TRANSAT A.T. INC.
First QUARTERLY REPORT
Period ended January 31, 2010

MARCH 10, 2010

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Trading symbols
TSX: TRZ.B, TRZ.A

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 ended January 31, 2010 compared with the quarter ended January 31, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements for the first quarter of fiscal 2010 and 2009, the notes thereto and the 2009 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a first-quarter update to the information contained in the MD&A section of our 2009 Annual Report. The risks and uncertainties set out in the MD&A of the 2009 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of March 10, 2010. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended January 31, 2010 and Annual Information Form for the year ended October 31, 2009.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- *The Corporation's outlook whereby the decrease in selling prices will be partially offset by lower fuel prices, hotel costs, other land portion expenses, and air seats costs..*
- *The Corporation's outlook whereby it will not be able to fully benefit from the strength of the Canadian dollar in the second quarter, as a result of its foreign exchange hedging positions.*
- *The Corporation's outlook whereby it expects to record a loss for the second quarter.*
- *The Corporation's outlook whereby it will meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.*

In making these statements, the Corporation has assumed, among other things, that travellers will continue to travel, that credit facilities will continue to be made available as in the past, that management will continue to manage changes in cash flows to fund working capital requirements for the full fiscal year and that fuel prices, and hotel and other destination-based costs will hold steady. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this MD&A.

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

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

FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %
Consolidated Statements of Income				
Revenues	**792,562**	877,254	(84,692)	(9.7)
Operating loss[1]	**(12,409)**	(8,498)	(3,911)	(46.0)
Net loss	**(13,872)**	(29,436)	15,564	52.9
Basic loss per share	**(0.37)**	(0.90)	0.53	58.9
Diluted loss per share	**(0.37)**	(0.90)	0.53	58.9
Dividend – Class A and Class B shares	—	0.09	(0.09)	(100.0)
Consolidated Statements of Cash Flows				
Operating activities	**(21,258)**	29,443	(50,701)	(172.2)

	As at January 31, 2010 $	As at October 31, 2009 $	Variance $	Variance %
Consolidated Balance Sheets				
Cash and cash equivalents	**147,736**	180,552	(32,816)	(18.2)
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	**435,758**	272,726	163,032	59.8
Investments in ABCP	**73,144**	71,401	1,743	2.4
	656,638	524,679	131,959	25.2
Total assets	**1,361,551**	1,129,503	232,048	20.5
Debt (short-term and long-term)	**106,263**	110,840	(4,577)	(4.1)
Total debt[1]	**476,155**	507,273	(31,118)	(6.1)
Net debt[1]	**255,275**	255,320	(45)	0.0

[1] NON-GAAP FINANCIAL MEASURES

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

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

Total debt is used by management to assess the Corporation's future cash requirements. It represents the combination of balance sheet debt (long-term debt and debenture) and off-balance sheet arrangements, excluding arrangements with suppliers presented on p. 10.

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

Margin, total debt and net debt should not be considered separately or as a substitute for financial performance measures calculated in accordance with GAAP, but rather as additional information.

OVERVIEW

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

According to the World Tourism Organization, there were some 922 million international tourists in 2008. This market is expected to continue expanding despite the predictable decline in 2009. 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. We offer our customers a broad range of international destinations spanning some 60 countries. Over time, we intend to expand our business to other countries where we believe there is high growth potential for an integrated tour operator specializing in holiday travel.

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

For fiscal 2010, Transat has set the following targets:

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

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

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

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended January 31			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %
Revenues	**792,562**	877,254	(84,692)	(9.7)

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

Our revenues for the quarter fell $84.7 million from the corresponding period of 2009. This decrease resulted from declines in revenues in the Americas and Europe of 11.2% and 1.5%, respectively. These decreases stemmed mainly from less business activity owing in part to a curtailed product offering and lower traveller volumes in the Americas, coupled with price reductions and the Canadian dollar's strength against the euro. The overall volume of travellers for the quarter was down 4.3% compared with corresponding period of 2009.

OPERATING EXPENSES

	Quarters ended January 31			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %
Direct costs	**511,782**	541,921	(30,139)	(5.6)
Salaries and employee benefits	**84,089**	90,749	(6,660)	(7.3)
Aircraft fuel	**57,142**	77,874	(20,732)	(26.6)
Commissions	**36,575**	47,357	(10,782)	(22.8)
Aircraft maintenance	**18,381**	25,640	(7,259)	(28.3)
Airport and navigation fees	**15,398**	19,603	(4,205)	(21.5)
Aircraft rent	**13,742**	13,247	495	3.7
Other	**67,862**	69,361	(1,499)	(2.2)
Total	**804,971**	885,752	(80,781)	(9.1)

Our aggregate operating expenses were down $80.8 million for the quarter compared with the corresponding period of 2009, resulting particularly from less business activity but also from our 2009 cost reduction initiatives, which trimmed operating expenses in the Americas and Europe by 10.5% and 2.3%, respectively.

