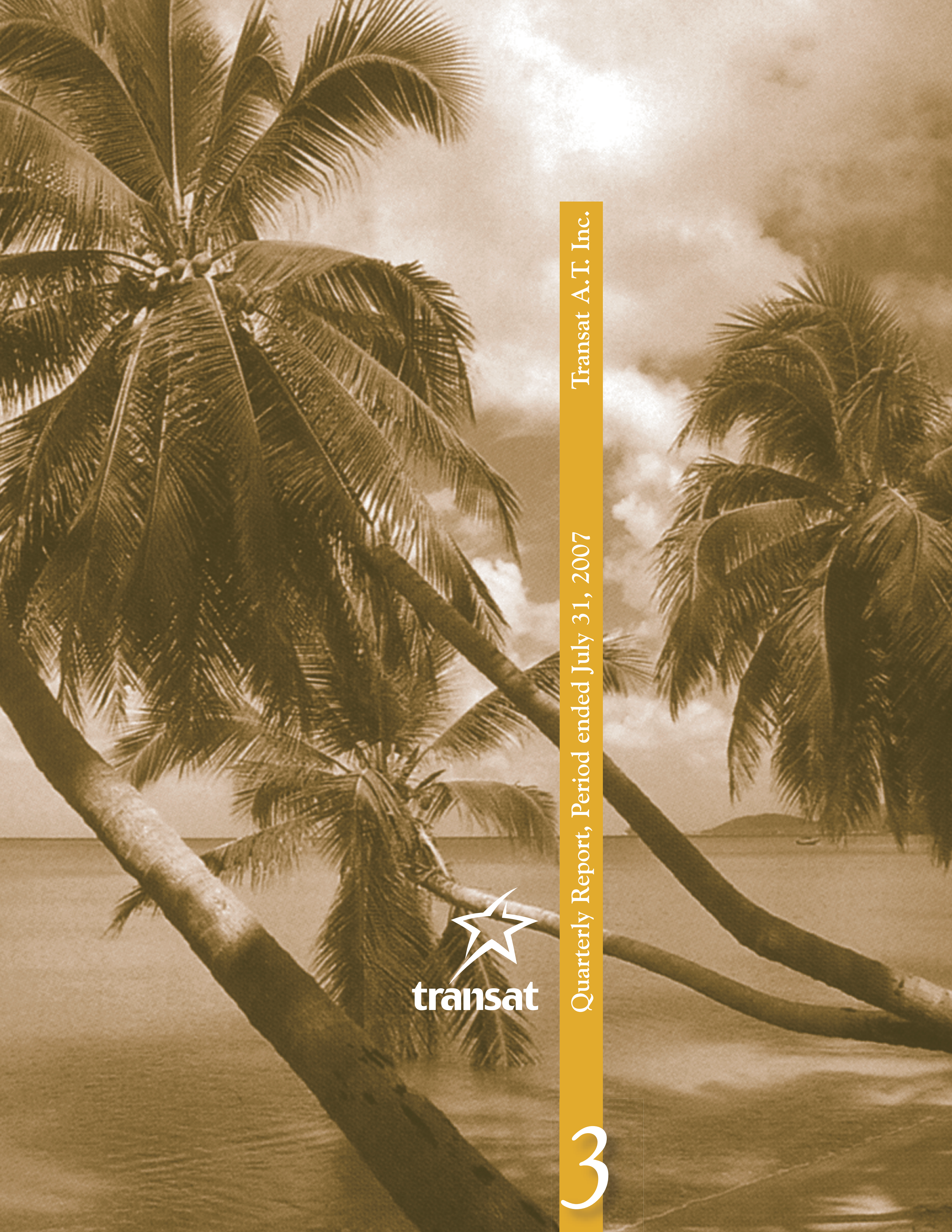

Transat A.T. Inc.

Quarterly Report, Period ended July 31, 2007

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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, 2007 compared with the quarter and nine-month period ended July 31, 2006 and should be read in conjunction with the unaudited consolidated interim financial statements for the third quarter of 2007 and 2006, the notes thereto and the 2006 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 2006 Annual Report. The risks and uncertainties set out in the MD&A of the 2006 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 5, 2007. 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, 2007 and Annual Information Form for the year ended October 31, 2006.

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", "could", "estimate", "expect", "intend", "may", "plan", "potential", "predict", "project", "will", "would", the negative of these terms and similar terminology, including references to assumptions. All such statements are made pursuant to applicable Canadian securities legislation. Such statements may involve but are not limited to comments with respect to strategies, expectations, planned operations or future actions.

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, war, 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, employee relations, labour negotiations and disputes, pension issues, currency 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 expectation that travel reservations will continue to be higher than the prior year.*
- *The Corporation's expectation that cash flow from operations, existing funds and borrowings under 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 the Corporation cannot predict the impact of future energy prices and foreign exchange rates on its financial results, that credit facilities will continue to be made available as in the past, that management continues to manage cash flow fluctuations to fund working capital requirements for the full year. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

Financial Highlights

Three- and nine-month periods ended July 31 [In thousands of dollars]

	Three (3) months				Nine (9) months			
	2007 $	2006 $	Variance $	Variance %	**2007 $**	2006 $	Variance $	Variance %
Consolidated Statements of Income								
Revenues	**741,762**	611,107	130,655	21.4	**2,365,499**	1,984,252	381,247	19.2
Margin[1]	**24,722**	15,606	9,116	58.4	**112,615**	98,123	14,492	14.8
Net income	**16,749**	4,205	12,544	298.3	**72,825**	52,218	20,607	39.5
Earnings per share – Basic	**0.50**	0.12	0.38	316.7	**2.15**	1.48	0.67	45.3
Earnings per share – Diluted	**0.49**	0.12	0.37	308.3	**2.13**	1.45	0.68	46.9
Dividends declared and paid per share	**0.09**	0.07	0.02	28.6	**0.25**	0.07	0.18	257.1
Consolidated Statements of Cash Flows								
Operating activities	**33,620**	62,109	(28,489)	(45.9)	**178,214**	144,587	33,627	23.3

	As at July 31, 2007	As at Octobrer 31, 2006	Variance $	Variance %
Consolidated Balance Sheets				
Cash and cash equivalents	**297,680**	214,887	82,793	38.5
Cash and cash equivalents held in trust or otherwise reserved	**184,947**	203,613	(18,666)	(9.2)
Temporary investments	**38,801**	—	38,801	n/a
	521,428	418,500	102,928	24,6
Total assets	**1,138,125**	959,195	178,930	18.7
Debt (short-term and long-term)	**58,302**	87,404	(29,102)	(33.3)
Total debt[1]	**313,516**	407,741	(94,225)	(23.1)
Net debt[1]	**(22,965)**	192,854	(215,819)	(111.9)

[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 period to period. These terms are included because management uses them to measure Transat's financial performance.

