TRANSAT A.T. INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2012

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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 and six-month period ended April 30, 2012, compared with the quarter and six-month period ended April 30, 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 Note 15 to the unaudited interim condensed consolidated financial statements for the quarters ended January 31, 2012 and April 30, 2012. The purpose of this document is to provide a second-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 June 13, 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 April 30, 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.

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.

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 second 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 April 30, 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 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 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 April 30		Six-month periods ended April 30	
	2012	2011	2012	2011
	$	$	$	$
Revenues	**1,212,426**	1,101,109	**2,041,722**	1,911,263
Operating expenses	**1,238,652**	1,091,810	**2,099,787**	1,916,470
Operating margin (loss)	**(26,226)**	9,299	**(58,065)**	(5,207)
Income (loss) before income tax expense	**(19,504)**	11,305	**(59,557)**	(7,214)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(4,403)**	(8,155)	**(6,025)**	(11,933)
Non-monetary gain on investments in ABCP	**(8,812)**	(3,504)	**(8,032)**	(6,637)
Adjusted loss	**(32,719)**	(354)	**(73,614)**	(25,784)
Net income (loss) attributable to shareholders	**(13,199)**	8,715	**(42,688)**	(4,663)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(4,403)**	(8,155)	**(6,025)**	(11,993)
Non-monetary gain on investments in ABCP	**(8,812)**	(3,504)	**(8,032)**	(6,637)
Tax impact	**1,878**	2,368	**2,268**	3,399
Adjusted after-tax loss	**(24,536)**	(576)	**(54,477)**	(19,894)
Adjusted after-tax loss	**(24,536)**	(576)	**(54,477)**	(19,894)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**38,104**	38,173	**38,079**	37,891
Adjusted after-tax diluted loss per share	**(0.64)**	(0.02)	**(1.43)**	(0.53)

	As at April 30, 2012	As at October 31, 2011
	$	$
Off-balance sheet arrangements, excluding agreements with service providers	**595,755**	653,663
Total debt	**595,755**	653,663
Total debt	**595,755**	653,663
Cash and cash equivalents	**(264,072)**	(181,576)
Investments in ABCP	**(85,385)**	(78,751)
Total net debt	**246,298**	393,336

FINANCIAL HIGHLIGHTS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars, except per share amounts)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Consolidated Statements of Income (loss)								
Revenues	**1,212,426**	1,101,109	111,317	10.1	**2,041,722**	1,911,263	130,459	6.8
Operating margin (loss)[1]	**(26,226)**	9,299	(35,525)	(382.0)	**(58,065)**	(5,207)	(52,858)	(1,015.1)
Net income (loss)	**(11,774)**	10,095	(21,869)	(216.6)	**(40,354)**	(2,430)	(37,924)	(1,560.7)
Net income (loss) attributable to shareholders	**(13,199)**	8,715	(21,914)	(251.5)	**(42,688)**	(4,663)	(38,025)	(815.5)
Basic earnings (loss) per share	**(0.35)**	0.23	(0.58)	(252.2)	**(1.12)**	(0.12)	(1.00)	(833.3)
Diluted earnings (loss) per share	**(0.35)**	0.23	(0.58)	(252.2)	**(1.12)**	(0.12)	(1.00)	(833.3)
Adjusted after-tax loss [1]	**(24,536)**	(576)	(23,960)	(4,159.7)	**(54,477)**	(19,894)	(34,583)	(173.8)
Adjusted after-tax diluted loss per share	**(0.64)**	(0.02)	(0.62)	(3,100.0)	**(1.43)**	(0.53)	(0.90)	(169.8)
Consolidated Statements of Cash Flows								
Operating activities	**71,359**	104,667	(33,308)	(31.8)	**122,097**	152,244	(30,147)	(19.8)
Investing activities	**(20,323)**	(15,730)	(4,593)	(29.2)	**(34,685)**	(28,485)	(6,200)	(21.8)
Financing activities	**(1,361)**	(8,647)	7,286	84.3	**(3,623)**	(23,123)	19,500	84.3
Effect of exchange rate changes on cash and cash equivalents	**422**	(1,002)	1,424	142.1	**(1,293)**	(3,021)	1,728	57.2
Net change in cash and cash equivalents	**50,097**	79,288	(29,191)	(36.8)	**82,496**	97,615	(15,119)	(15.5)

	As at April 30, 2012 $	As at October 31, 2011 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**264,072**	181,576	82,496	45.4
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**328,894**	359,545	(30,651)	(8.5)
Investments in ABCP	**85,385**	78,751	6,634	8.4
	678,351	619,872	58,479	9.4
Total assets	**1,313,337**	1,224,245	89,092	7.3
Debt	**—**	—	—	—
Total debt[1]	**595,755**	653,663	(57,908)	(8.9)
Total net debt[1]	**246,298**	393,336	(147,038)	(37.4)

[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 a total of over 500 travel agencies (including over 400 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.

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 at product differentiation and customer experience enhancement 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.

The key performance drivers are market share, revenue growth and margin, 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. 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 not yet completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. Accordingly, the fair values of these assets and liabilities remain provisional until their measurement has been finalized. The excess of the total consideration over the fair value of net assets acquired was provisionally 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 $69.5 million with a pre-tax loss of $3.5 million, 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.

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended April 30				Six-month periods ended April 30			
	2012	2011	Difference	Difference	2012	2011	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Americas	**1,026,984**	908,476	118,508	13.0	**1,727,821**	1,584,037	143,784	9.1
Europe	**185,442**	192,633	(7,191)	(3.7)	**313,901**	327,226	(13,325)	(4.1)
	1,212,426	1,101,109	111,317	10.1	**2,041,722**	1,911,263	130,459	6.8

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

Compared with fiscal 2011, our revenues were up $111.3 million and $130.5 million, respectively for the quarter and six-month period ended April 30, 2012, driven primarily by the acquisition of TMR, which contributed an additional $69.5 million to revenues. The higher revenues for the quarter were also attributable to a 4.3% increase in traveller volumes (3.7% excluding TMR customers who did not travel with Air Transat) while our average selling prices were slightly lower than for the same quarter of 2011. The increase for the six-month period is also due to higher average selling prices and a 0.5% rise in traveller volumes (0.1% excluding TMR customers who did not travel with Air Transat) from 2011.