DIRECT COSTS

Direct costs are incurred by our tour operators. They include hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Direct costs for the first quarter were down $30.1 million or 5.6% compared with the corresponding quarter of the previous year. The decrease in Canadian dollar terms resulted primarily from less business activity, as well as reduced seat and hotel room costs due to savings from renegotiated contracts, and the dollar's strength against the euro.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the quarter were down $6.7 million or 7.3% compared with the corresponding period of 2009, mainly as a result of tighter human resources management, in addition to a lower bonus expense under short-term variable compensation programs, and the Canadian dollar's strength against the euro.

AIRCRAFT FUEL

Aircraft fuel costs for the quarter fell $20.7 million or 26.6%, owing primarily to lower fuel prices and lower business activity than in the corresponding period of 2009.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the first quarter was down $10.8 million or 22.8% compared with the corresponding period of 2009. As a percentage of revenues, commissions fell to 4.6% from 5.4% for the corresponding period of 2009.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. These costs fell $7.3 million or 28.3% during the quarter compared with the same period of 2009. This decline resulted mainly from downward revisions to a number of assumptions used in determining future maintenance costs following a new agreement with a supplier, a streamlined maintenance schedule and less business activity.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports. Fees for the quarter ended January 31, 2010 were down $4.2 million or 21.5% compared with the corresponding period of 2009, owing primarily to less business activity.

AIRCRAFT RENT

Aircraft rent for the first quarter rose $0.5 million or 3.7% compared with the corresponding period of 2009. As a result of its foreign exchange risk management policy, Corporation was unable to fully capitalize on the Canadian dollar's strength against the U.S. dollar.

OTHER

Other expenses for the quarter were down $1.5 million or 2.2% from the corresponding period of 2009, owing primarily to lower marketing costs. As a percentage of revenues, however, other expenses for the first quarter of 2010 rose to 8.6% from 7.9% year over year.

MARGIN

In light of the foregoing, the Corporation recorded an operating loss for the first quarter of $12.4 million compared with an operating loss of $8.5 million for the corresponding period of 2009. These slimmer margins for the quarter resulted in particular from less business activity and lower average selling prices, but also from the Corporation's inability to fully capitalize on the Canadian dollar's strength against its U.S. counterpart due to its foreign exchange risk management policy.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended January 31			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %
Revenues	**656,796**	739,426	(82,630)	(11.2)
Operating expenses	**660,72**	738,093	(77,364)	(10.5)
Margins	**(3,933)**	1,333	(5,266)	(395.0)

First-quarter revenues at our North American subsidiaries, stemming from sales in Canada and abroad, were down $82.6 million or 11.2% from the same period in 2009. This decline resulted primarily from less business activity owing in part to a curtailed product offering, an 8.6% drop in traveller volumes and lower average selling prices. The Corporation reported an operating loss for the quarter of 0.6% compared with a margin of 0.2% for the corresponding period of 2009. These slimmer margins stemmed mainly from downward price pressure due to excess supply in the marketplace, the Corporation's inability to fully capitalize on the Canadian dollar's strength against the U.S. unit owing to its foreign exchange risk management policy and an environment that remained highly competitive.

EUROPE

	Quarters ended January 31			
(In thousands of dollars)	2010 $	2009 $	Variance $	Variance %
Revenues	**135,766**	137,828	(2,062)	(1.5)
Operating expenses	**144,242**	147,659	(3,417)	(2.3)
Margins	**(8,476)**	(9,831)	1,355	13.8

First-quarter revenues at our European subsidiaries, stemming from sales to customers in Europe and Canada, were down $2.1 million or 1.5% from the same period in 2009, despite a 30.1% surge in the volume of travellers. The revenue boost from higher traveller volumes was insufficient to offset the effect of a strong Canadian dollar against the euro and the pound sterling, and lower selling prices. The sharp growth in traveller volumes was driven by Canadian Affair's sales in the U.K. and Canada, partially offset by lower volumes in France. Our European operations reported an operating loss for the quarter of $8.5 million or 6.2% compared with an operating loss of $9.8 million or 7.1% for the corresponding period of 2009.

OTHER EXPENSES (REVENUES)

(In thousands of dollars)	Quarters ended January 31			
	2010 $	2009 $	Variance $	Variance %
Amortization	**12,184**	12,894	(710)	(5.5)
Interest on long-term debt and debenture	**916**	1,429	(513)	(35.9)
Other interest and financial expenses	**421**	466	(45)	(9.7)
Interest income	**(432)**	(1,897)	1,465	77.2
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,228)**	28,512	(29,740)	(104.3)
Foreign exchange loss (gain) on long-term monetary items	**(212)**	121	(333)	(275.2)
Gain on investments in ABCP	**(3,455)**	(9,855)	6,400	64.9
Share of net loss of a company subject to significant influence	**111**	399	(288)	(72.2)

AMORTIZATION

Amortization includes amortization on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. Amortization for the quarter was down $0.7 million or 5.5% compared with the corresponding period of 2009, resulting mainly from fewer additions to property, plant and equipment than in the same period of 2009.

INTEREST ON LONG-TERM DEBT AND DEBENTURE

Interest on long-term debt and the debenture for the quarter declined $0.5 million or 35.9% compared with the corresponding period of 2009, owing primarily to lower interest rates and average debt balances than in the same quarter of 2009.

OTHER INTEREST AND FINANCIAL EXPENSES

Other interest and financial expenses for the first quarter held steady at $0.4 million, compared with the corresponding period of the previous year.

