TRANSAT A.T.INC.
Second QUARTERLY REPORT
Period ended April 30, 2010

JUNE 9, 2010

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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter and six-month period ended April 30, 2010 compared with the quarter and six-month period ended April 30, 2009 and should be read in conjunction with the unaudited consolidated interim financial statements for the second quarter of fiscal 2010 and 2009, the notes thereto and the 2009 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second-quarter update to the information contained in the MD&A section of our 2009 Annual Report. The risks and uncertainties set out in the MD&A of the 2009 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of June 9, 2010. 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 April 30, 2010 and Annual Information Form for the year ended October 31, 2009.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

The reader is cautioned that the foregoing list of factors is not exhaustive of the factors that may affect any of the Corporation's forward-looking statements. The reader is also cautioned to consider these and other factors carefully and not to 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, market, operational and financial assumptions and assumptions about transactions and forward-looking statements.

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

- The Corporation's outlook whereby the strengthening of the Canadian dollar against European currencies will have a negative impact on income generated in Europe when translated into Canadian dollars.
- The Corporation's outlook whereby it will meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

In making these statements, the Corporation has assumed, among other things, that selling prices will remain under strong pressure for the summer season, that fuel prices and Canadian dollar against European currencies will remains stable, that credit facilities will continue to be made available as in the past, and that management will continue to manage changes in cash flows to fund working capital requirements. 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 applicable securities legislation.

NON-GAAP FINANCIAL MEASURES

This MD&A was drawn up using results and financial information determined under GAAP. We will occasionally refer to non-GAAP financial measures. Generally, a non-GAAP financial measure includes a quantified performance measure of past or future financial position or cash flows of a company that does not comply with GAAP and which excludes or includes amounts included or excluded in the most directly comparable measure calculated and reported under GAAP. The non-GAAP measures used by the Corporation are as follows:

Measure	Definition
Margin (operating loss)	Revenues less operating expenses
Adjusted income (loss)	Income (loss) before non-controlling interest in subsidiaries' results, income taxes, change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain).
Adjusted after-tax income (loss)	Net income (loss) before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain), net of related taxes.
Total debt	Long-term debt plus the debenture and off-balance sheet arrangements, excluding agreements with service providers, reported on page 12.
Net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

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

In addition to GAAP financial measures, management uses adjusted income and adjusted after-tax income to measure the Corporation's ongoing and recurring operational performance. Management considers these measures to be important as they exclude from results elements that arise mainly from long-term strategic decisions and instead reflect the the Corporation's day-to-day operating performance. Management believes that these measures are useful to assess the Corporation's capacity to fulfill its financial obligations.

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

The following table reconciles the non-GAAP financial measures with the most comparable GAAP financial measures:

(In thousands of dollars)	Quarters ended April 30		Six-month periods ended April 30	
	2010 $	2009 $	2010 $	2009 $
Revenues	**1,060,386**	1,129,077	**1,852,948**	2,006,331
Operating expenses	**(1,052,188)**	(1,089,947)	**(1,857,159)**	(1,975,699)
Margin (operating loss)	**8,198**	39,130	**(4,211)**	30,632
Income (loss) before non-controlling interest in subsidiaries's results	**7,481**	43,436	**(5,299)**	15,160
Income taxes (recovery)	**2,454**	19,090	**(5,480)**	6,799
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(9,090)**	(37,428)	**(10,318)**	(8,916)
Non-monetary loss (gain) on investments in ABCP				
Writedown of investments in ABCP (provision reversal)	**(1,939)**	5,220	**(5,394)**	48
Adjustment related to January 21, 2009 restructuring plan implementation	**—**	—	**—**	1,759
Remeasurement of options related to repayment of revolving credit facilities	**—**	—	**—**	(400)
	(1,939)	5,220	**(5,394)**	1,407
Gain on disposal of assets under the restructuring plan	**(960)**	—	**(960)**	—
Adjusted income (loss)	**(2,054)**	30,318	**(27,451)**	14,450
Net income (loss)	**6,198**	42,186	**(7,674)**	12,750
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(9,090)**	(37,428)	**(10,318)**	(8,916)
Non-monetary loss (gain) on investments in ABCP	**(1,939)**	5,220	**(5,394)**	1,407
Gain on disposal of assets under the restructuring plan	**(960)**	—	**(960)**	—
Tax impact	**3,096**	10,698	**3,454**	3,634
Adjusted after-tax income (loss)	**(2,695)**	20,676	**(20,892)**	8,875

	As at April 30, 2010 $	As at October 31, 2009 $
Payments on current portion of long-term debt	**14,391**	24,576
Long-term debt	**40,941**	83,108
Debenture	**—**	3,156
Off-balance sheet arrangements, excluding agreements with service providers	**397,462**	396,433
Total debt	**452,794**	507,273

Total debt	**452,794**	507,273
Cash and cash equivalents	**(206,966)**	(180,552)
Investments in ABCP	**(74,374)**	(71,401)
Net debt	**171,454**	255,320

FINANCIAL HIGHLIGHTS

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars, except amounts per share)	2010 $	2009 $	Variance $	Variance %	2010 $	2009 $	Variance $	Variance %
Consolidated Statements of Income								
Revenues	**1,060,386**	1,129,077	(68,691)	(6.1)	**1,852,948**	2,006,331	(153,383)	(7.6)
Margin (operating loss)[1]	**8,198**	39,130	(30,932)	(79.0)	**(4,211)**	30,632	(34,843)	(113.7)
Net income (loss)	**6,198**	42,186	(35,988)	(85.3)	**(7,674)**	12,750	(20,424)	(160.2)
Basic earnings (loss) per share	**0.16**	1.29	(1.13)	(87.6)	**(0.20)**	0.39	(0.59)	(151.3)
Diluted earnings (loss) per share	**0.16**	1.27	(1.11)	(87.4)	**(0.20)**	0.39	(0.59)	(151.3)
Dividend – Class A and Class B shares	**—**	—	—	—	**—**	0.09	(0.09)	(100.0)
Consolidated Statements of Cash Flows								
Operating activities	**127,997**	90,245	37,752	41.8	**106,739**	119,688	(12,949)	(10.8)

	As at April 30, 2010 $	As at October 31, 2009 $	Variance $	Variance %
Consolidated Balance Sheets				
Cash and cash equivalents	**206,966**	180,552	**26,414**	**14.6**
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	**348,126**	272,726	**75,400**	**27.6**
Investments in ABCP	**74,374**	71,401	**2,973**	**4.2**
	629,466	524,679	**104,787**	**20.0**
Total assets	**1,246,074**	1,129,503	**116,571**	**10.3**
Debt (short-term and long-term)	**55,332**	110,840	**(55,508)**	**(50.1)**
Total debt[1]	**452,794**	507,273	**(54,479)**	**(10.7)**
Net debt[1]	**171,454**	255,320	**(83,866)**	**(32.8)**

[1] SEE NON-GAAP FINANCIAL MEASURES

OVERVIEW

Transat is one of the largest fully integrated world-class tour operators in North America. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business involves developing and marketing holiday travel services in package and air-only formats. We operate as both outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in 10 other European countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with a total of approximately 500 travel agencies (including 354 franchisees) and a multi-channel distribution system incorporating Web-based sales. Since 2008, Transat has held an interest in a hotel business owning and operating properties in Mexico and the Dominican Republic. Transat relies on 60 air carriers, but primarily on its subsidiary Air Transat for a large portion of its needs. Transat also offers destination and airport services.

According to the World Tourism Organization, there were some 880 million international tourists in 2009, down nearly 4% from 2008. Despite this decline, the World Tourism Organization expects this market to grow in 2010. Transat's vision is to become a leading player in the Americas and build strong competitive positioning in several European countries. At present, we are a market leader in Canada, operating as an outgoing and incoming tour operator. We are a well-established outgoing tour operator in France 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 intend to expand our business to other countries where we believe there is high growth potential for an integrated tour operator specializing in holiday travel.

To deliver on its vision, from 2009 to 2011, the Corporation intends to continue optimizing synergies from vertical integration, which sets it apart from competitors, growing its market share in France, where it ranks among largest tour operators, and tap into new markets or expanding its presence in markets in which it currently has a smaller footprint. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

For fiscal 2010, Transat has set the following targets:

- Expand our leadership market position on both sides of the Atlantic via a broader offering of products and destination-based services by stepping up multichannel distribution and controlling costs, while providing enhanced customer experience.
- Complete the integration of new management teams, foster teaming and promote a strong sense of cohesion among the new subsidiary entities and head office so as to meet our business objectives sooner.
- Pursue development and implementation of new information systems to step up operating efficiency and provide us with greater flexibility in developing our offering.
- Maintain our initiatives to position Transat as an industry leader in corporate responsibility and sustainable tourism to play a key role in shaping our future market, secure employee buy-in and generate a competitive edge for Transat.

