TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2012

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Trading symbols
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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 nine-month period ended July 31, 2012 compared with the quarter and nine-month period ended July 31, 2011.

As explained in Transition to IFRS, Canadian generally accepted accounting principles ("GAAP") used to prepare the Corporation's consolidated financial statements were replaced on November 1, 2011 by International Financial Reporting Standards ("IFRS"). As of that date, the Corporation prepares its financial statements in accordance with IFRS. The 2011 comparative figures have been restated. This MD&A should be read in conjunction with the audited consolidated financial statements for year ended October 31, 2011 and the accompanying notes and the 2011 Annual Report, including the MD&A and the section on risks and uncertainties. It should also be read in conjunction with the information on the adjustments to the 2011 comparative figures on adoption of IFRS, which are discussed in Notes 14 and 15 to the unaudited interim condensed consolidated financial statements for the quarters ended January 31, 2012 and July 31, 2012. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2011 Annual Report. The risks and uncertainties set out in the MD&A of the 2011 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 12, 2012. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2012 and Annual Information Form for the year ended October 31, 2011.

We occasionally refer to non-IFRS financial measures in the MD&A. See the *Non-IFRS financial measures* section for more information. All dollar figures in this MD&A are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation, for the fourth quarter, expects to record an increase in margin over last year

In making these statements, the Corporation has assumed that pricing trends will hold firm through to season-end, that bookings will continue to track reported trends, that fuel prices, costs and the Canadian dollar relative to European currencies and the U.S. dollar will remain stable, that the assumptions used to measure securities held in ABCP will materialize, that credit facilities will remain 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. The Corporation considers the assumptions on which these forward-looking statements are based to be reasonable.

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

TRANSITION TO IFRS

This is the Corporation's third quarterly report presenting financial information under IFRS. Prior to November 1, 2011, the Corporation prepared its consolidated financial statements under Canadian GAAP. As of that date, the Corporation's interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards*, published by the International Accounting Standards Board ("IASB"). The 2011 comparative figures have been restated. It should also be read in conjunction with the information on the adjustments to the 2011 comparative figures on adoption of IFRS, which are discussed in Notes 14 and 15 to the unaudited interim condensed consolidated financial statements for the quarters ended January 31, 2012 and July 31, 2012.

NON-IFRS FINANCIAL MEASURES

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

Operating margin (loss)	Revenues less operating expenses.
Adjusted income (loss)	Pre-tax income (loss) before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary and restructuring charge (gain).
Adjusted after-tax income (loss)	Net income (loss) attributable to shareholders before change in fair value of derivative financial instruments related to aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP, gain on disposal of a subsidiary and restructuring charge (gain), net of related taxes.
Adjusted after-tax income (loss) per share	Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus off-balance sheet arrangements, excluding agreements with service providers.
Total net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

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

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

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

The following table reconciles the non-IFRS financial measures to the most comparable IFRS financial measures:

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31		Nine-month periods ended July 31	
	2012 $	2011 $	2012 $	2011 $
Revenues	909,056	936,974	2,950,778	2,848,237
Operating expenses	(886,982)	(922,238)	(2,986,769)	(2,838,708)
Operating margin (loss)	22,074	14,736	(35,991)	9,529
Income (loss) before income tax expense	12,011	(2,769)	(47,546)	(9,983)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	7,455	8,342	1,430	(3,651)
Non-monetary loss (gain) on investments in ABCP	1,621	(321)	(6,411)	(6,958)
Gain on disposal of a subsidiary	(5,655)	—	(5,655)	—
Adjusted income (loss)	15,432	5,252	(58,182)	(20,592)
Net income (loss) attributable to shareholders	9,405	(2,782)	(33,283)	(7,445)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	7,455	8,342	1,430	(3,651)
Non-monetary loss (gain) on investments in ABCP	1,621	(321)	(6,411)	(6,958)
Gain on disposal of a subsidiary	(5,655)	—	(5,655)	—
Tax impact	(2,305)	(2,390)	(37)	1,009
Adjusted after-tax income (loss)	10,521	2,849	(43,956)	(17,045)
Adjusted after-tax income (loss)	10,521	2,849	(43,956)	(17,045)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	38,199	38,044	38,104	37,910
Adjusted after-tax diluted income (loss) per share	0.28	0.07	(1.15)	(0.45)

	As at July 31, 2012 $	As at October 31, 2011 $
Off-balance sheet arrangements, excluding agreements with service providers	573,152	653,663
Total debt	573,152	653,663
Total debt	573,152	653,663
Cash and cash equivalents	(292,743)	(181,576)
Investments in ABCP	(25,949)	(78,751)
Total net debt	254,460	393,336

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars, except per share amounts)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	909,056	936,974	(27,918)	(3.0)	2,950,778	2,848,237	102,541	3.6
Operating margin (loss)[1]	22,074	14,736	7,338	49.8	(35,991)	9,529	(45,520)	(477.7)
Net income (loss)	9,664	(2,567)	12,231	476.5	(30,690)	(4,997)	(25,693)	(514.2)
Net income (loss) attributable to shareholders	9,405	(2,782)	12,187	438.1	(33,283)	(7,445)	(25,838)	(347.1)
Basic earnings (loss) per share	0.25	(0.07)	0.32	457.1	(0.87)	(0.20)	(0.67)	(335.0)
Diluted earnings (loss) per share	0.25	(0.07)	0.32	457.1	(0.87)	(0.20)	(0.67)	(335.0)
Adjusted after-tax income (loss)[1]	10,521	2,849	7,672	269.3	(43,956)	(17,045)	(26,911)	(157.9)
Adjusted after-tax diluted income (loss) per share	0.28	0.07	0.21	300.0	(1.15)	(0.45)	(0.70)	(155.6)
Consolidated Statements of Cash Flows								
Operating activities	(6,859)	45,364	(52,223)	(115.1)	115,238	197,608	(82,370)	(41.7)
Investing activities	40,613	(13,735)	54,348	395.7	5,928	(42,220)	48,148	114.0
Financing activities	(917)	19	(936)	n/a	(4,540)	(23,104)	18,564	80.3
Effect of exchange rate changes on cash and cash equivalents	(4,166)	(2,248)	(1,918)	(85.3)	(5,459)	(5,269)	(190)	(3.6)
Net change in cash and cash equivalents	28,671	29,400	(729)	(2.5)	111,167	127,015	(15,848)	(12.5)

	As at July 31, 2012 $	As at October 31, 2011 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	292,743	181,576	111,167	61.2
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	307,411	359,545	(52,134)	(14.5)
Investments in ABCP	25,949	78,751	(52,802)	(67.0)
	626,103	619,872	6,231	1.0
Total assets	1,281,803	1,224,245	57,558	4.7
Debt	—	—	—	—
Total debt[1]	552,287	653,663	(101,376)	(15.5)
Total net debt[1]	233,595	393,336	(159,741)	(40.6)

[1] SEE NON-IFRS 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 consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in ten other European countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with nearly 640 travel agencies (including over 500 franchisees) and a multi-channel distribution system incorporating web-based sales. Transat holds an interest in a hotel business that owns and operates properties in Mexico and the Dominican Republic. Transat deals with numerous air carriers, but relies on its subsidiary Air Transat for a large portion of its needs. Transat also offers destination services.

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

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

Transat's targets for fiscal 2012 are as follows:

- Increase organizational efficiency and profitability
- Make Transat more competitive in Canada
- Maintain business volumes and improve profitability at Transat France
- Continue profitable development of our destination services
- Optimize airline operations
- Finalize and implement the development strategy for the operational information systems
- Enhance the strategic value of our brand, as well as customer satisfaction and loyalty
- Pursue our plan to make Transat one of the industry's most responsible companies

Two categories of initiatives are being emphasized for fiscal 2012. The first category pertains to initiatives to support a timely return to profitability, not to drive growth in current markets or develop new niches. The second category pertains to initiatives aimed a product differentiation and customer experience enhancements to set us apart from the competition and generate value added.