Margin is used by management to assess Transat's ongoing and recurring operational per-formance. 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 Transat's operating performance and its capacity to meet its financial obligations. Operating cash flows is defined as cash flows from operating activities excluding the net change in non-cash working capital balances related to operations, net change in other liabilities and net change in deposits, expenses and provision for engine and airframe overhaul, according to the Consolidated Statements of Cash Flows.

Total debt is used by management to assess Transat's future cash requirements. It is represented by the combination of balance sheet debt (long-term debt and debentures) and off-balance sheet arrangements presented on p. 11.

Net debt is used by management to assess its cash position. It corresponds to the total debt (described above) less cash and cash equivalents not held in trust or otherwise reserved and temporary investments.

Transat is one of the largest fully integrated world-class tour operators in North America. We conduct our activities in a single industry (holiday travel) and we mainly market our products in two geographic areas (North America and Europe). Transat's core business involves developing and marketing vacation travel services in package and air-only 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 that incorporates 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 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.
- 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.
- Step up development of destination services and assume a portion of our accommodation needs.
- Pursue our ongoing technology and training initiatives and investments.

Our objectives for fiscal 2007:

- Enhance our competitiveness in Canada.
- Become more competitive and accelerate our growth in Europe.
- Tap into new outgoing markets.
- Further capitalize on vertical integration at destination.
- Implement a knowledge management culture complete with the necessary processes to support our growth and continuity.
- Develop and implement an integrated information management infrastructure that supports development and actively contributes to profitable growth.

The key performance drivers are market share, revenue growth and margin. They are essential to the successful implementation of our strategy and to the achievement of 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 non-financial resources include our brand, structure, employees and relationships with suppliers.

During the nine-month period ended July 31, 2007, 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.

On May 1, 2007, the Corporation made a €1.3 million ($1.9 million) cash payment to acquire the balance of the shares (30%) of Air Consultants B.V. (ACE) that it did not already own.

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 €6.3 million ($9.1 million). A cash payment of €3.8 million ($5.5 million) was made on the acquisition date, with the balance of €2.5 million ($3.6 million) payable no later than July 31, 2008. 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.

These transactions resulted in a $6.0 million increase in recognized goodwill.

Revenues

Three (3) months ended July 31
[In thousands of dollars]

2007	2006	Variance	Variance
$	$	$	%
741,762	611,107	130,655	21.4

Nine (9) months ended July 31
[In thousands of dollars]

2007	2006	Variance	Variance
$	$	$	%
2,365,499	1,984,252	381,247	19.2

We draw 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 2006, our revenues rose $130.7 million and $381.2 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 6.3% and 13.8%, respectively, in North America and 62.3% and 43.6%, respectively, in Europe. These improvements resulted mainly from our acquisitions in fiscal 2006 and an upswing in business activity, particularly in France. For the quarter and nine-month period, our volume of travellers grew 23.7% and 18.9%, respectively.

Operating expenses

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

For the quarter and nine-month period of 2007, operating expenses rose $121.5 million and $366.8 million, respectively, compared with the corresponding periods in 2006. These increases were due to higher operating expenses, up 4.3% and 13.8% in North America and 58.5% and 40.9% in Europe for the quarter and nine-month period, respectively.

Direct costs include the cost 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 cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Compared with the corresponding periods of 2006, these costs accounted for 52.6% and 53.9% of our revenues for the quarter and nine-month period, respectively, up from 47.6% and 51.4% in 2006. In comparison with the corresponding periods of the previous year, direct costs were up 34.0% and 25.1% for quarter and nine-month period, respectively. For both the quarter and nine-month period, the dollar-term increases resulted mainly from our acquisition of Canadian Affair, heightened business activity—primarily in France, over the quarter, where most seat costs are provided by third party airlines, as well as from higher seat costs, caused by rising fuel and hotel room prices, and the euro's strength against the Canadian dollar.

For the quarter and nine-month period, salaries and employee benefits were up 10.0% and 15.5%, respectively, compared with the corresponding periods of 2006. These increases were due in part to our business acquisitions since November 1, 2005 and expanded business activity.

For the three- and nine-month periods ended July 31, 2007, aircraft fuel expense was up 5.6% and 14.3%, respectively, compared with the corresponding periods of 2006. These increases arose from greater business activity, and the addition of one aircraft to the fleet in 2006 and another in the second quarter of 2007.

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 up $1.9 million and $13.2 million, respectively, compared with the corresponding periods of 2006. Our commission expense represented 5.0% and 6.5% of revenues for the quarter and nine-month period, respectively, compared with 5.8% and 7.1% for the corresponding periods of 2006. These decreases were partially due to synergies resulting from the expansion of our travel agency network following acquisitions in fiscal 2006 and to the fact that most sales at Canadian Affair involve no intermediaries.

Aircraft maintenance costs relate mainly to the engine and airframe maintenance expenses incurred by Air Transat. Compared with the corresponding periods of 2006, these costs were down 11.2% for the quarter and up 3.4% for the nine-month period. Costs fell in the third quarter due to lower unexpected breakdown repair costs than in the corresponding period of 2006. The increase over the nine-month period was due to the higher pace of business activity and the addition of an aircraft to our fleet compared with the same period in 2006.

For the quarter and nine-month period, airport and navigation fees consisting mainly of fees charged by airports were up 3.0% and 10.7%, respectively, compared with the corresponding periods of the previous year, due to a rise in business activity.

Aircraft rentals remained relatively steady during the quarter and nine-month period. The Canadian dollar's strength against the U.S. dollar partially offset new lease payments for an aircraft added to our fleet in 2006 and another in the second quarter of 2007.

During the quarter and nine-month period, other expenses rose 16.0% and 17.2%, respectively, compared with the corresponding periods of 2006, driven primarily by the heightened business activity. Expressed as a percentage of revenues, however, other expenses fell over the quarter and nine-month period, standing at 10.5% and 9.2%, respectively, compared with 11.0% and 9.4 % for the corresponding periods of 2006.

Operating expenses

For the periods ended July 31 [In thousands of dollars]	Three (3) months				Nine (9) months			
	2007	2006	Variance	Variance	**2007**	2006	Variance	Variance
	$	$	$	%	**$**	$	$	%
Direct costs	**389,842**	290,853	98,989	34.0	**1,275,687**	1,019,555	256,132	25.1
Salaries and employee benefits	**82,536**	75,037	7,499	10.0	**241,599**	209,152	32,447	15.5
Aircraft fuel	**73,343**	69,450	3,893	5.6	**196,559**	171,924	24,635	14.3
Commissions	**37,316**	35,392	1,924	5.4	**154,783**	141,543	13,240	9.4
Aircraft maintenance	**20,001**	22,521	(2,520)	(11.2)	**67,076**	64,894	2,182	3.4
Airport and navigation	**23,711**	23,027	684	3.0	**62,133**	56,131	6,002	10.7
Aircraft rent	**12,430**	12,127	303	2.5	**36,567**	36,573	(6)	(0.0)
Other	**77,861**	67,094	10,767	16.0	**218,480**	186,357	32,123	17.2
	717,040	595,501	121,539	20.4	**2,252,884**	1,886,129	366,755	19.4

Margin

In light of the foregoing, our margins, or income expressed as a percentage of revenues, widened over the quarter, reaching 3.3%, up from 2.6% for the corresponding period in 2006. For the nine-month period, our margins narrowed, standing at 4.8%, compared with 4.9% for the same period of 2006. Our higher margin over the quarter resulted mainly from acquisitions in 2006 and improved operating performance from our subsidiaries in France. Margins eased lower over the nine-month period due to the fierce competition that still prevails in various markets and the resulting price breaks for consumers, especially in North America, as well as to higher fuel costs.