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 in the past to the success of our strategies and achievement of our objectives. Our financial resources consist primarily of cash, our investments and access to the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended April 30				Six-month periods ended April 30			
	2010	2009	Variance	Variance	2010	2009	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**1,060,386**	1,129,077	(68,691)	(6.1)	**1,852,948**	2,006,331	(153,383)	(7.6)

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

Compared with fiscal 2009, our revenues were down $68.7 million and $153.4 million for the quarter and six-month period, respectively. The decrease in our revenues results from a decline in revenues of 3.0% and 6.7% over the quarter and the six-month period, respectively, in the Americas and 19.2% and 12.3%, respectively, in Europe. These decreases stem from lower selling prices, mainly resulting from fierce competition in the market, and to the dollar's strength against the euro and pound sterling. These decreases were however partially offset by an overall increase in the volume of travellers of 6.4% and 1.7% for the quarter and six-month period, respectively, compared with the corresponding periods of 2009.

OPERATING EXPENSES

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %	2010 $	2009 $	Variance $	Variance %
Direct costs	**709,906**	710,381	(475)	(0.1)	**1,221,688**	1,252,302	(30,614)	(2.4)
Salaries and employee benefits	**83,761**	89,406	(5,645)	(6.3)	**167,850**	180,155	(12,305)	(6.8)
Aircraft fuel	**70,303**	83,728	(13,425)	(16.0)	**127,445**	161,602	(34,157)	(21.1)
Commissions	**56,533**	66,518	(9,985)	(15.0)	**93,108**	113,875	(20,767)	(18.2)
Aircraft maintenance	**24,942**	27,883	(2,941)	(10.5)	**43,323**	53,523	(10,200)	(19.1)
Airport and navigation fees	**18,678**	22,238	(3,560)	(16.0)	**34,076**	41,841	(7,765)	(18.6)
Aircraft rent	**13,855**	13,675	180	1.3	**27,597**	26,922	675	2.5
Other	**74,210**	76,118	(1,908)	(2.5)	**142,072**	145,479	(3,407)	(2.3)
Total	**1,052,188**	1,089,947	(37,759)	(3.5)	**1,857,159**	1,975,699	(118,540)	(6.0)

Our aggregate operating expenses were down $37.8 million (3.5%) and $118.5 million (6.0%) for the quarter and six-month period of 2010 respectively, compared with the corresponding periods of 2009. The decreases were due among other factors to the strength of the dollar against the euro and the US dollar and partly to cost reduction efforts undertaken in 2009. As a result, operating expenses were down 0.2% and 4.9% for the quarter and six-month period, respectively, in America and 16.8% and 10.9%, respectively, in Europe.

During the second quarter, the Corporation's operations were partly disrupted by the volcanic activity in Iceland. The temporary shutdown of airspace over a part of Europe caused cancellations and delays to some of our flights, and required us, among other things, to make changes to our flight times and charter special flights for the repatriation and departure of our travellers. The resulting additional costs incurred in the second quarter amounts to nearly $4.0 million and are related primarily to blocks of seats and flights of air carriers other than Air Transat as well as hotel rooms, which are reported under direct costs.

DIRECT COSTS

Direct costs are incurred by our tour operators. They 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 the previous year, direct costs were down $0.5 million (0.1%) and $30.6 million (2.4%) for the second quarter and six-month period, respectively. For both the quarter and the six-month period ended April 30, 2010, our direct costs decreased while the number of travellers increased. The decrease in Canadian dollar terms resulted mainly from reduced seat and hotel room costs due to savings from renegotiated contracts, and the dollar's strength against the euro. However, as a result of its foreign exchange hedging transactions, the Corporation was unable to fully capitalize on the Canadian dollar's strength against the US unit.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were down $5.6 million (6.3%) and $12.3 million (6.8%) for the quarter and the six-month period, respectively, compared with the corresponding periods of 2009, mainly as a result of tighter human resources management combined with a lower bonus expense under short-term variable compensation programs and the Canadian dollar's strength against the euro.

AIRCRAFT FUEL

Aircraft fuel costs fell $13.4 million (16.0%) and $34.1 million (21.1%) for the quarter and six-month period, respectively. The decreases stem primarily from a reduced utilization of our fleet caused, among other factors, by better fleet management and by the fact that we have one Airbus A-310 aircraft less than in 2009 and that we leased out one of our Airbus A-330 aircraft to a European air carrier during winter 2010. To a lesser extent, the reduced costs are also attributable to lower fuel costs than in the corresponding periods of 2009.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the second quarter and six-month period was down $10.0 million (15.0%) and $20.8 million (18.2%), respectively, compared with the corresponding periods of 2009. As a percentage of revenues, commissions fell to 5.3% for the second quarter from 5.9% for the corresponding period of 2009. For the six-month period, commission expense was also down and represented 5.0% of our revenues compared with 5.7% for the same period in 2009.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. During the quarter and six-month period, these costs fell $2.9 million (10.5%) and $10.2 million (19.1%), respectively, compared with the corresponding periods of 2009, mainly due to downward revisions to a number of assumptions used to determine future maintenance costs following a new agreement with a supplier, a streamlined maintenance schedule and a reduced level of some of our business activity.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports. For the second quarter and six-month period ended April 30, 2010, these fees decreased by $3.6 million (16.0%) and $7.8 million (18.6%), respectively, compared with the corresponding periods of 2009, stemming primarily from a reduced level of some of our business activity and the strength of the dollar against the US currency.

AIRCRAFT RENT

Aircraft rent for the second quarter and six-month period rose $0.2 million (1.3%) and $0.7 million (2.5%), respectively, compared with the corresponding periods of 2009, following the net impact of the addition of an Airbus A-330 during the third quarter of 2009 and the withdrawal of an Airbus A-310 at the beginning of the third quarter of 2010. In addition, as a result of its foreign exchange hedging transactions, the Corporation was unable to fully capitalize on the Canadian dollar's strength against the US unit.

OTHER

Other expenses for the second quarter and six-month period were down $1.9 million (2.5%) and $3.4 million (2.3%), respectively, compared with the corresponding periods of 2009, mainly due to our cost reduction efforts.

MARGIN

In light of the foregoing, the Corporation recorded a margin of $8.2 million (0.8%) for the second quarter compared with $39.1 million (3.5%) in 2009. For the six-month period, we recorded an operating loss of $4.2 million (0.2%) compared with a margin of $30.6 (1.5%) for the same period of 2009. The decline in our margins over the quarter and the six-month period stems primarily from the lower average selling prices and the fact that we were unable to fully capitalize on the strength of the dollar against the US currency due to our foreign exchange hedging transactions.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended April 30				Six-month periods ended April 30			
	2010	2009	Variance	Variance	2010	2009	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**886,750**	914,210	(27,460)	(3.0)	**1,543,546**	1,653,636	(110,090)	(6.7)
Operating expenses	**873,658**	875,375	(1,717)	(0.2)	**1,534,387**	1,613,468	(79,081)	(4.9)
Margins (operating loss)	**13,092**	38,835	(25,743)	(66.3)	**9,159**	40,168	(31,009)	(77.2)

Revenues at our North American subsidiaries, generated from sales in Canada and abroad, were down $27.5 million (3.0%) and $110.1 million (6.7%), for the second quarter and the six-month period, respectively, from the same periods of 2009. Lower second-quarter revenues are mainly due to a decline in the average selling price, offset by a 5.2% increase in the volume of travellers from the same period in 2009. For the six-month period, lower selling prices combined with a 1.1% drop in the volume of travellers caused the fall in revenues. The lower volume of travellers is attributable to a decline in business activity during the first quarter, partly due to a reduced product offering. The Corporation's margins for the quarter and six-month period were 1.5% and 0.6%, respectively, compared with 4.2% and 2.4% for the respective periods of 2009. The decline in our margins is attributable primarily to lower selling prices resulting from excess supply in the

market and the fact that we were unable to fully capitalize on the strength of the dollar against the US currency due to our foreign exchange hedging transactions.