OPERATING EXPENSES

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Cost of providing tourism services	**781,162**	680,945	100,217	14.7	**1,275,288**	1,179,946	95,342	8.1
Aircraft fuel	**123,898**	104,372	19,526	18.7	**212,889**	170,167	42,722	25.1
Salaries and employee benefits	**98,357**	92,177	6,180	6.7	**193,471**	181,945	11,526	6.3
Commissions	**65,267**	61,133	4,134	6.8	**105,338**	102,778	2,560	2.5
Aircraft maintenance	**35,247**	30,943	4,304	13.9	**62,816**	54,234	8,582	15.8
Airport and navigation fees	**25,282**	23,404	1,878	8.0	**43,256**	41,196	2,060	5.0
Aircraft rent	**21,589**	17,089	4,500	26.3	**41,471**	31,910	9,561	30.0
Other	**87,850**	81,747	6,103	7.5	**165,258**	154,294	10,964	7.1
Total	**1,238,652**	1,091,810	146,842	13.4	**2,099,787**	1,916,470	183,317	9.6

Compared with fiscal 2011, our total operating expenses were up $146.8 million (13.4%) and $183.3 million (9.6%), respectively for the quarter and six-month period. The higher operating expenses stem primarily from the acquisition of TMR, which essentially contributed to increasing our costs of providing tourism services, and also from rising fuel costs, including the cost of reserving blocks of seats or full flights with air carriers other than Air Transat, reported under *Costs of providing tourism services* and the rise in total room costs.

Since the second quarter of 2011, changes were made to our fleet by adding four Airbus A330 and retiring two Airbus A310. Furthermore, our seat purchase agreement with Thomas Cook on some destinations on the Canada-U.K. route expired on October 31, 2011 and was not renewed. These changes led to a shift in our operating expenses as the costs of providing transportation services, previously incurred with Thomas Cook and included under *Costs of providing tourism services* are now borne by our aircraft fleet, which carries our travellers on the Canada-U.K. route. As a result, operating expenses related to our aircraft fleet increased.

Our operating expenses were up 16.5% in the Americas and down 0.6% in Europe for the second quarter, and up 11.8% in the Americas and down 0.9% in Europe for the six-month period.

COST OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Compared with the corresponding periods of fiscal 2011, our costs were up $100.2 million (14.7%) and $95.3 million (8.1%), respectively for the quarter and six-month period, owing mainly to the acquisition of TMR, for the quarter only, and to a lesser extent, to the rise in traveller volumes and hotel room costs.

AIRCRAFT FUEL

Aircraft fuel costs climbed $19.5 million (18.7%) and $42.7 million (25.1%), respectively for the quarter and six-month period, mainly on the back of increased flight times for Air Transat aircraft and fuel prices.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $6.2 million (6.7%) and $11.5 million (6.3%), respectively for the quarter and six-month period year over year. These increases stemmed primarily from new hires, following the addition of new aircraft to our fleet in fiscal 2011, offset by costs savings related to the restructuring announced in the fourth quarter of fiscal 2011.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense was up $4.1 million (6.8%) and $2.6 million (2.5%), respectively for the second quarter and the six-month period compared with the corresponding periods of 2011. As a percentage of revenues, commissions fell to 5.4% for the second quarter

compared with 5.6% for the same period of 2011. For the six-month period, commission expense fell to 5.2% compared with 5.4% in 2011. 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. Year over year, these costs were up $4.3 million (13.9%) and $8.6 million (15.8%) for the second quarter and six-month period, respectively, sparked primarily by increased flight times by Air Transat aircraft and changes in the make-up of our fleet.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Fees were up $1.9 million (8.0%) and $2.1 million (5.0%), respectively for the second quarter and six-month period, in line with the higher number of flights logged by our aircraft.

AIRCRAFT RENT

Aircraft rent for the second quarter and six-month period rose $4.5 million (26.3%) and $9.6 million (30.0%), respectively, from the corresponding periods of fiscal 2011 as a result of adding four Airbus A330 to the fleet, offset by the retirement of two A310, since the same periods last year.

OTHER

Other expenses were up $6.1 million (7.5%) and $11.0 million (7.1%), respectively for the second quarter and six-month period compared with fiscal 2011, prompted mainly by higher other aircraft costs from increased flight times logged by our aircraft fleet.

OPERATING MARGIN (LOSS)

In light of the foregoing, Transat reported an operating loss of $26.2 million (2.2%) for the second quarter compared with a margin of $9.3 million (0.8%) for the same period of 2011. For the six-month period, the Corporation reported an operating loss of $58.1 million (2.8%) compared with an operating loss of $5.2 million (0.3%), year over year. Higher fuel prices and hotel room costs combined with intense market competition drove down margins during the six-month period.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Revenues	**1,026,984**	908,476	118,508	13.0	**1,727,821**	1,584,037	143,784	9.1
Operating expenses	**1,046,587**	898,632	147,955	16.5	**1,766,558**	1,580,095	186,463	11.8
Operating margin (loss)	**(19,603)**	9,844	(29,447)	(299.1)	**(38,737)**	3,942	(42,679)	(1,082.7)

Revenues for the second quarter and the six-month period at our North American subsidiaries derived from sales in Canada and abroad were up $118.5 million (13.0%) and $143.8 million (9.1%), respectively, from the same periods in 2011. Revenue growth for the two periods were driven primarily by the acquisition of TMR, which helped bolster revenues by $69.5 million, combined with increases in traveller volumes of 7.0% and 3.7%, respectively (6.3% and 3.2%, respectively in 2011, excluding TMR customers who did not travel with Air Transat). Compared with 2011, for the quarter, Canadian travellers to sun destinations were on the rise while average prices declined, as a result of the drop in selling prices in April, whereas for the six-month period, traveller volumes were down (following our decision to scale back capacity in the first quarter) while average prices were up. Both for the quarter and for the six-month period, the number of travellers to European destinations as well as average selling prices were up. Transat reported an operating loss of 1.9% for the quarter compared with a margin of 1.1% in 2011 and an operating loss of 2.2% for the six-month period compared with a margin of 0.2% in 2011 with intense competition driving down margins.

EUROPE

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Revenues	**185,442**	192,633	(7,191)	(3.7)	**313,901**	327,226	(13,325)	(4.1)
Operating expenses	**192,065**	193,178	(1,113)	(0.6)	**333,229**	336,375	(3,146)	(0.9)
Operating loss	**(6,623)**	(545)	(6,078)	(1,115.2)	**(19,328)**	(9,149)	(10,179)	(111.3)

Year over year, revenues for the second quarter and six-month period at our European subsidiaries from sales in Europe and Canada were down $7.2 million (3.7%) and $13.3 million (4.1%), respectively. Excluding our U.K. subsidiary where revenues declined slightly, revenues from our main European subsidiaries held steady but were dampened on translation into Canadian dollars, both for the quarter and the six-month period. Traveller volumes fell 10.4% and 9.9%, respectively for the quarter and six-month period compared with 2011, while average selling prices were up. Our European operations reported operating losses of $6.6 million (3.6%) and $19.3 million (6.2%), respectively for the quarter and six-month period, compared with $0.6 million (0.3%) and $9.1 million (2.8%) for the same periods of fiscal 2011. Narrower margins resulted primarily from intense market competition in France.