INTEREST INCOME

Interest income for the quarter ended January 31, 2010 was down $1.5 million compared with the same period of 2009. This decrease resulted mainly from lower interest rates year over year, despite higher average balances of cash and cash equivalents.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the year of the portfolio of such financial instruments held and used by the Corporation to manage its exposure to fuel price volatility. The change in fair value of derivative financial instruments used for aircraft fuel purchases for the quarter reflected appreciation of $1.2 million, whereas it reflected a $28.5 million decline in the corresponding period of 2009.

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

The foreign exchange gain on long-term monetary items for the quarter, amounting to $0.2 million, arose mainly from a favourable foreign exchange effect on the long-term debt linked to aircraft financing.

GAIN ON INVESTMENTS IN ABCP

Gain on investments in ABCP reflect variations in the fair value of investments in ABCP during the quarter. For the first quarter, the gain on investments in ABCP amounted to $3.5 million. *See Investments in ABCP for more information.*

SHARE OF NET LOSS (INCOME) OF A COMPANY SUBJECT TO SIGNIFICANT INFLUENCE

Our share of net loss of a company subject to significant influence, which represents our share of the net loss of our hotel business, Caribbean Investments B.V. ["CIBV"]. amounted to $0.1 million for the quarter compared with $0.4 million for the corresponding period of 2009.

INCOME TAXES

The Corporation recorded $7.9 million in income tax recovery for the quarter compared with $12.3 million for the corresponding period of the previous fiscal year. Excluding the share in net loss of a company subject to significant influence, the effective tax rate was 38.5% for the quarter compared with 30.6% for the corresponding period of 2009. The higher tax rate resulted mainly from differences between countries in the statutory tax rate applied to taxable income (losses).

NET LOSS

Due to the items discussed in *Consolidated Operations*, the Corporation recorded a net loss for the quarter ended January 31, 2010 of $13.9 million or $0.37 per share (basic and diluted) compared with a net loss of $29.4 million or $0.90 per share (basic and diluted) for the corresponding period of the previous year. The weighted average number of shares outstanding used in calculating the per share amounts was 37,754,000 for the first quarter of 2010 compared with 32,697,000 for corresponding period of 2009. *See note 8 to the unaudited Interim Consolidated Financial Statements.*

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues for the first quarter are down compared with the quarterly results over the past two fiscal years, mainly as a result of lower selling prices owing to fierce competition sparked by excess supply, despite a rise in the volume of travellers. From a margin perspective, there have been fluctuations from quarter to quarter, mainly due to competitive price pressures. In light of the foregoing, the following quarterly financial information can vary significantly from quarter to quarter.

(In thousands of dollars, except per share amounts)	Q2-2008 $	Q3-2008 $	Q4-2008 $	Q1-2009 $	Q2-2009 $	Q3-2009 $	Q4-2009 $	Q1-2010 $
Revenues	1,075,158	859,880	790,424	877,254	1,129,077	819,354	719,656	**792,562**
Margin	70,715	14,587	23,192	(8,498)	39,130	27,187	35,576	**(12,409)**
Net income (loss)	41,721	(895)	(82,369)	(29,436)	42,186	30,991	18,106	**(13,872)**
Basic earnings (loss) per share	1.25	(0.03)	(2.54)	(0.90)	1.29	0.95	0.53	**(0.37)**
Diluted earnings (loss) per share	1.25	(0.03)	(2.54)	(0.90)	1.27	0.94	0.52	**(0.37)**

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2010, cash and cash equivalents totalled $147.7 million compared with $180.6 million as at October 31, 2009. Cash and cash equivalents in trust or otherwise reserved amounted to $435.8 million as at the end of the first quarter of 2010 compared with $272.7 million as at October 31, 2009. The Corporation's balance sheet reflects working capital of $44.9 million and a ratio of 1.05 compared with $35.0 million and 1.06 as at October 31, 2009.

Total assets grew $232.0 million or 20.5% to $1,361.6 million as at January 31, 2010 from $1,129.5 million as at October 31, 2009. This rise was driven mainly by a $163.0 increase in cash and cash equivalents in trust or otherwise reserved and an $86.3 million increase in prepaid expenses, offset by a $32.8 million decrease in cash and cash equivalents. Shareholders' equity fell $8.7 million to $358.6 million as at January 31, 2010 from $367.4 million as at October 31, 2009. This decline stemmed mainly from a $13.9 million net loss and a $6.2 million foreign exchange loss on translation of the financial statements of our self-sustaining operations, offset by a $10.4 million change in fair value of derivatives designated as cash flow hedges.

CASH FLOWS

	Quarters ended January 31		
(In thousands of dollars)	2010 $	2009 $	Variance $
Cash flows related to operating activities	**(21,258)**	29,443	(50,701)
Cash flows related to investing activities	**(3,291)**	(10,909)	7,618
Cash flows related to financing activities	**(3,780)**	22,389	(26,169)
Effect of exchange rate changes on cash	**(4,487)**	(2,622)	(1,865)
Net change in cash	**(32,816)**	38,301	(71,117)

OPERATING ACTIVITIES

Cash flows used in operating activities in the first quarter totalled $21.3 million compared with cash flows provided by operating activities totalling $29.4 million for the corresponding period of 2009. The $50.7 million decline for the quarter compared with the corresponding period of 2009 resulted primarily from higher balances of cash in trust or otherwise reserved as a result of the agreement entered into in fiscal 2009 with our credit card processing service provider in Canada, offset by an increase in accounts payable and accrued liabilities.