Geographic Areas

In North America, growth in revenues for the quarter resulted mainly from increase in total travellers of 9.3%. However, as anticipated, we experienced downward price pressures on travel routes bound for the U.K., our hottest summer destination, due to expanded seat capacity in the marketplace. For the nine-month period, revenue growth was fuelled primarily by a 9.0% increase in the volume of travellers, while competition continued to put downward pressure on our prices throughout the period, particularly in Québec during the winter season. Overall, margins stood at 2.0% and 5.4% for the quarter and nine-month period, respectively, down from 2.3% and 5.9% for the corresponding periods of 2006.

In Europe, revenues and operating expenses were up from the corresponding three- and nine-month periods of 2006. These growth resulted mainly from the acquisition of Canadian Affair and heightened business activity, particularly at Look Voyages, but also from the euro's strength against the dollar. The volume of travellers rose 138% and 82% over the quarter and nine-month period, respectively, compared with the corresponding periods of 2006. Excluding Canadian Affair's travellers, our volume of travellers rose 21.0% and 17.6%, respectively, compared with the quarter and nine-month period of 2006.

Our European operations posted a margin of 5.6% and 2.6% for the quarter and nine-month period, respectively, up from 3.4% and 0.1% for the corresponding periods of 2006.

Geographic Areas — North America

For the periods ended July 31 [In thousands of dollars]	Three (3) months				Nine (9) months			
	2007 **$**	2006 $	Variance $	Variance %	**2007** **$**	2006 $	Variance $	Variance %
Revenues	**475,034**	446,720	28,314	6.3	**1,850,126**	1,625,252	224,874	13.8
Operating expenses	**465,365**	436,668	28,697	6.6	**1,751,136**	1,530,010	221,126	14.5
Margin	**9,669**	10,052	(383)	(0.4)	**98,990**	95,242	3,748	0.4

Geographic Areas — Europe

For the periods ended July 31 [In thousands of dollars]	Three (3) months				Nine (9) months			
	2007 **$**	2006 $	Variance $	Variance %	**2007** **$**	2006 $	Variance $	Variance %
Revenues	**266,728**	164,387	102,341	62.3	**515,373**	359,000	156,373	43.6
Operating expenses	**251,675**	158,833	92,842	58.5	**501,748**	356,119	145,629	40.9
Margin	**15,053**	5,554	9,499	171.0	**13,625**	2,881	10,744	372.9

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. Amortization expense amounted to $10.7 million for the quarter, up $1.0 million or 10.6% from $9.7 million for the third quarter of 2006. For the nine-month period, amortization expense amounted to $32.0 million, up $3.6 million for the corresponding period of 2006. These increases were attributable to additions to property, plant and equipment as well as business acquisitions during fiscal 2006.

Interest on long-term debt and debentures were down $0.2 million during the quarter, compared with the corresponding period of 2006, primarily due to principal repayments over the quarter. For the nine-month period, interest held steady.

Our other interest and financial expenses remained relatively unchanged during the third quarter and nine-month period, compared with the corresponding periods of the previous year.

For the quarter and nine-month period, interest income grew $1.0 million (21.7%) and $3.9 million (34.3%), respectively, compared with the corresponding periods of 2006. These increases resulted from higher rates of return due to interest rate hikes and from higher average cash balances compared with 2006 levels.

Subsequent to the adoption on November 1, 2006 of new accounting standards and the discontinuation of hedge accounting for its derivative financial instruments used for aircraft fuel purchases, the Corporation recognized an unrealized gain on derivative financial instruments at fair value for the quarter and nine-month period amounting to $3.9 million and $12.9 million, respectively. These gains represent the change over the periods in the fair value of the derivative financial instruments used by the Corporation to manage risks related to fuel price instability.

For the quarter and nine-month period, foreign exchange gains on long-term monetary items, amounting to $1.8 million and $2.2 million, respectively, were mainly due to the favourable effect of foreign exchange rates on our long-term debt.

Our share of net income of companies subject to significant influence rose slightly over the quarter and the nine-month period compared with the corresponding periods of the previous year.

Other expenses and revenues

For the periods ended July 31 [In thousands of dollars]	Three (3) months				Nine (9) months			
	2007 $	2006 $	Variance $	Variance %	2007 $	2006 $	Variance $	Variance %
Amortization	**10,699**	9,677	1,022	10.6	**31,963**	28,336	3,627	12.8
Interest on long-term debt and debentures	**1,537**	1,713	(176)	(10.3)	**5,111**	5,047	64	1.3
Other interest and financial expenses	**320**	510	(190)	(37.3)	**1,219**	1,316	(97)	(7.4)
Interest income	**5,512**	4,528	984	21.7	**15,355**	11,437	3,918	34.3
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**3,904**	—	3,904	n/a	**12,944**	—	12,944	n/a
Foreign exchange loss (gain) on long-term monetary items	**(1,791)**	523	(2,314)	(442.4)	**(2,238)**	(3,399)	1,161	34.2
Share of net income of companies subject to significant influence	**89**	39	50	128.2	**643**	374	269	71.9

Income taxes

For the three- and nine-month periods ended July 31, 2007, our income tax expense amounted to $6.2 million and $32.0 million, respectively, compared with $2.9 million and $26.0 million for the corresponding periods of 2006. Excluding the share of net income of companies subject to significant influence, the effective tax rate for the quarter and nine-month period stood at 26.4% and 30.5%, respectively, compared with 37.5% and 33.2% for the corresponding periods of 2006.

The lower taxation rate for the quarter and nine-month period resulted mainly from the tax loss carryforwards of our French companies for which no income tax assets were recognized. As a result, income tax expense has a lower carrying value.

Net income

As a result of the items discussed in "Consolidated operations," our net income for the quarter ended July 31, 2007 amounted to $16.7 million, or $0.50 per share, compared with $4.2 million, or $0.12 per share, during the corresponding quarter of the previous year. The weighted average number of shares outstanding used to establish the per share amounts was 33,810,000 for the quarter, compared with 33,820,000 for corresponding period of 2006.

Our net income was $72.8 million or $2.15 per share for the nine months ended July 31, 2007, compared with $52.2 million or $1.48 per share for the same period of the previous year. The weighted average number of shares outstanding used to establish the per share amounts was 33,812,000 for the nine-month period ended July 31, 2007, compared with 35,261,000 for the corresponding period of 2006.

