Transat A.T. Inc.
Third Quarterly Report
Period ended July 31, 2008

transat

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc's operations, performance and financial position for the quarter and nine-month period ended July 31, 2008 compared with the quarter and nine-month period ended July 31, 2007 and should be read in conjunction with the unaudited consolidated interim financial statements for the third quarter of fiscal 2008 and 2007, the notes thereto and the 2007 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2007 Annual Report. The risks and uncertainties set out in the MD&A of the 2007 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 9, 2008. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2008 and Annual Information Form for the year ended October 31, 2007.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements with respect to the Corporation. These forward-looking statements are identified by the use of terms and phrases such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "will," "would," as well as 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, armed conflicts, terrorist attacks, energy prices, 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, labour negotiations and disputes, pension issues, exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, pending litigation and actions by third parties, and other risks detailed from time to time in the Corporation's continuous disclosure documents.

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

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

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

- *The Corporation's outlook whereby revenues will be higher and margins will be similar to 2007.*
- *The Corporation's outlook whereby cash flows from operations, existing funds and borrowings under its credit facilities will be sufficient to support ongoing working capital requirements.*

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

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

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

Financial highlights

Quarters and nine-month periods ended July 31
(in thousands of dollars)

	Three months				Nine months			
	2008	2007 Restated[2]	Variance	Variance	**2008**	2007 Restated[2]	Variance	Variance
	$	$	$	%	**$**	$	$	%
Consolidated Statements of Income								
Revenues	**859,880**	741,762	118,118	15.9	**2,722,427**	2,365,499	356,928	15.1
Margin[1]	**12,764**	25,907	(13,143)	(50.7)	**98,056**	116,948	(18,892)	(16.2)
Net income (net loss)	**(2,449)**	16,107	(18,556)	(115.2)	**28,135**	71,878	(43,743)	(60.9)
Basic earnings (loss) per share	**(0.07)**	0.48	(0.55)	(114.6)	**0.85**	2.13	(1.28)	(60.1)
Diluted earnings (loss) per share	**(0.07)**	0.47	(0.54)	(115.0)	**0.84**	2.10	(1.26)	(60.0)
Dividend – Class A and B shares	**0.09**	0.09	—	—	**0.27**	0.25	0.02	8.0
Consolidated Statements of Cash Flows								
Operating activities	**53,168**	40,110	13,058	32.6	**243,366**	189,198	54,168	28.6

	As at July 31, 2008	As at October 31, 2007 Restated[2]		
Consolidated Balance Sheets				
Cash	**259,641**	166,768	92,873	55.7
Cash and cash equivalents in trust or otherwise reserved	**212,845**	168,196	44,649	26.5
Investments in ABCP	**100,385**	142,346	(41,961)	(29.5)
	572,871	477,310	109,158	22.9
Total assets	**1,310,252**	1,080,523	229,729	21.3
Debt (short-term and long-term)	**127,130**	91,837	35,293	38.4
Total debt[1]	**367,142**	371,146	(4,004)	(1.1)
Net debt[1]	**7,116**	62,032	(54,916)	(88.5)

[1] *See Non-GAAP financial measures*
[2] *See Changes to accounting policies*

[1]NON-GAAP FINANCIAL MEASURES

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

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

Operating cash flows are used by management to assess the Corporation's operating performance and its capacity to meet its financial obligations. Operating cash flows are defined as cash flows from operating activities excluding the net change in non-cash working capital balances related to operations, net change in other assets and liabilities and net change in the provision for aircraft overhaul, according to the Consolidated Statements of Cash Flows.

Total debt is used by management to assess the Corporation's future cash requirements. It represents the combination of balance sheet debt (long-term debt and debenture) and off-balance sheet arrangements, excluding arrangements with suppliers presented on p. 12.

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

Overview

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

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

Our three-year strategic plan (2006-2008) focuses on growth and profitability. We anticipate that increased international tourism will speed our growth in North America and Europe. To this end, we will be making new acquisitions while pursuing an intensive pace of internal growth. Our key strategic focuses are as follows:

- In Canada, bolster our presence in Ontario by adding new destinations and expanding our distribution network to remain the market leader in all regions of the country.
- In Europe, grow our market share and continue our vertical integration in France and the U.K. while moving forward to expand into other European countries as a tour operator specializing in travel to Canada, as well as other destinations.
- Invest in new markets and, in particular, become a tour operator in the U.S., while continuing to study opportunities to enter other North American markets.
- Step up development of destination services and fulfill a portion of our accommodation needs.
- Pursue our ongoing technology and training initiatives and investments.

Our objectives for fiscal 2008:

- Strengthen our leadership position in Canada and the relationships between Transat Tours Canada and our European subsidiaries active in the Transatlantic market.
- Become more competitive and strengthen our position as a European tour operator.
- Tap into new outgoing markets.
- Capitalize on vertical integration at destination.
- Provide additional resources to managers to actively ensure employee development from the perspective of long-term retention and knowledge management.
- Develop and implement an integrated information management infrastructure that supports development and actively contributes to profitable growth.
- Enhance our structures, processes and strategies to adapt to fast-changing trends in the tourism industry, particularly those resulting from expectations and challenges relating to social responsibility

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

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

Acquisitions

On December 10, 2007, the Corporation acquired a 35% interest in Caribbean Investments B.V., a company operating five hotels in Mexico and the Dominican Republic, for $50.6 million [US$50.1 million] in cash and additional payments totalling $5.0 million contingent on meeting certain specific terms and conditions by 2009, of which $1.0 million [US$1.0 million] was paid during the third quarter. This acquisition was recorded using the equity method, and the share of net income of the acquired company has been accounted for as of December 10, 2007. The final purchase price allocation is expected to be completed as soon as the Corporation's management has gathered all the significant information it deems necessary.

In addition, on April 9, 2008, the Corporation made a $4.2 million [US$4.1 million] capital contribution to Caribbean Investments B.V.

During the third quarter, the Corporation made a contingent payment of $3.8 million [€2.4 million], in relation to its acquisition of L'Européenne de Tourisme (Amplitude Internationale), from which an amount of $1.9 million [€1.4 million] was already accounted for as an amount payable. An increase in goodwill of $1.6 million was recognized subsequent to this transaction.

Consolidated operations

Revenues

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

Compared with the corresponding periods of fiscal 2007, our revenues rose $118.1 million and $356.9 million for the quarter and nine-month period, respectively. The overall increase in our revenues was driven by revenue growth over the quarter and the nine-month period of 7.3% and 11.9%, respectively, in North America and 31.4% and 26.7%, respectively, in Europe. These improvements were mainly attributable to greater business activity (due to our expanded product offering), the increase in blocks of seats sold to third parties (during the winter season), and to a lesser degree to our 2007 acquisition of Amplitude Internationale ("Amplitude"). Compared with the corresponding periods of the previous year, the volume of travellers was up 7.2% and 20.9% for the quarter and nine-month period, respectively, owing to our enhanced product offering in various markets.

Operating expenses

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

For the quarter and nine-month period ended July 31, 2008, operating expenses rose $131.3 million and $375.8 million, respectively, compared with the corresponding periods of 2007. These increases were due to higher operating expenses for the quarter and nine-month period, up 12.3% and 14.2%, respectively, in North America and 29.5% and 25.5%, respectively, in Europe.

Direct costs include the costs of the various trip components sold to consumers via travel agencies and incurred by our tour operators. They also include hotel room costs and the costs of reserving blocks of seats or full flights with air carriers other than Air Transat. During the quarter ended July 31, 2008, these costs accounted for 55.9% of our revenues compared with 52.6% for the same period in 2007. For the nine-month period, these costs represented 56.7% of our revenues, up from 53.9% for the corresponding period in 2007. Relative to the corresponding periods of the previous year, direct costs were up 23.2% and 20.9% for quarter and nine-month period, respectively. The dollar-figure increases were primarily due to business growth and higher per-seat costs, caused in part by rising fuel prices and the euro's strength against the dollar.

Revenues

For the periods ended July 31
(in thousands of dollars)

	Three months				Nine months			
	2008	2007	Variance	Variance	**2008**	2007	Variance	Variance
	$	$	$	%	**$**	$	$	%
	859,880	741,762	118,118	15.9	**2,722,427**	2,365,499	356,928	15.1

Operating expenses

For the periods ended July 31
(in thousands of dollars)

	Three months				Nine months			
	2008	2007 Restated	Variance	Variance	**2008**	2007 Restated	Variance	Variance
	$	$	$	%	**$**	$	$	%
Direct costs	**480,375**	389,842	90,533	23.2	**1,542,282**	1,275,687	266,595	20.9
Salaries and employee benefits	**87,611**	82,536	5,075	6.1	**262,009**	241,599	20,410	8.4
Aircraft fuel	**104,037**	73,343	30,694	41.8	**260,543**	196,559	63,984	32.6
Commissions	**35,774**	37,316	(1,542)	(4.1)	**141,891**	154,783	(12,892)	(8.3)
Aircraft maintenance	**24,241**	18,816	5,425	28.8	**72,190**	62,743	9,447	15.1
Airport and navigation fees	**24,736**	23,711	1,025	4.3	**66,451**	62,133	4,318	6.9
Aircraft rent	**12,047**	12,430	(383)	(3.1)	**36,325**	36,567	(242)	(0.7)
Other	**78,295**	77,861	434	0.6	**242,680**	218,480	24,200	11.1
Total	**847,116**	715,855	131,261	18.3	**2,624,371**	2,248,551	375,820	16.7

For the quarter and nine-month period, salaries and employee benefits were up 6.1% and 8.4%, respectively, compared with the corresponding periods of 2007. These increases resulted from greater business activity and the addition of one aircraft to our fleet in July 2007 and another in February 2008.