OTHER EXPENSES (REVENUES)

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of dollars)	2012 $	2011 $	Difference $	Difference %	2012 $	2011 $	Difference $	Difference %
Depreciation and amortization	**10,094**	11,055	(961)	(8.7)	**20,002**	22,257	(2,255)	(10.1)
Financing costs	**838**	908	(70)	(7.7)	**1,342**	1,776	(434)	(24.4)
Financing income	**(1,705)**	(1,772)	67	3.8	**(3,542)**	(3,704)	162	4.4
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(4,403)**	(8,155)	3,752	46.0	**(6,025)**	(11,993)	5,968	49.8
Foreign exchange loss on long-term monetary items	**242**	1,079	(837)	(77.6)	**86**	1,356	(1,270)	(93.7)
Gain on investments in ABCP	**(8,812)**	(3,504)	(5,308)	(151.5)	**(8,032)**	(6,637)	(1,395)	(21.0)
Share of net loss of an associate	**(2,976)**	(1,617)	(1,359)	(84.0)	**(2,339)**	(1,048)	(1,291)	(123.2)

DEPRECIATION AND AMORTIZATION

Depreciation and amortization, including property, plant and equipment, intangible assets subject to amortization, and deferred lease inducements declined $1.0 million and $2.3 million, respectively for the second quarter and six-month period, 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, which include interest on long-term debt and other interest as well as financial expenses, were down $0.1 million and $0.4 million, respectively for the second quarter and six-month period, year over year, as a result of repayments of long-term debt in fiscal 2011.

FINANCING INCOME

Financing income was down $0.1 million and $0.2 million for the second quarter and six-month period, respectively, year over year.

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 $4.4 million increase in fair value of derivative financial instruments used for aircraft fuel purchases for the second quarter compared with $8.2 million for the corresponding period of 2011. For the six-month period, the fair value of derivative financial instruments used for aircraft fuel purchases was up $6.0 million compared with $12.0 million for the corresponding period of 2011.

FOREIGN EXCHANGE LOSS 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 loss on long-term monetary items for the second quarter compared with a loss of $1.1 million in 2011. For the six-month period, a $0.1 million foreign exchange loss on long-term monetary items was recorded compared with a loss of $1.4 million for the corresponding period in 2011.

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 gain on investments in ABCP amounted to $8.8 million and $8.0 million, respectively for the second quarter and six-month period. (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 second quarter amounted to $3.0 million compared with $1.6 million for the same period of 2011. For the six-month period, the share amounted to $2.3 million compared with $1.0 million in 2011. While CIBV's profitability improved over 2011, its performance for the six-month period was dampened by the recognition of a foreign exchange loss on long-term debt.

INCOME TAXES

During the second quarter, the Corporation recovered income taxes totalling $7.7 million compared with an income tax expense of $1.2 million for the corresponding period of the previous fiscal year. For the six-month period, the income tax recovery amounted to $19.2 million compared with $4.8 million in 2011. Excluding the share in net income of an associate, the effective tax rates were 34.4% and 31.0%, respectively for the second quarter and the six-month period compared with 12.5% and 57.9%, respectively for the year-over-year periods. The changes in tax rates for the quarter and six-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 a net loss of $11.8 million for the quarter ended April 30, 2012 compared with net income of $10.1 million in 2011. Net loss attributable to shareholders stood at $13.2 million or $0.35 per share (basic and diluted) compared with net income of $8.7 million or $0.23 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 38,104,000 for the second quarter of 2012 compared with 38,173,000 for corresponding period of 2011.

For the six-month period ended April 30, 2012, Transat reported a net loss of $40.4 million compared with a $2.4 million loss in 2011. Net loss attributable to shareholders stood at $42.7 million or $1.12 per share (basic and diluted) compared with $4.7 million or $0.12 per share (basic and diluted) for the corresponding six-month period of the previous year. The weighted average number of shares outstanding used to calculate the per share amounts was 38,079,000 for the first six-month period of 2012 compared with 37,891,000 for corresponding period of 2011. See Note 11 to the unaudited interim condensed consolidated financial statements.

Adjusted after-tax loss amounted to $24.5 million ($0.64 per share) and $54.5 million ($1.43 per share), respectively for the second quarter and six-month period ended April 30, 2012, compared with $0.6 million ($0.02 per share) and $19.9 million ($0.53 per share) for the corresponding periods 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)	Q3-2010 (GAAP) $	Q4-2010 (GAAP) $	Q1-2011 (IFRS) $	Q2-2011 (IFRS) $	Q3-2011 (IFRS) $	Q4-2011 (IFRS) $	Q1-2012 (IFRS) $	Q2-2012 (IFRS) $
Revenues	867,344	778,585	810,154	1,101,109	936,974	809,927	829,296	**1,212,426**
Operating margin (loss)	53,941	77,852	(14,506)	9,299	14,736	20,981	(31,839)	**(26,226)**
Net income (loss)	n/a	n/a	(12,525)	10,095	(2,567)	(3,777)	(28,580)	**(11,774)**
Net income (loss) attributable to shareholders	20,925	52,356	(13,378)	8,715	(2,782)	(4,388)	(29,489)	**(13,199)**
Basic earnings (loss) per share	0.55	1.38	(0.35)	0.23	(0.07)	(0.12)	(0.77)	**(0.35)**
Diluted earnings (loss) per share	0.55	1.37	(0.35)	0.23	(0.07)	(0.12)	(0.77)	**(0.35)**
Adjusted after-tax income (loss)	26,828	47,726	(19,318)	(576)	2,849	10,221	(29,941)	**(24,536)**
Adjusted after-tax income (loss) per share	0.70	1.25	(0.51)	(0.02)	0.07	0.27	(0.79)	**(0.64)**

LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2012, cash and cash equivalents totalled $264.1 million compared with $181.6 million as at October 31, 2011. Cash and cash equivalents in trust or otherwise reserved amounted to $328.9 million as at the end of the second quarter of 2012 compared with $359.5 million as at October 31, 2011. The Corporation's balance sheet reflects a working capital deficiency of $64.1 million and a current ratio of 0.93 compared with working capital of $17.4 million and a ratio of 1.02 as at October 31, 2011.