Core initiatives aimed at a near-term return to profitability include:

- Reducing administrative costs (143 positions eliminated in November 2011)
- Limiting capacity increases for the Canada-South and transatlantic markets, as well for destinations served by our French subsidiaries
- Controlling airline costs by optimizing the efficiency of the Air Transat fleet (subleasing aircraft in off-peak seasons), reviewing operating costs, considering retiring certain aircraft in 2013 and, lastly, renegotiating the contract with Canjet

- Negotiating with hotel owners to limit hotel cost growth, with an emphasis on concentrated purchases and new partners

- Implementing new operating information systems to reduce operating costs and support more effective revenue management

- Pursuing growth in profitable destination services, such as incoming and hotel services

Core initiatives aimed at enhancing the customer experience include:

- Applying a new hotel product differentiation strategy based on an analysis of customer base segments. The objective is to achieve a distinctive value-added service offering, capable of generating higher margins

- Implementing customer experience enhancements at various levels (in our agency contacts and on our B2C sites, in aircraft, at destination, etc.) to set us apart from a customer perspective

- Modernizing our fleet of Airbus A330s through upgrades to seating, on-board entertainment systems and aircraft configurations. The first modernized A330s have already been delivered; total program implementation will cover an 18-month period

- Maintaining our leadership position as a responsible corporate citizen will be a key message to be communicated more intensively and will be more highly integrated into a portion of our product offering

Our key performance drivers are market share, and revenue and margin growth, which are essential to successfully implement our strategy and meet our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, which historically have supported successful strategies and meeting our objectives. Our financial resources consist primarily of cash not held in trust or otherwise reserved and the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5.8 million. Vacances Tours Mont-Royal specializes in the sale of packages to sun destinations for Canadian travellers to Cuba, the Dominican Republic and Mexico, among others. Of the seats sold by this tour operator, 180,000 were bought by Air Transat. With this acquisition, the Corporation extends its offering and services to customers in existing markets.

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

The results of the acquired business have been consolidated as of the date of acquisition. Since that date, TMR has generated revenues of $86.9 million ($17.4 million during the quarter ended July 31, 2012) with a pre-tax loss of $3.7 million ($0.2 million during the quarter ended July 31, 2012), which are included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated results would have included additional revenues of $37.2 million and a pre-tax loss of $0.9 million.

DISPOSAL OF A SUBSIDIARY

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

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended July 31				Nine-month periods ended July 31			
	2012	2011	Difference	Difference	2012	2011	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Americas	608,768	624,386	(15,618)	(2.5)	2,336,589	2,208,423	128,166	5.8
Europe	300,288	312,588	(12,300)	(3.9)	614,189	639,814	(25,625)	(4.0)
	909,056	936,974	(27,918)	(3.0)	2,950,778	2,848,237	102,541	3.6

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

Relative to the same periods of fiscal 2011, revenues for the quarter ended July 31, 2012 fell $27.9 million, while our revenues for the nine-month period were up $102.5 million. Revenues changed significantly due in large part to our acquisition of TMR, which made positive revenue contributions for the quarter and nine-month period of $17.4 million and $86.9 million, respectively. For the quarter, the decline resulted primarily from a drop in traveller volumes of 5.5% (5.8% excluding TMR travellers not flying with Air Transat) while our average selling prices tracked slightly higher than in the first quarter of 2011. For the nine-month period, growth was driven mainly by our acquisition of TMR, but also by higher average selling prices than in the year-over-year period. Year-to-date traveller volumes fell 1.4% (4.2% excluding TMR travellers not flying with Air Transat) compared with the first nine months of fiscal 2011.

OPERATING EXPENSES

	Quarters ended July 31				Nine-month periods ended July 31			
	2012	2011	Difference	Difference	2012	2011	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Cost of providing tourism services	424,399	482,893	(58,494)	(12.1)	1,699,687	1,662,839	36,848	2.2
Aircraft fuel	159,003	137,106	21,897	16.0	371,892	307,273	64,619	21.0
Salaries and employee benefits	92,620	96,694	(4,074)	(4.2)	286,091	278,639	7,452	2.7
Commissions	29,062	33,461	(4,399)	(13.1)	134,400	136,239	(1,839)	(1.3)
Aircraft maintenance	31,458	29,419	2,039	6.9	94,274	83,653	10,621	12.7
Airport and navigation fees	33,714	32,115	1,599	5.0	76,970	73,311	3,659	5.0
Aircraft rent	22,361	17,848	4,513	25.3	63,832	49,758	14,074	28.3
Other	94,365	92,702	1,663	1.8	259,623	246,996	12,627	5.1
Total	886,982	922,238	(35,256)	(3.8)	2,986,769	2,838,708	148,061	5.2

Our seat purchase agreement with Thomas Cook on some Canada-U.K. destinations expired on October 31, 2011 and was not renewed. This sparked a shift in the nature of our operating expenses, as the cost of carrying travellers previously incurred with Thomas Cook and recorded under *Cost of providing tourism services* is now borne by our aircraft fleet carrying travellers on our Canada-U.K. route, resulting in a rise in operating expenses related to our aircraft fleet. Compared with the corresponding quarter of the previous fiscal year, changes were also made to our fleet with the addition of two Airbus A330s and retirement of one Airbus A310.

Total operating expenses were down $35.3 million (3.8%) for the quarter, while they were up $148.1 million (5.2%) for the nine-month period compared with the same periods of fiscal 2011. The quarterly drop in operating expenses stemmed primarily from a decline in traveller volumes. For the nine-month period ended July 31, 2012, the growth in operating expenses was driven primarily by the acquisition of TMR, with the cost of providing tourism services rising in the winter season. Fuel cost increases were also a factor, including those built into cost of blocks of seats or full flights booked with carriers other than Air Transat, reported through *Cost of providing tourism services.* Expenses also rose on higher hotel room costs.

Our operating expenses were down 6.6% in the Americas and up 2.6% in Europe for the third quarter, while rises were reported in the Americas and Europe for the nine-month period, amounting to 6.5% and 0.7%, respectively.

COST OF PROVIDING TOURISM SERVICES

The cost of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with the corresponding periods of fiscal 2011, the cost of providing these services for the quarter fell $58.5 million (12.1%), while for the nine-month period, they climbed $36.8 million (2.2%). For the quarter, the decline resulted from the expiration in 2011 of our seat purchase agreement with Thomas Cook. For the nine-month period, growth was driven mainly by our acquisition of TMR, and to a lesser extent, by rising hotel room costs.

AIRCRAFT FUEL

Year-over-year increases were recorded in aircraft fuel costs for the quarter and nine-month period of $21.9 million (16.0%) and $64.6 million (21.0%), respectively. These rises resulted primarily from our aircraft fleet logging more flight hours and, for the first nine months of the year, higher fuel prices.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits fell $4.1 million (4.2%) for the quarter but grew $7.5 million (2.7%) for the nine-month period compared with the same periods of 2011. The quarterly decline originated primarily from the disposal of our Handlex subsidiary and, to a lesser extent, from savings related to the restructuring announced in the fourth quarter of fiscal 2011. For the nine-month period, the increase was mainly generated by new hires on the addition of aircraft to our fleet during fiscal 2011, offset by cost savings related to the restructuring in 2011.

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 quarter and nine-month period declined $4.4 million (13.1%) and $1.8 million (1.3%), respectively, compared with the corresponding periods of fiscal 2011. As a percentage of revenues, commissions fell to 3.2% for the third quarter from 3.6% for the same period of 2011. For the nine-month period, commission expense fell to 4.6% from 4.8% for the year-ago period. The decreases stemmed from the lower revenue base used to calculate commissions.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Compared to the corresponding periods of 2011, costs for the quarter and nine-month period were up $2.0 million (6.9%) and $10.6 million (12.7%), respectively. These increases were mainly linked to our aircraft fleet logging more flight hours, as well as to changes in its make-up.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Fees for the quarter and nine-month period ended July 31, 2012 rose $1.6 million (5.0%) and $3.7 million (5.0%), respectively, in line with our aircraft fleet's increased number of flights.

AIRCRAFT RENT

Aircraft rent for the third quarter and nine-month period climbed $4.5 million (25.3%) and $14.1 million (28.3%), respectively, compared with the corresponding periods of fiscal 2011. These increases were triggered by the addition of two Airbus A330s, offset by the retirement of an A310, compared with the third quarter last year.

OTHER

Other expenses for the third quarter and nine-month period grew $1.7 million (1.8%) and $12.6 million (5.1%), respectively, compared with the year-over-year periods. These rises were mostly prompted by higher other aircraft costs owing to increased flight hours logged by our aircraft fleet.

OPERATING MARGIN (LOSS)

In light of the foregoing, Transat reported an operating margin of $22.1 million (2.4%) for the third quarter compared $14.7 million (1.6%) for the same period of fiscal 2011. For the nine-month period, the Corporation reported an operating loss of $36.0 million (1.2%) compared with an operating margin of $9.5 million (0.3%) year over year. Higher fuel prices and hotel room costs combined with intense market competition in the winter season compressed our margins.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Revenues	608,768	624,386	(15,618)	(2.5)	2,336,589	2,208,423	128,166	5.8
Operating expenses	597,683	640,183	(42,500)	(6.6)	2,364,241	2,220,278	143,963	6.5
Operating margin (loss)	11,085	(15,797)	26,882	170.2	(27,652)	(11,855)	(15,797)	(133.3)

Third-quarter revenues at our North American subsidiaries from sales in Canada and abroad fell $15.6 million (2.5%) from the same period of fiscal 2011. The drop in revenues was largely a result of our decision to reduce capacity for sun destinations and, to a lesser extent, the transatlantic market. As a result, traveller volumes slid 7.7% (8.2% excluding TMR travellers not flying with Air Transat). Third-quarter average selling prices tracked higher than the year before. Transat reported an operating margin of $11.1 million (1.8%) for the quarter, up from an operating loss of $15.8 million (2.5%) for the same period of 2011. The turnaround in our margin was fuelled in particular by cost reductions combined with higher average selling prices and improved load factors.