For the quarter and nine-month period ended July 31, 2008, aircraft fuel expense was up $30.7 million, or 41.8%, and $64.0 million, or 32.6%, respectively, compared with the corresponding periods of 2007. These increases were driven mainly by higher fuel costs, greater business activity and the addition of two aircraft to the fleet since November 1, 2006.

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. For the quarter and nine-month period, commission expense was down $1.5 million and $12.9 million, respectively, compared with the corresponding periods of fiscal 2007. During the three-month period ended July 31, 2008, commission expense represented 4.2% of our revenues compared with 5.0% for the same period in 2007. For the nine-month period, commission expense represented 5.2% of our revenues compared with 6.5% for the same period in 2007. These decreases were mainly due to the lowering of commission rates in Canada and, to a lesser extent, to greater synergies resulting from the expansion of our travel agency network following our acquisition in fiscal 2006 and the increase in direct sales at our European subsidiaries.

Aircraft maintenance costs relate mainly to the engine and airframe maintenance expenses incurred by Air Transat. During the quarter and nine-month period, these costs rose 28.8% and 15.1%, respectively, compared with the corresponding period of 2007. These increases, resulting mainly from the addition of two aircraft to our fleet since November 1, 2006 and from greater business activity, were muted however by the strength of the Canadian dollar relative to the U.S. currency.

Airport and navigation fees relate mainly to fees charged by airports. For the quarter and nine-month period, greater business activity pushed up fees by 4.3% and 6.9%, respectively, compared with the corresponding periods of the previous fiscal year.

Aircraft rent held relatively steady compared with the corresponding periods of 2007. The strength of the Canadian dollar against its U.S. counterpart offset the rise in lease payments related to aircraft added to the fleet in 2007 and 2008.

For the quarter and the nine-month period, other expenses were up $0.4 million, or 0.6%, and $24.2 million, or 11.1%, respectively, compared with the corresponding periods of 2007. The increase in the nine-month period, was driven by greater business activity, and resulted mainly from our fleet's other operating costs. Expressed as a percentage of revenues, however, other expenses fell over the quarter and nine-month period to 9.1% and 8.9%, respectively, from 10.5% and 9.2% for the corresponding periods of 2007.

Margin

In light of the foregoing, our margins, expressed as a percentage of revenues, narrowed over the quarter and nine-month period to 1.5% and 3.6% respectively, from 3.5% and 4.9%, respectively, for the corresponding periods of 2007. These slimmer margins resulted primarily from our inability to pass along significant fuel cost increases with concurrent selling price increases, but also from downward price pressure due to excess supply in the marketplace, particularly in our routes to the Caribbean and Mexico.

Geographic Areas – North America

For the periods ended July 31
(in thousands of dollars)

	Three months				Nine months			
	2008	2007 Restated	Variance	Variance	**2008**	2007 Restated	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**509,477**	475,034	34,443	7.3	**2,069,663**	1,850,126	219,537	11.9
Operating expenses	**521,212**	464,180	57,032	12.3	**1,994,571**	1,746,803	247,768	14.2
Margins	**(11,735)**	10,854	(22,589)	(208.1)	**75,092**	103,323	(28,231)	(27.3)

Geographic Areas – Europe

For the periods ended July 31
(in thousands of dollars)

	Three months				Nine months			
	2008	2007	Variance	Variance	**2008**	2007	Variance	Variance
	$	$	$	%	**$**	$	$	%
Revenues	**350,403**	266,728	83,675	31.4	**652,764**	515,373	137,391	26.7
Operating expenses	**325,904**	251,675	74,229	29.5	**629,800**	501,748	128,052	25.5
Margins	**24,499**	15,053	9,446	62.8	**22,964**	13,625	9,339	68.5

Geographic Areas – North America

During the third quarter and nine-month period, revenues in North America were up 7.3% and 11.9%, respectively, compared with the same periods in 2007. This revenue growth was driven mainly by higher average selling prices on routes to Europe and a 1.1% increase in the volume of travellers for the quarter and by a 18.3% increase in the volume of travellers for the nine-month period compared with the corresponding periods of 2007. For the quarter, our North American operations reported a negative margin of 2.3% compared with a positive margin of 2.3% for the corresponding period of 2007. For the nine-month period, our North American operations posted a margin of 3.6% compared with 5.6% for the corresponding period of 2007. These slimmer margins stemmed primarily from fuel prices that keep scaling to record heights coupled with downward price pressure due to excess supply and unrelenting competition in the marketplace.

Geographic Areas – Europe

In Europe, revenues and operating expenses were up from the corresponding quarter and nine-month period of the previous fiscal year. These increases resulted primarily from greater business activity at all our European operations, our 2007 acquisition of Amplitude and the euro's strength against the dollar. The volume of travellers rose 20.2% and 31.7% for the quarter and nine-month period, respectively, compared with the corresponding periods of 2007. Excluding Amplitude travellers, the volume of travellers grew 8.3% and 12.1% for the quarter and the nine-month period, respectively, compared with the corresponding periods of 2007. Our European operations reported a margin of $24.5 million, or 7.0%, for the quarter compared with $15.1 million, or 5.6%, for the corresponding period of 2007. For the nine-month period, our European operations reported a margin of $23.0 million, or 3.5%, compared with $13.6 million, or 2.6%, for the corresponding period of 2007. These improved margins resulted primarily from the more profitable operations at Canadian Affair compared with 2007.

Other Expenses and Revenues

Amortization is calculated on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and other assets, consisting mainly of development costs. During the quarter, amortization expense rose $2.1 million, or 16.0%, to $14.9 million from $12.9 million for the corresponding period of 2007. For the nine-month period, amortization expense totalled $42.4 million, up $4.7 million from the corresponding period of 2007. These increases resulted mainly from additions to property, plant and equipment made during fiscal 2007.

Interest on long-term debt and the debenture was up $0.5 million during the quarter compared with the corresponding period of 2007, whereas for the nine-month period, it rose $1.4 million compared with the same period in 2007. Despite higher average debt in 2008 than in 2007, interest expenses was only slightly higher in light of more favourable interest rates in 2008 than in 2007.

Our other interest and financial expenses rose $0.2 million for the third quarter, whereas they fell $0.4 million for the nine-month period compared with the corresponding periods of the previous fiscal year.

Interest income was down $0.9 million, or 15.6%, for the quarter ended July 31, 2008, compared with the corresponding period of 2007, whereas for the nine-month period then ended, it fell $2.6 million, or 16.7%, compared with the same period in 2007. These decreases were mainly attributable to lower average balances of cash and cash equivalents and lower interest rates compared with the same periods of 2007.

Other Expenses and Revenues

For the periods ended July 31
(in thousands of dollars)

	Three months				Nine months			
	2008	2007 Restated	Variance	Variance	**2008**	2007 Restated	Variance	Variance
	$	$	$	%	**$**	$	$	%
Amortization	**14,911**	12,850	2,061	16.0	**42,416**	37,720	4,696	12.4
Interest on long-term debt and debenture	**2,028**	1,537	491	31.9	**6,473**	5,111	1,362	26.6
Other interest and financial expenses	**527**	320	207	64.7	**834**	1,219	(385)	(31.6)
Interest income	**(4,651)**	(5,512)	(861)	(15.6)	**(12,794)**	(15,355)	(2,561)	(16.7)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**4,661**	(3,904)	8,565	219.4	**(14,314)**	(12,944)	(1,370)	10.6
Foreign exchange (gain) loss on long-term monetary items	**218**	(1,791)	2,009	112.2	**(2)**	(2,238)	2,236	(99.9)
Writedown of investments in ABCP	**—**	—	—	N/A	**32,137**	—	32,137	N/A
Gain on repurchase of preferred shares of a subsidiary	**—**	—	—	N/A	**(1,605)**	—	(1,605)	N/A
Share of net loss (income) of companies subject to significant influence	**915**	(89)	1,004	(1,128.1)	**(602)**	(643)	41	(6.4)

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change over the period in the fair value of the derivative financial instruments outstanding as at July 31, 2008, used by the Corporation to manage risks linked to fuel price volatility. The change in fair value of derivative financial instruments used for aircraft fuel purchases grew represented an $8.6 million decline for the quarter and a $1.4 million increase for the nine-month period compared with the corresponding periods of the previous fiscal year.

The $0.2 million foreign exchange loss on long-term monetary items for the quarter resulted primarily from the adverse effect of foreign exchange rates on our long-term debt.

For the nine-month period ended July 31, 2008, the Corporation's subsidiary Travel Superstore Inc. completed the repurchase of the redeemable preferred shares held by one of its minority shareholders for a cash consideration of $0.3 million. As these redeemable preferred shares were considered liabilities, $1.9 million was included in other liabilities in the balance sheet. In light of the classification of these redeemable preferred shares as liabilities, the $1.6 million gain was recorded in the consolidated statement of income. A total of $0.6 million related to this transaction was also included under non-controlling interest in subsidiaries' results in the consolidated statement of income.