Total assets grew $89.1 million or 7.3% to $1,313.3 million as at April 30, 2012 from $1,224.2 million as at October 31, 2011. This rise was driven mainly by an $82.5 million increase in cash and cash equivalents and a $19.2 million increase in deferred income tax assets, offset by a $30.7 million decrease in cash and cash equivalents in trust or otherwise reserved. These changes reflect the seasonal nature of our operations. Shareholders' equity fell $47.4 million to $351.2 million as at April 30, 2012 from $398.6 million as at October 31, 2011, mainly due to the net loss attributable to shareholders of $42.7 million and the unrealized loss on cash flow hedges of $4.5 million.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
(in thousands of dollars)	2012 $	2011 $	Difference $	2012 $	2011 $	Difference $
Cash flows related to operating activities	**71,359**	104,667	(33,308)	**122,097**	152,244	(30,147)
Cash flows related to investing activities	**(20,323)**	(15,730)	(4,593)	**(34,685)**	(28,485)	(6,200)
Cash flows related to financing activities	**(1,361)**	(8,647)	7,286	**(3,623)**	(23,123)	19,500
Effect of exchange rate changes on cash	**422**	(1,002)	1,424	**(1,293)**	(3,021)	1,728
Net change in cash and cash equivalents	**50,097**	79,288	(29,191)	**82,496**	97,615	(15,119)

OPERATING ACTIVITIES

In the second quarter, operating activities generated $71.4 million in cash flows compared with $104.7 million for the corresponding quarter of 2011. The $33.3 million year-over-year decrease for the quarter resulted from lower profitability, offset by a $12.9 million increase in the net change in non-cash working capital balances related to operations This increase stemmed primarily from a larger increase in trade and other payables and a larger decrease in prepaid expenses during the period, offset by a larger decrease in customer deposits and deferred income, relative to the same period of 2011.

For the six-month period, cash flows from operating activities decreased by $30.1 million to $122.1 million from $152.2 million in 2011. This decrease also resulted mainly from lower profitability, offset by a $30.1 million increase in the net change in non-cash working capital balances related to operations, which was primarily due to a larger increase in cash and cash equivalents in trust or otherwise reserved during the period.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $20.3 million for the second quarter, up $4.6 million from the corresponding quarter of 2011. During the quarter, we acquired assets and assumed liabilities of TMR for a total consideration of $5.0 million, net of cash acquired. Additions to property, plant and equipment and other intangible assets totalled $13.1 million, up $1.2 million from $11.9 million in 2011 while reserved cash and cash equivalents (non-current) increased by $2.9 million. We also recorded cash inflows of $0.7 million from investments in ABCP compared with $0.4 million in 2011.

For the six-month period, cash flows used in investing activities increased by $6.2 million to $34.7 million from $28.5 million in 2011. Additions to property, plant and equipment and other intangible assets increased by $3.1 million. We also recorded cash inflows of $1.4 million from investments in ABCP compared with $0.8 million in 2011.

FINANCING ACTIVITIES

Cash flows used in financing activities in the second quarter of 2012 totalled $1.4 million, down $7.3 million from $8.6 million in the corresponding quarter of 2011, owing mainly to repayments of long-term debt of the Corporation during fiscal 2011. During the quarter, a share issuance generated proceeds of $0.3 million for the Corporation while dividends in the amount of $1.7 million were paid to a non-controlling shareholder.

For the six-month period, cash flows used in financing activities totalled $3.6 million, down $19.5 million from $23.1 million in 2011, owing mainly to repayments of long-term debt during fiscal 2011.

FINANCING

As at June 13, 2012, the Corporation had several types of financing, consisting primarily of two revolving term credit facilities as well as lines of credit for issuing letters of credit.

As at April 30, 2012, the conditions under the $100.0 million financing agreement were not met. The lenders have waived this default so that the Corporation is in compliance with all its commitments to its lenders.

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 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 June 13, 2012, all financial ratios were met. As at April 30, 2012, the credit facility was undrawn.

As at April 30, 2012, the Corporation had an $82.7 million revolving term credit facility. Subsequent to the sale of certain items of ABCP with a notional amount of $80.0 million (see Investments in ABCP), available credit amounted to $2.7 million.

The Corporation also 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 April 30, 2012, $51.2 million had been drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$15.0 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 $595.8 million as at April 30, 2012 compared with $653.7 million as at October 31, 2011, and is detailed as follows:

(in thousands of dollars)	As at April 30, 2012 $	As at October 31, 2011 $
Guarantees		
Irrevocable letters of credit	**5,010**	2,798
Collateral security contracts	**14,399**	14,247
Operating leases		
Commitments under operating leases	**576,346**	636,618
	595,755	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 April 30, 2012, $13.7 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 a €12.7 million [$16.7 million] guarantee facility, under which €3.4 million [$4.5 million] was drawn down.

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

DEBT LEVELS

The Corporation's debt levels as at April 30, 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 $57.9 million to $595.8 million from $653.7 million. The decline in total debt resulted from repayments during the six-month period ended April 30, 2012.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $246.3 million in total net debt as at April 30, 2012, down $147.0 million from $393.3 million as at October 31, 2011.

SHARES OUTSTANDING

As at April 30, 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 April 30, 2012, there were 900,296 Class A Variable Voting Shares outstanding and 37,225,325 Class B Voting Shares outstanding.

STOCK OPTIONS

As at June 13, 2012, there were a total of 2,275,325 stock options outstanding, 745,997 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 six-month period ended April 30, 2012, the Corporation received $1.4 million in principal repayments on ABCP supported solely by traditional securitized assets (MAV3 Traditional). The notional value of the new ABCP amounted to $115.0 million as at April 30, 2012 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.

MAV3 Traditional

The Corporation holds $1.7 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

On April 30, 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 six-month period ended April 30, 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 23, 2011, confirming the A+ rating of Class A-1 ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) and upgrading Class A-Z to a BBB+ 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 1.4% [weighted average rate of 1.2%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 4.7-year period using discount rates ranging from 6.2% to 29.0% (weighted average rate of 8.0%), which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized increases in the fair value of its investments in ABCP on April 30, 2012, for the quarter and six-month periods then ended amounting to $8.8 million and $8.0 million, respectively. These adjustments do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. As at April 30, 2012, the ABCP investment portfolio had a fair value of $85.4 million and the provision for impairment totalled $29.6 million, representing 25.8% of the notional value of $115.0 million.