Our North American subsidiaries reported year-over-year growth in revenues for the nine-month period ended July 31, 2012 of $128.2 million (5.8%). The rise was driven primarily by the acquisition of TMR, which helped bolster revenues by $86.9 million, combined with higher average selling prices, while traveller volumes eased 0.1% lower (0.4% excluding TMR travellers not flying with Air Transat), owing to our decision to reduce capacity in the first and third quarters. Transat reported an operating loss for the nine-month period of $27.7 million (1.2%) compared with $11.9 million (0.5%) for the same period of 2011. The negative difference resulted primarily from higher operating costs, particularly for fuel and hotel rooms, as well as keen competition in the winter season.

EUROPE

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Revenues	300,288	312,588	(12,300)	(3.9)	614,189	639,814	(25,625)	(4.0)
Operating expenses	289,299	282,055	7,244	2.6	622,528	618,430	4,098	0.7
Operating margin (loss)	10,989	30,533	(19,544)	(64.0)	(8,339)	21,384	(29,723)	139.0

Third-quarter revenues at our European subsidiaries on sales in Europe and Canada were down $12.3 million (3.9%) year over year. Excluding a slight improvement by our U.K. subsidiary, revenues at our European subsidiaries were lower in the aggregate. The decline in revenues at our euro zone subsidiaries was also accentuated on translation into Canadian dollars due to the euro's weakening against the Canadian dollar. Despite a drop in traveller volumes at our French subsidiaries, European volumes were up 0.4% for the quarter from a year ago. Our average selling prices also finished slightly higher. Our European operations reported an operating margin of $11.0 million (3.7%) for the quarter compared with $30.5 million (9.8%) for the third quarter of 2011. The slimmer margin arose primarily from the expiration of our seat purchase contract with Thomas Cook and intense competition in the French market where conditions remain very difficult for the entire industry, particular on North African routes.

Revenues for the nine-month period at our European subsidiaries were down $25.6 million (4.0%) compared with the corresponding period of 2011. Revenues at our European subsidiaries were relatively flat in their original currencies but fell on translation into Canadian dollars. Traveller volumes were down 6.7% for the nine-month period compared with the year before, while average selling prices were higher. Our European operations reported an operating loss of $8.3 million (1.4%) for the nine-month period, compared with an operating margin of $21.4 million (3.3%) for the corresponding period of 2011. The adverse difference in operating margin (loss) resulted from the expiration of our seat purchase contract with Thomas Cook and strong competition in the French market.

OTHER EXPENSES (REVENUES)

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Depreciation and amortization	9,576	10,800	(1,224)	(11.3)	29,578	33,057	(3,479)	(10.5)
Financing costs	974	900	74	8.2	2,316	2,676	(360)	(13.5)
Financing income	(1,847)	(1,934)	87	4.5	(5,389)	(5,638)	249	4.4
Change in fair value of derivative financial instruments used for aircraft fuel purchases	7,455	8,342	(887)	(10.6)	1,430	(3,651)	5,081	139.2
Foreign exchange loss (gain) on long-term monetary items	(181)	(144)	(37)	(25.7)	(95)	1,212	(1,307)	(107.8)
Loss (gain) on investments in ABCP	1,621	(321)	1,942	605.0	(6,411)	(6,958)	547	7.9
Gain on disposal of a subsidiary	(5,655)	—	n/a	n/a	(5,655)	—	n/a	n/a
Share of net income of an associate	(1,880)	(138)	(1,742)	(1,262.3)	(4,219)	(1,186)	(3,033)	(255.7)

DEPRECIATION AND AMORTIZATION

Depreciation and amortization, which includes amortization of property, plant and equipment, intangible assets subject to amortization and deferred lease inducements, declined $1.2 million and $3.5 million, respectively, for the third quarter and nine-month period ended July 31, compared with the same periods of fiscal 2011. These decreases resulted from the decline in additions to property, plant and equipment and intangible assets over the past few years.

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. Compared with 2011, financing costs were up $0.1 million for the third quarter, mainly due to costs incurred to amend the revolving term credit facility agreement, and were down $0.4 million for the first nine months following repayment of long-term debt during fiscal 2011.

FINANCING INCOME

Financing income was down $0.1 million and $0.3 million, respectively, for the quarter and the nine-month period ended July 31, compared with the same periods of fiscal 2011.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the period of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fuel price volatility. The Corporation reported a $7.5 million decrease in fair value of derivative financial instruments used for aircraft fuel purchases for the quarter compared with $8.3 million for the corresponding period of 2011. For the nine-month period, the fair value of derivative financial instruments used for aircraft fuel purchases was down $1.4 million compared with a $3.7 million increase in 2011.

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

Foreign exchange gains/losses on long-term monetary items arise mainly from the foreign exchange effect on our foreign currency deposits. The Corporation recorded a $0.2 million foreign exchange gain on long-term monetary items for the third quarter compared with $0.1 million in 2011. For the nine-month period ended July 31, long-term monetary items generated a foreign exchange gain of $0.1 million, compared with a loss of $1.2 million for the corresponding period of 2011.

LOSS (GAIN) ON INVESTMENTS IN ABCP

The gain/loss on investments in ABCP results from the change in the fair value of investments in ABCP during the period. The Corporation reported a loss on investments in ABCP of $1.6 million for the third quarter compared with a gain of $6.4 million for the nine-month period. (See *Investments in ABCP* for more information.)

GAIN ON DISPOSAL OF A SUBSIDIARY

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

SHARE OF NET INCOME OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share for the third quarter amounted to $1.9 million compared with $0.1 million for the same period of 2011. For the nine-month period, the share amounted to $4.2 million compared with $1.2 million in 2011. The increases in our share of net income arose mainly from improved operating profitability compared with 2011 and the recognition of foreign exchange gains on long-term debt.

INCOME TAXES

The Corporation recorded an income tax expense of $2.3 million for the third quarter compared with an income tax recovery of $0.2 million for the corresponding quarter of the previous fiscal year. For the nine-month period ended July 31, the income tax recovery amounted to $16.9 million compared with $5.0 million in 2011. Excluding the share of net income of an associate, the effective tax rates were 23.2% and 32.6%, respectively, for the third quarter and the nine-month period compared with 6.9% and 44.6%, respectively, for the year-over-year periods. The changes in tax rates for the quarter and nine-month period resulted mainly from differences in statutory tax rates between countries where taxable income was reported.

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

In light of the items discussed in *Consolidated operations*, the Corporation reported net income of $9.7 million for the quarter ended July 31, 2012 compared with a net loss of $2.6 million in 2011. The net income attributable to shareholders stood at $9.4 million or $0.25 per share (basic and diluted) compared with a net loss of $2.8 million or $0.07 per share (basic and diluted) for the corresponding quarter of the previous year. The weighted average number of shares outstanding used in calculating the per share amounts was 38,199,000 for the third quarter of 2012 compared with 38,044,000 for corresponding period of 2011.

For the nine-month period ended July 31, 2012, Transat reported a net loss of $30.7 million compared with $5.0 million in 2011. Net loss attributable to shareholders stood at $33.3 million or $0.87 per share (basic and diluted) compared with $7.4 million or $0.20 per share (basic and diluted) for the corresponding nine-month period of the previous year. The weighted average number of shares outstanding used in calculating the per share amounts was 38,104,000 for the nine-month period ended July 31, 2012 compared with 37,910,000 for the corresponding period of 2011. See Note 12 to the *Unaudited Interim Condensed Consolidated Financial Statements*.

For the third quarter, adjusted after-tax income stood at $10.5 million ($0.28 per share) compared with $2.8 million ($0.07 per share) in 2011. For the nine-month period ended July 31, the Corporation reported an adjusted after-tax loss of $44.0 million ($1.15 per share) compared with $17.0 million ($0.45 per share) for the corresponding period of 2011.