EUROPE

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %	2010 $	2009 $	Variance $	Variance %
Revenues	**173,636**	214,867	(41,231)	(19.2)	**309,402**	352,695	(43,293)	(12.3)
Operating expenses	**178,530**	214,572	(36,042)	(16.8)	**322,772**	362,231	(39,459)	(10.9)
Margins (operating loss)	**(4,894)**	295	(5,189)	(1,759.0)	**(13,370)**	(9,536)	(3,834)	(40.2)

Revenues at our European subsidiaries, generated by sales in Europe and Canada, were down $41.2 million (19.2%) and $43.3 million (12.3%) for the second quarter and six-month period, respectively, compared with the same periods in 2009, despite increases of 12.6% and 18,7%, respectively, for the second quarter and six-month period in the volume of travellers. The impact on revenues from higher traveller volumes was insufficient to offset the effect of a strong Canadian dollar against the euro and the pound sterling, and lower selling prices. The sharp growth in traveller volumes was driven by Canadian Affair's sales in the U.K. and Canada, partially offset by lower volumes in France. Our European operations reported operating losses of $4.9 million (2.8%) and $13.4 million (4.3%), for the quarter and six-month period, respectively, compared with a margin of $0.3 million (0.1%) and an operating loss of $9.5 million (2.7%) for the same periods in 2009. The decline in margins is partly due to the weakening of the euro against other currencies, lower selling prices and additional costs incurred by our European companies following the volcanic activity in Iceland.

OTHER EXPENSES (REVENUES)

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %	2010 $	2009 $	Variance $	Variance %
Amortization	**12,041**	12,907	(866)	(6.7)	**24,225**	25,801	(1,576)	(6.1)
Interest on long-term debt and debenture	**273**	1,174	(901)	(76.7)	**1,189**	2,603	(1,414)	(54.3)
Other interest and financial expenses	**456**	675	(219)	(32.4)	**877**	1,141	(264)	(23.1)
Interest income	**(605)**	(1,522)	917	60.2	**(1,037)**	(3,419)	2,382	69.7
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(9,090)**	(37,428)	28,338	75.7	**(10,318)**	(8,916)	(1,402)	(15.7)
Foreign exchange loss (gain) on long-term monetary items	**543**	(232)	775	334.1	**331**	(111)	442	398.2
Loss (gain) on investments in ABCP	**(1,939)**	4,862	(6,801)	(139.9)	**(5,394)**	(4,993)	(401)	(8.0)
Gain on disposal of assets under the restructuring plan	**(960)**	—	(960)	N/A	**(960)**	—	(960)	N/A
Share of net income of a company subject to significant influence	**(2,456)**	(3,832)	1,376	35.9	**(2,345)**	(3,433)	1,088	31.7

AMORTIZATION

Amortization includes amortization on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. Amortization for the second quarter and six-month period declined $0.9 million and $1.5 million, respectively, compared with the same periods of 2009, mainly resulting from fewer additions to property, plant and equipment than in the same period of 2009.

INTEREST ON LONG-TERM DEBT AND DEBENTURE

Interest on long-term debt and the debenture for the second quarter and the six-month period was down $0.9 million and $1.4 million, respectively, compared with the corresponding periods of 2009, owing primarily to lower interest rates and average debt balances than in the same periods of 2009.

OTHER INTEREST AND FINANCIAL EXPENSES

Our other interest and financial expenses for the second quarter and six-month period fell $0.2 million and $0.3 million, respectively, compared with the corresponding periods of the previous fiscal year.

INTEREST INCOME

Year over year, interest income for the second quarter and six-month period ended April 30, 2010 was down $0.9 million and $2,4 million, respectively, owing mainly to lower interest rates in 2010 than in the corresponding periods of 2009, despite generally higher average balances of cash and cash equivalents.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the period of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fuel price volatility. For the quarter, the fair value of derivative financial instruments used for aircraft fuel purchases reflected a $9.1 million increase compared with $37.4 million in 2009. For the six-month period, the fair value of derivative financial instruments used for aircraft fuel purchases reflected a $10.3 million increase compared with $8.9 million for the same period of 2009.

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

The foreign exchange losses on long-term monetary items of $0.5 million and $0.3 million for the quarter and six-month period, respectively, are mainly attributable to the favourable effect of foreign exchange rates on the long-term debt used in connection with aircraft financing.

LOSS (GAIN) ON INVESTMENTS IN ABCP

The gain on investments in ABCP results from the change in the fair value of investments in ABCP during the period. The gain on investments in ABCP for the second quarter and the six-month period amounted to $1.9 million and $5.4 million, respectively. *See Investments in ABCP for more information.*

GAIN ON DISPOSAL OF ASSETS UNDER THE RESTRUCTURING PLAN

On September 24, 2009, we announced a restructuring plan to make structural changes to our distribution network in France. Under these structural changes, an administrative centre and some agencies were closed, while other agencies will be closed and sold. For the second quarter, the Corporation reported a $1.0 million gain on disposal of assets earmarked for sale under the restructuring plan, comprising mainly of gains on the sale of agencies for which no restructuring charge had been recognized.

SHARE OF NET INCOME OF A COMPANY SUBJECT TO SIGNIFICANT INFLUENCE

Our share of net income of a company subject to significant influence represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. The corresponding share for the current quarter amounted to $2.5 million compared with $3.8 million for the same period of 2009. For the six-month period, our share was $2.3 million compared with $3.4 million in 2009. These decreases resulted primarily from a drop in the selling prices of person-nights at hotels, offset by the foreign exchange gain on the long-term debt.

INCOME TAXES

Income taxes totalled $2.5 million for the quarter compared with $19.1 million for the corresponding period of the previous fiscal year. For the six-month period, the Corporation recorded an income tax recovery of $5.5 million compared with an income tax expense of $6.8 million in 2009. Excluding the share in the net income of a company subject to significant influence, the effective tax rate for the quarter and six-month period was 32.8% and 41.8%, respectively, compared with 32.5% and 36.7% for the respective periods of 2009. The higher tax rate for the six-month period resulted mainly from differences between countries in the statutory tax rate applied to taxable income (losses).

NET INCOME (LOSS)

In light of the items discussed in *Consolidated operations*, net income for the quarter ended April 30, 2010 totalled $6.2 million, or $0.16 per share, compared with $42.2 million, or $1.29 per share, for the corresponding quarter of the previous year. The weighted average number of shares outstanding used to compute the per share amounts for the second quarter of 2010 was 37,841,000 compared with 32,740,000 for corresponding period of 2009.

The Corporation reported a net loss of $7.7 million or $0.20 per share for the six-month period ended April 30, 2010 compared with a net income of $12.8 million or $0.39 per share, for the corresponding period of the previous year. The weighted average number of shares

outstanding used to compute the per share amounts for the six-month period of 2010 was 37,767,000 compared with 32,718,000 for corresponding period of 2009.

On a diluted basis, earnings per share for the second quarter of 2010 amounted to $0.16 compared with $1.27 in 2009, and the diluted loss per share for the six-month period ended April 30, 2010 was $0.20 compared with diluted earnings per share of $0.39 for the corresponding period of 2009. The adjusted weighted average number of shares used to compute these amounts for the second quarter and six-month period was 38,004,000 and 37,767,000, respectively, compared with 33,119,000 and 33,081,000 for the respective periods of 2009. *See note 8 to the unaudited Interim Consolidated Financial Statements.*

The adjusted after-tax loss for the second quarter and the six-month period amounted to $2.7 million and $20.9 million, respectively, compared with an adjusted after-tax income of $20.7 million and $8.9 million, respectively, for the corresponding periods of 2009.

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 down compared with the same quarters in previous fiscal years, mainly as a result of lower priced sales owing to fierce competition sparked by excess supply, despite a rise in the volume of travellers. The margins have been fluctuating from quarter to quarter, mainly due to competitive price pressures. As a result, the following quarterly financial information varies significantly from quarter to quarter.

(In thousands of dollars, except per share amounts)	Q3-2008 $	Q4-2008 $	Q1-2009 $	Q2-2009 $	Q3-2009 $	Q4-2009 $	Q1-2010 $	Q2-2010 $
Revenues	859,880	790,424	877,254	1,129,077	819,354	719,656	792,562	**1,060,386**
Margin (operating loss)	14,587	23,192	(8,498)	39,130	27,187	35,576	(12,409)	**8,198**
Net income (loss)	(895)	(82,369)	(29,436)	42,186	30,991	18,106	(13,872)	**6,198**
Basic earnings (loss) per share	(0.03)	(2.54)	(0.90)	1.29	0.95	0.53	(0.37)	**0.16**
Diluted earnings (loss) per share	(0.03)	(2.54)	(0.90)	1.27	0.94	0.52	(0.37)	**0.16**

LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2010, cash and cash equivalents totalled $207.0 million compared with $180.6 million as at October 31, 2009. Cash and cash equivalents in trust or otherwise reserved amounted to $348.1 million as at the end of the first six months of fiscal 2010 compared with $272.7 million as at October 31, 2009. The Corporation's balance sheet reflects working capital of $8.2 million and a ratio of 1.01 compared with $35.0 million and 1.06 as at October 31, 2009.