On a diluted per share basis, earnings per share amounted to $0.49 and $2.13 for the three- and nine-month periods ended July 31, 2007, respectively, compared with $0.12 and $1.45 for the corresponding periods of 2006. The adjusted weighted average number of shares used in computing these amounts for the quarter and nine-month period was 34,169,000 and 34,231,000, respectively, compared with 34,526,000 and 36,043,000 for the corresponding periods of 2006. *See note 4 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 total travellers and acquisitions since fiscal 2005. From a margin perspective, there have been fluctuations during each quarter, owing primarily to competition that exerted pressure on prices, and to sharply higher fuel prices since 2005. In light of the foregoing, the following quarterly financial information may vary significantly from quarter to quarter.

Selected quarterly financial information

(In thousands of dollars, except per share amounts)

	2005	2006				2007		
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenues	493,900	581,576	791,569	611,107	619,494	712,337	911,400	741,762
Margin	23,380	14,030	68,487	15,606	28,821	24,674	63,219	24,722
Net income	18,022	5,168	42,845	4,205	13,552	2,132	53,944	16,749
Earnings per share								
Basic	0.45	0.14	1.27	0.12	0.40	0.06	1.59	0.50
Diluted	0.44	0.13	1.24	0.12	0.39	0.06	1.58	0.49

Liquidity and capital resources

As at July 31, 2007, cash and cash equivalents totalled $297.7 million compared with $214.9 million as at October 31, 2006. Cash and cash equivalents in trust or otherwise reserved amounted to $184.9 million as at July 31, 2007 compared with $203.6 million as at October 31, 2006. Our balance sheet reflects a current ratio of 1.2 and working capital of $125.0 million compared with a ratio of 1.2 and working capital of $97.6 million as at October 31, 2006. With regard to our French operations, we also have access to unused lines of credit totalling 5.4 million ($7.9 million).

Total assets amounted to $1,138.1 million as at July 31, 2007, up $178.9 million (18.7%) from $959.2 million as at October 31, 2006. This increase was mainly due to greater business activity stemming from our acquisitions since November 1, 2005, which in turn resulted in a $64.1 million increase in cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, a $44.4 million increase in accounts receivable, and a $38.8 million increase in temporary investments. Shareholders' equity amounted to $326.7 million as at July 31, 2007, up $30.7 million from $296.0 million as at October 31, 2006. This growth stemmed primarily from the net income realized during the period, the rise in our share capital and the decrease in accumulated other comprehensive income.

Operating activities

During the third quarter, operating activities generated cash flows amounting to $33.6 million, down $28.5 million from $62.1 million for the corresponding quarter of 2006. This decrease resulted mainly from a $40.4 million decline in the amount of net change in working capital balances related to operations, compared with the third quarter of 2006. The latter decrease resulted from less favourable changes in prepaid expenses and customer deposits and deferred revenues for the quarter, compared with the third quarter of 2006.

For the nine-month period ended July 31, 2007, cash flows relating to operating activities amounted to $178.2 million, up $33.6 million from $144.6 million for the corresponding period of 2006. This increase was primarily attributable to growth in net income totalling $20.6 million, which was offset by the unrealized gain on derivative financial instruments related to $12.9 million in aircraft fuel purchases and to a $19.3 million increase in the amount of net change in working capital balances related to operations for the nine-month period ended July 31, 2007. This net change resulted from a more favourable change in client deposits and deferred revenues for the nine-month period than for the comparable period in 2006, although offset by unfavourable changes in all other working capital items.

Investing activities

Cash flows used by investing activities totalled $62.5 million for the quarter, down $9.8 million compared with the third quarter of 2006, mainly due to the net change in temporary investments and to the net change in cash and cash equivalents in trust or otherwise reserved. For the nine-month period, cash flows used by investing activities amounted to $47.9 million, up $5.8 million from $42.1 million for the corresponding period of 2006. This increase resulted primarily from an $11.1 million increase in additions to property, plant and equipment and a net change in temporary investments amounting to $38.8 million, which was offset by a $37.7 million decline in the amount of net change in cash and cash equivalents held in trust or otherwise reserved. The additions consisted mainly of computer hardware and software, and aircraft enhancements.

Financing activities

During the quarter, cash flows used from financing activities totalled $33.7 million, up $28.8 million compared with the third quarter of 2006. This growth resulted primarily from a $19.1 million increase in repayments of long-term debt during the quarter, compared with the corresponding period 2006 and a $9.5 million increase in share repurchases. For the nine-month period, financing activities used $50.1 million, down $92.9 million from $142.9 million for the corresponding period of 2006. This decline stemmed mainly from a $103.4 million decrease in share repurchases, compared with the nine-month period in 2006.

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, 2007. These obligations amounted to $58.3 million as at July 31, 2007 and $87.4 million as at October 31, 2006. Obligations that are not reflected 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, excluding agreements with service providers, amounted to approximately $255.2 million as at July 31, 2007, down $65.1 million from $320.3 million as at October 31, 2006. This decline resulted mainly from recurring repayments in respect of our commitments.

Off-balance sheet debt, excluding agreements with service providers, is detailed as follows:

	As at July 31, 2007 $	As at October 31, 2006 $
Guarantees		
Irrevocable letters of credit	**10,549**	5,751
Security contracts	**780**	780
Operating leases		
Commitments under operating leases	**243,885**	313,806
	255,214	320,337

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

We believe that the Corporation will be able to meet its obligations with existing funds, operating cash flows and borrowings under existing credit facilities.

Cash flows

For the periods ended July 31 [In thousands of dollars]	Three (3) months			Nine (9) months		
	2007 $	2006 $	Variance $	**2007 $**	2006 $	Variance $
Cash flows relating to operating activities	**33,620**	62,109	(28,489)	**178,214**	144,587	33,627
Cash flows relating to investing activities	**(62,533)**	(72,343)	9,810	**(47,880)**	(42,072)	(5,808)
Cash flows relating to financing activities	**(33,661)**	(4,901)	(28,760)	**(50,051)**	(142,907)	92,856
Effect of exchange rate changes on cash and cash equivalents	**4,323**	(972)	5,295	**2,510**	(936)	3,446
Net change in cash and cash equivalents	**(58,251)**	(16,107)	(42,144)	**82,793**	(41,328)	124,121

Debt levels

Debt levels as at July 31, 2007 were lower than as at October 31, 2006.

Compared with October 31, 2006, balance sheet debt as at July 31, 2007 totalled $58.3 million, down $29.1 million from $87.4 million, and our off-balance sheet debt totalled $255.2 million, down $65.1 million from $320.3 million, collectively representing a $94.2 million decline in total debt. The decrease in our balance sheet debt was mainly due to repayments during the period.