SELECTED QUARTERLY FINANCIAL INFORMATION

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

(in thousands of dollars, except per share data)	Q4-2010 (GAAP) $	Q1-2011 (IFRS) $	Q2-2011 (IFRS) $	Q3-2011 (IFRS) $	Q4-2011 (IFRS) $	Q1-2012 (IFRS) $	Q2-2012 (IFRS) $	Q3-2012 (IFRS) $
Revenues	778,585	810,154	1,101,109	936,974	809,927	829,296	1,212,426	909,056
Operating margin (loss)	77,852	(14,506)	9,299	14,736	20,981	(31,839)	(26,226)	22,074
Net income (loss)	n/a	(12,525)	10,095	(2,567)	(3,777)	(28,580)	(11,774)	9,664
Net income (loss) attributable to shareholders	52,356	(13,378)	8,715	(2,782)	(4,388)	(29,489)	(13,199)	9,405
Basic earnings (loss) per share	1.38	(0.35)	0.23	(0.07)	(0.12)	(0.77)	(0.35)	0.25
Diluted earnings (loss) per share	1.37	(0.35)	0.23	(0.07)	(0.12)	(0.77)	(0.35)	0.25
Adjusted after-tax income (loss)	47,726	(19,318)	(576)	2,849	10,221	(29,941)	(24,536)	10,521
Adjusted after-tax income (loss) per share	1.25	(0.51)	(0.02)	0.07	0.27	(0.79)	(0.64)	0.28

LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2012, cash and cash equivalents totalled $292.7 million compared with $181.6 million as at October 31, 2011. Cash and cash equivalents in trust or otherwise reserved amounted to $307.4 million as at the end of the third quarter of 2012 compared with $359.5 million as at October 31, 2011. The Corporation's balance sheet reflects a working capital deficiency of $8.8 million and a current ratio of 0.99 compared with working capital of $17.4 million and a ratio of 1.02 as at October 31, 2011.

Total assets grew $57.6 million or 4.7% to $1,281.8 million as at July 31, 2012 from $1,224.2 million as at October 31, 2011. This rise was primarily driven by increases in cash and cash equivalents (by $111.2 million), deferred tax assets (by $18.2 million), prepaid expenses (by $13.9 million) and deposits (by $10.1 million), offset by decreases in cash and cash equivalents in trust or otherwise reserved and investments in ABCP of $52.1 million and $52.8 million, respectively. These changes reflect the seasonal nature of our operations, the sale of some of our investments in ABCP and additions to property, plant and equipment. Equity fell $36.8 million to $361.8 million as at July 31, 2012 from $398.6 million as at October 31, 2011, owing primarily to the net loss attributable to shareholders of $33.3 million, exchange differences totalling $5.5 million resulting from the translation of our subsidiaries' assets and liabilities into dollars and unrealized losses on cash flow hedges of $0.7 million.

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
(in thousands of dollars)	2012 $	2011 $	Difference $	2012 $	2011 $	Difference $
Cash flows related to operating activities	(6,859)	45,364	(52,223)	115,238	197,608	(82,370)
Cash flows related to investing activities	40,613	(13,735)	54,348	5,928	(42,220)	48,148
Cash flows related to financing activities	(917)	19	(936)	(4,540)	(23,104)	18,564
Effect of exchange rate changes on cash	(4,166)	(2,248)	(1,918)	(5,459)	(5,269)	(190)
Net change in cash and cash equivalents	28,671	29,400	(729)	111,167	127,015	(15,848)

OPERATING ACTIVITIES

During the third quarter, operating activities used cash flows totalling $6.9 million compared with cash flows generated of $45.4 million for the corresponding quarter of 2011. The $52.2 million decrease for the quarter compared with the corresponding period of 2011 stemmed from reductions in the net change in non-cash working capital balances related to operations of $54.1 million and the decline in net change in other assets and liabilities of $9.0 million, offset by improved profitability. The lower net change in non-cash working capital balances related to operations resulted mainly from a smaller increase in trade and other payables and a smaller decrease in cash and cash equivalents in trust or otherwise reserved, compared with 2011.

For the nine-month period, cash flows from operating activities totalled $115.2 million, down $83.4 million from $197.6 million in 2011, owing primarily to lower profitability and the $24.0 million decrease in the net change in non-cash working capital balances related to operations. This decrease is the result of smaller increases in trade and other payables and in customer deposits and deferred income during the period, offset by larger decreases in cash and cash equivalents in trust or otherwise reserved and income taxes payable, compared with 2011.

INVESTING ACTIVITIES

Investing activities generated $40.6 million in cash flows for the third quarter, an increase of $54.3 million compared with cash flows used of $13.7 million for the corresponding quarter of 2011. We received cash proceeds of $57.4 million from the sale of investments in ABCP as well as principal repayments of $0.4 million. We also received proceeds of $2.1 million from the sale of one of our subsidiaries, net of cash sold. Additions to property, plant and equipment and other intangible assets totalled $19.4 million, up $5.3 million from $14.1 million in 2011.

For the nine-month period ended July 31, investing activities generated cash flows of $5.9 million compared with cash flows used of $42.2 million in 2011, which represents an increase of $48.1 million. We received proceeds of $57.4 million from the sale of investments in ABCP as well as principal repayments of $1.8 million during the nine-month period ended July 31, 2012. We also acquired assets and assumed liabilities of TMR for a total consideration of $5.0 million, net of cash acquired. Investments in property, plant and equipment and other intangible assets increased by $8.4 million to $47.6 million while reserved cash and cash equivalents (non-current) increased by $2.9 million.

FINANCING ACTIVITIES

Cash flows used in financing activities totalled $0.9 million for the third quarter compared with $0.0 million in 2011, due mainly to dividends of $1.3 million paid to a non-controlling interest.

For the nine-month period ended July 31, cash flows used in financing activities totalled $4.5 million, down $18.6 million from $23.1 million in 2011, owing mainly to repayments on long-term debt during fiscal 2011.

FINANCING

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

On June 13, 2012, the Corporation arranged to reduce its credit by $50.0 million. Accordingly, the Corporation now has a $50.0 million revolving term credit facility for its operations with National Bank of Canada and Bank of Nova Scotia, maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on a universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and will be further secured by the pledging of certain marketable securities by its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rates, the financial institution's prime rate or the London Interbank Offer Rate ["LIBOR"], plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at July 31, 2012, all the financial ratios and criteria were met and the credit facility was undrawn.

As at July 31, 2012, the Corporation also had a $2.3 million undrawn revolving term credit facility.

The Corporation has a $60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at July 31, 2012, $52.3 million had been drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$14.2 million].

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited interim condensed consolidated financial statements while others are disclosed in the notes to the financial statements.

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

Estimated off-balance sheet debt, excluding agreements with service providers, amounted to approximately $573.2 million as at July 31, 2012 compared with $653.7 million as at October 31, 2011, and is detailed as follows:

(in thousands of dollars)	As at July 31, 2012 $	As at October 31, 2011 $
Guarantees		
Irrevocable letters of credit	5,315	2,798
Collateral security contracts	15,550	14,247
Operating leases		
Commitments under operating leases	552,287	636,618
	573,152	653,663

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

In addition, the Corporation 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 July 31, 2012, $14.8 million was drawn down under these credit facilities for issuing letters of credit to some of our service providers.

With regard to its French operations, the Corporation has access to an €11.2 million ($13.8 million) guarantee facility, under which €3.8 million was drawn down ($4.7 million).

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 July 31, 2012 were lower than as at October 31, 2011.

Our balance sheet debt is nil as the debt was fully repaid during fiscal 2011. Our off-balance sheet debt (total debt) declined by $80.5 million to $573.2 million from $653.7 million. The decline in our total debt resulted from repayments made during the nine-month period ended July 31, 2012.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $254.5 million in total net debt as at July 31, 2012, down $138.9 million from $393.3 million as at October 31, 2011.

SHARES OUTSTANDING

As at July 31, 2012, 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 July 31, 2012, there were 881,184 Class A Variable Voting Shares outstanding and 37,328,382 Class B Voting Shares outstanding.

STOCK OPTIONS

As at September 12, 2012, there were a total of 2,199,810 stock options outstanding, 881,736 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

During the quarter ended July 31, 2012, the Corporation received proceeds totalling $57.4 million from the sale of ABCP with a nominal value of $80.0 million ($78.8 million of ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] and $1.2 million of ABCP supported solely by traditional securitized assets [MAV3 Traditional]). During the nine-month period ended July 31, 2012, the Corporation received $1.8 million in principal repayments on ABCP supported solely by traditional securitized assets (MAV3 Traditional).

The notional value of the new ABCP amounted to $34.6 million as at July 31, 2012 and is detailed as follows:

MAV2 Eligible

The Corporation holds $34.5 million in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through January 2017.

MAV3 Traditional

The Corporation holds $0.2 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2016.

VALUATION

Prior to the sale of ABCP during the quarter ended July 31, 2012, the Corporation remeasured the securities at fair value. Following these valuations, the Corporation recognized a $1.9 million writedown in the fair value of ABCP.

On July 31, 2012, 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 nine-month period ended July 31, 2012, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. [BlackRock], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation's management measured the fair value of its assets from these classes using said valuations. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also considered the information released by DBRS on June 27, 2012, confirming the BBB+ rating of Class A-2 ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) and upgrading Class A-1 to a AA rating.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest at rates ranging from 0.0% to 1.0 % (weighted average rate of 0.9%), depending on the type of series. These future cash flows were discounted, according to the type of series, over a 4.4-year period using discount rates ranging from 6.1% to 19.4% (weighted average rate of 7.6%), which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized a $0.3 million increase in the fair value of its investments in ABCP on July 31, 2012 ($8.4 million for the nine-month period ended July 31, 2012). This adjustment does 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 $25.9 million and the provision for impairment totalled $8.7 million, representing 25.1% of the notional value of $34.6 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 $1.1 million in the estimated fair value of ABCP held by the Corporation.