Our share of net loss of companies subject to significant influence for the current quarter represents our share of the net loss of Caribbean Investments B.V. (see *Acquisitions section*). On November 1, 2007, we reorganized our incoming tour operators in the Caribbean, becoming majority shareholders thereof. Subsequent to this reorganization, the companies, which were previously companies subject to significant influence, became subsidiaries and, accordingly, their results have been consolidated in the Corporation's results since the reorganization date. This reorganization had no significant effect on the Corporation's results.

Writedown of investments in ABCP

As at July 31, 2008, the Corporation held a portfolio of asset backed commercial paper ("ABCP") issued by several trusts with an overall notional value of $143.5 million. In mid-August 2007, the Canadian third-party ABCP market was hit by a liquidity disruption. Since that time, no transactions involving the securities held by the Corporation have been entered into in an active market.

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

On March 17, 2008, the Pan-Canadian Committee received an order from the Ontario Superior Court of Justice pursuant to the provisions of the Companies' Creditors Arrangement Act (CCAA) setting forth an approval procedure for noteholders of the Restructuring Plan filed by the Committee. Under the CCAA, the Plan must be approved by a simple majority of noteholders as well as by noteholders representing at least 66_% of the total aggregate amount of affected ABCP capital.

On March 20, 2008, the Committee released its Restructuring Plan and other relevant documents. In light of the information so released, the Corporation allocated the notional value of its ABCP as follows:

- The Corporation holds $114.8 million in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which will be restructured into floating rate notes with maturities through December 31, 2016. The Corporation expects to receive replacement notes with par values as follows:
  Class A-1: $35.2 million
  Class A-2: $65.0 million
  Class B: $11.2 million
  Class C: $3.4 million
- The Corporation holds $12.7 million in ABCP supported mainly by U.S. sub-prime assets and that will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.
- The Corporation holds $16.0 million in ABCP supported solely by traditional securitized assets that will be restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through 2037.

On April 25, 2008, the Restructuring Plan proposed by the Pan-Canadian Committee of ABCP investors was approved by the noteholders. On June 5, 2008, the Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 25, 2008, a number of ABCP holders appealed the Ontario Superior Court of Justice's decision to the Ontario Court of Appeal. On August 18, 2008, the Ontario Court of Appeal upheld the Ontario Superior Court of Justice's decision approving the Committee's Restructuring Plan. On August 29, 2008, a number of ABCP holders appealed the Ontario Court of Appeal's decision to the Supreme Court of Canada.

In light of the information available during the three-month period ended July 31, 2008, changes occurred in the credit market conditions and the review of the assumptions taking into account this new information, the Corporation remeasured the fair value of its investments in ABCP.

Since there is no active market for ABCP securities, the Corporation's management has estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, relevant market interest rates, amounts to be received, maturity dates and the assumption that the Accord restructuring process will most likely be successfully completed in the fall of 2008.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.00% to 4.82% (weighted average rate of 3.2%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.4 years) and using discount rates ranging from 5.25% to 48% (weighted average rate of 12.0%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the Accord.

As a result, the Corporation did not recognize any additional writedown in respect of its investments in ABCP during the three-month period ended July 31, 2008 [$32.1 million writedown for the nine-month period]. The provision for impairment of ABCP totalled $43.3 million as at July 31, 2008. The writedown of investments in ABCP also includes a $0.2 million loss on the December 2007 disposal of an investment with a face value of $11.0 million for a cash consideration of $10.8 million.

A 1% increase in the estimated discount rates would result in a decrease in the estimated fair value of ABCP held by the Corporation of approximately $4,500.

The Corporation's estimate of the fair value of its ABCP investments as at July 31, 2008 is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities in the coming quarters. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

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

Income taxes

The Corporation recorded an income tax recovery of $3.9 million for the quarter ended July 31, 2008 compared with income tax expense of $5.9 million for the corresponding quarter of the previous fiscal year. Excluding the share of net income (net loss) of companies subject to significant influence, the effective tax rate for the quarter ended July 31, 2008 was 79.6% compared with 26.1% for the quarter ended July 31, 2007.

For the nine-month period ended July 31, 2008, the Corporation recorded income tax expense of $14.4 million compared with $31.5 million for the corresponding period of the previous fiscal year. Excluding the share of net income of companies subject to significant influence, the effective tax rate for the nine-month period was 32.0% compared with 30.5% for the corresponding period of 2007.

The tax rate increases for the quarter and nine-month period were mainly due to the use of tax losses from prior fiscal years of our French subsidiaries previously unrecognized in future income tax assets, the tax treatment of the writedown of investments in ABCP and the effect of adjustments to future income tax rates.

Net income (Net loss)

In light of the items discussed in *Consolidated Operations*, the Corporation recorded a net loss for the quarter ended July 31, 2008 of $2.4 million, or $0.07 per share, compared with net income of $16.1 million, or $0.48 per share, for the corresponding quarter of the previous fiscal year. The weighted average number of shares outstanding used in computing the per share amounts was 32,656,000 for the third quarter of 2008 compared with 33,810,000 for third quarter of 2007.

The Corporation reported net income of $28.1 million, or $0.85 per share, for the nine-month period ended July 31, 2008 compared with $71.9 million, or $2.13 per share, for the corresponding period of the previous fiscal year. The weighted average number of shares outstanding used in computing the per share amounts was 33,223,000 for the nine-month period compared with 33,812,000 for the corresponding period of 2007.

On a diluted per share basis, the Corporation recorded earnings per share of $0.07 and $0.84 for the quarter and nine-month period ended July 31, 2008, respectively, compared with $0.47 and $2.10 for the corresponding periods of 2007. The adjusted weighted average number of shares used in computing these amounts for the quarter and nine-month period was 32,722,000 and 33,486,000, respectively, compared with 34,169,000 and 34,231,000 for the corresponding periods of 2007. *See note 9 to the unaudited Consolidated Interim Financial Statements.*

Selected Quarterly Financial Information

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are up compared with the corresponding quarters of previous years, mainly as a result of growth in the volume of travellers and acquisitions since fiscal 2006. From a margin perspective, there have been fluctuations during each quarter, mainly due to competitive pressure on prices and rising fuel prices since 2006. In light of the foregoing, the following quarterly financial information can vary significantly from quarter to quarter.

Selected Quarterly Financial Information

(in thousands of dollars, except per share data)

	Q4		Q1		Q2		Q3	
	2007 Restated	2006	**2008**	2007 Restated	**2008**	2007 Restated	**2008**	2007 Restated
Revenues	**680,418**	619,494	**787,389**	712,337	**1,075,158**	911,400	**859,880**	741,762
Margin	**21,169**	28,821	**15,944**	26,202	**69,348**	64,839	**12,764**	25,907
Net income (net loss)	**6,626**	13,552	**(10,094)**	2,014	**40,678**	53,757	**(2,449)**	16,107
Basic earnings (loss) per share	**0.20**	0.40	**(0.30)**	0.06	**1.22**	1.59	**(0.07)**	0.48
Diluted earnings (loss) per share	**0.20**	0.39	**(0.30)**	0.06	**1.21**	1.57	**(0.07)**	0.47

LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2008, cash and cash equivalents totalled $259.6 million compared with $166.8 million as at October 31, 2007. Cash and cash equivalents in trust or otherwise reserved amounted to $212.8 million at the end of the third quarter of 2008 compared with $168.2 million as at October 31, 2007. The Corporation's balance sheet reflects working capital of $33.4 million and a current ratio of 1.04 compared with $71.5 million and 1.11 as at October 31, 2007. This decline, resulting from the reclassification of our investments in ABCP in long-term assets, was offset by the favourable net change in derivative financial instruments.

On November 16, 2007, the Corporation entered into an agreement with a financial institution for a $150.0 million unsecured revolving credit facility, as well as a $60.0 million revolving credit facility for purposes of issuing letters of credit, in respect of which the Corporation must pledge cash as security for 105% of the letters of credit issued. This agreement will expire on November 16, 2012. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium based on certain financial ratios calculated on a consolidated basis. As at July 31, 2008, the balance of the drawn revolving credit facility amounted to $80.8 million.

In addition, on August 1, 2008, the Corporation extended its borrowings secured by aircraft. Under these agreements, these borrowings amounted to US$40.0 million and are secured by aircraft. The borrowings bear interest at the London Interbank Offered Rate (LIBOR) plus 2.15% and 3.25% and mature in 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.3 million ($18.1 million).

Total assets were up $229.7 million, or 21.3%, to $1,310.3 million as at July 31, 2008 from $1,080.5 million as at October 31, 2007. This growth resulted mainly from greater business activity, coupled with the seasonal nature of our operations, which led to increases in substantially all asset line items. In particular, overall cash and cash equivalent balances rose $137.5 million, accounts receivables increased $44.8 million and other assets were up $57.4 million subsequent to our investment in Caribbean Investments B.V. As at July 31, 2008, shareholders' equity was up $70.3 million to $353.7 million from $283.5 million as at October 31, 2007. This increase, owing primarily to changes in fair value of the derivatives designated as cash flow hedges and net income of $63.2 million and $28.1 million, respectively, was offset by the $19.9 million premium paid subsequent to a share repurchase.