Net of cash and cash equivalents and temporary investments, the Corporation posted a $23.0 million surplus as at July 31, 2007, compared with net debt of $192.9 million as at October 31, 2006, a favourable change of 111.9%. This improvement resulted mainly from a higher balance of cash and cash equivalents and temporary investments as at July 31, 2007, compared with October 31, 2006, as well as debt repayments.

Outstanding shares

As at July 31, 2007, there are 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, 2007, the Corporation renewed for a 12-month period its normal course issuer bid ended on June 14, 2007. In the notice it filed, the Corporation stated its intention to purchase for cancellation up to a maximum of 3,288,003 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 June 12, 2007, there were 32,880,036 publicly held Class A Variable Voting Shares and Class B Voting Shares out of a total of 33,877,482 Class A Variable Voting Shares and Class B Voting Shares.

This program is designed to allow the Corporation proper utilization of its excess of cash.

These purchases are to be made through the facilities of the Toronto Stock Exchange in accordance with its policy on normal course issuer bids. The price which the Corporation will pay for repurchased shares will be the market price at the time of acquisition plus brokerage fees. Purchases will terminate no later than June 14, 2008.

In accordance with its normal course issuer bid renewed on June 15, 2007, the Corporation repurchased, during the nine-month period ended July 31, 2007, a total of 659,600 voting shares, consisting of Class A Variable Voting Shares and Class B Voting Shares, for a cash consideration of $21.6 million.

As at July 31, 2007, there were 2,309,196 Class A Variable Voting Shares outstanding and 31,359,300 Class B Voting Shares outstanding.

Dividends

During the nine-month period ended July 31, 2007, the Corporation declared and paid dividends totalling $8.5 million, including $3.0 million in the third quarter.

On September 5, 2007, the Board of Directors approved a quarterly dividend of $0.09 per Class B Voting Share and Class A Variable Voting Share. The dividend payment will be made on October 15, 2007 to shareholders of record as at September 30, 2007.

New accounting standards

On November 1, 2006, the Corporation adopted the recommendations of the following sections of the *Canadian Institute of Chartered Accountants Handbook*: Section 1530, “Comprehensive Income,” Section 3855, “Financial Instruments – Recognition and Measurement,” and Section 3865, “Hedges.” These standards set out, among other things, at what point a financial instrument must be recognized in the balance sheet and in what amount, in addition to specifying the basis of presentation for the gains and losses on the financial instruments. Based on their classification in the balance sheet, the gains and losses on the financial instruments are recognized in the statement of income or in the newly introduced financial statement, the statement of comprehensive income.

Following the adoption of these new standards, the Corporation opted to cease the use of hedge accounting for its derivative financial instruments for its aircraft fuel purchases. The adoption of these new standards translated, as at November 1, 2006, into a $12.4 million decrease in accumulated other comprehensive income, a $3.5 million increase in financial instruments reported under assets, a $6.1 million increase in future income tax assets, a $21.6 million increase in financial instruments reported under liabilities and a $0.4 million increase in long-term debt.

The adoption of these standards had no impact on the Corporation's cash flows but increased net income and net earnings per share for the three-month period ended July 31, 2007 by $2.6 million and $0.08, respectively, and increased net income and net earnings per share for the nine-month period ended July 31, 2007 by $8.7 million and $0.25, respectively.

The Corporation refers the reader to note 2 to the Consolidated Interim Financial Statements for the third quarter, ended July 31, 2007, for further details regarding the adoption of these standards.

In accordance with our investment policy, we held, as at July 31, 2007, asset-backed commercial paper (ABCP) investments with a nominal value of $152.6 million, presented as cash and cash equivalents and temporary investments. The maturities of these ABCP securities are staggered from August 1, 2007 to January 29, 2008. As at September 5, 2007, Transat held $154.5 million in ABCP, of which $40.0 million had matured and for which no payments had been received.

Over 90% of Transat's ABCP investments are in trusts rated R1-High by Dominion Bond Rating Service (DBRS)—the highest credit rating—and are therefore supported by liquidity facilities that are intended to protect investors from a market disruption.

DBRS has placed several ABCP issuers "Under Review with Developing Implications" following the August 16, 2007 announcement that a consortium representing banks, asset providers and major investors had agreed in principle to a long term proposal and an interim agreement regarding third party ABCP. The effect of this would be, among other things, to convert ABCP into term floating-rate bonds maturing no earlier than the scheduled termination dates of the underlying assets.

The Corporation is in discussion with one of its banks and the trust managers, and is closely monitoring the situation. The Corporation's management believes it is still too early to determine the final outcome of this situation. The potential impact that this situation could have on the Corporation's financial position remains uncertain at this time.

Despite liquidity concerns related to ABCP products, the Corporation has sufficient cash available to meet all of its financial, operational and regulatory obligations.

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, report on the design of disclosure controls and procedures and the design of internal control over financial reporting ("ICFR").

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 evaluated whether there were changes to its ICFR during the three-month period ended July 31, 2007 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

Outlook

The Corporation expects fourth-quarter demand to be higher than in the 2006. However, in light of heightened competition and market capacity, we anticipate narrower margins in North America for the next quarter, primarily on U.K.-bound routes.

In Europe, bookings for the fourth quarter are tracking ahead of their 2006 levels, and we expect margin growth for the next quarter, compared with the corresponding quarter in 2006.

Notice

The Corporation's independent auditors have not performed a review of these 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, 2007 $	As at October 31, 2006 $
ASSETS		
Current assets		
Cash and cash equivalents	**297,680**	214,887
Cash and cash equivalents in trust or otherwise reserved	**184,947**	203,613
Temporary investments	**38,801**	—
Accounts receivable	**132,409**	87,996
Future income tax assets	**4,543**	1,357
Inventories	**9,440**	8,312
Prepaid expenses	**52,160**	43,706
Derivative financial instruments *[note 2]*	**10,674**	—
Current portion of deposits	**38,217**	29,849
Total current assets	**768,871**	589,720
Deposits	**15,196**	19,350
Future income tax assets	**8,048**	7,120
Property, plant and equipment	**178,899**	181,349
Goodwill and other intangible assets	**159,437**	153,681
Derivative financial instruments *[note 2]*	**1,493**	—
Other assets	**6,181**	7,975
	1,138,125	959,195
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**316,824**	236,282
Income taxes payable	**666**	10,122
Customer deposits and deferred income	**297,266**	218,875
Derivative financial instruments *[note 2]*	**26,683**	—
Current portion of long-term debt	**2,408**	26,885
Total current liabilities	**643,847**	492,164
Long-term debt *[note 2]*	**52,738**	57,363
Debenture	**3,156**	3,156
Provision for engine and airframe overhaul in excess of deposits	**66,758**	64,961
Non-controlling interest and other liabilities	**31,865**	31,934
Derivative financial instruments *[note 2]*	**2,108**	—
Future income tax liabilities	**10,997**	13,654
	811,469	663,232
Shareholders' equity		
Share capital *[note 4]*	**156,368**	151,430
Retained earnings	**187,915**	142,116
Contributed surplus	**1,447**	1,379
Warrants *[note 4]*	**—**	1,016
Accumulated other comprehensive income *[notes 2 and 6]*	**(19,074)**	22
	326,656	295,963
	1,138,125	959,195