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

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2010	118,122	(45,776)	72,346	
Increase in value of investments in ABCP	—	6,637	6,637	(6,637)
Principal repayments	(795)	—	(795)	—
Balance as at April 30, 2011/Impact on results for period ended April 30, 2011	117,327	(39,139)	78,188	(6,637)
Increase in value of investments in ABCP	—	321	321	(321)
Principal repayments	(374)	—	(374)	—
Balance as at July 31, 2011/Impact on results for period ended July 31, 2011	116,953	(38,818)	78,135	(6,958)
Increase in value of investments in ABCP	—	1,155	1,155	(1,155)
Principal repayments	(539)	—	(539)	—
Balance as at October 31, 2011/Impact on results for period ended October 31, 2011	116,414	(37,663)	78,751	(8,113)
Increase in value of investments in ABCP	—	8,032	8,032	(8,032)
Principal repayments	(1,398)	—	(1,398)	—
Balance as at April 30, 2012/Impact on results for period ended April 30, 2012	115,016	(29,631)	85,385	(8,032)
Writedown of investments in ABCP	—	(1,621)	(1,621)	1,621
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Principal repayments	(367)	—	(367)	—
Balance as at July 31, 2012/Impact on results for period ended July 31, 2012	34,649	(8,700)	25,949	6,411

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

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $
MAV2 Eligible			
Class A-1	10,477	(2,042)	8,435
Class A-2	19,452	(4,953)	14,499
Class B	3,531	(1,039)	2,492
Class C	1,036	(591)	445
	34,496	(8,625)	25,871
MAV3 Traditional	153	(75)	78
	34,649	(8,700)	25,949

OTHER

FLEET

An A330 was commissioned during the quarter ended January 31, 2012. Air Transat's fleet currently consists of 11 Airbus A310 aircraft (249 seats), which will be gradually retired, and 12 Airbus A330 (342 seats).

FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are listed below. The Corporation has not early adopted these new standards and adoption impacts on the consolidated financial statements have not yet been determined.

IFRS 9, *FINANCIAL INSTRUMENTS*

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

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

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

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

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

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

IAS 19, *EMPLOYEE BENEFITS*

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

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 adequate as at July 31, 2012 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which provides reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with IFRS 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 July 31, 2012 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Business conditions remain demanding, but the outlook for the fourth quarter has improved during the last three months.

The transatlantic market accounts for a very significant portion of Transat's business in the summer. For the fourth quarter, the Corporation's capacity is approximately 10% lower than the actual capacity in 2011. To date, slightly more than 85% of the seats have been sold. Load factors and prices are higher than last year.

In the sun destinations market from Canada, Transat's capacity is 17% lower than last year. Load factors and prices are slightly inferior.

In France, bookings are slightly higher, and prices are similar to last year.

The implementation of the measures contained in the Corporation's plan to return to profitability is proceeding. For the fourth quarter, Transat expects to record an increase in margin over last year.

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

(in thousands of Canadian dollars) (unaudited)	As at July 31, 2012 $	As at October 31, 2011 $
ASSETS		
Current assets		
Cash and cash equivalents	292,743	181,576
Cash and cash equivalents in trust or otherwise reserved *[note 6]*	268,287	323,314
Trade and other receivables	125,756	124,000
Income taxes receivable	2,959	17,749
Inventories	11,149	11,096
Prepaid expenses	69,047	55,196
Derivative financial instruments	11,107	7,935
Current portion of deposits	26,898	15,599
Current assets	807,946	736,465
Cash and cash equivalents reserved	39,124	36,231
Investments in ABCP *[note 7]*	25,949	78,751
Deposits	32,677	33,907
Deferred tax assets *[note 15]*	44,922	26,723
Property, plant and equipment	92,917	86,520
Goodwill	103,999	109,495
Intangible assets	63,071	52,347
Investments and other assets *[note 8]*	71,198	63,806
Non-current assets	473,857	487,780
Total assets	1,281,803	1,224,245
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	383,557	355,130
Current portion of provision for overhaul of leased aircraft *[note 9]*	21,813	19,088
Income taxes payable	4,386	7,943
Customer deposits and deferred income	395,862	331,280
Derivative financial instruments	11,103	5,659
Current liabilities	816,721	719,100
Provision for overhaul of leased aircraft *[note 9]*	16,455	14,230
Other liabilities *[notes 11 and 15]*	76,235	78,048
Deferred income tax liabilities *[note 15]*	10,592	14,274
Non-current liabilities	103,282	106,552
Equity		
Share capital *[note 12]*	220,435	219,462
Share-based payment reserve	12,799	11,063
Retained earnings	142,991	176,274
Unrecognized gain on cash flow hedges	1,206	1,948
Cumulative exchange differences	(15,631)	(10,154)
Total equity	361,800	398,593
Total liabilities and equity	1,281,803	1,224,245

See accompanying notes to unaudited interim condensed consolidated financial statements

NOTICE

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

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Quarters ended July 31, 2012 $	2011 $	Nine-month periods ended July 31, 2012	2011 $
Revenues	909,056	936,974	2,950,778	2,848,237
Operating expenses				
Cost of providing tourism services	424,399	482,893	1,699,687	1,662,839
Aircraft fuel	159,003	137,106	371,892	307,273
Salaries and employee benefits	92,620	96,694	286,091	278,639
Commissions	29,062	33,461	134,400	136,239
Aircraft maintenance	31,458	29,419	94,274	83,653
Airport and navigation fees	33,714	32,115	76,970	73,311
Aircraft rent	22,361	17,848	63,832	49,758
Other	94,365	92,702	259,623	246,996
	886,982	922,238	2,986,769	2,838,708
	22,074	14,736	(35,991)	9,529
Depreciation and amortization	9,576	10,800	29,578	33,057
Financing costs	974	900	2,316	2,676
Financing income	(1,847)	(1,934)	(5,389)	(5,638)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	7,455	8,342	1,430	(3,651)
Foreign exchange loss (gain) on long-term monetary items	(181)	(144)	(95)	1,212
Loss (gain) on investments in ABCP *[note 7]*	1,621	(321)	(6,411)	(6,958)
Gain on disposal of a subsidiary	(5,655)	—	(5,655)	—
Share of net income of an associate	(1,880)	(138)	(4,219)	(1,186)
	10,063	17,505	11,555	19,512
Income (loss) before income tax expense	12,011	(2,769)	(47,546)	(9,983)
Income taxes (recovery) *[note 15]*				
Current	3,443	7,912	5,654	2,280
Deferred	(1,096)	(8,114)	(22,510)	(7,266)
	2,347	(202)	(16,856)	(4,986)
Net income (loss)	9,664	(2,567)	(30,690)	(4,997)
Net income (loss) attributable to:				
Shareholders	9,405	(2,782)	(33,283)	(7,445)
Non-controlling interests	259	215	2,593	2448
	9,664	(2,567)	(30,690)	(4,997)
Earnings (loss) per share attributable to shareholders *[note 12]*				
Basic	0.25	(0.07)	(0.87)	(0.20)
Diluted	0.25	(0.07)	(0.87)	(0.20)