OPERATING ACTIVITIES

During the third quarter, operating activities generated $53.2 million in cash flows compared with $40.1 million for the corresponding quarter of 2007. This $13.1 million increase for the quarter, resulting mainly from the net change in non-cash working capital balances related to operations, which was $17.4 million higher compared with the corresponding quarter of 2007, was offset by the Corporation's slimmer profit margins.

CASH FLOWS

For the periods ended July 31
(in thousands of dollars)

	Three months			Nine months		
	2008	2007 Restated	Variance	**2008**	2007 Restated	Variance
	$	$	$	**$**	$	$
Cash flows from operating activities	**53,168**	40,110	13,058	**243,366**	189,198	54,168
Cash flows from investing activities	**(37,958)**	(69,023)	31,065	**(135,694)**	(58,864)	(76,830)
Cash flows from financing activities	**(42,181)**	(33,661)	(8,520)	**(1,258)**	(50,051)	48,793
Effect of exchange rate changes on cash	**(3,047)**	4,323	(7,370)	**(13,541)**	2,510	(16,051)
Net change in cash	**(30,018)**	(58,251)	28,233	**92,873**	82,793	10,080

For the nine-month period, cash flows from operating activities rose $54.2 million to $243.4 million from $189.2 million for the corresponding period of 2007. This increase for the nine-month period resulted mainly from the net change in non-cash working capital balances related to operations, which was $66.2 million higher compared with the same period in 2007. The net change was mainly due to the change in client deposits and deferred revenues, which was more favourable for the nine-month period compared with the corresponding period of 2007.

Investing activities

Cash flows used in investing activities totalled $38.0 million for the quarter, down $31.1 million compared with the corresponding quarter of 2007, due largely to the net change in investments in ABCP in 2007.

For the nine-month period, cash flows used in investing activities amounted to $135.7 million, up $76.8 million from $58.9 million for the corresponding period of 2007. This increase resulted mainly from the $55.8 million acquisition of a 35% interest in Caribbean Investments B.V. and the change in cash and cash equivalents in trust or otherwise reserved for the nine-month period, which was $63.3 million higher compared with the corresponding period of 2007. As well, additions to property, plant and equipment, consisting mainly of aircraft maintenance and the Look Voyages building, were $7.5 million higher for the nine-month period compared with the corresponding period ended July 31, 2007.

Financing activities

During the quarter, cash flows from financing activities totalled $42.2 million, up $8.5 million compared with the corresponding quarter of 2007. This increase, owing primarily to repayments on long-term debt that were $15.5 million higher for the quarter compared with the corresponding quarter of 2007, was offset by a $7.1 million decrease in share repurchases.

For the nine-month period, cash flows from financing activities amounted to $1.3 million, down $48.8 million from $50.1 million for the corresponding period of 2007. This decrease, owing primarily to a $31.0 million increase in net long-term debt for the nine-month period compared with $26.1 million decrease for the corresponding period 2007, was offset by a $3.3 million increase in share repurchases compared with the corresponding period of 2007.

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited Consolidated Interim Financial Statements as at July 31, 2008. As at July 31, 2008 and October 31, 2007, these obligations amounted to $127.1 million and $91.8 million, respectively. Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and are made up of:

- Guarantees
- Operating leases

Off-balance sheet debt that can be estimated, excluding agreements with service providers, amounted to approximately $240.0 million as at July 31, 2008 compared with $279.3 million as at October 31, 2007, and is detailed as follows:

	As at July 31, 2008 $	As at October 31, 2007 $
Guarantees		
Irrevocable letters of credit	**11,452**	10,751
Security contracts	**798**	848
Operating leases		
Commitments under operating leases	**227,762**	267,710
	240,012	279,309

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

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

Debt levels

Debt levels as at July 31, 2008 were higher than as at October 31, 2007.

Balance sheet debt increased $35.3 million to $127.1 million as at July 31, 2008 from $91.8 million as at October 31, 2007, and our off-balance sheet debt decreased $39.3 million to $240.0 million from $279.3 million as at the same dates, collectively representing a $4.0 million decrease in total debt as at July 31, 2008 compared with October 31, 2007. The increase in balance sheet debt resulted mainly from our new revolving term credit facility from which $80.8 million had been drawn down as at

July 31, 2008. The decrease in our off-balance sheet debt, stemming from repayments of our commitments, was offset by the Corporation's entering into a new office lease and the adverse effect of foreign exchange rates compared with October 31, 2007.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $7.1 million in net debt as at July 31, 2008, down 88.5% from $62.0 million as at October 31, 2007.

Outstanding shares

As at July 31, 2008, there were three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

On June 15, 2008, the Corporation renewed its normal course issuer bid for a 12-month period. The renewal was aimed at purchasing for cancellation up to a maximum of 3,175,506 Class A Variable Voting Shares and Class B Voting Shares of the Corporation, representing less than 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares as at the renewal date of the normal course issuer bid.

This program allows the Corporation to purchase Class A Variable Voting Shares and Class B Voting Shares in the normal course of business, when the Corporation believes that the Class A Variable Voting Shares and Class B Voting Shares are undervalued by the market.

These purchases are to be made via the Toronto Stock Exchange in accordance with its policy on normal course issuer bids. The price to be paid by the Corporation for any Class A Variable Voting Shares and Class B Voting Shares will be the market price at the time of acquisition, plus brokerage fees. Purchases began on June 15, 2004, and will terminate no later than June 14, 2009.

In accordance with its normal course issuer bids, the Corporation repurchased, during the nine-month period ended July 31, 2008, a total of 1,064,200 voting shares, consisting of Class A Variable Voting Shares and Class B Voting Shares, for a cash consideration of $24.9 million.

As at July 31, 2008, there were 1,583,159 Class A Variable Voting Shares outstanding and 31,070,223 Class B Voting Shares outstanding.

Stock options

As at July 31, 2008, there were a total of 716,173 stock options outstanding, 322,217 of which were exercisable.

Dividends

During the nine-month period ended July 31, 2008, the Corporation declared and paid dividends totalling $9.0 million, including $2.9 million in the third quarter.

Other

In order to enhance the Corporation's financial flexibility, we entered into a new credit agreement with National Bank of Canada ("NBC"). Based on the agreement, NBC will provide Transat with a 3-year credit facilities for up to $107.6 million through a combination of limited recourse and full recourse credit facilities, renewable annually at the discretion of NBC thereafter for up to four additional years. An aggregate amount of $68.4 million of the credit facilities are limited recourse to the ABCP, with the balance of the credit facilities, namely $39.2 million, being full recourse against the Corporation.

The agreement is subject to usual conditions and to the definitive and final approval of the restructuring plan of the ABCP market before the Courts and its effectiveness and to the execution of a complete, final and unconditional release in favour of NBC against any claim related to the ABCP.

Changes to accounting policies

Aircraft overhaul expenses

On November 1, 2007, the Corporation changed its method for accounting for aircraft overhaul expenses. Up until October 31, 2007, the Corporation accounted for its expenses using the accrue-in-advance method, as set out in note 2 of the audited financial statements as at October 31, 2007, in accordance with the accounting methods suggested in the U.S. *Audits of Airlines* guide issued by the American Institute of Certified Public Accountants.

On September 8, 2006, the Financial Accounting Standards Board ["FASB"] issued FASB Staff Position ["FSP"] AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP amended the *Audits of Airlines* guide to preclude the use of accruals as an acceptable method. This FSP is applicable to all entities for fiscal years beginning on or after December 15, 2006.

As a result, effective November 1, 2007, the Corporation discontinued use of the accrue-in-advance method and began accounting for aircraft overhaul expenses as follows:

Leased aircraft

Under the terms of the leases, the Corporation is required to maintain the aircraft in serviceable condition and follow the maintenance plan. The Corporation accounts for its leased aircraft 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.”

Owned aircraft

When aircraft are acquired, a portion of the cost is allocated to “major maintenance activities,” which is related to airframe, engine and landing gear overhaul costs. The aircraft and major maintenance activities are amortized taking into account their expected estimated residual value. The aircraft are amortized on a straight-line basis over seven to ten year periods, while major maintenance activities are amortized 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 amortized according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred.

This change in accounting policy has been adopted retroactively with restatement of prior periods. The adoption of these new standards translated into a $2.6 million increase in retained earnings on November 1, 2006, and into the following changes as at October 31, 2007: a $17.0 million net decrease in property, plant and equipment, a $17.8 million decrease in the provision for aircraft overhaul, a $0.3 million increase in future income tax liabilities and a $0.6 million increase in retained earnings. For the quarter ended July 31, 2007, the adoption of these new standards translated into the following changes: a $1.2 million decrease in maintenance expense ($4.3 million for the nine-month period), a $2.2 million increase in amortization of property, plant and equipment ($5.8 million for the nine-month period) and a $0.3 million decrease in future income tax expense ($0.5 million for the nine-month period), for a $0.6 million decrease in net earnings ($0.9 million for the nine-month period) and a $0.02 decrease in diluted earnings per share ($0.03 for the nine-month period). Also for the quarter ended July 31, 2007, the adoption of these new standards translated into a $2.6 million increase in cash flows from operating activities and a $2.6 million decrease in cash flows from investing activities ($7.5 million and $7.5 million, respectively, for the nine-month period).