INVESTING ACTIVITIES

Cash flows used in investing activities for the quarter totalled $3.3 million, down $7.6 million from the corresponding period of 2009. Unlike in the first quarter of 2009, no consideration for an acquired company was paid during the quarter. During fiscal 2009, the Corporation made a $5.2 million capital contribution to a hotel business for land acquisition in the Dominican Republic. Furthermore, the Corporation received $1.1 million during the first quarter of 2010 from investments in ABCP. Lastly, the Corporation's investments in property, plant and equipment and intangible assets for the first quarter totalled $4.4 million, down $1.3 million from $5.7 million in the corresponding period of 2009.

FINANCING ACTIVITIES

Cash flows used in financing activities in the quarter totalled $3.8 million compared with cash flows provided by financing activities amounting to $22.4 million for the corresponding period of 2009, representing an unfavourable difference of $26.2 million. Credit facilities and other debt for the quarter were down $1.1 million year over year, whereas in the corresponding period of 2009, a $25.0 million increase was recorded. In addition, the Corporation repaid the $3.2 million debenture during the quarter.

FINANCING

As at January 31, 2010, the Corporation had several types of financing, consisting primarily of three revolving term credit facilities, loans secured by aircraft and lines of credit.

The Corporation has a $157.0 million revolving credit facility maturing in 2012 or payable immediately in the event of a change in control and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium based on certain financial ratios calculated on a consolidated basis. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at January 31, 2010, all financial criteria and ratios were met.

The Corporation has two revolving credit facilities of $9.4 million and $87.8 million, the first of which matures in 2010 and the second in 2011 or is payable immediately in the event of a change in control. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under these agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. These credit facilities include options, which are now effective following implementation of the ABCP restructuring plan and allow the Corporation, at its option, to use the restructured notes to repay up to $58.4 million in drawdowns as they fall due, under certain conditions. These options have been initially reported at fair value, and the corresponding initial gain has been deferred and recognized in net income under amortization over the term of the credit agreements. The options are reported at fair value at each balance sheet date under derivative financial instruments, and any change in fair value of the options is recorded in net income under gain

on investments in ABCP. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at January 31, 2010, all financial criteria and ratios were met.

As at January 31, 2010, $76.9 million had been drawn down under these credit facilities.

The loans secured by aircraft of the Corporation amounted to $28.4 million [US$26.7 million] as at January 31, 2010. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments through 2011.

With regard to our operations in France, we also have access to undrawn lines of credit totalling €11.3 million [$16.7 million].

OFF-BALANCE SHEET ARRANGEMENTS

Transat enters into arrangements and incurs obligations in the normal course of business that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the unaudited Interim Consolidated Financial Statements as at January 31, 2010. As at January 31, 2010 and October 31, 2009, the obligations reflected on the balance sheet amounted to $106.3 million and $110.8 million, respectively.

Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and consist of the following:

- Guarantees
- Operating leases

Off-balance sheet debt, excluding agreements with service providers, that can be estimated amounted to approximately $369.9 million as at January 31, 2010 compared with $396.4 million as at October 31, 2009, and is detailed as follows:

	As at January 31, 2010 $	As at October 31, 2009 $
Guarantees		
Irrevocable letters of credit	**6,833**	10,364
Collateral security contracts	**1,291**	860
Operating leases		
Commitments under operating leases	**361,768**	385,209
	369,892	396,433

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

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 January 31, 2010 were lower than as at October 31, 2009.

Balance sheet debt decreased $4.6 million to $106.3 million as at January 31, 2010 from $110.8 million as at October 31, 2009, and our off-balance sheet debt decreased $26.5 million to $369.9 million from $396.4 million, collectively representing a $31.1 million decrease in total debt as at January 31, 2010 compared with October 31, 2009. The decline in balance sheet debt resulted mainly from repayments during the period, including the debenture. The $26.5 million decrease in our off-balance sheet debt resulted from repayments during the period and from a strong Canadian dollar on US dollar denominated obligations.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $255.3 million in net debt as at January 31, 2010, and as at October 31, 2009.

OUTSTANDING SHARES

As at January 31, 2010, there were three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at January 31, 2010, there were 471,717 Class A Variable Voting Shares outstanding and 37,300,154 Class B Voting Shares outstanding.

STOCK OPTIONS

As at January 31, 2010, there were a total of 1,068,035 stock options outstanding, 428,306 of which were exercisable.

INVESTMENTS IN ABCP

RESTRUCTURING

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

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

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

PORTFOLIO

On January 25 and 29, 2010, the Corporation received $1.1 million in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). During the quarter ended January 31, 2010, the Corporation received its share of $0.6 million of the cash accumulated in the conduits. The notional value of the new ABCP amounted to $127.7 million as at January 31, 2010 and is detailed as follows:

MAV2 Eligible

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

MAV2 Ineligible

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

MAV3 Traditional

The Corporation holds $6.8 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2015.