See accompanying notes to unaudited interim condensed consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Quarters ended July 31,		Nine-month periods ended July 31,	
	2012	2011	2012	2011
(in thousands of Canadian dollars, except per share amounts) (unaudited)	$	$	$	$
Net income(loss) for the period	9,664	(2,567)	(30,690)	(4,997)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	5,902	285	(3,123)	903
Reclassification in income (loss)	(514)	(2,363)	2,165	(6,945)
Deferred taxes	(1,606)	565	216	1,570
	3,782	(1,513)	(742)	(4,472)
Foreign exchange losses on translation of financial statements of foreign subsidiaries	(3,452)	(1,530)	(5,477)	(7,579)
Total other comprehensive loss	330	(3,043)	(6,219)	(12,051)
Comprehensive income (loss) for the period	9,994	(5,610)	(36,909)	(17,048)
Attributable to:				
Shareholders	9,708	(5,835)	(39,580)	(19,582)
Non-controlling interests	286	225	2,671	2,534
	9,994	(5,610)	(36,909)	(17,048)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Attributable to shareholders							
				Accumulated other comprehensive income				
(in thousands of Canadian dollars) (unaudited)	Share capital $	Share-based payment reserve $	Retained earnings $	Unrecognized gain (loss) on cash flow hedges $	Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at November 1, 2010	217,604	9,090	190,400	(1,522)	—	415,572	—	415,572
Net income (loss) for the period	—	—	(7,445)	—	—	(7,445)	2,448	(4,997)
Other comprehensive income (loss)	—	—	—	(4,472)	(7,665)	(12,137)	86	(12,051)
Comprehensive income (loss)	—	—	(7,445)	(4,472)	(7,665)	(19,582)	2,534	(17,048)
Issued from treasury	978	—	—	—	—	978	—	978
Exercise of options	474	—	—	—	—	474	—	474
Share-based payment expense	—	2,142	—	—	—	2,142	—	2,142
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,448)	(2,448)
Reclassification of non-controlling interest exchange difference	—	—	—	—	86	86	(86)	—
	1,452	2,142	—	—	86	3,680	(2,534)	1,146
Balance as at July 31, 2011	219,056	11,232	182,955	(5,994)	(7,579)	399,670	—	399,670
Net income (loss) for the period	—	—	(4,388)	—	—	(4,388)	611	(3,777)
Other comprehensive income (loss)	—	—	154	7,942	(2,584)	5,512	9	5,521
Comprehensive income (loss)	—	—	(4,234)	7,942	(2,584)	1,124	620	(1,744)
Issued from treasury	383	—	—	—	—	383	—	383
Exercise of options	23	(127)	—	—	—	(104)	—	(104)
Share-based payment expense	—	(42)	—	—	—	(42)	—	(42)
Change in fair value of options	—	—	(2,447)	—	—	(2,447)	—	(2,447)
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(611)	(611)
Reclassification of non-controlling interest exchange difference	—	—	—	—	9	9	(9)	—
	406	(169)	(2,447)	—	9	(2,201)	(620)	(2,821)
Balance as at October 31, 2011	219,462	11,063	176,274	1,948	(10,154)	398,593	—	398,593
Net income (loss) for the period	—	—	(33,283)	—	—	(33,283)	2,593	(30,690)
Other comprehensive income (loss)	—	—	—	(742)	(5,555)	(6,297)	78	(6,219)
Comprehensive income (loss)	—	—	(33,283)	(742)	(5,555)	(39,580)	2,671	(36,909)
Issued from treasury	973	—	—	—	—	973	—	973
Share-based payment expense	—	1,736	—	—	—	1,736	—	1,736
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,593)	(2,593)
Reclassification of non-controlling interest exchange difference	—	—	—	—	78	78	(78)	—
	973	1,736	—	—	78	2,787	(2,671)	(116)
Balance as at July 31, 2012	220,435	12,799	142,991	(1,206)	(15,631)	361,800	—	361,800

See accompanying notes to unaudited interim condensed consolidated financial statements

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

(in thousands of Canadian dollars) (unaudited)	Quarters ended July 31, 2012 $	Quarters ended July 31, 2011 $	Nine-month periods ended July 31, 2012 $	Nine-month periods ended July 31, 2011 $
OPERATING ACTIVITIES				
Income (loss) for the period	9,664	(2,567)	(30,690)	(4,997)
Operating items not involving an outlay (receipt) of cash :				
Depreciation and amortization	9,576	10,800	29,578	33,057
Change in fair value of derivative financial instruments used for aircraft fuel purchases	7,455	8,342	1,430	(3,651)
Foreign exchange (gain) loss on long-term monetary items	(181)	(144)	(95)	1,212
Loss (gain) on investments in ABCP	1,621	(321)	(6,411)	(6,958)
Gain on disposal of a subsidiary	(5,655)	—	(5,655)	—
Share of net income of an associate	(1,880)	(138)	(4,219)	(1,186)
Deferred taxes	(1,096)	(8,114)	(22,510)	(7,266)
Employee benefits	521	441	1,564	1,325
Share-based payment expense	538	598	1,736	2,142
	20,563	8,897	(35,272)	13,678
Net change in non-cash working capital balances related to operations	(18,406)	35,686	161,190	185,169
Net change in other assets and liabilities related to operations	(12,695)	(3,719)	(15,630)	(10,421)
Net change in provision for overhaul of leased aircraft	3,679	4,500	4,950	9,182
Cash flows related to operating activities	(6,859)	45,364	115,238	197,608
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(19,409)	(14,109)	(47,563)	(39,192)
Realization of principal of investments in ABCP	367	374	1,765	1,169
Proceeds from the sale of investments in ABCP	57,448		57,448	—
Increase in cash and cash equivalent reserved	—	—	(2,871)	(4,197)
Cash and cash equivalent of an acquired company	97	—	817	—
Consideration paid for an acquired company	—	—	(5,778)	—
Proceed from the disposal of a subsidiary	3,000	—	3,000	—
Cash and cash equivalent of a disposed subsidiary	(890)	—	(890)	—
Cash flow related to investing activities	40,613	(13,735)	5,928	(42,220)
FINANCING ACTIVITIES				
Net change in credit facilities and other debt	—	—	—	(15,076)
Repayment of debenture and long-term debt	—	(23)	—	(6,825)
Proceeds from issuance of shares	333	346	973	1,325
Dividend paid to a non-controlling interest	(1,250)	(304)	(5,513)	(2,528)
Cash flow related to financing activities	(917)	19	(4,540)	(23,104)
Effect of exchange rate changes on cash and cash equivalents	(4,166)	(2,248)	(5,459)	(5,269)
Net change in cash and cash equivalents	28,671	29,400	111,167	127,015
Cash and cash equivalents, beginning of period	264,072	278,242	181,576	180,627
Cash and cash equivalents, end of period	292,743	307,642	292,743	307,642
Supplementary information				
Income taxes paid	(5,463)	2,096	(4,362)	24,619
Interest paid	389	245	1,114	1,476

See accompanying notes to unaudited interim condensed consolidated financial statements

[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share] [Unaudited]

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2012 were approved by the Corporation’s Board of Directors on June 13, 2012.

The Corporation’s operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year.

Note 2 BASIS OF PREPARATION

These interim condensed consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and as adopted by the Accounting Standards Board of Canada. These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*, and IFRS 1, *First-time Adoption of International Financial Reporting Standards.* The interim condensed consolidated financial statements have been prepared in accordance with the accounting policies the Corporation expects to adopt in its annual consolidated financial statements for the year ending October 31, 2012, as set out in note 2 to the interim condensed consolidated financial statements for the quarter ended January 31, 2012.

These interim condensed consolidated financial statements are presented in Canadian dollars, the Corporation’s functional currency, except where otherwise indicated. Each entity of the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto prepared under previous Canadian generally accepted accounting principles [“previous Canadian GAAP”] included in the Corporation’s 2011 Annual Report and the report for the quarter ended January 31, 2012. The report for the quarter ended January 31, 2012 contained, in particular, reconciliations and descriptions of the effects of the transition from previous Canadian GAAP to IFRS on equity, loss, comprehensive loss and cash flows along with line-by-line reconciliations of the statements of financial position as at October 31, 2011 and November 1, 2010, and the statements of loss and comprehensive loss for the year ended October 31, 2011, as well as certain additional annual information prepared under IFRS and a description of significant accounting policies. Note 15 explains how the reconciliations and descriptions of the effects of the transition from previous Canadian GAAP to IFRS on the Corporation’s equity as at July 31, 2011, as well as on income (loss), comprehensive income (loss) and cash lows for the quarter and nine-month period ended July 31, 2011.

The interim condensed consolidated financial statements have been prepared on a going-concern basis, at historical cost, except for financial assets and liabilities that were measured at fair value.

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these standards and has not yet determined the impacts of their adoption on its consolidated financial statements.

IFRS 9, *FINANCIAL INSTRUMENTS*

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

IFRS 10, *CONSOLIDATED FINANCIAL STATEMENTS*

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

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IFRS 13, *FAIR VALUE MEASUREMENT*

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

IAS 1, *PRESENTATION OF FINANCIAL STATEMENTS*

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

IAS 19, *EMPLOYEE BENEFITS*

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

Note 4 BUSINESS ACQUISITION

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal ("TMR") for a cash consideration of $5,778. Vacances Tours Mont-Royal specializes in the sale of packages to sun destinations for Canadian travellers, including Cuba, the Dominican Republic and Mexico. Of the seats sold by this operator, 180,000 were bought from Air Transat. With this acquisition, the Corporation extends its offering and services to customers in its existing markets.

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

The net amounts of assets acquired and liabilities assumed are detailed as follows:

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

The results of the acquired business have been consolidated as of the date of acquisition. Since that date, TMR has generated revenues of $86,943 ($17,443 during the three-month period ended on July 31, 2012) with a pre-tax loss of $3,690 ($187 during the three-month period ended on July 31, 2012), included in the Corporation's consolidated results. Had TMR been consolidated as of November 1, 2011, the consolidated results would have included additional revenues of $37,200 and a pre-tax loss of $863.