Total assets grew $116.6 million or 10.3% to $1,246.1 million as at April 30, 2010 from $1,129.5 million as at October 31, 2009. This rise was driven mainly by a $75.4 million increase in cash and cash equivalents in trust or otherwise reserved and a $34.1 million increase in prepaid expenses. Shareholders' equity fell $10.7 million to $356.7 million as at April 30, 2010 from $367.4 million as at October 31, 2009. This decline stemmed mainly from a $7.7 million net loss and a $17.4 million foreign exchange loss on translation of the financial statements of our self-sustaining operations, offset by a $12.6 million change in fair value of derivatives designated as cash flow hedges.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
(In thousands of dollars)	2010 $	2009 $	Variance $	2010 $	2009 $	Variance $
Cash flows related to operating activities	**127,997**	90,245	37,752	**106,739**	119,688	(12,949)
Cash flows related to investing activities	**(5,877)**	(983)	(4,894)	**(9,168)**	(11,892)	2,724
Cash flows related to financing activities	**(51,410)**	(34,514)	(16,896)	**(55,190)**	(12,125)	(43,065)
Effect of exchange rate changes on cash	**(11,480)**	1,017	(12,497)	**(15,967)**	(1,605)	(14,362)
Net change in cash and cash equivalents	**59,230**	55,765	3,465	**26,414**	94,066	(67,652)

OPERATING ACTIVITIES

During the second quarter, operating activities generated $128.0 million in cash flows compared with $90.2 million for the corresponding quarter of 2009. This $37.8 million increase during the quarter compared with the corresponding quarter of 2009 resulted mainly from a $74.0 million increase in net change in non-cash working capital balances relating to operations resulting in part from a sharper decline in cash and cash equivalents in trust or otherwise reserved in the current quarter than in the same period of 2009 (as of the fourth quarter of 2009, we are required under our agreement with our primary credit card processor in Canada to hold all amounts paid by credit card in Canada in a separate bank account of the Corporation for a minimum of 30 days, notwithstanding the regulatory requirements applicable to the Corporation, resulting in all such amounts being frozen for 30 days, which would normally be available under current regulations), offset by lower profitability and a $12.1 million decline in net change in other assets and liabilities related to operations.

For the six-month period, cash flows provided by operating activities decreased $12.9 million in 2010 to $106.7 million from $119.7 million for the corresponding period of 2009. This decrease resulted mainly from lower profitability, coupled with a $14.4 million decrease in net change in other assets and a $11.6 million decrease in net change in provision for overhaul of leased aircraft, offset by a $41.6 million increase in net change in non-cash working capital balances.

INVESTING ACTIVITIES

Cash flows used in investing activities for the quarter totalled $5.9 million, up $4.9 million from the corresponding period of 2009. In the second quarter, our investments in property, plant and equipment and intangible assets totalled $3.9 million, down $2.7 million from $6.6 million in the corresponding period of 2009. Following the increase in some of our letters of credit, our balances of reserved cash and cash equivalents reported on a long-term basis rose $3.7 million. We paid $0.5 million to acquire the remaining shares of Tourgreece we did not already own. During the quarter, we also received proceeds totalling $1.5 million on the sale of a number of agencies in our French distribution network, in addition to $0.7 million from investments in ABCP compared with $5.7 million for the same period in 2009.

For the six-month period, cash flows used in investing activities amounted to $9.2 million, down $2.7 million from $11.9 million for the same period of 2009. Our investments in property, plant and equipment and to intangible assets for the first six months of 2010 were down $4.0 million compared with the corresponding period of 2009, while we received $1.8 million from investments in ABCP compared with $5.7 million in the same period of 2009. Compared with the first six months of 2009, we paid $0.5 million to acquire the remaining shares of Tourgreece during the first six months of 2010. In the 2009 period, we made a $5.2 million capital contribution to a hotel business for land acquisition in the Dominican Republic.

FINANCING ACTIVITIES

Cash flows used in financing activities in the current quarter totalled $51.4 million, up $16.9 million from $34.5 million in the corresponding period of 2009. This rise resulted mainly from an $18.3 million increase in repayments of our credit facilities and other debt compared with the same period of 2009.

For the six-month period, cash flows used in investing activities amounted to $55.2 million, up $43.1 million from the same period of 2009. This rise stemmed mainly from $53.9 million in repayments of long-term debt, the debenture and credit facilities and other debt compared with $7.4 million for the first six months of 2009.

FINANCING

As at April 30, 2010, the Corporation had several types of financing, consisting primarily of three revolving term credit facilities, loans secured by aircraft and lines of credit.

The Corporation has a $157.0 million revolving credit facility maturing in 2012 or payable immediately in the event of a change in control and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the total amount of letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, US 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. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at April 30, 2010, all financial criteria and ratios were met.

The Corporation has two revolving credit facilities of $9.4 million and $87.1 million, the first maturing in 2010 and the second in 2011, or immediately payable in the event of a change in control. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, US dollars, euros or pounds sterling. Under these

agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. These credit facilities include options, which are now effective following implementation of the ABCP restructuring plan and allow the Corporation, at its option, to use the restructured notes to repay up to $57.7 million in drawdowns as they fall due, under certain conditions. These options have been initially reported at fair value, and the corresponding initial gain has been deferred and recognized in net income under *Amortization* over the term of the credit agreements. The options are reported at fair value at each balance sheet date under derivative financial instruments, and any change in fair value of the options is recorded in net income under *Loss (gain) on the investments in ABCP*. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at April 30, 2010, all financial criteria and ratios were met.

As at April 30, 2010, $34.1 million had been drawn down under these credit facilities.

The loans secured by aircraft of the Corporation amounted to US$20.0 million [$20.2 million] as at April 30, 2010. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments through 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.3 million [$15.2 million].

OFF-BALANCE SHEET ARRANGEMENTS

Transat enters into arrangements and incurs obligations in the normal course of business that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited Interim Consolidated Financial Statements as at April 30, 2010. As at April 30, 2010 and October 31, 2009, these obligations, reported in liabilities, amounted to $55.3 million and $110.8 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 consist of the following:

- Guarantees
- Operating leases

Off-balance sheet debt, excluding agreements with service providers, that can be estimated amounted to approximately $397.5 million as at April 30, 2010 compared with $396.4 million as at October 31, 2009, and is detailed as follows:

(In thousands of dollars)	As at April 30, 2010 $	As at October 31, 2009 $
Guarantees		
Irrevocable letters of credit	**9,881**	10,364
Collateral security contracts	**1,287**	860
Operating leases		
Commitments under operating leases	**386,294**	385,209
	397,462	396,433

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

In addition, since May 5, 2010, the Corporation has a $50.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at April 30, 2010, this credit facility was undrawn.

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

DEBT LEVELS

The Corporation's debt levels as at April 30, 2010 were lower than as at October 31, 2009.

Balance sheet debt decreased $55.5 million to $55.3 million as at April 30, 2010 from $110.8 million as at October 31, 2009, and our off-balance sheet debt increased $1.0 million to $397.5 million from $396.4 million, collectively representing a $54.5 million decrease in total debt as at April 30, 2010 compared with October 31, 2009. The decline in balance sheet debt resulted mainly from repayments during the first six months of fiscal 2010, including the debenture. The $1.0 million increase in off-balance sheet debt, resulting mainly from the signing of an additional lease for one aircraft, offset by repayments made during the period and the strength of the Canadian dollar against its US counterpart.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $171.5 million in net debt as at April 30, 2010, down $83.9 million from $255.3 million as at October 31, 2009.

OUTSTANDING SHARES

As at April 30, 2010, 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.

As at April 30, 2010, there were 1,162,620 Class A Variable Voting Shares outstanding and 36,631,205 Class B Voting Shares outstanding.

STOCK OPTIONS

As at June 9, 2010, there were a total of 1,738,408 stock options outstanding, 495,935 of which were exercisable.

INVESTMENTS IN ABCP

RESTRUCTURING

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

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

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

PORTFOLIO

On January 25 and January 29, 2010, the Corporation received a total of $1.1 million and a further $0.7 million on April 27, 2010 in the form of principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). During the six-month period ended April 30, 2010, the Corporation received its share of $0.6 million of the cash accumulated in the conduits. The notional value of the new ABCP amounted to $127.0 million as at April 30, 2010 and is detailed as follows:

MAV2 Eligible

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

MAV2 Ineligible

The Corporation holds $7.6 million in ABCP supported mainly by U.S. subprime assets that have been restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through December 2035.

MAV3 Traditional

The Corporation holds $6.1 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2015.

VALUATION

On April 30, 2010, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the six-month period ended April 30, 2010, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. ["BlackRock"], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. [MAV2 Ineligible] and ABCP supported exclusively by traditional securitized assets [MAV3 Traditional]. The Corporation's management measured the fair value of its assets from these classes using said valuations. The Corporation also took into account the information released by DBRS on August 11, 2009. DBRS downgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) from Class A-2 to BBB–. Prior to this downgrading, this class of ABCP had an A rating. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates.