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		Nine (9) months ended July 31	
	2007	2006	**2007**	2006
	$	$	**$**	$
REVENUES	**741,762**	611,107	**2,365,499**	1,984,252
Operating expenses				
Direct costs	**389,842**	290,853	**1,275,687**	1,019,555
Salaries and employee benefits	**82,536**	75,037	**241,599**	209,152
Aircraft fuel	**73,343**	69,450	**196,559**	171,924
Commissions	**37,316**	35,392	**154,783**	141,543
Aircraft maintenance	**20,001**	22,521	**67,076**	64,894
Airport and navigation fees	**23,711**	23,027	**62,133**	56,131
Aircraft rent	**12,430**	12,127	**36,567**	36,573
Other	**77,861**	67,094	**218,480**	186,357
	717,040	595,501	**2,252,884**	1,886,129
	24,722	15,606	**112,615**	98,123
Amortization	**10,699**	9,677	**31,963**	28,336
Interest on long-term debt and debentures	**1,537**	1,713	**5,111**	5,047
Other interest and financial expenses	**320**	510	**1,219**	1,316
Interest income	**(5,512)**	(4,528)	**(15,355)**	(11,437)
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**(3,904)**	—	**(12,944)**	—
Foreign exchange (gain) loss on long-term monetary items	**(1,791)**	523	**(2,238)**	(3,399)
Share of net income of companies subject to significant influence	**(89)**	(39)	**(643)**	(374)
	1,260	7,856	**7,113**	19,489
Income before the following items	**23,462**	7,750	**105,502**	78,634
Income taxes (recovery of)				
Current	**4,954**	3,279	**28,435**	28,887
Future	**1,228**	(384)	**3,555**	(2,916)
	6,182	2,895	**31,990**	25,971
Income before non-controlling interest in subsidiaries' results	**17,280**	4,855	**73,512**	52,663
Non-controlling interest in subsidiaries' results	**(531)**	(650)	**(687)**	(445)
Net Income for the period	**16,749**	4,205	**72,825**	52,218
Earnings per share *[note 4]*				
Basic	**0.50**	0.12	**2.15**	1.48
Diluted	**0.49**	0.12	**2.13**	1.45

Consolidated statements of comprehensive income

(in thousands of dollars) (Unaudited) *[notes 2 and 6]*

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2007	2006	**2007**	2006
	$	$	**$**	$
Net income for the period	**16,749**	4,205	**72,825**	52,218
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges (net of income taxes of $8,576)	**(7,870)**	—	**(16,838)**	—
Losses on derivatives designated as cash flow hedges prior to November 1, 2006, transferred to net income in the current period (net of income taxes of $5,075)	**2,271**	—	**10,303**	—
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	**(3,246)**	578	**(126)**	450
	(8,845)	578	**(6,661)**	450
Comprehensive income for the period	**7,904**	4,783	**66,164**	52,668

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	
	2007	2006	**2007**	2006
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income for the period	**16,749**	4,205	**72,825**	52,218
Non cash items				
Amortization	**10,699**	9,677	**31,963**	28,336
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**(3,904)**	—	**(12,944)**	—
Foreign exchange (gain) loss on long term monetary items	**(1,791)**	523	**(2,238)**	(3,399)
Share of net income of companies subject to significant influence	**(89)**	(39)	**(643)**	(374)
Non-controlling interest in subsidiaries' results	**531**	650	**687**	445
Future income taxes	**1,228**	(384)	**3,555**	(2,916)
Pension expense	**625**	625	**1,875**	1,770
Compensation expense related to stock option plan	**390**	272	**933**	633
	24,438	15,529	**96,013**	76,713
Net change in non-cash working capital balances related to operations	**11,741**	52,166	**81,881**	62,630
Net change in other liabilities	**(877)**	100	**(1,477)**	350
Net change in deposits, expenses and provision for engine and airframe overhaul	**(1,682)**	(5,686)	**1,797**	4,894
Flux de trésorerie liés aux activités d'exploitation	**33,620**	62,109	**178,214**	144,587
INVESTING ACTIVITIES				
Net change in deposits	**4,217**	3,599	**3,636**	3,513
Additions to property, plant and equipment	**(10,649)**	(6,475)	**(27,285)**	(16,154)
Net change in other assets	**(325)**	(341)	**(112)**	(1,228)
Cash and cash equivalents from acquired business	**3,427**	3,478	**3,427**	3,478
Consideration paid for acquired businesses	**(7,411)**	(7,865)	**(7,411)**	(12,655)
Net change in temporary investments	**(38,801)**	—	**(38,801)**	—
Net change in cash and cash equivalents in trust or otherwise reserved	**(12,991)**	(64,739)	**18,666**	(19,026)
Cash flows relating to investing activities	**(62,533)**	(72,343)	**(47,880)**	(42,072)
FINANCING ACTIVITIES				
Repayment of long-term debt	**(22,415)**	(3,024)	**(26,082)**	(6,156)
Repayment of debentures	**—**	—	**—**	(10,000)
Proceeds from issue of shares	**1,254**	489	**6,085**	1,068
Share repurchase	**(9,455)**	—	**(21,575)**	(125,000)
Share repurchase cost	**—**	—	**—**	(453)
Dividend paid	**(3,045)**	(2,366)	**(8,479)**	(2,366)
Cash flows relating to financing activities	**(33,661)**	(4,901)	**(50,051)**	(142,907)
Effect of exchange rate changes on cash and cash equivalents	**4,323**	(972)	**2,510**	(936)
Net change in cash and cash equivalents for the period	**(58,251)**	(16,107)	**82,793**	(41,328)
Cash and cash equivalents beginning of period	**355,931**	268,274	**214,887**	293,495
Cash and cash equivalents end of period	**297,680**	252,167	**297,680**	252,167

Consolidated statements of retained earnings

Nine (9) months ended July 31 (in thousands of dollars) (Unaudited)

	2007	2006
	$	$
Retained earnings beginning of period	**142,116**	183,718
Net income for the period	**72,825**	52,218
Premium paid on share repurchase *[note 4]*	**(18,547)**	(96,197)
Share repurchase costs net of related income taxes of $145	**—**	(308)
Dividends	**(8,479)**	(2,366)
Retained earnings end of period	**187,915**	137,065

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 2006 Annual Report. Certain comparative figures were reclassified to conform to the presentation adopted in the current year.

Note 2: New accounting policies

On November 1, 2006, the Corporation retroactively adopted, without restatement of prior periods, the recommendations included in the following Sections of the *Canadian Institute of Chartered Accountants Handbook:* Section 1530, *Comprehensive Income,* Section 3855, *Financial Instruments – Recognition and Measurement,* and Section 3865, *Hedges*.