Although the Corporation could have chosen to account for maintenance expenses in net income for owned aircraft as incurred, it believes that the policies adopted provide better information to users of financial statements.

Other standards

The CICA issued the following accounting standards that took effect on November 1, 2007 for the Corporation: Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, Section 1535, Capital Disclosures, and Section 1506, *Accounting Changes*.

Sections 3862 and 3863 replace Section 3861, *Financial Instruments – Disclosure and Presentation*, and increase emphasis on disclosure of the risks arising from financial instruments, including hedging instruments, and how the entity manages such exposure.

Section 1535 requires supplementary disclosure regarding the Corporation’s capital management and compliance with any externally imposed capital requirements.

Section 1506 provides guidance, in particular, on the criteria for changing accounting policies, the appropriate accounting treatment in specific circumstances and the required disclosure.

The Corporation refers the reader to note 5 to the Consolidated Interim Financial Statements for the third quarter ended July 31, 2008 for further details regarding the adoption of these standards.

Future changes in accounting policies

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which will supersede Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation is currently assessing the impact of the adoption of this new standard on its consolidated financial statements. The adoption of Section 3064 is not expected to have a material effect on the Corporation's consolidated financial statements.

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

Controls and procedures

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the three-month period ended July 31, 2008 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

Outlook

Bookings and selling prices for the rest of the 2008 season are generally higher than for the prior year at the same date. However, competition is intense and given the price-sensitive of the demand, our margins remain exposed to the unpredictable fluctuation of aircraft fuel prices. For the fourth quarter, the Corporation anticipate higher revenues than in 2007, and similar margins on a consolidated basis, with lower margins in North America and higher margins in European operations.

Notice

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

Consolidated balance sheets

(in thousands of dollars) (Unaudited)	As at July 31, 2008 $	As at October 31, 2007 [restated — note 2] $
ASSETS		
Current assets		
Cash and cash equivalents	**259,641**	166,768
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	**212,845**	168,196
Investments in ABCP *[note 4]*	**—**	142,346
Accounts receivable	**153,911**	109,128
Income taxes receivable	**2,018**	13,037
Future income tax assets	**3,313**	25,250
Inventories	**11,614**	8,931
Prepaid expenses	**60,638**	45,981
Derivative financial instruments *[note 5]*	**53,406**	26,997
Current portion of deposits	**35,305**	31,077
Total current assets	**792,691**	737,711
Investments in ABCP *[note 4]*	**100,385**	—
Deposits	**15,881**	17,191
Future income tax assets	**13,007**	9,341
Property, plant and equipment *[note 2]*	**165,991**	163,018
Goodwill and other intangible assets *[note 6]*	**154,779**	148,515
Derivative financial instruments *[note 5]*	**5,731**	316
Other assets *[note 7]*	**61,787**	4,431
	1,310,252	1,080,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**349,606**	281,985
Income taxes payable	**7,392**	8,757
Future income tax liabilities *[note 2]*	**13,604**	298
Customer deposits and deferred income	**359,378**	237,898
Derivative financial instruments *[note 5]*	**15,613**	88,469
Payments on current portion of long-term debt	**13,668**	48,794
Total current liabilities	**759,261**	666,201
Long-term debt *[notes 8 and 13]*	**110,306**	39,887
Debenture	**3,156**	3,156
Provision for aircraft overhaul *[note 2]*	**36,270**	31,701
Other liabilities	**33,889**	32,189
Derivative financial instruments *[note 5]*	**351**	6,135
Future income tax liabilities *[note 2]*	**13,289**	17,802
	956,522	797,071
Shareholders' equity		
Share capital *[note 9]*	**153,823**	156,964
Retained earnings *[note 2]*	**190,393**	191,118
Contributed surplus	**3,575**	1,871
Accumulated other comprehensive income *[note 10]*	**5,939**	(66,501)
	353,730	283,452
	1,310,252	1,080,523

See accompanying notes to consolidated interim financial statements.

Consolidated statements of income

(in thousands of dollars except per share amounts) (Unaudited)

	Three (3) months ended July 31 2008 $	Three (3) months ended July 31 2007 [restated – note 2] $	Nine (9) months ended July 31 2008 $	Nine (9) months ended July 31 2007 [restated – note 2] $
Revenues	**859,880**	741,762	**2,722,427**	2,365,499
Operating expenses				
Direct costs	**480,375**	389,842	**1,542,282**	1,275,687
Salaries and employee benefits	**87,611**	82,536	**262,009**	241,599
Aircraft fuel	**104,037**	73,343	**260,543**	196,559
Commissions	**35,774**	37,316	**141,891**	154,783
Aircraft maintenance *[note 2]*	**24,241**	18,816	**72,190**	62,743
Airport and navigation fees	**24,736**	23,711	**66,451**	62,133
Aircraft rent	**12,047**	12,430	**36,325**	36,567
Other	**78,295**	77,861	**242,680**	218,480
	847,116	715,855	**2,624,371**	2,248,551
	12,764	25,907	**98,056**	116,948
Amortization *[note 2]*	**14,911**	12,850	**42,416**	37,720
Interest on long-term debt and debenture	**2,028**	1,537	**6,473**	5,111
Other interest and financial expenses	**527**	320	**834**	1,219
Interest income	**(4,651)**	(5,512)	**(12,794)**	(15,355)
Change in the fair value of derivative financial instruments related to aircraft fuel purchases	**4,661**	(3,904)	**(14,314)**	(12,944)
Foreign exchange gain on long-term monetary items	**218**	(1,791)	**(2)**	(2,238)
Writedown of investments in ABCP *[note 4]*	**—**	—	**32,137**	—
Gain on repurchase of redeemable preferred shares of a subsidiary	**—**	—	**(1,605)**	—
Share of net income (net loss) of companies subject to significant influence	**915**	(89)	**(602)**	(643)
	18,609	3,411	**52,543**	12,870
Income (loss) before the following items	**(5,845)**	22,496	**45,513**	104,078
Income taxes (recovery)				
Current	**(704)**	4,954	**18,626**	28,435
Future	**(3,219)**	904	**(4,258)**	3,078
	(3,923)	5,858	**14,368**	31,513
Income (loss) before non-controlling interest in subsidiaries' results	**(1,922)**	16,638	**31,145**	72,565
Non-controlling interest in subsidiaries' results	**(527)**	(531)	**(3,010)**	(687)
Net income (net loss) for the period	**(2,449)**	16,107	**28,135**	71,878
Earnings (loss) per share *[note 9]*				
Basic earnings (loss) per share	**(0.07)**	0.48	**0.85**	2.13
Diluted earnings (loss) per share	**(0.07)**	0.47	**0.84**	2.10

See accompanying notes to consolidated interim financial statements.

Consolidated statements of comprehensive income

(in thousands of dollars) (Unaudited)

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2008	2007 [restated – note 2]	**2008**	2007 [restated – note 2]
	$	$	$	$
Net income (net loss) for the period	**(2,449)**	16,107	**28,135**	71,878
Other comprehensive income				
Change in the fair value of derivatives designated as cash flow hedges	**9,151**	(4,218)	**34,429**	(20,206)
Reclassification to income	**7,612**	(8,062)	**58,594**	(5,208)
Future income taxes	**(5,157)**	4,410	**(30,868)**	8,576
	11,606	(7,870)	**62,155**	(16,838)
Losses on derivatives designated as cash flow hedges before November 1, 2006, reclassified in income during the period	**61**	3,389	**522**	15,378
Future income taxes	**(20)**	(1,118)	**(172)**	(5,075)
	41	2,271	**350**	10,303
Foreign exchange gain (loss) on the conversion of financial statements of self-sustaining foreign subsidiaries due to the (appreciation) depreciation of the Canadian dollar compared to the euro and the pound sterling	**(1,738)**	(3,246)	**9,935**	(126)
	9,909	(8,845)	**72,440**	(6,661)
Net comprehensive income for the period	**7,460**	7,262	**100,575**	65,217

Consolidated statements of retained earnings

(in thousands of dollars) (Unaudited)

	Nine (9) months ended July 31	
	2008	2007 [restated – note 2]
	$	$
Retained earnings, beginning of period, balance already reported	**190,534**	142,116
Changes in accounting policies *[note 2]*	**584**	2,561
Retained earnings, beginning of period	**191,118**	144,677
Net income for the period	**28,135**	55,771
Premium paid on share repurchase *[note 9]*	**(19,864)**	(10,375)
Dividends	**(8,996)**	(5,434)
Retained earnings, end of period	**190,393**	184,639

See accompanying notes to consolidated interim financial statements.