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 0.0% to 2.96% [weighted average rate of 2.3%], depending on the type of series. These future cash flows were discounted, according to the type of series, over 6.7-year periods using discount rates ranging from 7.1% to 41.1% [weighted average rate of 10.8%], which factor in liquidity.

As a result of this new valuation, on April 30, 2010, the Corporation reversed $1.9 million of its provision for impairment on its investments in ABCP ($5.9 million for the six-month period). These reversals do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $74.4 million, and the provision for impairment totalled $52.7 million, representing 41.5% of the notional value of $127.0 million.

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

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $3.9 million in the estimated fair value of ABCP held by the Corporation.

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

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $	Loss (gain) on investments in ABCP $
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Reversal of provision	—	5,172	5,172	(5,172)
Share of estimated cash receivable	—	1,297	1,297	(1,297)
Share of cash accumulated in conduits	—	—	—	(4,745)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at January 31, 2009; impact on results for period ended January 31, 2009	141,741	(50,436)	91,305	(9,855)
Writedown of investments in ABCP	—	(5,220)	(5,220)	5,220
Principal repayments	(5,664)	—	(5,664)	—
Share of estimated cash receivable	—	358	358	(358)
Balance as at April 30, 2009; impact on results for period ended April 30, 2009	136,077	(55,298)	80,779	(4,993)
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(5,945)	(5,945)	5,945
Principal repayments	(2,398)	—	(2,398)	—
Share of estimated cash receivable	—	620	620	(620)
Share of cash accumulated in conduits	—	(1,655)	(1,655)	—
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at October 31, 2009; impact on results for period ended October 31, 2009	128,835	(57,434)	71,401	(68)
Reversal of provision	—	3,455	3,455	(3,455)
Principal repayments	(1,092)	—	(1,092)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at January 31, 2010; impact on results for period ended January 31, 2010	127,743	(54,599)	73,144	(3,455)
Reversal of provision	—	1,939	1,939	(1,939)
Principal repayments	(709)	—	(709)	—
Balance as at April 30, 2010; impact on results for period ended April 30, 2010	**127,034**	**(52,660)**	**74,374**	**(5,394)**

The balance of investments in ABCP as at April 30, 2010 is detailed as follows:

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $
MAV2 Eligible			
Class A-1	34,415	(7,615)	26,800
Class A-2	63,894	(23,958)	39,936
Class B	11,598	(9,388)	2,210
Class C	3,403	(3,158)	245
	113,310	(44,119)	69,191
MAV2 Ineligible	7,630	(7,605)	25
MAV3 Traditional	6,094	(936)	5,158
	127,034	**(52,660)**	**74,374**

OTHER

On February 26, 2010, the Corporation made a cash payment of €0.3 million [$0.5 million] to acquire the remainder of the shares [10%] of Tourgreece Tourist Enterprises S.A. that it did not already own.

Air Transat's fleet consists of 13 Airbus A310 jets (249 seats), which will be gradually retired, and five Airbus A330 (342) seats); not counting one additional A330 which will be brought into service in the fall of 2010. On May 5, 2010, the Corporation announced it had entered into an agreement with a lessor for the long-term lease of a new Airbus A330 wide-body jet. This new aircraft, Air Transat's seventh Airbus A330, is expected to be brought into service in April 2011. In addition, on June 2, 2010, we announced that we had entered into an agreement with a lessor for the long-term lease of two additional Airbus A330 wide-body jet. The latter are expected to be brought into service by the end of 2010. These new aircraft will bring the total number of A330s to nine for 2011.

FUTURE CHANGES IN ACCOUNTING POLICIES

In January 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. These new standards will be effective for financial statements related to fiscal years beginning on or after January 1, 2011. The Corporation is currently assessing the requirements under these new standards.

BUSINESS COMBINATIONS

Section 1582, *Business Combinations*, supersedes former Section 1581, *Business Combinations*, and sets out recognition standards for business combinations. The Section establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Section constitutes the Canadian equivalent to International Financial Reporting Standard IFRS 3, *Business Combinations*. The Section applies prospectively to business combinations for which the acquisition date occurs at the beginning of the first annual fiscal year beginning on or after January 1, 2011.

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

Sections 1601 and 1602 supersede former Section 1600, *Consolidated Financial Statements*. Section 1601, which sets out standards for the preparation of consolidated financial statements, is effective for interim and annual consolidated financial statements related to fiscal years beginning on or after January 1st, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This Section, constituting the equivalent of International Accounting Standard IAS 27, *Consolidated and Separate Financial Statements*, is effective for interim and annual consolidated financial statements beginning on or after January 1st, 2011.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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 1st, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012.

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

As part of Phase 2, the Corporation is now identifying the differences between IFRS and the Corporation's accounting policies, and developing solutions, which is expected to be completed for the first quarter of fiscal 2011. In this phase, the Corporation is performing a detailed analysis of IFRS, which consists in identifying the differences between IFRS and the Corporation's current accounting policies to prioritize key areas that will be more significantly impacted by the changeover and determining the options permitted under IFRS at the

effective date and on an ongoing basis in order to finalize conclusions. Phase 2 also includes detailed planning of information technology and human resources as they relate to the changeover. Moreover, internal procedures and systems that require updating and adapting will be identified, including adjustments to existing internal control procedures and the implementation of additional internal control over financial reporting and disclosure controls and procedures that are necessary to certify financial reporting during the changeover and post-implementation periods.

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

The Corporation has assessed some of the exemptions from full retrospective application under IFRS 1, *First-time Adoption of International Financial Reporting Standards*, on the effective date and their potential impact on the Corporation's consolidated financial statements. Based on current progress, on adoption of IFRS, the following exemptions are likely to have an impact for the Corporation:

Exemption	Application of exemption
Business combinations	The Corporation expects to elect not to retrospectively restate business acquisitions completed prior to November 1, 2010.
Employee benefits	The Corporation expects to elect to recognize cumulative actuarial gains and losses arising from its defined benefit pension plans through opening retained earnings at the IFRS transition date.
Cumulative translation adjustments	The Corporation expects to elect to recognize cumulative translation adjustments through opening retained earnings at the IFRS transition date.

The Corporation is in the process of quantifying the expected material differences between IFRS and current accounting treatment under Canadian GAAP. Differences in the accounting policies applied at the IFRS transition date and, subsequently, recognition, measurement, presentation and disclosure of financial information, as well as the impacts on the financial statements, are expected to be in the following key accounting areas:

Accounting area	Main differences with potential impact for the Corporation	Progress
Financial statement presentation and disclosure	• IFRS require a different format and additional disclosures in the notes to financial statements.	A model set of financial statements has been prepared and is subject to change based on the conclusions of our overall work.
Property, plant and equipment	• Separate recognition of components of significant assets and amortization of components over various useful lives.	Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation.
Impairment of assets	• Grouping of assets in cash generating units (CGUs) on the basis of largely independent cash inflows for impairment testing purposes, using a discounted future cash flow method in a single-step approach. • Goodwill allocated to and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. • In certain circumstances, previous impairment charges on assets other than goodwill are required to be reversed.	The analysis is underway, and we are unable to quantify the impact of differences, if any.
Leases	• IFRS require the use of qualitative versus quantitative thresholds as under Canadian GAAP in accounting for capital leases.	The analysis is underway, and we are unable to quantify the impact of differences, if any.
Business combinations	• Acquisition and restructuring costs are expensed as incurred. Contingent consideration is measured at its acquisition-date fair value with subsequent changes in fair value recognized through income. • Changes in equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions. • Non-controlling interests are reported separately from shareholders' equity.	The analysis is underway, and we are unable to quantify the impact of differences, if any.

Accounting area	Main differences with potential impact for the Corporation	Progress
Income taxes	• Recognition and measurement criteria for deferred tax assets and liabilities may differ.	The analysis is underway, and we are unable to quantify the impact of differences, if any.
Provisions and contingencies	• A different threshold is used to recognize contingent liabilities, which could impact the timing for recognition of provisions.	The analysis is expected to begin in the third quarter. We are unable to quantify the impact of differences, if any.
Employee benefits	• Immediate recognition of vested past service costs through opening retained earnings at the transition date and subsequently through income. • After the transition to IFRS, an entity may recognize actuarial gains and losses as they occur in comprehensive income with no impact on income.	The analysis is expected to begin in the third quarter. We are unable to quantify the impact of differences, if any.

The above table of significant differences addresses only the items identified to date as work on our transition plan progresses. It should not be seen as exhaustive and is subject to change following completion of the next phases of our transition plan and potential amendments to IFRS prior to adoption by the Corporation.

As the Corporation assesses its obligations under IFRS, adjustments to internal control over financial reporting and disclosure controls and procedures will be required and new controls could prove necessary.