VALUATION

On January 31, 2010, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the quarter ended January 31, 2010, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

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

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 2.58% [weighted average rate of 2.0%], depending on the type of series. These future cash flows were discounted, according to the type of series, over seven-year periods using discount rates ranging from 6.1% to 46.9% [weighted average rate of 10.9%], which factor in liquidity.

Subsequent to this new valuation, the Corporation reversed $3.5 million of the provision for impairment of its investments in ABCP on January 31, 2010. This reversal 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 $73.1 million and the provision for impairment totalled $54.6 million, representing 42.7% of the notional value of $127.7 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 $4.0 million in the estimated fair value of ABCP held by the Corporation.

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

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $	Loss (gain) on investments in ABCP $
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Reversal of provision	—	5,172	5,172	(5,172)
Share of estimated cash receivable	—	1,297	1,297	(1,297)
Share of cash accumulated in conduits	—	—	—	(4,745)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at January 31, 2009; impact on results for period ended January 31, 2009	141,741	(50,436)	91,305	(9,855)
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(11,165)	(11,165)	11,165
Principal repayments	(8,062)	—	(8,062)	—
Share of estimated cash receivable	—	(677)	(677)	677
Share of cash accumulated in conduits	—	—	—	(1,655)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at October 31, 2009; impact on results for period ended October 31, 2009	128,835	(57,434)	71,401	(68)
Reversal of provision	—	3,455	3,455	(3,455)
Principal repayments	(1,092)	—	(1,092)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at January 31, 2010; impact on results for period ended January 31, 2010	**127,743**	**(54,599)**	**73,144**	**(3,455)**

The balance of investments in ABCP as at January 31, 2010 is detailed as follows:

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $
MAV2 Eligible			
Class A-1	34,415	(6,925)	27,490
Class A-2	63,894	(25,979)	37,915
Class B	11,598	(9,829)	1,769
Class C	3,403	(3,249)	154
	113,310	(45,982)	67,328
MAV2 Ineligible	7,630	(7,581)	49
MAV3 Traditional	6,803	(1,036)	5,767
	127,743	**(54,599)**	**73,144**

OTHER

On February 26, 2010, the Corporation acquired the balance of the remaining shares (10%) of Tourgreece Tourist Enterprises S.A. for a cash consideration of 0.5 million dollars (0.3 million euros).

FUTURE CHANGES IN ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS

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

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

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

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, Canada's Accounting Standards Board ["AcSB"] confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards ["IFRS"] for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012.

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

The changeover from Canadian GAAP to IFRS is a major undertaking that may result in significant changes in financial reporting. The Corporation is not currently able to reasonably estimate the impact of the changeover to IFRS on its financial reporting, since it is still in the process of identifying differences and preparing solutions, and has not yet selected its accounting policies or the exceptions set out in IFRS 1, *First Time Adoption of International Financial Reporting Standards*. The key issues identified in Phase 1 were prepared using the information currently available; as a result, these issues may change in light of new facts or circumstances.

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

CONTROLS AND PROCEDURES

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2010 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

For the second quarter, reservations from Canada to sun destinations are similar to the record volumes of the previous year, and Transat's capacity is slightly higher. In France, reservations levels are similar to the previous year.

Selling prices are inferior to the previous year, and the decrease will be partially offset by lower fuel prices, hotel costs, other land portion expenses, and air seats costs. In addition, as in the first quarter, Transat will not be able to fully benefit from the strength of the Canadian dollar in the second quarter, as a result of its foreign exchange hedging positions. For the second quarter, Transat expects to record a loss.

For the summer 2010, it is too early to make a statement on pricing trends, but reservations are superior to the previous year.

TRANSAT A.T. INC.
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)	As at January 31, 2010 $	As at October 31, 2009 $
ASSETS		
Current assets		
Cash and cash equivalents	**147,736**	180,552
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	**407,282**	244,250
Accounts receivable	**117,295**	105,349
Income taxes receivable	**33,821**	25,083
Future income tax assets	**10,883**	12,860
Inventories	**11,281**	9,823
Prepaid expenses	**116,789**	30,447
Derivative financial instruments	**14,598**	6,770
Current portion of deposits	**40,216**	30,578
Total current assets	**899,901**	645,712
Cash and cash equivalents reserved *[note 3]*	**28,476**	28,476
Investments in ABCP *[note 4]*	**73,144**	71,401
Deposits	**12,207**	12,014
Future income tax assets	**11,046**	10,454
Property, plant and equipment	**114,115**	122,911
Goodwill and other intangible assets	**154,703**	160,156
Derivative financial instruments	**193**	9,488
Investments and other assets *[note 5]*	**67,766**	68,891
	1,361,551	1,129,503
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**313,934**	266,445
Current portion of provision for overhaul of leased aircraft	**19,759**	21,029
Income taxes payable	**4,021**	4,021
Future income tax liabilities	**391**	266
Customer deposits and deferred income	**466,908**	251,018
Derivative financial instruments	**25,792**	40,243
Debenture	**—**	3,156
Payments on current portion of long-term debt	**24,189**	24,576
Total current liabilities	**854,994**	610,754
Long–term debt *[note 6]*	**82,074**	83,108
Provision for overhaul of leased aircraft	**5,685**	8,550
Other liabilities *[note 7]*	**41,268**	41,743
Derivative financial instruments	**302**	50
Future income tax liabilities	**18,606**	17,937
	1,002,929	762,142
Shareholder's equity		
Share capital *[note 8]*	**216,704**	216,236
Retained earnings	**151,224**	165,096
Contributed surplus	**7,177**	6,642
Accumulated other comprehensive income *[note 9]*	**(16,483)**	(20,613)
	358,622	367,361
	1,361,551	1,129,503