Consolidated statements of cash flows

(in thousands of dollars) (Unaudited)	Three (3) months ended July 31		Nine (9) months ended July 31	
	2008	2007 [restated – note 2]	**2008**	2007 [restated – note 2]
	$	$	$	$
OPERATING ACTIVITIES				
Net income (net loss) for the period	**(2,449)**	16,107	**28,135**	71,878
Operating items not involving an outlay (receipt) of cash:				
Amortization	**14,911**	12,850	**42,416**	37,720
Change in the fair value of derivative financial instruments related to the purchase of aircraft fuel	**4,661**	(3,904)	**(14,314)**	(12,944)
Foreign exchange loss (gain) on long term monetary items	**218**	(1,791)	**(2)**	(2,238)
Changes in the fair value of investments in ABCP	**—**	—	**31,915**	—
Loss on disposal of investments in ABCP	**—**	—	**222**	—
Gain on repurchase of redeemable preferred shares of a subsidiary	**—**	—	**(1,605)**	—
Share of net income (net loss) of companies subject to significant influence	**915**	(89)	**(602)**	(643)
Non-controlling interest in subsidiaries' results	**527**	531	**3,010**	687
Future income taxes	**(3,219)**	904	**(4,258)**	3,078
Pension expense	**774**	625	**2,310**	1,875
Compensation expense related to stock option plan	**834**	390	**1,968**	933
	17,172	25,623	**89,195**	100,346
Net change in non-cash working capital balances related to operations	**29,169**	11,741	**148,110**	81,881
Net change in other assets and liabilities related to operations	**3,544**	3,015	**1,492**	2,047
Net change in provision for aircraft overhaul	**3,283**	(269)	**4,569**	4,924
Cash flows relating to operating activities	**53,168**	40,110	**243,366**	189,198
INVESTING ACTIVITIES				
Additions to property, plant and equipment	**(16,736)**	(13,247)	**(42,264)**	(34,745)
Cash and cash equivalents from acquired businesses	**—**	3,427	**—**	3,427
Consideration paid for acquired company	**(4,801)**	(7,411)	**(59,559)**	(7,411)
Net change in investments in ABCP	**—**	(38,801)	**10,778**	(38,801)
Net change in cash and cash equivalents in trust or otherwise reserved	**(16,421)**	(12,991)	**(44,649)**	18,666
Cash flows relating to investing activities	**(37,958)**	(69,023)	**(135,694)**	(58,864)
FINANCING ACTIVITIES				
Increase in long-term debt	**697**	—	**69,419**	—
Repayment of long-term debt	**(37,962)**	(22,145)	**(38,412)**	(26,082)
Proceeds from issuance of shares	**328**	1,254	**1,595**	6,085
Share repurchase	**(2,308)**	(9,455)	**(24,864)**	(21,575)
Dividends	**(2,936)**	(3,045)	**(8,996)**	(8,479)
Cash flows relating to financing activities	**(42,181)**	(33,661)	**(1,258)**	(50,051)
Effect of exchange rate changes on cash and cash equivalents	**(3,047)**	4,323	**(13,541)**	2,510
Net change in cash and cash equivalents for the period	**(30,018)**	(58,251)	**92,873**	82,793
Cash and cash equivalents, beginning of period	**289,659**	355,931	**166,768**	214,887
Cash and cash equivalents, end of period	**259,641**	297,680	**259,641**	297,680
Supplementary information				
Income taxes paid	**(1,232)**	9,346	**10,279**	39,954
Interest paid	**2,167**	3,045	**6,699**	6,726

See accompanying notes to consolidated interim financial statements.

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

NOTE 1 BASIS OF PRESENTATION

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the new accounting policies described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2007 Annual Report. Certain comparative figures were reclassified to conform to the presentation adopted in the current year.

NOTE 2 NEW ACCOUNTING POLICIES

Aircraft overhaul expenses

On November 1, 2007, the Corporation changed its method for accounting for aircraft overhaul expenses. Until October 31, 2007, the Corporation accounted for its expenses using the accrue-in-advance method, as set out in note 2 in the 2007 audited consolidated financial statements, in accordance with the accounting methods suggested in the U.S. Audits of Airlines guide issued by the American Institute of Certified Public Accountants.

On September 8, 2006, the Financial Accounting Standards Board ["FASB"] issued FASB Staff Position ["FSP"] AUG AIR-1, Accounting for Planned Major Maintenance Activities. This FSP amended the Audits of Airlines guide to preclude the use of accruals as an acceptable method. This FSP is applicable to entities in all industries for fiscal years beginning after December 15, 2006.

As a result, effective November 1, 2007, the Corporation discontinued use of the accrue-in-advance method and began accounting for aircraft overhaul expenses as follows:

Leased aircraft

Under the terms of the leases, the Corporation is required to maintain the aircraft in sound working order and follow the maintenance plan. The Corporation accounts for its leased aircraft 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."

Owned aircraft

When aircraft are acquired, a portion of the cost is allocated to "major maintenance activities," which is related to airframe, engine and landing gear overhaul costs. The aircraft and major maintenance activities are amortized taking into account their expected estimated residual value. The aircraft are amortized on a straight-line basis over seven to ten year periods, while major maintenance activities are amortized 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 amortized according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred.

This change in accounting policy was adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into the following changes: as at November 1, 2006, a $2,561 increase in retained earnings and, as at October 31, 2007, a $16,982 net decrease in property, plant and equipment, a $17,826 decrease in the provision for aircraft overhaul, a $260 increase in future income tax liabilities and a $584 increase in retained earnings. For the three-month period ended July 31, 2007, the adoption of these new standards translated into the following changes: a $1,185 decrease in maintenance expenses ($4,333 for the nine-month period), an $2,151 increase in amortization of property, plant and equipment ($5,757 for the nine-month period) and a $324 decrease in future income tax expense ($477 for the nine-month period), for a $642 decrease in net income ($947 for the nine-month period) and a $0.02 decrease in diluted earnings per share ($0.03 for the nine-month period). For the three-month and nine-month periods ended July 31, 2007, the adoption of these new standards also translated into the following changes: a $2,598 increase in cash flows relating to operating activities and a decrease in cash flows related to investing activities of the same amount ($7,460 for the nine-month period).

The Corporation could have chosen to account for maintenance expenses for owned aircraft in net income as incurred. Management believes that the adopted standards provide better information to users of financial statements.

Other standards

The CICA has issued the following accounting standards that were effective on November 1, 2007 for the Corporation: Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial*

Instruments – Presentation, Section 1535, *Capital Disclosures*, and Section 1506, *Accounting Changes*.

Sections 3862 and 3863 replaced section 3861, *Financial Instruments – Disclosure and Presentation*, and increase emphasis on disclosure of the risks arising from financial instruments, including hedging instruments, and how the entity manages such exposure.

Section 1535 requires supplementary disclosure regarding the Corporation's capital management and compliance with any externally imposed capital requirements.

Section 1506 provides guidance, in particular, on the criteria for changing accounting policies, the appropriate accounting treatment in specific circumstances and the required disclosure.

Future changes in accounting policies

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which will supersede Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation is currently assessing the impact of the adoption of this new standard on its consolidated financial statements. The adoption of Section 3064 is not expected to have a material effect on the Corporation's consolidated financial statements.

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

NOTE 3 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2008, cash and cash equivalents in trust or otherwise reserved included $167,151 [$168,196 as at October 31, 2007] in funds received from customers for services not yet rendered and $45,694 [nil as at October 31, 2007] which was pledged as collateral security against letters of credit and foreign exchange contracts.

NOTE 4 INVESTMENTS IN ABCP

As at July 31, 2008, the Corporation held a portfolio of asset backed commercial paper ("ABCP") issued by several trusts with an overall notional value of $143,500. In mid-August 2007, the Canadian third-party ABCP market was hit by a liquidity disruption. Since that time, no transactions involving the securities held by the Corporation have been traded in an active market.

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

On March 17, 2008, the Pan-Canadian Committee received an order from the Ontario Superior Court of Justice pursuant to the provisions of the Companies' Creditors Arrangement Act (CCAA) setting forth an approval procedure for noteholders of the Restructuring Plan filed by the Committee. Under the CCAA, the Plan must be approved by a simple majority of noteholders as well as by noteholders representing at least 66 2/3% of the total aggregate amounts of affected ABCP capital.

On March 20, 2008, the Committee released its Restructuring Plan and other relevant documents. In light of the information so released, the Corporation allocated the notional value of its ABCP as follows:

- The Corporation holds $114,848 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which will be restructured into floating rate notes with maturities through December 31, 2016. The Corporation expects to receive replacement notes with par values as follows :
  - Class A-1 : $35,217
  - Class A-2 : $64,997
  - Class B : $11,188
  - Class C : $3,446
- The Corporation holds $12,652 in ABCP supported mainly by U.S. sub-prime assets and that will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.
- The Corporation holds $16,000 in ABCP supported solely by traditional securitized assets that will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.

On April 25, 2008, the Restructuring Plan proposed by the On April 25, 2008, the Restructuring Plan proposed by the Pan-Canadian Committee of ABCP investors was approved by the noteholders. On June 5, 2008, the Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 5, 2008, the

Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 25, 2008, a number of ABCP holders appealed the Ontario Superior Court of Justice's decision to the Ontario Court of Appeal. On August 18, 2008, the Ontario Court of Appeal upheld the Ontario Superior Court of Justice's decision approving the Committee's Restructuring Plan. On August 29, 2008, a number of ABCP holders appealed the Ontario Court of Appeal's decision to the Supreme Court of Canada.