Section 1530, *Comprehensive Income*, requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income is the change in the net assets of a company arising from transactions, events and circumstances not related to shareholders.

Section 3855, *Financial Instruments* – Recognition and Measurement, sets out the standards for the recognition and measurement of financial assets, financial liabilities and derivatives. This standard prescribes when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. This standard also prescribes the basis of presentation for gains and losses on financial instruments. Based on financial instrument classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Corporation has made the following classification:

- Cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, temporary investments as well as derivative financial instruments used to manage fuel price fluctuation risks are classified as "Assets held for trading." They are measured at fair value and the gains or losses resulting from the remeasurement at the end of each period are recognized in net income.
- Accounts receivable are classified as "Loans and receivables." They are recorded at cost, which upon their initial measurement is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method
- Bank loans, accounts payable and accrued liabilities, the debenture and long-term debt are classified as "Other financial liabilities." They are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest method.

Section 3865, *Hedges*, sets out standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is optional. It offers entities the possibility of applying different reporting options than those set out in Section 3855, *Financial Instruments – Recognition and Measurement*, to qualifying transactions that they elect to designate as hedges for accounting purposes. The Corporation elected to apply hedge accounting for its foreign exchange forward contracts as cash flow hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from remeasurement are recognized in other comprehensive income when the hedge is deemed effective. Any ineffective portion is recognized in net income. In addition, the Corporation has designated certain foreign exchange forward contracts as fair value hedges. These derivatives are measured at fair value at the end of each period and the gains or losses resulting from the remeasurement are recognized in net income, with a corresponding adjustment to the carrying value of the hedged item through net income.

The Corporation also enters, in the normal course of its operations, into fuel purchasing contracts to manage fuel price fluctuation risks. For these derivatives, the Corporation elected to cease using hedge accounting. As a result, based on Section 3855, *Financial Instruments – Recognition and Measurement*, these derivatives are measured at fair value at the end of each period and the unrealized gains or losses resulting from remeasurement are disclosed in a separate item in the consolidated statement of income. On maturity of the contracts, realized gains or losses are recorded as aircraft fuel. Non realized gains or losses on the transition date were recognized in other comprehensive income and will be recognized in net income under aircraft fuel when the related fuel purchasing contracts will mature.

The adoption of these new standards translated into the following changes as at November 1, 2006: a $12,435 decrease in accumulated other comprehensive income, a $3,492 increase in derivative financial instruments reported under assets, a $6,125 increase in future income tax assets, a $21,632 increase in derivative financial instruments reported under liabilities and a $420 increase in long-term debt.

For the three-month and the nine-month periods ended July 31, 2007, the Corporation recognized an unrealized loss of $7,870 (net of $4,410 in related income taxes) and of $16,838 (net of $8,576 in related income taxes) respectively, under Other comprehensive income representing the effective portion of the change in fair value of the derivatives designated as cash flow hedges. These amounts so recognized were reclassified under Operating expenses for the periods during which the operating expenses were affected by the variability in the hedged item's cash flows. For the three-month and the nine-month periods ended July 31, 2007, a loss amounting to $2,855 and a gain amounting to $8,606 respectively were recorded under net income. An estimated loss of $23,336 included in Accumulated other comprehensive income as at July 31, 2007 should be reclassified under net income in the next twelve months.

For the three-month and the nine-month periods ended July 31, 2007, the Corporation recognized a loss of $2,271 (net of $1,118 in related income taxes) and of $10,303 (net of $5,075 in related income taxes) respectively, under Other comprehensive income representing the portion of the non realized losses on fuel purchasing contracts at transition date realized during the period. Non realized losses of $3,155 included in Accumulated other comprehensive income as at July 31, 2007 should be reclassified into net income in the next twelve months.

The adoption of this new standard has no impact on the Corporation's cash flows. However, it had the effect of increasing net income and earnings per share by $4,886 and $0.14 respectively, for the three-month ended July 31, 2007, and of increasing net income and earnings per share of $10,493 and $0.32 respectively, for the nine-month period ended at the same date.

Note 3: Cash and cash equivalents in trust or otherwise reserved

As at July 31, 2007, cash and cash equivalents in trust or otherwise reserved included $152,533 [$168,164 as at October 31, 2006] in funds received from customers for services not yet rendered and $32,414 [$35,499 as at October 31, 2006] was pledged as collateral security against letters of credit and foreign exchange forward contracts.

Note 4: 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 (9) months ended July 31, 2007	Number of shares	Amount ($)
Balance as at October 31, 2006	33,647,597	151,430
Issued from treasury	25,431	751
Exercise of options	304,743	3,834
Exercise of warrants	350,325	3,381
Repurchase of shares	(659,600)	(3,028)
Balance as at July 31, 2007	33,668,496	156,368

As at July 31, 2007, the number of Class A Shares and Class B Shares amounted to 2,309,196 and 31,359,300 respectively.

Normal course issuer bid

On June 15, 2007, 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 3,288,003 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 prices plus brokerage fees.

In accordance with its normal course issuer bids, the Corporation repurchased, during the period ended July 31, 2007, a total of 659,600 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $21,575.

b) Options

	Number of options	Weighted average price ($)
Balance as at October 31, 2006	710,462	14.07
Granted	145,099	37.12
Exercised	(304,743)	9.74
Exercisable options as at July 31, 2007	550,818	22.54
Exercisable options as at July 31, 2007	277,858	14,97

c) Warrants

	Number of warrants	Amount ($)
Balance as at October 31, 2006	350,325	1,016
Exercised	(350,325)	(1,016)
Balance as at July 31, 2007	—	—

d) Earnings per share

[In thousands, except amounts per share]

	Three (3) months ended July 31		Nine (9) months ended July 31	
	2007 $	2006 $	**2007 $**	2006 $
Numerator				
Income attributable to voting shareholders	**16,749**	4,205	**72,825**	52,218
Interest on debentures that may be settled in voting shares	**32**	—	**96**	96
Income used to calculate diluted earnings per share	**16,781**	4,205	**72,921**	52,314
Denominator				
Weighted average number of outstanding shares	**33,810**	33,820	**33,812**	35,261
Debenture that may be settled in voting shares	**90**	—	**95**	147
Stock options	**269**	410	**257**	355
Warrants	**—**	296	**67**	280
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**34,169**	34,526	**34,231**	36,043
Basic earnings per share	**0.50**	0.12	**2.15**	1.48
Diluted earnings per share	**0.49**	0.12	**2.13**	1.45

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, 2006. These securities' potential impact on the denominator is 127,700 shares for the three-month period ended July 31, 2006.

In computing diluted earnings per share for the three-month and the nine-month periods ended July 31, 2006, a total of 8,576 and 255,385 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 respective periods.

Note 5: Business acquisitions

During the nine-month period ended July 31, 2007, and the year ended October 31, 2006, 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.