See accompanying notes to consolidated interim financial statement

NOTICE

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

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars, except per share amounts) (unaudited)	Quarters ended January 31 2010 $	 2009 $
Revenues	**792,562**	877,254
Operating expenses		
Direct costs	**511,782**	541 921
Salaries and employee benefits	**84,089**	90 749
Aircraft fuel	**57,142**	77 874
Commissions	**36,575**	47 357
Aircraft maintenance	**18,381**	25 640
Airport and navigation fees	**15,398**	19 603
Aircraft rent	**13,742**	13 247
Other	**67,862**	69 361
	804,971	885 752
	(12,409)	(8,498)
Amortization	**12,184**	12,894
Interest on long-term debt and debenture	**916**	1,429
Other interest and financial expenses	**421**	466
Interest income	**(432)**	(1,897)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,228)**	28,512
Foreign exchange loss (gain) on long-term monetary items	**(212)**	121
Gain on investments in ABCP *[note 4]*	**(3,455)**	(9,855)
Share of net loss of a company subject to significant influence	**111**	399
	8,305	32,069
Loss before the undernoted items	**(20,714)**	(40,567)
Income taxes (recovery)		
Current	**(5,527)**	(562)
Future *[note 2]*	**(2,407)**	(11,729)
	(7,934)	(12,291)
Loss before non-controlling interest in subsidiaries' results	**(12,780)**	(28,276)
Non-controlling interest in subsidiaries' results	**(1,092)**	(1,160)
Net loss for the period	**(13,872)**	(29,436)
Loss per share *[note 8]*		
Basic	**(0.37)**	(0.90)
Diluted	**(0.37)**	(0.90)

See accompanying notes to consolidated interim financial statement

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

(in thousands of dollars) (unaudited)	Quarters ended January 31 2010 $	 2009 $
Loss for the period	**(13,872)**	(29,436)
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	**26,311**	7,467
Reclassification in income	**(11,346)**	(41,501)
Future income taxes	**(4,607)**	12,127
	10,358	(21,907)
Foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign subsidiaries due to (appreciation) depreciation of Canadian dollars vs. euro, pound sterling and U.S. dollar at balance sheet date	**(6,228)**	(3,901)
	4,130	(25,808)
Comprehensive income for the period	**(9,742)**	(55,244)

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

Quarters ended January 31 (in thousands of dollars) (unaudited)	Share capital $	Retained earnings $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Shareholders' equity $
Balance as at October 31, 2008	154,198	106,188	4,619	82,123	347,128
Net loss	—	(29,436)	—	—	(29,436)
Other comprehensive income (loss)	—	—	—	(25,808)	(25,808)
Issued from treasury	369	—	—	—	369
Compensation expense for stock option plan	—	—	465	—	465
Dividends	—	(2,939)	—	—	(2,939)
Balance as at January 31, 2009	154,567	73,813	5,084	56,315	289,779
Net income	—	91,283	—	—	91,283
Other comprehensive income (loss)	—	—	—	(76,928)	(76,928)
Issued from treasury	61,580	—	—	—	61,580
Options exercised	89	—	—	—	89
Compensation expense for stock option plan	—	—	1,558	—	1,558
Balance as at October 31, 2009	216,236	165,096	6,642	(20,613)	367,361
Net loss	—	(13,872)	—	—	(13,872)
Other comprehensive income (loss)	—	—	—	4,130	4,130
Issued from treasury	356	—	—	—	356
Options exercised	112	—	—	—	112
Compensation expense for stock option plan	—	—	535	—	535
Balance as at January 31, 2010	216,704	151,224	7,177	(16,483)	358,622

