IFRS	2011 (IFRS)	2010[5] (restated) (GAAP)	2009 (restated) (GAAP)	2008 (restated) (GAAP)
Consolidated statements of income					
Revenues	3,714,219	3,654,167	3,497,408	3,542,403	3,511,219
Operating expenses	3,697,264	3,627,654	3,371,295	3,451,946	3,385,083
	16,955	26,513	126,113	90,457	126,136
Expenses and other revenues					
Amortization and depreciation	40,793	43,814	48,662	51,155	56,147
Financing costs	2,962	3,499	4,584	7,545	9,296
Interest income	(6,693)	(7,395)	(3,036)	(4,588)	(16,172)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(701)	1,278	(9,341)	(68,267)	106,435
Foreign exchange (gain) loss on long-term monetary items	(370)	1,654	(1,109)	(135)	2,295
Restructuring charge (gain) and write-off of goodwill	15,000	10,030	(1,157)	11,967	—
Loss (gain) on investments in ABCP	(7,936)	(8,113)	(4,648)	(68)	45,927
Gain on disposal of a subsidiary and repurchase of preferred shares of a subsidiary	(5,655)	—	—	—	(1,605)
Share of net (income) loss of associates	(3,495)	(827)	490	(24)	427
	33,905	43,940	34,445	(2,415)	202,750
Income (loss) before the undernoted items	(16,950)	(17,427)	91,668	92,872	(76,614)
Income taxes (recovery)	(3,414)	(5,775)	23,398	30,100	(28,875)
Non-controlling interest in subsidiaries' results	(3,133)	(3,059)	(3,724)	(3,047)	(3,287)
Net income (loss) for the year	(16,669)	(14,711)	64,546	59,725	(51,026)
Basic earnings (loss) per share	(0.44)	(0.39)	1.71	1.80	(1.54)
Diluted earnings (loss) per share	(0.44)	(0.39)	1.70	1.78	(1.54)
Cash flows related to:					
Operating activities	8,872	90,673	119,131	45,234	95,069
Investing activities	(11,024)	(56,683)	(27,819)	(26,662)	(142,027)
Financing activities	(4,361)	(29,470)	(81,034)	18,303	15,091
Effect of exchange rate changes on cash and cash equivalents	(3,888)	(3,571)	(10,203)	(2,090)	10,866
Net change in cash and cash equivalents	(10,401)	949	75	34,785	(21,001)
Cash and cash equivalents, end of year	171,175	181,576	180,627	180,552	145,767
Cash provided by operations [1]	29,348	31,856	105,173	108,380	121,166
Total assets	1,165,301	1,226,570	1,193,184	1,130,319	1,267,214
Long-term debt (including current portion)	—	—	29,059	107,684	150,085
Debenture	—	—	—	3,156	3,156
Equity	366,326	384,241	403,902	356,752	337,443
Debt/equity ratio [2]	0.69	0.69	0.66	0.68	0.73
Book value per share [3]	9.57	10.11	10.67	9.46	10.33
Return on average equity [4]	(4.4)%	(3.7)%	16.7%	17.2%	(16.6)%
Shareholding statistics (in thousands)					
Outstanding shares, end of year	38,296	38,022	37,850	37,729	32,678
Weighted average number of outstanding shares (undiluted)	38,142	37,930	37,796	33,168	33,108
Weighted average number of outstanding shares (diluted)	38,142	37,930	37,993	33,485	33,108

[1] Represent cash flows from operating activities excluding the net change in non-cash working capital balances related to operations, the net change in the provision for overhaul of leased aircraft and the change in other assets and liabilities related to operations.
[2] Total liabilities divided by total assets.
[3] Total equity divided by the number of outstanding shares.
[4] Net income (loss) divided by average equity.
[5] The statement of financial position items are as of November 1, 2010 and are reported under IFRS.

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