2007 Acquisitions

On May 1st, 2007, the company acquired the balance of the remaining shares [30%] of Air Consultants Europe B.V. (ACE) for a cash consideration of €1,264 [$1,921]. As a result of this acquisition, goodwill increased by $2,108.

On July 11, 2007, the Corporation acquired 100% of the issued and outstanding shares of French tour operator L'Européenne de Tourisme (Amplitude Internationale), for a total consideration of €6,344 [$9,060]. On the date of acquisition, a total amount of €3,844 [$5,490] was paid and the balance of €2,500 [$3,570] is payable before July 31, 2008. The final purchase price allocation is expected to be completed as soon as the Corporation's management gathers all significant information, considered necessary in order to finalize the purchase price allocation. With respect to this acquisition a preliminary goodwill amount of $3,939 was recorded.

2006 Acquisitions

On December 1, 2005, the Corporation acquired the assets of twenty travel agencies in France from the Carlson Wagonlit Travel network, for a total consideration of €3,102 [$4,314]. As a result of these acquisitions, goodwill increased by $3,920. The results of these agencies were included in the Corporation's results as of January 1, 2006.

During the year ended October 31, 2006, the Corporation, via Trip Central, acquired the assets of six travel agencies in Ontario for a total consideration of $1,096. On the dates of acquisition, a total amount of $338 was paid and the balance of $619 is payable over a three to five year period. As a result of these acquisitions, goodwill increased by $925.

On May 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of the Thomas Cook Travel Limited ["TCT"] travel agency network, located in Canada, for a cash consideration of $8,297. TCT operates a network of 67 wholly owned agencies and 124 franchised agencies under the Thomas Cook and Marlin Travel banners. TCT also operates 22 foreign exchange offices. Subsequent to this transaction, the Corporation undertook a restructuring program that it completed prior to the end of the fiscal year ended October 31, 2006. A total of $1,651, consisting mainly of employee termination benefits, was reflected in purchase price allocation with regard to this restructuring. The Corporation does not foresee any further disbursements in respect of this integration. Goodwill amounting to $732 was recognized subsequent to this transaction.

On August 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of British tour operator The Airline Seat Company, which operates under the Canadian Affair brand, for £20,670 [$43,692] in cash. Goodwill amounting to $21,289 was recognized subsequent to this transaction.

Business acquisitions are summarized as follows:

	2007			2006
	Air Consultants B.V.	L'Européenne de Tourisme	Total	Total
	$	$	$	$
Assets aquired				
Cash and cash equivalents	**2,363**	**3,428**	**5,791**	49,797
Cash and cash equivalents in trust or otherwise reserved	**—**	**—**	**—**	5,640
Other current assets	**381**	**8,316**	**8,697**	11,095
Property, plant and equipment	**46**	**131**	**177**	2,113
Intangible assets				
Trademarks	**—**	**—**	**—**	18,242
Customer lists	**—**	**—**	**—**	14,526
Other long-term assets	**—**	**81**	**81**	—
Future income tax assets	**—**	**—**	**—**	1,736
Goodwill	**2,108**	**3,939**	**6,047**	26,866
	4,898	**15,895**	**20,793**	130,015
Liabilities assumed				
Current liabilities	**2,977**	**6,835**	**9,812**	64,619
Future income tax liabilities	**—**	**—**	**—**	6,982
Long-term debt	**—**	**—**	**—**	1,015
	2,977	**6,835**	**9,812**	72,616
Net assets aquired at fair value	**1,921**	**9,060**	**10,981**	57,399

Note 6: Accumulated other comprehensive

Nine (9) months ended July 31	2007 $	2006 $
Accumulated other comprehensive income		
Balance beginning of period	**22**	(2,591)
Cumulative impact of accounting changes relating to financial instruments *[note 2]*	**(12,435)**	—
Adjusted balance beginning of period	**(12,413)**	(2,591)
Other comprehensive income for the period	**(6,661)**	450
Balance end of period	**(19,074)**	(2,141)

The 2006 balance correspond to the reclassification of the Accumulated translation adjustments to the Accumulated other comprehensive income.

Note 7: 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.

Geographical Information

	Three (3) months ended July 31, 2007			Nine (9) months ended July 31, 2007		
	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	**465,365**	**251,675**	**717,040**	**1,751,136**	**501,748**	**2,252,884**
	9,669	**15,053**	**24,722**	**98,990**	**13,625**	**112,615**
Property, plant and equipment, goodwill and other intangible assets[1]				**214,079**	**124,257**	**338,336**

	Three (3) months ended July 31, 2006			Nine (9) months ended July 31, 2006		
	North America $	Europe $	Total $	North America $	Europe $	Total $
Revenues	446,720	164,387	611,107	1,625,252	359,000	1,984,252
Operating expenses	436,668	158,833	595,501	1,530,010	356,119	1,886,129
	10,052	5,554	15,606	95,242	2,881	98,123
Property, plant and equipment, goodwill and other intangible assets[2]				217,406	117,624	335,030

[1] As at July 31, 2007
[2] As at October 31, 2006

Note 8: 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, 9, 10, 11 and 21 to the 2006 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 $10,549 as at July 31, 2007. 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 $780 as at July 31, 2007. Historically, the Corporation has not made any significant payments under such agreements.

As at July 31, 2007, no amounts have been accrued with respect to the above-mentioned agreements.

Note 9: Subsequent event

On August 22, 2007, Transat reported that it held $154,500 ($152,569 as at July 31, 2007) of its cash and temporary investments in Asset Backed Commercial Paper (ABCP). ABCP's are supported by liquidity facilities that are intended to protect investors from a market disruption. Transat understands that certain banks providing such liquidity facilities have refused to provide the requested funding upon maturity of the ABCP's. Maturity dates on outstanding ABCP's go from August 21, 2007 to January 29, 2008, and repayments in the amount of $40,000, due before September 5, were not repaid.

Dominion Bond Rating Service, an international rating agency, has placed several ABCP issuers "Under Review with Developing Implications" following the announcement on August 16, 2007, that a consortium representing banks, asset providers and major investors had agreed in principle to a long term proposal and an interim agreement regarding third party asset-backed commercial paper. The effect of this would, among other things, be to convert ABCP into term floating rate notes maturing no earlier than the scheduled termination dates of the underlying assets.

Transat is in discussion with one of its banks and the trust managers, and is closely monitoring the situation. According to the Corporation's management it is still too early to determine the final outcome of this situation. As of today, the potential effect, if any, upon the Corporation's financial position remains uncertain.

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

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 72 travel agencies in France (Club Voyages, Look Voyages)

AIR TRANSPORTATION

Air Transat
Charter air carrier specializing in holiday travel

Handlex
Airport ground services in Montréal, Toronto and Vancouver

transat

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CIBC Mellon Trust Company

Stock Exchange
The shares of the Corporation are listed on the Toronto Stock Exchange under the ticker symbols TRZ.A and TRZ.B