In light of the information available during the three-month period ended July 31, 2008, changes in the credit market conditions and a review of the valuation assumptions taking into account new information, the Corporation remeasured the fair value of its investments in ABCP.

Since there is no active market for ABCP securities, the Corporation's management has estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, relevant market interest rates, amounts to be received, maturity dates and the assumption that the Accord restructuring process will be successfully completed in fall 2008.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.00% to 4.82% (weighted average rate of 3.2%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.4 years) and using discount rates ranging from 5.25% to 40% (weighted average rate of 11.38%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the Accord.

As a result of this valuation, the Corporation did not recognize any additional writedown ($32,137 for the six-month period) in respect of its investments in ABCP during the three-month period ended July 31, 2008. As at July 31, 2008 the Corporation's provision for writedowns totalled $43,337. The writedown of the investments in ABCP also includes a $222 loss on the December 2007 disposal of an investment with a face value of $11,000 for which for a cash consideration of $10,778 was received.

An increase in the estimate discount rates of 1% would reduce the estimated fair value of the Corporation's investment in ABCP by approximately $4,500.

The Corporation's estimate of the fair value of its ABCP investments as at July 31, 2008 is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities in the coming quarters. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

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

NOTE 5 FINANCIAL INSTRUMENTS

Classification of financial instruments

As at July 31, 2008, the classification of the financial instruments, other than financial derivative instruments designated as hedges, as well as their carrying amounts and fair values, are as follows:

Classification of financial instruments

			Carrying amount	Fair value
	Held-for-trading $	Loans and receivables $	Total $	$
Financial assets				
Cash and cash equivalents	259,641	—	259,641	259,641
Cash and cash equivalents in trust or otherwise reserved	212,845	—	212,845	212,845
Accounts receivable	—	153,911	153,911	153,911
Investments in ABCP	100,385	—	100,385	100,385
Derivative financial instruments – Fuel purchasing forward contracts	46,657	—	46,657	46,657
	619,528	153,911	773,439	773,439

Classification of financial instruments (Cont'd)

			Carrying amount	Fair value
	Held-for-trading $	Other financial liabilities $	Total $	$
Financial liabilities				
Accounts payable and accrued liabilities	—	348,554	348,554	348,554
Long-term debt	—	123,974	123,974	123,974
Debenture	—	3,156	3,156	3,156
Derivative financial instruments –				
Fuel purchasing forward contracts	5,764	—	5,764	5,764
	5,764	475,684	481,448	481,448

Fair value of financial instruments

As at July 31, 2008, the carrying amounts of the financial assets designated as loans and receivables, consisting primarily of receivables and short-term financial liabilities classified as other financial liabilities, approximate their fair value given that they are expected to be realized or settled in the short term. The carrying amounts of other long-term financial liabilities approximate their fair value given that they are subject to terms and conditions, such as variable interest rates, similar to those available to the Corporation for instruments with comparable terms.

The fair value of the derivative financial instruments represents the amount of the consideration that could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. When the market for a derivative financial instrument is not active, the Corporation establishes fair value by applying valuation techniques, such as using information on recent 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.

The carrying amounts of the financial instruments as at July 31, 2008 are as follows:

	Assets $	Liabilities $
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	12,480	8,313
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	—	1,887
Derivative financial instruments designated as held-for-trading		
Fuel purchasing forward contracts	46,657	5,764

Management of risks arising from financial instruments

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

Foreign exchange risk

Transat is exposed, due to its many arrangements with foreign-based suppliers, its long-term debt and its revenues in foreign currencies, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. Approximately 30% of the Corporation's costs are incurred in a currency other than the functional currency of the reporting unit incurring the costs, whereas a negligible percentage of revenues are incurred in a currency other than the functional 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 generally in less than two years, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The net financial assets and net financial liabilities, in Canadian dollars, of the Corporation and its subsidiaries denominated in currencies other than the functional currency of the financial statements as at July 31, 2008, based on their financial statement functional currency, are summarized in the following table (next page):

Net assets (net liabilities)

	American dollar $	Euro $	Pound sterling $	$	Other currencies $	Total $
Financial statement functional currency of the group's companies						
Euro	(5,132)	—	3	(1,115)	(2,342)	(8,586)
Pound sterling	1,069	3,834	—	18,710	—	23,613
Canadian dollar	(20,595)	7,508	2,142	—	1,139	(9,806)
Other currencies	603	1,160	—	(10)	(406)	1,347
Total	**(24,056)**	**12,503**	**2,145**	**17,595**	**(1,609)**	**6,568**

On July 31, 2008, a 5% increase or decrease in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $1,504 increase or decrease, respectively, in the Corporation's net income for the three-month and nine-month periods ended July 31, 2008, whereas other comprehensive income would have increased or decreased by $25,134, respectively.

Risk of fluctuations in fuel prices

Transat 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 costs to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To hedge against sharp increases in fuel prices, the Corporation has implemented a fuel price risk management policy that authorizes it to enter into foreign exchange forward contracts, and other types of derivative financial instruments, expiring generally in less than two years.

On July 31, 2008, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $25,046 increase or decrease, respectively, in the Corporation's net income for the three-month and nine-month period ended July 31, 2008, whereas other comprehensive income would have been unchanged.

As at July 31, 2008, 71% of estimated fuel requirements for fiscal 2008 and 34% of estimated requirements for fiscal 2009 were covered by fuel purchasing contracts (50% of estimated requirements for fiscal 2008 and 2% of estimated requirements for fiscal 2009 were covered as at October 31, 2007).

Interest rate risk

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

Furthermore, interest rate fluctuations could have an affect on the interest income the Corporation derives 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 permissible investment instruments, their concentration, acceptable credit rating and maximum maturity.

On July 31, 2008, a 25 b.p. increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $310 and $841 increase or decrease in the Corporation's net income for the three-month and nine-month periods ended July 31, 2008, respectively, whereas other comprehensive income would have been unchanged.

Credit risk

Credit risk stems primarily from the potential inability of clients to discharge their obligations. Accounts receivable generally arise from the sale of vacation packages to individuals through retail travel agencies and the sale of seats to tour operators, which are dispersed over a wide geographic area. No account represented more than 10% of total accounts receivable. Historically, the Corporation has never made any significant write-off of its accounts receivables. Except for the investments in ABCP, the Corporation does not believe it is exposed to a significant concentration of credit risk. The maximum credit risk to which the Corporation is exposed as at July 31, 2008 represents the fair value of cash equivalents, investments in ABCP and accounts receivable.

Pursuant to their respective terms, accounts receivable are aged as follows as at July 31, 2008:

	$
Current	34,686
Under 30 days past due	81,229
30–60 days past due	14,117
61–90 days past due	7,767
Over 91 days past due	16,112
Total	**153,911**

Counterparty risk

The Corporation is exposed to the risk that the parties with which it enters into agreements could be unable to fulfill their commitments. Counterparty risks include the risk related to the securities issuer, the settlement risk on derivative financial instruments and the credit risk related to cash and cash equivalents. The Corporation minimizes its exposure to issuer risk by investing 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 that are rated by at least two rating firms. In addition, the Corporation strives to minimize risk by entering into agreements solely with large financial institutions with suitable credit ratings. 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.

Management believes the credit risk related to financial instruments to be adequately controlled, as the Corporation enters into agreements solely with large financial institutions with suitable credit ratings. The risk to which the Corporation is exposed in respect of financial instruments is limited to the replacement cost of contracts at market prices in the event of a counterparty default. Cash and cash equivalents are invested on a diversified basis in investment-grade corporations.

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 consolidated perimeter. 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 July 31, 2008 are summarized in the following table:

	Current maturity $	Maturing in 1 to 2 years $	Maturing in 2 to 5 years $	Total $
Account payable accured liabilities	349,606	—	—	349,606
Derivative financial instruments:	15,613	351	—	15,964
Long-term debt	13,668	13,668	96,638	123,974
Debenture	—	3,156	—	3,156
Total	**378,887**	**17,175**	**96,638**	**492,700**

Capital risk management

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

The Corporation manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Corporation may elect to adjust the amount of the dividends paid to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issues new shares.

The Corporation monitors its capital structure using the adjusted debt/equity ratio. This ratio is calculated as follows: net debt/adjusted shareholders' equity. Net debt is equal to the aggregate of long-term debt, the debenture and off-balance sheet arrangements, excluding agreements with suppliers less cash and cash equivalents (not held in trust or otherwise reserved) and investments in ABCP. Adjusted shareholders' equity represents shareholders equity net of the amounts recognized in calculating other comprehensive income related to cash flow hedges.

The Corporation's strategy is to maintain its debt/equity ratio below 1. The calculation of the debt/equity ratio as at July 31, 2008 is summarized as follows:

	$	$
Net debt		
Long-term debt	123,974	
Debenture	3,156	
Off-balance sheet arrangements	240,012	
Cash and cash equivalents	(259,641)	
Investments in ABCP	(100,385)	7,116
Adjusted shareholders' equity		
Shareholders' equity	353,730	
Amounts recognized in calculating other comprehensive income related to cash flow hedges	(1,879)	351,851
Debt/equity ratio		**2.0%**

NOTE 6 BUSINESS ACQUISITIONS

During the third quarter, the Corporation made a contingent payment of €2,379 [$3,804], in relation to its acquisition of L'Européenne de Tourisme (Amplitude Internationale), from which an amount of €1,400 [$1,923] was already accounted for as an amount payable. An increase in goodwill of $1,566 was recognized subsequent to this transaction.