See accompanying notes to consolidated interim financial statement

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

(in thousands of dollars) (unaudited)	Quarters ended January 31 2010 $	2009 $
OPERATING ACTIVITIES		
Net loss for the period	**(13,872)**	(29,436)
Operating items not involving an outlay (receipt) of cash :		
Amortization	**12,184**	12,894
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,228)**	28,512
Foreign exchange loss (gain) on long-term monetary items	**(212)**	121
Gain on investments in ABCP	**(2,835)**	(5,110)
Share of net loss of a company subject to significant influence	**111**	399
Non-controlling interest in subsidiaries' results	**1,092**	1,160
Future income taxes	**(2,407)**	(11,729)
Pension expense	**675**	732
Compensation expense related to stock option plan	**535**	465
	(5,957)	(1,992)
Net change in non-cash working capital balances related to operations	**(8,785)**	23,557
Net change in other assets and liabilities related to operation	**(2,381)**	(21)
Net change in provision for overhaul of leased aircraft	**(4,135)**	7,899
Cash flows related to operating activities	**(21,258)**	29,443
INVESTING ACTIVITIES		
Additions to property, plant and equipment and to intangible assets	**(4,383)**	(5,698)
Realization of principal of investments in ABCP	**1,092**	—
Consideration paid for acquired companies	**—**	(5,211)
Cash flow related to investing activities	**(3,291)**	(10,909)
FINANCING ACTIVITIES		
Net change in credit facilities and other debt	**(1,092)**	(24,959)
Loan repayments	**(3,156)**	—
Proceeds from issuance of shares	**468**	369
Dividends	**—**	(2,939)
Cash flow related to financing activities	**(3,780)**	22,389
Effect of exchange rate changes on cash and cash equivalents	**(4,487)**	(2,622)
Net change in cash and cash equivalents	**(32,816)**	38,301
Cash and cash equivalents, beginning of the period	**180,552**	145,767
Cash and cash equivalents, end of the period	**147,736**	184,068
Supplementary information		
Income taxes paid	**4,468**	4,742
Interest paid	**856**	730

See accompanying notes to consolidated interim financial statement

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

Note 1 BASIS OF PRESENTATION

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2009 Annual Report.

Note 2 FUTURE CHANGES IN ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS

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

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

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

IFRS

In February 2008, Canada's Accounting Standards Board [AcSB] confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards [IFRS] for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012.

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

The changeover from Canadian GAAP to IFRS is a major undertaking that may result in significant changes in financial reporting. The Corporation is not currently able to reasonably estimate the impact of the changeover to IFRS on its financial reporting, since it is still in the process of identifying differences and preparing solutions, and has not yet selected its accounting policies or the exceptions set out in

IFRS 1, First Time Adoption of International Financial Reporting Standards. The key issues identified in Phase 1 were prepared using the information currently available; as a result, these issues may change in light of new facts or circumstances.

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

Note 3 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at January 31, 2010, cash and cash equivalents in trust or otherwise reserved included $360,067 [$200,396 as at October 31, 2009] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulatory bodies and the Corporation's business agreement with its credit card processor. Cash and cash equivalents in trust or otherwise reserved also include $75,691, of which $28,476 was recorded as non-current assets [$72,330 as at October 31, 2009, of which $28,476 was presented as non-current assets], which was pledged as collateral security against letters of credit.

Note 4 INVESTMENTS IN ABCP

RESTRUCTURING

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

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

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

PORTFOLIO

On January 25 and 29, 2010, the Corporation received $1,092 in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). During the quarter ended January 31, 2010, the Corporation received its share of $620 of the cash accumulated in the conduits. The notional value of the new ABCP amounted to $127,743 as at January 31, 2010 and is detailed as follows:

MAV2 Eligible

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

MAV2 Ineligible

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

MAV3 Traditional

The Corporation holds $6 803 in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2015.

VALUATION

On January 31, 2010, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the quarter ended January 31, 2010, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

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

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 2.58% [weighted average rate of 2.0%], depending on the type of series. These future cash flows were discounted, according to the type of series, over seven-year periods using discount rates ranging from 6.1% to 46.9% [weighted average rate of 10.9%], which factor in liquidity.

Subsequent to this new valuation, the Corporation reversed $3,455 of the provision for impairment of its investments in ABCP on January 31, 2010. This reversal 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 $73,144 and the provision for impairment totalled $54,599, representing 42.7% of the notional value of $127,743.

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 $4,000 in the estimated fair value of ABCP held by the Corporation.

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

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $	Loss (gain) on investments in ABCP $
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Reversal of provision	—	5,172	5,172	(5,172)
Share of estimated cash receivable	—	1,297	1,297	(1,297)
Share of cash accumulated in conduits	—	—	—	(4,745)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at January 31, 2009; impact on results for period ended January 31, 2009	141,741	(50,436)	91,305	(9,855)
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(11,165)	(11,165)	11,165
Principal repayments	(8,062)	—	(8,062)	—
Share of estimated cash receivable	—	(677)	(677)	677
Share of cash accumulated in conduits	—	—	—	(1,655)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(400)
Balance as at October 31, 2009; impact on results for period ended October 31, 2009	128,835	(57,434)	71,401	(68)
Reversal of provision	—	3,455	3,455	(3,455)
Principal repayments	(1,092)	—	(1,092)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at January 31, 2010; impact on results for period ended January 31, 2010	**127,743**	**(54,599)**	**73,144**	**(3,455)**

The balance of investments in ABCP as at January 31, 2010 is detailed as follows:

(In thousands of dollars)	Notional value of investments in ABCP $	Provision for impairment of investments in ABCP $	Investments in ABCP $
MAV2 Eligible			
Class A-1	34,415	(6,925)	27,490
Class A-2	63,894	(25,979)	37,915
Class B	11,598	(9,829)	1,769
Class C	3,403	(3,249)	154
	113,310	(45,982)	67,328
MAV2 Ineligible	7,630	(7,581)	49
MAV3 Traditional	6,803	(1,036)	5,767
	127,743	**(54,599)**	**73,144**