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

A 1% increase (decrease) [100 basis points] in the estimated discount rates would result in a decrease (increase) of approximately $3.7 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	—	3,133	3,133	(3,133)
Principal repayments	(424)	—	(424)	—
Balance as at January 31, 2011/Impact on results for period ended January 31, 2011	117,698	(42,643)	75,055	(3,133)
Increase in value of investments in ABCP	—	3,504	3,504	(3,504)
Principal repayments	(371)	—	(371)	—
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	—	1,476	1,476	(1,476)
Principal repayments	(913)	—	(913)	—
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	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012/Impact on results for period ended January 31, 2012	115,702	(38,443)	77,259	780
Increase in value of investments in ABCP	—	8,812	8,812	(8,812)
Principal repayments	(686)	—	(686)	—
Balance as at April 30, 2012/Impact on results for period ended April 30, 2012	**115,016**	**(29,631)**	**85,385**	**8,032**

The balance of investments in ABCP as at April 30, 2012 is detailed as follows:

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $
MAV2 Eligible			
Class A-1	34,415	(6,755)	27,660
Class A-2	63,894	(16,062)	47,832
Class B	11,598	(4,123)	7,475
Class C	3,403	(2,497)	906
	113,310	(29,437)	83,873
MAV3 Traditional	1,706	(194)	1,512
	115,016	**(29,631)**	**85,385**

Subsequent to the end of the second quarter, the Corporation sold certain ABCP with a total notional value of $80.0 million and a fair value of $59,4 million as at April 30, 2012 for a total consideration of $57,4 million.

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).

HANDLEX

On June 12, 2012, the Corporation has concluded the sale of its Handlex business unit, which provides airport ground-handling services at Montreal, Toronto and Vancouver international airports. The transaction includes an agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operations bases.

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 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.

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

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.

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 principle 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 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 (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.

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 April 30, 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 April 30, 2012 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Despite the current decrease in fuel costs, the net impact on margin has been negative, due the rise of the US dollar and the decline of the euro compared to the Canadian dollar. Bookings are similar to last year at the same date, but the business environment remains challenging. Economic and political uncertainty in Europe, both a source and destination market for Transat, as well as the major impact of last minute bookings on average selling prices make any forecast for the second half very difficult.

The transatlantic market accounts for a very significant portion of Transat's business in the summer. For the period going from May to October 2012, the Corporation's capacity is approximately 4% lower than the actual capacity offered in 2011. To date, load factors and prices are slightly higher than last year.

In the sun destinations market from Canada, Transat's capacity is 13% inferior compared to last year. Load factors are similar and selling prices are inferior.

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

The implementation of the measures contained in the Corporation's plan to return to profitability is proceeding.

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

(in thousands of Canadian dollars) (unaudited)	As at April 30, 2012 $	As at October 31, 2011 $
ASSETS		
Current assets		
Cash and cash equivalents	**264,072**	181,576
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	**289,806**	323,314
Trade and other receivables	**123,405**	124,000
Income taxes receivable	**9,236**	17,749
Inventories	**10,474**	11,096
Prepaid expenses	**61,771**	55,196
Derivative financial instruments	**8,260**	7,935
Current portion of deposits	**28,066**	15,599
Current assets	**795,090**	736,465
Cash and cash equivalents reserved	**39,088**	36,231
Investments in ABCP *[note 6]*	**85,385**	78,751
Deposits	**24,574**	33,907
Deferred tax assets *[note 15]*	**45,939**	26,723
Property, plant and equipment	**91,150**	86,520
Goodwill	**106,833**	109,495
Intangible assets	**59,659**	52,347
Derivative financial instruments	**—**	—
Investments and other assets *[note 7]*	**65,619**	63,806
Non-current assets	**518,247**	487,780
Total assets	**1,313,337**	1,224,245
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	**366,742**	355,130
Current portion of provision for overhaul of leased aircraft *[note 8]*	**19,716**	19,088
Income taxes payable	**1,266**	7,943
Customer deposits and deferred income	**464,722**	331,280
Derivative financial instruments	**6,761**	5,659
Current liabilities	**859,207**	719,100
Provision for overhaul of leased aircraft *[note 8]*	**14,873**	14,230
Other liabilities *[notes 10 and 15]*	**77,590**	78,048
Deferred income tax liabilities *[note 15]*	**10,473**	14,274
Non-current liabilities	**102,936**	106,552
Equity		
Share capital *[note 11]*	**220,102**	219,462
Share-based payment reserve	**12,261**	11,063
Retained earnings	**133,586**	176,274
Unrecognized gain (loss) on cash flow hedges	**(2,576)**	1,948
Cumulative exchange differences	**(12,179)**	(10,154)
Total equity	**351,194**	398,593
Total liabilities and equity	**1,313,337**	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 April 30, 2012 $	2011 $	Six-month periods ended April 30, 2012	2011 $
Revenues	**1,212,426**	1,101,109	**2,041,722**	1,911,263
Operating expenses				
Cost of providing tourism services	**781,162**	680,945	**1,275,288**	1,179,946
Aircraft fuel	**123,898**	104,372	**212,889**	170,167
Salaries and employee benefits	**98,357**	92,177	**193,471**	181,945
Commissions	**65,267**	61,133	**105,338**	102,778
Aircraft maintenance	**35,247**	30,943	**62,816**	54,234
Airport and navigation fees	**25,282**	23,404	**43,256**	41,196
Aircraft rent	**21,589**	17,089	**41,471**	31,910
Other	**87,850**	81,747	**165,258**	154,294
	1,238,652	1,091,810	**2,099,787**	1,196,470
	(26,226)	9,299	**(58,065)**	(5,207)
Depreciation and amortization	**10,094**	11,055	**20,002**	22,257
Financing costs	**838**	908	**1,342**	1,776
Financing income	**(1,705)**	(1,772)	**(3,542)**	(3,704)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(4,403)**	(8,155)	**(6,025)**	(11,993)
Foreign exchange loss on long-term monetary items	**242**	1,079	**86**	1,356
Gain on investments in ABCP *[note 6]*	**(8,812)**	(3,504)	**(8,032)**	(6,637)
Share of net income of an associate	**(2,976)**	(1,617)	**(2,339)**	(1,048)
	(6,722)	(2,006)	**1,492**	2,007
Income (loss) before income tax expense	**(19,504)**	11,305	**(59,557)**	(7,214)
Income taxes (recovery) *[note 15]*				
Current	**11,311**	225	**2,211**	(5,632)
Deferred	**(19,041)**	985	**(21,414)**	848
	(7,730)	1,210	**(19,203)**	(4,784)
Net income (loss)	**(11,774)**	10,095	**(40,354)**	(2,430)
Net income (loss) attributable to:				
Shareholders	**(13,199)**	8,715	**(42,688)**	(4,663)
Non-controlling interests	**1,425**	1,380	**2,334**	2,233
	(11,774)	10,095	**(40,354)**	(2,430)
Earnings (loss) per share attributable to shareholders *[note 11]*				
Basic	**(0.35)**	0.23	**(1.12)**	(0.12)
Diluted	**(0.35)**	0.23	**(1.12)**	(0.12)