Note 5 DISPOSAL OF A SUBSIDIARY

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

The carrying value of assets and liabilities disposed are detailed as follows :

	$
Cash and cash equivalents	891
Trade and other receivables	3,276
Income taxes receivable	598
Inventories	395
Prepaid expenses	506
Property, plant and equipment	3,910
Intangible assets	297
Trade and other payables	(6,333)
Deferred income tax liabilities	(195)
Net assets disposed	3,345

Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2012, cash and cash equivalents in trust or otherwise reserved included $225,509 [$281,292 as at October 31, 2011] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulators and the Corporation's business agreement with one of its credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $81,902, of which $39,124 was reported as non-current assets [$78,253 as at October 31, 2011, of which $36,231 was reported as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 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 of that date, 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 measurement, the provision for impairment totalled $47,450, and the ABCP investment portfolio had a fair value of $96,050. The ABCP held by the Corporation was exchanged on that date for new securities. The new ABCP now has a notional value of $141,741.

PORTFOLIO

During the quarter ended July 31, 2012, the Corporation received proceeds totalling $57,448 from the sale of ABCP with a nominal value of $80,000 ($78,814 of ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] and $1,186 of ABCP supported solely by traditional securitized assets [MAV3 Traditional]). During the nine-month period ended July 31, 2012, the Corporation received $1,765 in principal repayments on ABCP supported solely by traditional securitized assets (MAV3 Traditional).

The notional value of the new ABCP amounted to $34,649 as at July, 31, 2012 and is detailed as follows:

<u>MAV 2 Eligible</u>

The Corporation holds $34,496 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.

<u>MAV 3 Traditional</u>

The Corporation holds $153 in ABCP supported solely by traditional securitized assets that were restructured on a series-by-series basis, with each series or trust maintaining its own assets, maturing through September 2016.

VALUATION

Prior to the sale of ABCP during the quarter ended July 31, 2012, the Corporation remeasured the securities at fair value. Following these valuations, the Corporation recognized a $1,942 writedown in the fair value of ABCP.

On July 31, 2012, 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 nine-month period ended July 31, 2012, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. ("BlackRock"), which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported exclusively by traditional securitized assets [MAV3 Traditional]. The Corporation's management measured the fair value of its assets from these classes using said valuations. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also considered the information released by DBRS on September 27, 2012, confirming the BBB+ rating of Class A-2 ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) and upgrading Class A-1 to a AA rating.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest at rates ranging from 0.0% to 1.0% [weighted average rate of 0.9%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 4.4-year period using discount rates ranging from 6.1% to 19,4% [weighted average rate of 7,6%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized a $321 increase in the fair value of its investments in ABCP on July 31, 2012 ($8,353 for the nine-month period ended July 31, 2012). This adjustment does 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 $25,949 and the provision for impairment totalled $8,700, representing 25.1% of the notional value of $34,649.

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) [100 basis points], in the estimated discount rates would result in a decrease (increase) of approximately $1,100 in the estimated fair value of ABCP held by the Corporation.

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

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at October 31, 2010	118,122	(45,776)	72,346	
Increase in value of investments in ABCP	—	6,637	6,637	(6,637)
Principal repayments	(795)	—	(795)	—
Balance as at April 30, 2011/Impact on results for period ended April 30, 2011	117,327	(39,139)	78,188	(6,637)
Increase in value of investments in ABCP	—	321	321	(321)
Principal repayments	(374)	—	(374)	—
Balance as at July 31, 2011/Impact on results for period ended July 31, 2011	116,953	(38,818)	78,135	(6,958)
Increase in value of investments in ABCP	—	1,155	1,155	(1,155)
Principal repayments	(539)	—	(539)	—
Balance as at October 31, 2011/Impact on results for period ended October 31, 2011	116,414	(37,663)	78,751	(8,113)
Writedown of investments in ABCP	—	8,032	8,032	(8,032)
Principal repayments	(1,398)	—	(1,398)	—
Balance as at April 30, 2012/Impact on results for period ended April 30, 2012	115,016	(29,631)	85,385	(8,032)
Increase in value of investments in ABCP	—	(1,621)	(1,621)	1,621
Disposal of investments in ABCP	(80,000)	22,552	(57,448)	—
Principal repayments	(367)	—	(367)	—
Balance as at July 31, 2012/Impact on results for period ended July 31, 2012	34,649	(8,700)	25,949	6,411

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

	Notional value $	Provision for impairment $	Investments $
MAV 2 Eligible			
Class A-1	10,477	(2,042)	8,435
Class A-2	19,452	(4,953)	14,499
Class B	3,531	(1,039)	2,492
Class C	1,036	(591)	445
	34,496	(8,625)	25,871
MAV 3 Traditional	153	(75)	78
	34,649	(8,700)	25,949

Note 8 INVESTMENT IN ASSOCIATES AND OTHER ASSETS

	As at July 31, 2012 $	As at October 31, 2011 $
Investment in associates – Caribbean Investments B.V. ["CIBV"]	65,356	60,612
Balance of sale price receivable	3,000	—
Deferred costs, unamortized balance	880	1,301
Other investments	41	80
Sundry	1,921	1,813
	71,198	63,806

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

	$
Balance as at October 31, 2011	60,612
Share of net income	4,219
Exchange difference	525
Balance as at July 31, 2012	65,356

The balance of sale price receivable is payable on June 11, 2014, bears interest at the prime rate and is secured by an irrevocable letter of credit in favour of the Corporation.

Note 9 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The overhaul of leased aircraft provision relates to maintenance on leased aircraft used by the Corporation in respect of operating leases. The change in the provision for overhaul of leased aircraft for the quarters and nine-month periods ended July 31 is detailed as follows:

	$
Balance as at November 1, 2010	30,709
Additional provisions and accretion	15,311
Utilization of provisions	(9,295)
Unused amounts released	(149)
Exchange difference	(1,185)
Balance as at April 30, 2011	35,391
Additional provisions and accretion	3,551
Utilization of provisions	1,176
Exchange difference	(227)
Balance as at July 31, 2011	39,891
Current provisions	28,776
Non-current provisions	11,115
Balance as at July 31, 2011	39,891

	$
Balance as at October 31, 2011	33,318
Additional provisions and accretion	11,210
Utilization of provisions	(8,851)
Unused amounts released	(1,065)
Exchange difference	(23)
Balance as at April 30, 2012	34,589
Additional provisions and accretion	5,495
Utilization of provisions	(760)
Unused amounts released	(1,435)
Exchange difference	379
Balance as at July 31, 2012	38,268
Current provisions	21,813
Non-current provisions	16,455
Balance as at July 31, 2012	38,268

Note 10 LONG-TERM DEBT

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

The Corporation also has a $60,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 105% of the amount of the letters of credit as collateral security. As at July 31, 2012, $52,253 had been drawn down.

As at July 31, 2012, the Corporation also had a $2,232 undrawn revolving term credit facility.

Note 11 OTHER LIABILITIES

	As at July 31, 2012 $	As at October 31, 2011 $
Employee benefits	29,327	28,307
Deferred lease inducements	20,872	20,831
Non-controlling interests	26,036	28,910
	76,235	78,048

Note 12 EQUITY

AUTHORIZED SHARE CAPITAL

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 SHARE CAPITAL

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

	Number of shares	Amount ($)
Balance as at October 31, 2010	37,849,834	217,604
Issued from treasury	76,795	978
Exercise of options	36,898	474
Balance as at July 31, 2011	37,963,527	219,056
Issued from treasury	52,272	383
Exercise of options	5,921	23
Balance as at October 31, 2011	38,021,720	219,462
Issued from treasury	187,846	973
Balance as at July 31, 2012	38,209,566	220,435

As at July 31, 2012, the number of Class A Shares and Class B Shares stood at 881,184 and 37,328,382 respectively.

OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2011	1,744,477	16.88
Granted	734,373	7.48
Cancelled	(279,040)	14.88
Balance as at July 31, 2012	2,199,810	13.93
Options exercisable as at July 31, 2012	881,736	18.96

EARNINGS (LOSS) PER SHARE

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2012	2011	2012	2011
(in thousands of dollars, except per share amounts)	$	$	$	$
NUMERATOR				
Net earnings (loss) attributable to shareholders of the Corporation to reflect basic and diluted earnings (loss) per share	9,405	(2,782)	(33,283)	(7,445)
DENOMINATOR				
Weighted average number of outstanding shares	38,199	38,044	38,104	37,910
Stock options	—	—	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	38,199	38,044	38,104	37,910
Earnings (loss) per share				
Basic	0.25	(0.07)	(0.87)	(0.20)
Diluted	0.25	(0.07)	(0.87)	(0.20)

In computing diluted earnings per share for the three-month ended July 31, 2012, 2,199,810 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 period. Giving the loss recorded for the nine-month periods ended July 31, 2012, the 2,199,810 outstanding stock options were excluded from the computation of diluted loss per share because of their antidilutive effect.

Giving the losses recorded for the three-month and nine-month periods ended July 31, 2011, the 1,895,125 outstanding stock options were excluded from the computation of diluted loss per share because of their antidilutive effect.