The Company has secured the appropriate internal and external resources to complete the transition plan in a timely fashion. The Corporation will also provide sufficient training to all relevant resources. During the transition, the Corporation will monitor ongoing amendments to IFRS and adjust its transition plan accordingly. Management is providing the Audit Committee with timely project progress updates, as well as guidance, decisions and conclusions regarding the options available under IFRS. The Corporation's transition plan is currently on track with its implementation schedule, calling for initial reporting under IFRS starting November 1st, 2011.

During the transition to IFRS, the Corporation will regularly monitor developments in the standards issued by the International Accounting Standards Board and AcSB, as well as regulatory changes made by the Canadian Securities Administrators, which could impact the adoption of IFRS by the Corporation and the nature and extent of amendments to IFRS.

Additional information on the effects of the adoption of IFRS on the Corporation's consolidated financial statements will be reported in upcoming MD&As.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators National 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 quarter ended April 30, 2010 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

On the Canada-Europe market, Transat's capacity is approximately 15% higher than for the summer of 2009. The Company's load factor is slightly higher than last year at the same date, as bookings are higher in Canada and in Europe. In local currency, prices are higher in both Canadian and European markets. However, average revenue per booking in Canadian dollars is similar to that of 2009 at the same date, due to the lower year-over-year value of European currencies.

From Canada to sun destinations, capacity, bookings and load factors are similar to 2009. As of today, and as was the case for the past winter season, selling prices remain under strong pressure, due to overcapacity in the marketplace.

In France, sales on medium-haul destinations are lower than in 2009 at the same date and selling prices are under very strong pressure. On long-haul destinations, volumes and selling prices are higher than last year.

As a significant portion of its inventory remains to be sold, both in Canada and Europe, the Company is not in a position to provide an outlook for the summer of 2010. The strengthening of the Canadian dollar against European currencies will have a negative impact on income generated in Europe when translated into Canadian dollars.

TRANSAT A.T. INC.
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)	As at April 30, 2010 $	As at October 31, 2009 $
ASSETS		
Current assets		
Cash and cash equivalents	**206,966**	180,552
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	**315,966**	244,250
Accounts receivable	**121,670**	105,349
Income taxes receivable	**17,357**	25,083
Future income tax assets	**6,493**	12,860
Inventories	**9,251**	9,823
Prepaid expenses	**64,592**	30,447
Derivative financial instruments	**16,160**	6,770
Current portion of deposits	**27,017**	30,578
Total current assets	**785,472**	645,712
Cash and cash equivalents reserved *[note 3]*	**32,160**	28,476
Investments in ABCP *[note 4]*	**74,374**	71,401
Deposits	**23,058**	12,014
Future income tax assets	**10,502**	10,454
Property, plant and equipment	**103,981**	122,911
Goodwill and other intangible assets	**149,227**	160,156
Derivative financial instruments	**658**	9,488
Investments and other assets *[note 5]*	**66,642**	68,891
	1,246,074	1,129,503
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**306,241**	266,445
Current portion of provision for overhaul of leased aircraft	**18,023**	21,029
Income taxes payable	**2,308**	4,021
Future income tax liabilities	**702**	266
Customer deposits and deferred income	**422,184**	251,018
Derivative financial instruments	**13,383**	40,243
Debenture	**—**	3,156
Payments on current portion of long-term debt	**14,391**	24,576
Total current liabilities	**777,232**	610,754
Long–term debt *[note 6]*	**40,941**	83,108
Provision for overhaul of leased aircraft	**11,311**	8,550
Other liabilities *[note 7]*	**44,873**	41,743
Derivative financial instruments	**1,065**	50
Future income tax liabilities	**13,942**	17,937
	889,364	762,142
Shareholder's equity		
Share capital *[note 8]*	**217,011**	216,236
Retained earnings	**157,422**	165,096
Contributed surplus	**7,713**	6,642
Accumulated other comprehensive income *[note 9]*	**(25,436)**	(20,613)
	356,710	367,361
	1,246,074	1,129,503

See accompanying notes to consolidated interim financial statement

NOTICE

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

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars, except per share amounts) (unaudited)	Quarters ended April 30 2010 $	 2009 $	Six months ended April 30 2010 $	 2009 $
Revenues	**1,060,386**	1,129,077	**1,852,948**	2,006,331
Operating expenses				
Direct costs	**709,906**	710,381	**1,221,688**	1 252 302
Salaries and employee benefits	**83,761**	89,406	**167,850**	180 155
Aircraft fuel	**70,303**	83,728	**127,445**	161 602
Commissions	**56,533**	66,518	**93,108**	113 875
Aircraft maintenance	**24,942**	27,883	**43,323**	53 523
Airport and navigation fees	**18,678**	22,238	**34,076**	41 841
Aircraft rent	**13,855**	13,675	**27,597**	26 922
Other	**74,210**	76,118	**142,072**	145 479
	1,052,188	1,089,947	**1,857,159**	1 975 699
	8,198	39,130	**(4,211)**	30,632
Amortization	**12,041**	12,907	**24,225**	25,801
Interest on long-term debt and debenture	**273**	1,174	**1,189**	2,603
Other interest and financial expenses	**456**	675	**877**	1,141
Interest income	**(605)**	(1,522)	**(1,037)**	(3,419)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(9,090)**	(37,428)	**(10,318)**	(8,916)
Foreign exchange loss (gain) on long-term monetary items	**543**	(232)	**331**	(111)
Gain on investments in ABCP *[note 4]*	**(1,939)**	4,862	**(5,394)**	(4,993)
Gain on disposal of assets under the restructuring plan *[note 10]*	**(960)**	—	**(960)**	—
Share of net income of a company subject to significant influence	**(2,456)**	(3,832)	**(2,345)**	(3,433)
	(1,737)	(23,396)	**6,568**	8,673
Income (loss) before the undernoted items	**9,935**	62,526	**(10,779)**	21,959
Income taxes (recovery)				
Current	**2,648**	8,973	**(2,879)**	8,411
Future	**(194)**	10,117	**(2,601)**	(1,612)
	2,454	19,090	**(5,480)**	6,799
Income (loss) before non-controlling interest in subsidiaries' results	**7,481**	43,436	**(5,299)**	15,160
Non-controlling interest in subsidiaries' results	**(1,283)**	(1,250)	**(2,375)**	(2,410)
Net income (loss) for the period	**6,198**	42,186	**(7,674)**	12,750
Income (loss) per share *[note 8]*				
Basic	**0.16**	1.29	**(0.20)**	0.39
Diluted	**0.16**	1.27	**(0.20)**	0.39

See accompanying notes to consolidated interim financial statement

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

(in thousands of dollars) (unaudited)	Quarters ended April 30 2010 $	2009 $	Six months ended April 30 2010 $	2009 $
Net income (loss) for the period	**6,198**	42,186	**(7,674)**	12,750
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	**7,765**	(10,409)	**34,076**	(2,952)
Reclassification in income	**(4,760)**	(40,541)	**(16,106)**	(82,032)
Future income taxes	**(769)**	15,847	**(5,376)**	27,974
	2,236	(35,103)	**12,594**	(57,010)
Foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign subsidiaries due to (appreciation) depreciation of Canadian dollars vs. euro, pound sterling and U.S. dollar at balance sheet date	**(11,189)**	(2,704)	**(17,417)**	(6,605)
	(8,953)	(37,807)	**(4,823)**	(63,615)
Comprehensive income for the period	**(2,755)**	4,379	**(12,497)**	(50,865)

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

(in thousands of dollars) (unaudited)	Share capital $	Retained earnings $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Shareholders' equity $
Balance as at October 31, 2008	154,198	106,188	4,619	82,123	347,128
Net Income for the period	—	12,750	—	—	12,750
Other comprehensive loss	—	—	—	(63,615)	(63,615)
Issued from treasury	722	—	—	—	722
Exercise of options	10	—	—	—	10
Compensation expense for stock option plan	—	—	932	—	932
Dividends	—	(2,939)	—	—	(2,939)
Balance as at April 30, 2009	154,930	115,999	5,551	18,508	294,988
Net Income for the period	—	49,097	—	—	49,097
Other comprehensive loss	—	—	—	(39,121)	(39,121)
Issued from treasury	61,227	—	—	—	61,227
Exercise of options	79	—	—	—	79
Compensation expense for stock option plan	—	—	1,091	—	1,091
Balance as at October 31, 2009	216,236	165,096	6,642	(20,613)	367,361
Net loss for the period	—	(7,674)	—	—	(7,674)
Other comprehensive loss	—	—	—	(4,823)	(4,823)
Issued from treasury	633	—	—	—	633
Exercise of options	142	—	—	—	142
Compensation expense for stock option plan	—	—	1,071	—	1,071
Balance as at April 30, 2010	217,011	157,422	7,713	(25,436)	356,710