Note 5 INVESTMENTS AND OTHER ASSETS

	As at January 31, 2010 $	As at October 31, 2009 $
Investment in Caribbean Investments B.V.	**65,303**	66,347
Deferred costs, unamortized balance	**2,159**	2,234
Sundry	**187**	192
Other investments	**117**	118
	67,766	68,891

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

	$
Balance as at October 31, 2009	66,347
Share of net loss	111
Translation adjustment	(933)
Balance as at January 31, 2010	65,303

Note 6 LONG-TERM DEBT

	As at January 31, 2010 $	As at October 31, 2009 $
Loan secured by aircraft amounting to US$26 667 [US$26 667 as at October 31, 2009]	**28,401**	28,730
Drawdowns under the revolving term credit facilities maturing from 2010 to 2012	**76,871**	77,963
Other	**991**	991
	106,263	107,684
Less :current portion	**24,189**	24,576
	82,074	83,108

Note 7 OTHER LIABILITIES

	As at January 31, 2010 $	As at October 31, 2009 $
Accrued benefit liabilities	**17,490**	17,050
Deferred lease inducements	**13,574**	12,739
Non-controling interest	**7,054**	7,754
Deferred gains on options related to repayment of revolving credit facilities	**3,150**	4,200
	41,268	41,743

Note 8 SHARE CAPITAL

A) SHARE CAPITAL

AUTHORIZED

Class A variable voting shares

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

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

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

Class B voting shares

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

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

Preferred shares

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

ISSUED AND OUTSTANDING

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

	Three months ended January 31, 2010	
	Number of shares	Amount ($)
Balance at beginning of period	37,728,799	216,236
Issued from treasury	23,224	356
Exercise of options	19,848	112
Balance at end of period	37,771,871	216,704

As at January 31, 2010, the number of Class A Shares and Class B Shares amounted to 471,717 and 37,300,154, respectively.

B) Options

	Number of options	Weighted average price ($)
Balance as at October 31, 2009	1,101,140	18.31
Exercised	(19,848)	5.63
Cancelled	(13,257)	26.35
Balance as at January 31, 2010	1,068,035	18.44
Options exercisable as at January 31, 2010	428,306	23.01

C) Earnings per share

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

	Quarters ended Janaury 31	
	2010	2009
(in thousands of dollars, except per share amounts)	$	$
Numerator		
Loss attributable to voting shareholders and loss used to calculate diluted earnings per share	**(13,872)**	(29,436)
Denominator		
Weighted average number of outstanding shares and adjusted weighted average number of outstanding shares used in computing diluted loss per share	**37,754**	32,697
Earnings (loss) per share		
Basic	**(0.37)**	(0.90)
Diluted	**(0.37)**	(0.90)

Debentures that can be settled in voting shares have not been reflected in the calculation of diluted earnings per share for the three-month period ended January 31, 2010 and 2009 because of their antidilutive effect. These securities' potential impact on the denominator is 7,000 shares for the three-month period ended January 31, 2010 [89,000 shares for the three-month period ended January 31, 2009]. Given the loss recorded for the three-month periods ended January 31, 2010 and 2009, the 1,068,035 stock options outstanding were excluded from the computation of diluted earnings per share because of their antidilutive effect [716,173 stock options for the three-month period ended January 31, 2009].

Note 9 Accumulated other comprehensive income

Changes in the accumulated other comprehensive income were as follows for the quarter ended January 31, 2010:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income $
Accumulated other comprehensive income			
Balance as at October 31, 2009	(17,043)	,(3,570)	**(20,613)**
Change during the period	10,358	(6,228)	**4,130**
Balance as at January 31, 2010	(6,685)	(9,798)	**(16,483)**

Changes in the accumulated other comprehensive income were as follows for the quarter ended January 31, 209:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income $
Accumulated other comprehensive income			
Balance as at October 31, 2008	72,479	9,644	82,123
Change during the period	(21,907)	,(3,901)	(25,808)
Balance as at January 31, 2009	50,572	5,743	56,315

Note 10 SEGMENTED INFORMATION

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

	Quarter ended January 31, 2010		
	Americas $	Europe $	Total $
Revenues	656,796	135,766	**792,562**
Operating expenses	660,729	144,242	**804,971**
	(3,933)	**(8,476)**	**(12,409)**
Property, plant and equipment, goodwill and other intangible assets [1]	**156,954**	**111,843**	**268,818**

	Quarter ended January 31, 2009		
	Americas $	Europe $	Total $
Revenues	739,426	137,828	877,254
Operating expenses	738,093	147,659	885,752
	1,333	(9,831)	(8,498)
Property, plant and equipment, goodwill and other intangible assets [2]	164,064	119,003	283,067

[1] As at January 31, 2010
[2] As at October 31, 2009

Note 11 GUARANTEES

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

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

Notes 4, 11, 12, 13 and 21 to the 2009 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

IRREVOCABLE LETTERS OF CREDIT

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain rendered services that it has undertaken to pay for. These agreements typically cover a one year period and are renewed annually.

The corporation has also issued letters of credit to provincial regulatory agencies guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totalled $475 as at January 31, 2010. Historically, the Corporation has not made any significant payments under such letters of credit.

SECURITY CONTRACTS

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totalled $1,291 as at January 31, 2010. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2010, no amounts had been accrued with respect to the above-mentioned agreements.

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