Note 13 SEGMENTED INFORMATION

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

	Quarter ended July 31, 2012			Nine-month period ended July 31, 2012		
	Americas	Europe	Total	Americas	Europe	Total
	$	$	$	$	$	$
Revenues	608,768	300,288	909,056	2,336,589	614,189	2,950,778
Operating expenses	597,683	289,299	886,982	2,364,241	622,528	2,986,769
	11,085	10,989	22,074	(27,652)	(8,339)	(35,991)

	Quarter ended July 31, 2011			Nine-month period ended July 31, 2011		
	Americas	Europe	Total	Americas	Europe	Total
	$	$	$	$	$	$
Revenues	624,386	312,588	936,974	2,208,423	639,814	2,848,237
Operating expenses	640,183	282,055	922,238	2,220,278	618,430	2,838,708
	(15,797)	30,533	14,736	(11,855)	21,384	9,529

	Revenues(1)				Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended July 31,		Nine-month periods ended July 31,		As at July 31,	As at October 31,
	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$
Canada	594,921	613,971	2,284,000	2,168,181	169,658	149,848
France	193,952	214,222	469,827	488,436	44,323	49,697
United Kingdom	99,935	89,818	136,323	139,878	32,412	33,711
Other	20,248	18,963	60,628	51,742	13,594	15,106
	909,056	936,974	2,950,778	2,848,237	259,987	248,362

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

Note 14 GUARANTEES

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

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

Notes 4, 11, 12 and 21 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

IRREVOCABLE LETTERS OF CREDIT

The Corporation has entered into irrevocable letters of credit with some of its suppliers. Under these letters of credit, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These agreements typically cover a one-year period and are renewable.

The Corporation has also issued letters of credit to regulatory bodies guaranteeing, among other things, certain amounts to its customers for the performance of its obligations. As at July 31, 2012, the total guarantees provided by the Corporation under the letters of credit amounted to $575. Historically, the Corporation has not made any significant payments under such letters of credit.

COLLATERAL SECURITY CONTRACTS

The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers at the request of regulatory agencies for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2012, these guarantees totalled $747. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2012, no amounts have been accrued with respect to the above-mentioned agreements.

COLLATERAL SECURITY FACILITY

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 July 31, 2012, $14,803 had been drawn down under the facility.

Note 15 TRANSITION TO IFRS

These interim condensed consolidated financial statements for the quarter ended July 31, 2012 have been prepared in accordance with IAS 34 and IFRS 1. For all periods up to and including the year ended October 31, 2011, the Corporation prepared its financial statements in accordance with previous Canadian GAAP. This note provides reconciliations and descriptions of the effects of the transition from previous Canadian GAAP to IFRS on the Corporation's equity as at July 31, 2011, as well as on income (loss), comprehensive income (loss) and cash flows for the quarter and nine-month period ended July 31, 2011.

Reconciliations of equity as at November 1, 2010 and October 31, 2011 and reconciliations of net loss, comprehensive loss and cash flows for the year ended October 31, 2011 were disclosed in the Corporation's quarterly report for the quarter ended January 31, 2012.

In summary, the adoption of IFRS resulted in a $23,185 decrease in the total carrying amount of equity as at July 31, 2011 from the carrying amount under previous Canadian GAAP as at the same date. For the quarter and nine-month period ended July 31, 2011, consolidated net loss was reduced by $310 and $2,733, respectively, while consolidated comprehensive loss was increased by $333 and $2,763, respectively, relative to the figures previously reported under previous Canadian GAAP in the Corporation's unaudited interim consolidated financial statements.

The Corporation adopted IFRS 1, *First-time Adoption of International Financial Reporting Standards,* in preparing the consolidated statement of financial position as at November 1, 2010. In accordance with IFRS, the Corporation has disclosed comparative financial information and applied the same accounting policies as described in note 2 to the interim condensed consolidated financial statements as at January 1, 2012. The Corporation has also retrospectively applied all effective IFRS standards as of July 31, 2012, as required, and applied certain optional exemptions and mandatory exceptions available to first-time adopters. The Corporation's selection of key exemptions remains unchanged from the selection described in the Corporation's quarterly report for the quarter ended January 31, 2012.

Amounts in the consolidated statements of income (loss), comprehensive income (loss), financial position, changes in equity and cash flows for the comparative period to be included in our first annual financial statements in accordance with IFRS for the fiscal year ending October 31, 2012 may differ from the restated amounts disclosed in this note, if new standards are adopted prior to October 31, 2012 or if the Corporation amends its IFRS accounting policy choices. Under IFRS 1, the Corporation is required to make an explicit and unreserved statement of compliance with IFRS in its financial statements for the fiscal year ending October 31, 2012.

1. MANDATORY EXCEPTIONS

The following mandatory exceptions apply to the Corporation:

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

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

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

2. OPTIONAL EXEMPTIONS FROM RETROSPECTIVE APPLICATION OF IFRS

The Corporation has applied the following exemptions:

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

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

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

The application of this exemption resulted in the following adjustments:

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

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

The application of this exemption resulted in the following adjustments:

Increase (decrease)	July 31, 2011 $
Statement of financial position:	
Retained earnings	(16,803)
Cumulative exchange differences	16,803

3. CHANGES IN ACCOUNTING POLICIES

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

(a) BUSINESS COMBINATIONS

(i) ACQUISITION COSTS

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

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

(ii) NON-CONTROLLING INTERESTS

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

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

(iii) ACQUISITIONS ACHIEVED IN STAGES

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

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

This change of accounting policy resulted in the following adjustments:

Increase (decrease)	July 31, 2011 $
Statement of financial position:	
Other liabilities – Non-controlling interests	17,824
Retained earnings	
Opening balance	(17,824)

(b) RETIREMENT BENEFITS

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

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

This change of accounting policy resulted in the following adjustments:

Increase (decrease)	July 31, 2011 $
Statement of financial position:	
Deferred tax assets	(125)
Other liabilities – Employee benefits	(440)
Net income:	
Salaries – Employee benefits	
Quarter ended January 31, 2011	132
Quarter ended April 30, 2011	131
Quarter ended July 31, 2011	132
Income taxes	
Quarter ended January 31, 2011	(37)
Quarter ended April 30, 2011	(36)
Quarter ended July 31, 2011	(37)
Comprehensive income:	
Cumulative exchange differences	
Quarter ended January 31, 2011	29
Quarter ended April 30, 2011	(22)
Quarter ended July 31, 2011	23

4. RECONCILIATIONS

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

(in thousands of dollars) (unaudited)	Note 15	July 31, 2011 $
Equity under Canadian GAAP, as reported		422,855
Restatement of the measurement and recognition of:		
Employee benefits	2(c) and 3(b)	(7,783)
Changes in fair value of put options held by non-controlling interests	3(a)(iii)	(17,824)
Cumulative exchange differences	3(b)	30
		(25,577)
Income tax impact of all restatements	2(c) and 3(b)	2,392
Total restatements		(23,185)
Equity under IFRS		399,670

(in thousands of dollars) (unaudited)	Note 15	Quarter ended July 31, 2011 $	Nine-month period ended July 31, 2011 $
Net loss under Canadian GAAP, as reported		(2,877)	(7,730)
Restatement of the measurement and recognition of:			
Employee benefits	3(b)	132	395
Non-controlling interests		215	2,448
		347	2,843
Income tax impact of all restatements	3(b)	(37)	(110)
Total restatements		310	2,733
Net loss under IFRS		(2,567)	(4,997)
Basic and diluted loss per share under Canadian GAAP, as reported		(0.08)	(0.20)
Impact of IFRS restatements on net income (loss)		0.01	—
Basic and diluted loss per share attributable to shareholders under IFRS		(0.07)	(0.20)

(in thousands of dollars) (unaudited)	Note 15	Quarter ended July 31, 2011 $	Nine-month period ended July 31, 2011 $
Comprehensive loss under Canadian GAAP, as reported		(5,943)	(19,811)
Total restatements of net income		310	2,733
Differences affecting comprehensive income (loss):			
Cumulative exchange differences	3(b)	23	30
		23	30
Comprehensive loss under IFRS		(5,610)	(17,048)

The previously described transition adjustments did not have an impact on the reported amount of cash provided by operating activities or amounts of cash used by investing and financing activities. In addition, the transition from previous Canadian GAAP to IFRS did not have any significant impact on the components of the Corporation's interim condensed consolidated statements of cash flows for the quarter and nine-month period ended July 31, 2011.

Note 16 ADDITIONAL ANNUAL DISCLOSURE UNDER IFRS

Certain information and disclosures that are required in annual financial statements prepared in accordance with IFRS, which were not included in the Corporation's most recent annual consolidated financial statements prepared in accordance with previous Canadian GAAP, have been included in these interim condensed consolidated financial statements for the quarter ended January 31, 2012.

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