See accompanying notes to consolidated interim financial statement

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

(in thousands of dollars) (unaudited)	Quarters ended April 30 2010 $	2009 $	Six months ended April 30 2010 $	2009 $
OPERATING ACTIVITIES				
Net income (loss) for the period	**6,198**	42,186	**(7,674)**	12,750
Operating items not involving an outlay (receipt) of cash :				
Amortization	**12,041**	12,907	**24,225**	25,801
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(9,090)**	(37,428)	**(10,318)**	(8,916)
Foreign exchange loss (gain) on long-term monetary items	**543**	(232)	**331**	(111)
Loss (gain) on investments in ABCP	**(1,939)**	4,862	**(4,774)**	(248)
Gain on disposal of assets under the restructuring plan *[note 10]*	**(960)**	—	**(960)**	—
Share of net income of a company subject to significant influence	**(2,456)**	(3,832)	**(2,345)**	(3,433)
Non-controlling interest in subsidiaries' results	**1,283**	1,250	**2,375**	2,410
Future income taxes	**(194)**	10,117	**(2,601)**	(1,612)
Pension expense	**458**	731	**1,133**	1,463
Compensation expense related to stock option plan	**536**	467	**1,071**	932
	6,420	31,028	**463**	29,036
Net change in non-cash working capital balances related to operations	**129,931**	55,976	**121,146**	79,533
Net change in other assets and liabilities related to operation	**(12,244)**	(174)	**(14,625)**	(195)
Net change in provision for overhaul of leased aircraft	**3,890**	3,415	**(245)**	11,314
Cash flows related to operating activities	**127,997**	90,245	**106,739**	119,688
INVESTING ACTIVITIES				
Additions to property, plant and equipment and to intangible assets	**(3,942)**	(6,647)	**(8,325)**	(12,345)
Proceeds on disposal of property, plant and equipment and other intangible assets under the restructuring plan *[note 10]*	**1,544**	—	**1,544**	—
Realization of principal of investments in ABCP	**709**	5,664	**1,801**	5,664
Increase in cash and cash equivalent in trust or otherwise reserved	**(3,684)**	—	**(3,684)**	—
Consideration paid for acquired companies *[note 7]*	**(504)**	—	**(504)**	(5,211)
Cash flow related to investing activities	**(5,877)**	(983)	**(9,168)**	(11,892)
FINANCING ACTIVITIES				
Net change in credit facilities and other debt	**(42,762)**	(24,453)	**(43,854)**	506
Loan repayments	**(6,877)**	(7,887)	**(10,033)**	(7,887)
Proceeds from issuance of shares	**307**	363	**775**	732
Dividend paid to a non-controlling interest	**(2,078)**	(2,537)	**(2,078)**	(2,537)
Dividends	**—**	—	**—**	(2,939)
Cash flow related to financing activities	**(51,410)**	(34,514)	**(55,190)**	(12,125)
Effect of exchange rate changes on cash and cash equivalents	**(11,480)**	1,017	**(15,967)**	(1,605)
Net change in cash and cash equivalents	**59,230**	55,765	**26,414**	94,066
Cash and cash equivalents, beginning of the period	**147,736**	184,068	**180,552**	145,767
Cash and cash equivalents, end of the period	**206,966**	239,833	**206,966**	239,833
Supplementary information				
Income taxes paid (recovered)	**(12,307)**	3,767	**(7,839)**	8,509
Interest paid	**1,291**	2,252	**2,147**	2,982

See accompanying notes to consolidated interim financial statement

[The amounts are expressed in thousands, except for share capital, stock options, 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. 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 interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2009 Annual Report.

Note 2 FUTURE CHANGES IN ACCOUNTING POLICIES

In January 2009, the ICA issued three new accounting standards: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests. These new standards will be effective for financial statements related to fiscal years beginning on or after January 1st, 2011. The Corporation is currently assessing the requirements under these new standards.

BUSINESS COMBINATIONS

Section 1582, Business Combinations, supersedes former Section 1581, Business Combinations, and sets out recognition standards for business combinations. The section establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Section constitutes the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations. The Section applies prospectively to business combinations for which the acquisition date occurs at the beginning of the first annual fiscal year beginning on or after January 1, 2011.

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

Sections 1601 and 1602 supersede former Section 1600, Consolidated Financial Statements. Section 1601, which sets out standards for the preparation of consolidated financial statements, is effective for interim and annual consolidated financial statements related to fiscal years beginning on or after January 1st, 2011. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. This Section, constituting the equivalent of International Accounting Standard IAS 27, Consolidated and Separate Financial Statements, is effective for interim and annual consolidated financial statements beginning on or after January 1st, 2011.

IFRS

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 1st, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012.

The Corporation has prepared an IFRS transition plan consisting of three stages: design and planning; identification of differences and development of solutions; and implementation and review. The first phase, comprising design and planning, has been completed. Under Phase 1, an IFRS transition plan was prepared based on the results of a preliminary high-level diagnostic review of the differences between IFRS and Corporation's accounting policies. This analysis provided an overview of key issues raised by the changeover to IFRS and the resulting impacts on the Corporation, including enhanced presentation and disclosure requirements. During Phase 1, the Corporation's management established a formal governance structure for the conversion project, including an IFRS Steering Committee, to oversee the transition process with regard to the impact on financial reporting, operating processes, internal controls and information systems. As part of Phase 2, the Corporation is now identifying the differences between IFRS and the Corporation's accounting policies, and developing solutions.

The changeover from Canadian GAAP to IFRS is a major undertaking that may result in significant changes in financial reporting. The Corporation is not currently able to reasonably estimate the impact of the changeover to IFRS on its financial reporting, since it is still in the

process of identifying differences and preparing solutions, and has not yet selected its accounting. The key issues identified in Phase 1 were prepared using the information currently available; as a result, these issues may change in light of new facts or circumstances.

The Corporation closely monitors developments, on a regularly basis, in the standards issued by the International Accounting Standards Board and the AcSB, as well as regulatory changes made by the Canadian Securities Administrators, which could impact the amount, nature or reporting of the adoption of IFRS by the Corporation.

Note 3 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at April 30, 2010, cash and cash equivalents in trust or otherwise reserved included $266,868 [$200,396 as at October 31, 2009] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulatory bodies and the Corporation's business agreement with its credit card processor. Cash and cash equivalents in trust or otherwise reserved also include $81,258, of which $32,160 was recorded as non-current assets [$72,330 as at October 31, 2009, of which $28,476 was presented as non-current assets], which was pledged as collateral security against letters of credit.

Note 4 INVESTMENTS IN ABCP

RESTRUCTURING

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

In 2009, the Pan-Canadian Investors Committee announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for longer-term notes whose maturities match those of the assets previously held in the underlying conduits. As at January 21, 2009, the Corporation held a portfolio of ABCP issued by several trusts with an overall notional value of $143,500.

On January 21, 2009, the plan implementation date, the Corporation measured its investments in ABCP at fair value prior to the exchange. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions. Subsequent to this valuation, the provision for impairment totalled $47,450, and the fair value of the ABCP investment portfolio stood at $96,050. The ABCP held by the Corporation was exchanged on that date for new securities. As at that date, the new ABCP had a notional value of $141,741.

PORTFOLIO

On January 25 and 29, 2010, the Corporation received $1,092 in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). During the six-month period ended April 30, 2010, the Corporation received its share of $620 of the cash accumulated in the conduits. The notional value of the new ABCP amounted to $127,034 as at April 30, 2010 and is detailed as follows:

MAV2 Eligible

The Corporation holds $113,310 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through January 2017.

MAV2 Ineligible

The Corporation holds $7,630 in ABCP supported mainly by U.S. subprime assets that have been restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through December 2035.

MAV3 Traditional

The Corporation holds $6,094 in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2015.

VALUATION

On April 30, 2010, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the six-month period ended April 30, 2010, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. ["BlackRock"], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) and ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation's management measured the fair value of its assets from these classes using said valuations. The Corporation also took into account the information released by DBRS on August 11, 2009. DBRS downgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) from Class A-2 to BBB–. Prior to this downgrading, this class of ABCP had an A rating. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates.

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 0.0% to 2.96% [weighted average rate of 2.3%], depending on the type of series. These future cash flows were discounted, according to the type of series, over 6.7-year periods using discount rates ranging from 7.1% to 41.1% [weighted average rate of 10.8%], which factor in liquidity.

Subsequent to this new valuation, the Corporation reversed $1,939, $5,394 for the six-month period, of the provision for impairment of its investments in ABCP on April 30, 2010. These reversals do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $74,374 and the provision for impairment totalled $52,660, representing 41.5% of the notional value of $127,034.

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

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $3,900 in the estimated fair value of ABCP held by the Corporation.