See accompanying notes to unaudited interim condensed consolidated financial statements

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

	Quarters ended April 30,		Six-month periods ended April 30,	
	2012	2011	2012	2011
(in thousands of Canadian dollars, except per share amounts) (unaudited)	$	$	$	$
Net income(loss) for the period	**(11,774)**	10,095	**(40,354)**	(2,430)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	**(8,428)**	(37)	**(9,025)**	618
Reclassification in income (loss)	**1,706**	(3,540)	**2,679**	(4,582)
Deferred taxes	**1,976**	1,053	**1,822**	1,005
	(4,746)	(2,524)	**(4,524)**	(2,959)
Foreign exchange losses on translation of financial statements of foreign subsidiaries	**(227)**	(2,660)	**(2,025)**	(6,049)
Total other comprehensive loss	**(4,973)**	(5,184)	**(6,549)**	(9,008)
Comprehensive income (loss) for the period	**(16,747)**	4,911	**(46,903)**	(11,438)
Attributable to:				
Shareholders	**(18,219)**	3,435	**(49,288)**	(13,747)
Non-controlling interests	**1,472**	1,476	**2,385**	2,309
	(16,747)	4,911	**(46,903)**	(11,438)

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	—	—	(4,663)	—	—	(4,663)	2,233	(2,430)
Other comprehensive income (loss)	—	—	—	(2,959)	(6,125)	(9,084)	76	(9,008)
Comprehensive income (loss)	—	—	(4,663)	(2,959)	(6,125)	(13,747)	2,309	(11,438)
Issued from treasury	645	—	—	—	—	645	—	645
Exercise of options	461	—	—	—	—	461	—	461
Share-based payment expense	—	1,544	—	—	—	1,544	—	1,544
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,233)	(2,233)
Reclassification of non-controlling interest exchange difference	—	—	—	—	76	76	(76)	—
	1,106	1,544	—	—	76	2,726	(2,309)	417
Balance as at April 30, 2011	218,710	10,634	185,737	(4,481)	(6,049)	404,551	—	404,551
Net income (loss) for the period	—	—	(7,170)	—	—	(7,170)	826	(6,344)
Other comprehensive income (loss)	—	—	154	6,429	(4,124)	2,459	19	2,478
Comprehensive income (loss)	—	—	(7,016)	6,429	(4,124)	(4,711)	845	(3,866)
Issued from treasury	716	—	—	—	—	716	—	716
Exercise of options	36	(127)	—	—	—	(91)	—	(91)
Share-based payment expense	—	556	—	—	—	556	—	556
Change in fair value of options	—	—	(2,447)	—	—	(2,447)	—	(2,447)
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(826)	(826)
Reclassification of non-controlling interest exchange difference	—	—	—	—	19	19	(19)	—
	752	429	(2,447)	—	19	(1,247)	(845)	(2,092)
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	—	—	(42,688)	—	—	(42,688)	2,334	(40,354)
Other comprehensive income (loss)	—	—	—	(4,524)	(2,076)	(6,600)	51	(6,549)
Comprehensive income (loss)	—	—	(42,688)	(4,524)	(2,076)	(49,288)	2,385	(46,903)
Issued from treasury	640	—	—	—	—	640	—	640
Share-based payment expense	—	1,198	—	—	—	1,198	—	1,198
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,334)	(2,334)
Reclassification of non-controlling interest exchange difference	—	—	—	—	51	51	(51)	—
	640	1,198	—	—	51	1,889	(2,385)	(496)
Balance as at April 30, 2012	**220,102**	**12,261**	**133,586**	**(2,576)**	**(12,179)**	**351,194**	**—**	**351,194**

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 April 30, 2012 $	Quarters ended April 30, 2011 $	Six-month periods ended April 30, 2012 $	Six-month periods ended April 30, 2011 $
OPERATING ACTIVITIES				
Income (loss) for the period	**(11,774)**	10,095	**(40,354)**	(2,430)
Operating items not involving an outlay (receipt) of cash :				
Depreciation and amortization	**10,094**	11,055	**20,002**	22,257
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(4,403)**	(8,155)	**(6,025)**	(11,993)
Foreign exchange loss on long-term monetary items	**242**	1,079	**86**	1,356
Gain on investments in ABCP	**(8,812)**	(3,504)	**(8,032)**	(6,637)
Share of net income of an associate	**(2,976)**	(1,617)	**(2,339)**	(1,048)
Deferred taxes	**(19,041)**	985	**(21,414)**	848
Employee benefits	**522**	442	**1,043**	884
Share-based payment expense	**699**	995	**1,198**	1,544
	(35,449)	11,375	**(55,835)**	4,781
Net change in non-cash working capital balances related to operations	**105,260**	92,362	**179,596**	149,483
Net change in other assets and liabilities related to operations	**(2,744)**	(1,275)	**(2,935)**	(6,702)
Net change in provision for overhaul of leased aircraft	**4,292**	2,205	**1,271**	4,682
Cash flows related to operating activities	**71,359**	104,667	**122,097**	152,244
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	**(13,080)**	(11,904)	**(28,154)**	(25,083)
Realization of principal of investments in ABCP	**686**	371	**1,398**	795
Increase in cash and cash equivalent reserved	**(2,871)**	(4,197)	**(2,871)**	(4,197)
Cash and cash equivalent of an acquired company	**720**	—	**720**	—
Consideration paid for an acquired company	**(5,778)**	—	**(5,778)**	—
Cash flow related to investing activities	**(20,323)**	(15,730)	**(34,685)**	(28,485)
FINANCING ACTIVITIES				
Net change in credit facilities and other debt	—	—	—	(15,076)
Repayment of debenture and long-term debt	—	(6,802)	—	(6,802)
Proceeds from issuance of shares	**293**	379	**640**	979
Dividend paid to a non-controlling interest	**(1,654)**	(2,224)	**(4,263)**	(2,224)
Cash flow related to financing activities	**(1,361)**	(8,647)	**(3,623)**	(23,123)
Effect of exchange rate changes on cash and cash equivalents	**422**	(1,002)	**(1,293)**	(3,021)
Net change in cash and cash equivalents	**50,097**	79,288	**82,496**	97,615
Cash and cash equivalents, beginning of period	**213,975**	198,954	**181,576**	180,627
Cash and cash equivalents, end of period	**264,072**	278,242	**264,072**	278,242
Supplementary information				
Income taxes paid	**6,679**	8,275	**1,101**	22,523
Interest paid	**484**	1,167	**725**	1,231

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 April 30, 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 April 30, 2011, as well as on income (loss), comprehensive income (loss) and cash lows for the quarter and six-month period ended April 30, 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.