During the year ended October 31, the Corporation acquired several businesses. These acquisitions were recorded using the purchase method. The results of these businesses were included in the Corporation's results as of their respective dates of acquisition, unless otherwise indicated.

On May 1, 2007, the Corporation made a €1,264 ($1,921) cash payment to acquire the balance of the shares (30%) of Air Consultants B.V. (ACE) that it did not already own. Goodwill amounting to $2,108 was recognized subsequent to this transaction.

On July 11, 2007, the Corporation acquired 100% of the issued and outstanding shares of French outgoing tour operator L'Européenne de Tourisme (Amplitude Internationale) for a total consideration of €6,044 [$8,631]. A cash payment of €4,644 [$6,241] was paid on the acquisition date and the balance of €1,400 [$1,923] was due before July 31, 2008. A temporary goodwill amount of $3,516 was originally recognized subsequent to this transaction.

Note 7 Other assets

	As at July 31, 2008 $	As at October 31, 2007 $
Investments in companies subject to significant influence and other investments	**57,947**	628
Deferred costs, unamortized balance	**2,488**	2,701
Other	**1,352**	1,102
	61,787	4,431

On December 10, 2007, the Corporation acquired a 35% interest in Caribbean Investments B.V., a company that operates five hotels in Mexico and in the Dominican Republic, for a cash consideration of $50,621 [US$50,100] and an additional contingent payment of $5,000, subject to specific conditions until 2009, from which an amount of $984 [US$1,000] was paid during the third quarter. This acquisition was recorded using the equity method and Transat's share of the results of the acquired company was included in the Corporation's results as of December 10, 2007. The final purchase price allocation is expected to be completed as soon as the Corporation's management has gathered all the significant information it deems necessary.

Moreover, on April 9, 2008, the Corporation carried out an additional contribution of $4,150 [US$4,113] in Caribbean Investments B.V.

Note 8 Long-term debt

On November 16, 2007, the Corporation entered into an agreement with a financial institution for an unsecured revolving credit facility of $150,000 as well as a revolving credit facility of $60,000 for the purposes of issuing letters of credit, in respect of which the Corporation must pledge cash as collateral security against 105% of letters of credit issued [see note 3]. This agreement expires on November 16, 2012. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances and bank loans in Canadian dollars, US dollars, euros or pound sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR (London Interbank Offered Rate), plus a premium based on certain financial ratios calculated on a consolidated basis.

As at July 31, 2008 the balance of the drawn revolving credit facility amounted to $80,792.

Note 9 Share Capital

a) Share capital

Authorized

Class A variable voting shares

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

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

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

Class B voting shares

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

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

Preferred shares

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

Issued and outstanding

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

Nine months ended July 31, 2008	Number of shares	Amount ($)
Balance as at October 31, 2007	33,628,386	156,964
Issued from treasury	40,776	956
Exercise of options	48,420	903
Repurchase of shares	(1,064,200)	(5,000)
Balance as at July 31, 2008	32,653,382	153,823

As at July 31, 2008, the number of Class A Shares and Class B Shares amounted to 1,583,159 and 31,070,223 respectively.

Normal course issuer bid

On June 15, 2008, the Corporation renewed its normal course issuer bid in the normal course of business for a 12-month period. With this renewal, the Corporation intends to purchase for cancellation up to a maximum of 3,175,506 Class A Variable Voting Shares and Class B Voting Shares, representing less than 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares at the offer date. Shares are purchased at market price plus brokerage fees.

In accordance with its normal course issuer bids, the Corporation repurchased, during the nine-month period ended July 31, 2008, a total of 1,064,200 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $24,864.

b) Options	Number of options	Weighted average price ($)
Balance as at October 31, 2007	506,083	22.70
Granted	259,181	21.35
Exercised	(48,420)	13.21
Cancelled	(671)	22.34
Balance as at July 31, 2008	716,173	22.85
Exercisable options as at July 31, 2008	322,217	19.89

c) Earnings (loss) per share

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

In computing diluted earnings per share for the nine-month period ended July 31, 2008, a total of 139,000 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the period.

Earnings (loss) per share

[In thousands, except amounts per share]	Three (3) months ended July 31		Nine (9) months ended July 31	
	2008	2007 [Restated – note 2]	**2008**	2007 [Restated – note 2]
	$	$	$	$
Numerator				
Income (loss) attributable to voting shareholders	**(2,449)**	16,107	**28,135**	71,878
Interest on debentures that may be settled in voting shares	**—**	32	**97**	96
Income attributable to voting shareholders and used to calculate diluted earnings per share	**(2,449)**	16,139	**28,232**	71,974
Denominator				
Weighted average number of outstanding shares	**32,656**	33,810	**33,223**	33,812
Debenture that may be settled in voting shares	**—**	90	**117**	95
Stock options	**66**	269	**146**	257
Warrants	**—**	—	**—**	67
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**32,722**	34,169	**33,486**	34,231
Earnings (loss) per share				
Basic earnings (loss) per share	**(0.07)**	0.48	**0.85**	2.13
Diluted earnings (loss) per share	**(0.07)**	0.47	**0.84**	2.10

NOTE 10 ACCUMULATED OTHER COMPREHENSIVE INCOME

Nine (9) months ended July 31	2008 $	2007 $
Accumulated other comprehensive income		
Balance beginning of period	**(66 501)**	(12,413)
Other comprehensive income for the period	**72,440**	(6,661)
Balance end of period	**5,939**	(19,074)

NOTE 11 SEGMENTED INFORMATION

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

Segmented Information

	Three (3) months ended July 31, 2008			Nine (9) months ended July 31, 2008		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	**509,477**	**350,403**	**859,880**	**2,069,663**	**652,764**	**2,722,427**
Operating expenses	**521,212**	**325,904**	**847,116**	**1,994,571**	**629,800**	**2,624,371**
	(11,735)	**24,499**	**12,764**	**75,092**	**22,964**	**98,056**
Property, plant and equipment, goodwill and other intangible assets[1]				**188,909**	**131,861**	**320,770**

	Three (3) months ended July 31, 2007 [Restated — note 2]			Nine (9) months ended July 31, 2007 [Restated — note 2]		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	475,034	266,728	741,762	1,850,126	515,373	2,365,499
Operating expenses	464,180	251,675	715,855	1,746,803	501,748	2,248,551
	10,854	15,053	25,907	103,323	13,625	116,948
Property, plant and equipment, goodwill and other intangible assets[2]				194,236	117,297	311,533

[1] As at July 31, 2008

[2] As at October 31, 2007

NOTE 12 GUARANTEES

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

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

Notes 4, 11, 12, 13 and 21 to the 2007 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

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

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $469 as at July 31, 2008. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $798 as at July 31, 2008. Historically, the Corporation has not made any significant payments under such agreements.

As at July 31, 2008, no amounts have been accrued with respect to the above-mentioned agreements.

NOTE 13 SUBSEQUENT EVENT

On August 1, 2008, the Corporation extended its borrowings secured by aircraft. Under these new agreements, these borrowings amounted to US$40,000 and are secured by aircraft. The borrowings bear interest at the London Interbank Offered Rate (LIBOR) plus 2.15% and 3.25% and mature in 2011.

OUTGOING TOUR OPERATORS

Transat Tours Canada (TTC)

Transat Holidays
Caribbean, Latin America and Mexico from Canada, Canada-Europe market and cruises

Nolitours
Caribbean, Latin America, Mexico and Florida from Canada

Look Voyages
Mediterranean Basin, Africa, Asia, Caribbean, Mexico, etc. from France, and Lookéa clubs

Amplitude Internationale
Tunisia from France

Vacances Transat (France)
Americas, Caribbean, Asia, Africa from France. Tours in Eastern Europe, Scandinavia, Scotland, Ireland under the Bennett brand

Brokair
Group tours from France

Canadian Affair
British tour operator specializing in travel to Canada

Rêvatours
Eastern Europe, Asia, North Africa, etc. from Canada

Merika Tours
North American destinations from Canada

Air Consultants Europe (ACE)
TTC's representative in Germany, the Netherlands, Belgium, Luxembourg and Austria

INCOMING TOUR OPERATORS AND DESTINATION SERVICES

Jonview Canada
Tours and packages to Canada

Tourgreece
Tours and packages to Greece

Trafic Tours
Excursions and destination services in Mexico

Turissimo
Excursions and destination services in the Dominican Republic

Transat Holidays USA
Destination services and travel agency in Florida

ACCOMMODATION

Ocean Hotels
3 hotels in Mexico and 2 hotels in the Dominican Republic (with H10 Hotels)

RETAIL DISTRIBUTION

Transat Distribution Canada
More than 400 travel agencies in Canada (Marlin Travel, TravelPlus, tripcentral.ca, Club Voyages, Voyages en Liberté) and exitnow.ca

Club Voyages (France)
Network of 69 travel agencies in France (Club Voyages, Look Voyages)

AIR TRANSPORTATION

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Handlex
Airport ground services in Montréal, Toronto and Vancouver

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