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

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $	Loss (gain) on investments in ABCP $
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Reversal of provision	—	5,172	5,172	(5,172)
Share of estimated cash receivable	—	1,297	1,297	(1,297)
Share of cash accumulated in conduits	—	—	—	(4,745)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at January 31, 2009; impact on results for period ended January 31, 2009	141,741	(50,436)	91,305	(9,855)
Writedown in notional value of ABCP	—	(5,220)	(5,220)	5,220
Principal repayments	(5,664)	—	(5,664)	—
Share of estimated cash receivable	—	358	358	(358)
Balance as at April 30, 2009; impact on results for period ended April 30, 2009	136,077	(55,298)	80,779	(4,993)
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(5,945)	(5,945)	5,945
Principal repayments	(2,398)	—	(2,398)	—
Share of estimated cash receivable	—	620	620	(620)
Share of cash accumulated in conduits	—	(1,655)	(1,655)	—
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at October 31, 2009; impact on results for period ended October 31, 2009	128,835	(57,434)	71,401	(68)
Reversal of provision	—	3,455	3,455	(3,455)
Principal repayments	(1,092)	—	(1,092)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at January 31, 2010; impact on results for period ended January 31, 2010	127,743	(54,599)	73,144	(3,455)
Reversal of provision	—	1,939	1,939	(1,939)
Principal repayments	(709)	—	(709)	—
Balance as at April 30, 2010; impact on results for period ended April 30, 2010	**127,034**	**(52,660)**	**73,374**	**(5,394)**

The balance of investments in ABCP as at April 30, 2010 is detailed as follows:

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $
MAV2 Eligible			
Class A-1	34,415	(7,615)	26,800
Class A-2	63,894	(23,958)	39,936
Class B	11,598	(9,388)	2,210
Class C	3,403	(3,158)	245
	113,310	(44,119)	69,191
MAV2 Ineligible	7,630	(7,605)	25
MAV3 Traditional	6,094	(936)	5,158
	127,034	**(52,660)**	**74,374**

Note 5 INVESTMENTS AND OTHER ASSETS

	As at April 30, 2010 $	As at October 31, 2009 $
Investment in Caribbean Investments B.V.	**64,307**	66,347
Deferred costs, unamortized balance	**2,035**	2,234
Sundry	**185**	192
Other investments	**115**	118
	66,642	68,891

The change in the investment in Caribbean Investments B.V. [« CIBV »] is detailed as follows:

	$
Balance as at October 31, 2009	66,347
Share of net income	2,345
Translation adjustment	(4,385)
Balance as at April 30, 2010	64,307

Note 6 LONG-TERM DEBT

	As at April 30, 2010 $	As at October 31, 2009 $
Loan secured by aircraft amounting to US$20,000 [US$26,667 as at October 31, 2009]	**20,232**	28,730
Drawdowns under the revolving term credit facilities maturing from 2010 to 2012	**34,310**	77,963
Other	**790**	991
	55,332	107,684
Less :current portion	**14,391**	24,576
	40,941	83,108

Note 7 OTHER LIABILITIES

	As at April 30, 2010 $	As at October 31, 2009 $
Accrued benefit liabilities	**17,768**	17,050
Deferred lease inducements	**18,023**	12,739
Non-controlling interest	**6,982**	7,754
Deferred gains on options related to repayment of revolving credit facilities	**2,100**	4,200
	44,873	41,743

On February 26, 2010, the Corporation acquired Tourgreece Tourist Enterprises S.A's non-controlling interest, which consisted of the balance of the remaining shares (10%), for a cash consideration of $504 (€350).

Note 8 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:

	Six months ended April 30, 2010	
	Number of shares	**Amount ($)**
Balance at beginning of period	37,728,799	216,236
Issued from treasury	41,293	633
Exercise of options	23,733	142
Balance at end of period	37,793,825	217,011

As at April 30, 2010, the number of Class A Shares and Class B Shares amounted to 1,162,620 and 36,631,205, respectively.

B) OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2009	1,101,140	18.31
Exercised	(23,733)	5.99
Cancelled	(21,569)	22.39
Balance as at April 30, 2010	1,055,838	18.50
Options exercisable as at April 30, 2010	495,935	22.98

C) EARNINGS PER SHARE

Earnings (loss) per share and the diluted earnings (loss) per share were computed as follows:

	Quarters ended April 30		Six months ended April 30	
	2010	2009	2010	2009
(in thousands of dollars, except per share amounts)	$	$	$	$
Numerator				
Income (loss) attributable to voting shareholders	**6,198**	42,186	**(7,674)**	12,750
Interest on debentures that may be settled in voting shares	**—**	32	**—**	64
Income (loss) used to calculate diluted earnings per share	**6,198**	42,218	**(7,764)**	12,814
Denominator				
Weighted average number of outstanding shares	**37,841**	32,740	**37,767**	32,718
Debentures that may be settled in voting shares	**—**	356	**—**	338
Stock options	**163**	23	**—**	25
Adjusted weighted average number of outstanding shares used in computing diluted income (loss) per share	**38,004**	33,119	**37,767**	33,081
Earnings (loss) per share				
Basic	**0.16**	1.29	**(0.20)**	0.39
Diluted	**0.16**	1.27	**(0.20)**	0.39

In computing diluted earnings per share for the three-month period ended April 30, 2010, a total of 544,805 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's share for the period. Debentures that can be settled in voting shares have not been reflected in the calculation of diluted earnings per share for the six-month period ended April 30, because of their antidilutive effect. These securities' potential impact on the denominator is 4,000 shares. Given the loss recorded for the six-month periods ended April 30, 2010, the 1,055,838 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 three-month and six-month periods ended April 30, 2009, 633,422 stock options were excluded from the computation of diluted earnings per share because the exercise price on these options exceeded the average price of the Corporation's share for the respective periods.

Note 9 ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the accumulated other comprehensive income were as follows for the three-month and six-month periods ended April 30, 2010:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income $
Accumulated other comprehensive income			
Balance as at October 31, 2009	(17,043)	(3,570)	(20,613)
Change during the period	10,358	(6,228)	4,130
Balance as at January 31, 2010	(6,685)	(9,798)	(16,483)
Change during the period	2,236	(11,189)	(8,953)
Balance as at April 30, 2010	**(4,449)**	**(20,987)**	**(25,436)**

Changes in the accumulated other comprehensive income were as follows for the three-month and six-month periods ended April 30, 2009:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income $
Accumulated other comprehensive income			
Balance as at October 31, 2008	72,479	9,644	82,123
Change during the period	(21,907)	(3,901)	(25,808)
Balance as at January 31, 2009	50,572	5,743	56,315
Change during the period	(35,103)	(2,704)	(37,807)
Balance as at April 30, 2009	15,469	3,039	18,508

Note 10 GAIN ON DISPOSAL OF ASSETS UNDER THE RESTRUCTURING PLAN

On September 24, 2009, the Corporation announced a restructuring plan to make structural changes to its distribution network in France. Under these structural changes, an administrative centre and some agencies were closed, while other agencies will be closed and sold. For the second quarter, the Corporation reported a $960 gain on disposal of assets earnmarked for sale under the restructuring plan, comprising mainly of gains on the sale of agencies for which no restructuring charge had been recognized.

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 the Americas and in Europe.

	Three months ended April 30, 2010			Six months ended April 30, 2010		
				Americas $	Europe $	Total $
Revenues	886,750	173,636	**1,060,386**	1,543,546	309,402	**1,852,948**
Operating expenses	873,658	178,530	**1,052,188**	1,534,387	322,772	**1,857,159**
	13,092	**(4,894)**	**8,198**	**9,159**	**(13,370)**	**(4,211)**
Property, plant and equipment, goodwill and other intangible assets [1]				**147,929**	**105,279**	**253,208**

	Three months ended April 30, 2009			Six months ended April 30, 2009		
				Americas $	Europe $	Total $
Revenues	914,210	214,867	1,129,077	1,653,636	352,695	2,006,331
Operating expenses	875,375	214,572	1,089,947	1,613,468	362,231	1,975,699
	38,835	295	39,130	40,168	(9,536)	30,632
Property, plant and equipment, goodwill and other intangible assets [2]				164,064	119,003	283,067

[1] As at April 30, 2010
[2] As at October 31, 2009

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 2009 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 rendered services that it has undertaken to pay for. These agreements typically cover a one year period and are renewed annually.

The corporation has also issued letters of credit to provincial regulatory agencies guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totalled $467 as at April 30, 2010. 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 Québec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totalled $1,287 as at April 30, 2010. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2010, no amounts had been accrued with respect to the above-mentioned agreements.

SECURITY FACILITY

In addition, since May 5, 2010, the Corporation has a $50,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at April 30, 2010, this credit facility was undrawn.

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