IFRS 12, *DISCLOSURE OF INTERESTS IN OTHER ENTITIES*

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.

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 not yet completed the fair value measurement of identifiable assets acquired and identifiable liabilities assumed. Accordingly, the fair values of these assets and liabilities remain provisional until their measurement has been finalized. The excess of the total consideration over the fair value of net assets acquired was provisionally allocated to the trademark.

The net provisional 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	6,473
Prepaid expenses	11,576
Property, plant and equipment	291
Intangible assets	4,500
Trade and other payables	(7,931)
Customer deposits and deferred income	(33,827)
Net assets at fair value	5,058
Cash and cash equivalents of an acquired business	720
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 $69,500 with a pre-tax loss of $3,503, 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 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at April 30, 2012, cash and cash equivalents in trust or otherwise reserved included $247,481 [$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 $81,413, of which $39,088 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 6 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 six-year period ended April 30, 2012, the Corporation received $1,398 in principal repayments on ABCP supported solely by traditional securitized assets [MAV3 Traditional].

The notional value of the new ABCP amounted to $115,016 as at April 30, 2012 and is detailed as follows:

MAV 2 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.

MAV 3 Traditional

The Corporation holds $1,706 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

On April 30, 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 six-month period ended April 30, 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 23, 2011, confirming the A+ rating of Class A-1 ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] and upgrading Class A-2 to a BBB+ 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 1.4% [weighted average rate of 1.2%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 4.7-year period using discount rates ranging from 6.2% to 29.0% [weighted average rate of 8.0%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized increases in the fair value of its investments in ABCP on April 30, 2012 for the quarter and six-month periods then ended amounting to $8,812 and $8,032, respectively. These adjustments do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. As at April 30, 2012, the ABCP investment portfolio had a fair value of $85,385 and the provision for impairment totalled $29,631, representing 25.8% of the notional value of $115,016.

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 $3,700 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	—	3,133	3,133	(3,133)
Principal repayments	(424)	—	(424)	—
Balance as at January 31, 2011/Impact on results for period ended January 31, 2011	117,698	(42,643)	75,055	(3,133)
Increase in value of investments in ABCP	—	3,504	3,504	(3,504)
Principal repayments	(371)	—	(371)	—
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	—	1,476	1,476	(1,476)
Principal repayments	(913)	—	(913)	—
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	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012/Impact on results for period ended January 31, 2012	115,702	(38,443)	77,259	780
Increase in value of investments in ABCP	—	8,812	8,812	(8,812)
Principal repayments	(686)	—	(686)	—
Balance as at April 30, 2012/Impact on results for period ended April 30, 2012	**115,016**	**(29,631)**	**85,385**	**8,032**

The balance of investments in ABCP as at April 30, 2012 is detailed as follows:

	Notional value $	Provision for impairment $	Investments $
MAV 2 Eligible			
Class A-1	34,415	(6,755)	27,660
Class A-2	63,894	(16,062)	47,832
Class B	11,598	(4,123)	7,475
Class C	3,403	(2,497)	906
	113,310	(29,437)	83,873
MAV 3 Traditional	1,706	(194)	1,512
	115,016	**(29,631)**	**85,385**

Subsequently to the end of the second quarter, the Corporation sold certain ABCP with a total notional value of $80,000 and a fair value of $59,395 as at April 30, 2012 for a total consideration of $57,448.

Note 7 INVESTMENT IN ASSOCIATES AND OTHER ASSETS

	As at April 30, 2012 $	As at October 31, 2011 $
Investment in associates – Caribbean Investments B.V. ["CIBV"]	**62,651**	60,612
Deferred costs, unamortized balance	**992**	1,301
Other investments	**80**	80
Sundry	**1,896**	1,813
	65,619	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	2,339
Exchange difference	(300)
Balance as at April 30, 2012	**62,651**

Note 8 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 six-month periods ended April 30 is detailed as follows:

	$
Balance as at November 1, 2010	30,709
Additional provisions and accretion	6,188
Utilization of provisions	(152)
Unused amounts released	(2,923)
Exchange difference	(636)
Balance as at January 31, 2011	33,186
Additional provisions and accretion	9,123
Utilization of provisions	3
Unused amounts released	(6,372)
Exchange difference	(549)
Balance as at April 30, 2011	35,391
Current provisions	25,804
Non-current provisions	9,587
Balance as at April 30, 2011	35,391

	$
Balance as at October 31, 2011	33,318
Additional provisions and accretion	8,795
Utilization of provisions	(350)
Unused amounts released	(11,547)
Exchange difference	81
Balance as at January 31, 2012	30,297
Additional provisions and accretion	2,415
Utilization of provisions	(715)
Unused amounts released	2,696
Exchange difference	(104)
Balance as at April 30, 2012	34,589
Current provisions	19,716
Non-current provisions	14,873
Balance as at April 30, 2012	34,589

Note 9 LONG-TERM DEBT

As at April 30, 2012, the conditions under the $100,000 financing agreement were not met. The lenders have waived this default so that the Corporation is in compliance with all its commitments to its lenders.

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 June 13, 2012, all financial ratios were met. As at April 30, 2012, the credit facility was undrawn.

As at April 30, 2012, the Corporation had an $82,700 revolving term credit facility. Subsequent to the sale of certain items of ABCP with a notional amount of $80,000 (see Investments in ABCP), available credit amounted to $2,700.

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 April 30, 2012, $51,198 had been drawn down.

Note 10 OTHER LIABILITIES

	As at April 30, 2012 $	As at October 31, 2011 $
Employee benefits	**28,988**	28,307
Deferred lease inducements	**21,728**	20,831
Non-controlling interests	**26,874**	28,910
	77,590	78,048

Note 11 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	44,404	645
Exercise of options	33,812	461
Balance as at April 30, 2011	37,928,050	218,710
Issued from treasury	84,663	716
Exercise of options	9,007	36
Balance as at October 31, 2011	38,021,720	219,462
Issued from treasury	103,901	640
Exercise of options	—	—
Balance as at April 30, 2012	**38,125,621**	**220,102**

As at April 30, 2012, the number of Class A Shares and Class B Shares stood at 900,296 and 37,225,325, 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	(203,525)	15.30
Balance as at April 30, 2012	**2,275,325**	**13.98**
Options exercisable as at April 30, 2012	**745,997**	**20.59**

EARNINGS (LOSS) PER SHARE

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

	Quarters ended April 30		Six-month periods ended April 30	
(in thousands of dollars, except per share amounts)	2012 $	2011 $	2012 $	2011 $
NUMERATOR				
Net earnings (loss) attributable to shareholders of the Corporation to reflect basic and diluted earnings (loss) per share	**(13,199)**	8,715	**(42,688)**	(4,663)
DENOMINATOR				
Weighted average number of outstanding shares	**38,104**	37,968	**38,079**	37,891
Stock options	—	205	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**38,104**	38,173	**38,079**	37,891
Earnings (loss) per share				
Basic	**(0.35)**	0.23	**(1.12)**	(0.12)
Diluted	**(0.35)**	0.23	**(1.12)**	(0.12)

In light of the losses recognized in the quarter and six-month period ended April 30, 2012, the 2,275,325 outstanding stock options were not included in the calculation of diluted loss per share because of their anti-dilutive effect.

In calculating diluted earnings (loss) per share for the year ended April 30, 2011, 797,135 stock options were not included since the exercise price of these options was higher than the average price of the Corporation's shares. In light of the loss recognized in the six-month period ended April 30, 2011, the 1,899,520 outstanding stock options were not included in the calculation of diluted loss per share because of their anti-dilutive effect.

Note 12 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 April 30, 2012			Six-month period ended April 30, 2012		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	1,026,984	185,442	**1,212,426**	1,727,821	313,901	**2,041,722**
Operating expenses	1,046,587	192,065	**1,238,652**	1,766,558	333,229	**2,099,787**
	(19,603)	**(6,623)**	**(26,226)**	**(38,737)**	**(19,328)**	**(58,065)**

	Quarter ended April 30, 2011			Six-month period ended April 30, 2011		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	908,476	192,633	1,101,109	1,584,037	327,226	1,911,263
Operating expenses	898,632	193,178	1,091,810	1,580,095	336,375	1,916,470
	9,844	(545)	9,299	3,942	(9,149)	(5,207)

	Revenues[1]				Property, plant and equipment, goodwill and other intangible assets	
	Quarters ended April 30,		Six-month periods ended April 30,		As at April 30,	As at October 31,
	2012	2011	2012	2011	2012	2011
	$	$	$	$	$	$
Canada	**1,004,298**	890,079	**1,689,079**	1,554,210	**163,683**	149,848
France	**162,453**	161,649	**275,875**	272,214	**46,320**	49,697
United Kingdom	**21,670**	28,473	**36,388**	50,060	**33,371**	33,711
Other	**24,005**	20,908	**40,380**	32,779	**14,268**	15,106
	1,212,426	1,101,109	**2,041,722**	1,911,263	**257,642**	248,362

[1] Revenues are allocated based on the subsidiary's country of domicile.

Note 13 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 April 30, 2012, the total guarantees provided by the Corporation under the letters of credit amounted to $562. 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 April 30, 2012, these guarantees totalled $735. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 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 April 30, 2012, $13,664 had been drawn down under the facility.

Note 14 EVENT AFTER REPORTING PERIOD

On June 12, 2012, the Corporation has concluded the sale of its Handlex business unit, which provides airport ground-handling services at Montreal, Toronto and Vancouver international airports. The transaction includes an agreement with Air Transat, which will continue to receive the same services from Handlex at its three Canadian operations bases.

Note 15 TRANSITION TO IFRS

These interim condensed consolidated financial statements for the quarter ended April 30, 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 April 30, 2011, as well as on income (loss), comprehensive income (loss) and cash flows for the quarter and six-month period ended April 30, 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 $23,303 decrease in the total carrying amount of equity as at April 30, 2011 from the carrying amount under previous Canadian GAAP as at the same date. For the quarter and six-month period ended April 30, 2011, consolidated net loss was reduced by $1,475 and $2,423, respectively, while consolidated comprehensive loss was increased by $1,453 and $2,430, 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 April 30, 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)	**April 30, 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)	**April 30, 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)	April 30, 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)	April 30, 2011 $
Statement of financial position:	
Deferred tax assets	(76)
Other liabilities – Employee benefits	(273)
Net income:	
Salaries – Employee benefits	
Quarter ended January 31, 2011	132
Quarter ended April 30, 2011	131
Income taxes	
Quarter ended January 31, 2011	(37)
Quarter ended April 30, 2011	(36)
Comprehensive income:	
Cumulative exchange differences	
Quarter ended January 31, 2011	29
Quarter ended April 30, 2011	(22)

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	April 30, 2011 $
Equity under Canadian GAAP, as reported		**427,854**
Restatement of the measurement and recognition of:		
Employee benefits	2(c) and 3(b)	(7,915)
Changes in fair value of put options held by non-controlling interests	3(a)(iii)	(17,824)
Cumulative exchange differences	3(b)	7
		(25,732)
Income tax impact of all restatements	2(c) and 3(b)	2,429
Total restatements		(23,303)
Equity under IFRS		**404,551**

(in thousands of dollars) (unaudited)	Note 15	Quarter ended April 30, 2011 $	Six-month period ended April 30, 2011 $
Net income (loss) under Canadian GAAP, as reported		**8,620**	**(4,853)**
Restatement of the measurement and recognition of:			
Employee benefits	3(b)	131	263
Non-controlling interests		1,380	2,233
		1,511	2,496
Income tax impact of all restatements	3(b)	(36)	(73)
Total restatements		1,475	2,423
Net income (loss) under IFRS		**10,095**	**(2,430)**
Basic and diluted income (loss) per share under Canadian GAAP, as reported		**0.23**	**(0.13)**
Impact of IFRS restatements on net income (loss)		—	0.01
Basic and diluted income (loss) per share attributable to shareholders under IFRS		**0.23**	**(0.12)**

(in thousands of dollars) (unaudited)	Note 15	Quarter ended April 30, 2011 $	Six-month period ended April 30, 2011 $
Comprehensive income (loss) under Canadian GAAP, as reported		**3,458**	**(13,868)**
Total restatements of net income		1,475	2,423
Differences affecting comprehensive income (loss):			
Cumulative exchange differences	3(b)	(22)	7
		(22)	7
Comprehensive income (loss) under IFRS		**4,911**	**(11,438)**

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 six-month period ended April 30, 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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