TRANSAT A.T. INC.
FIRST QUARTERLY REPORT
Period ended January 31, 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 ended January 31, 2012, compared with the quarter ended January 31, 2011.

As explained in Transition to IFRS, Canadian generally accepted accounting principles ("GAAP") used to prepare the Corporation's consolidated financial statements were replaced on November 1, 2011 by International Financial Reporting Standards ("IFRS"). As of that date, the Corporation prepares its financial statements in accordance with IFRS. The 2011 comparative figures have been restated. This MD&A should be read in conjunction with the audited consolidated financial statements for year ended October 31, 2011 and the accompanying notes and the 2011 Annual Report, including the MD&A and the section on risks and uncertainties. It should also be read in conjunction with the information on the adjustments to the 2011 comparative figures on adoption of IFRS, which are discussed in Note 14 to the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2012. The purpose of this document is to provide a first-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 March 14, 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 January 31, 2012 and Annual Information Form for the year ended October 31, 2011.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.

- The Corporation's outlook whereby second-quarter results could be slightly inferior to last year, as savings stemming from the restructuring implemented in the fourth quarter of 2011 and other cost saving measures should be offset by higher fuel prices

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 first 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. This M&DA 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 14 to the unaudited interim condensed consolidated financial statements for the quarter ended January 31, 2012.

NON-IFRS FINANCIAL MEASURES

This MD&A was drawn up using results and financial information determined under IFRS. We occasionally used for 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:

Measure	Definition
Margin (operating 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 January 31	
	2012 $	2011 $
Revenues	**829,296**	810,154
Operating expenses	**861,135**	824,660
Operating loss	**(31,839)**	(14,506)
Pre-tax income (loss)	**(40,053)**	(18,519)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,622)**	(3,838)
Non-monetary loss (gain) on investments in ABCP	**780**	(3,133)
Adjusted loss	**(40,895)**	(25,490)
Net income (loss) attributable to shareholders	**(29,489)**	(13,378)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,622)**	(3,838)
Non-monetary loss (gain) on investments in ABCP	**780**	(3,133)
Tax impact	**390**	1,031
Adjusted after-tax loss	**(29,941)**	(19,318)
Adjusted after-tax loss	**(29,941)**	(19,318)
Adjusted weighted average number of outstanding shares used in computing diluted loss per share	**38,054**	37,870
Adjusted after-tax diluted loss per share	**(0.79)**	(0.51)

	As at January 31, 2012 $	As at October 31, 2011 $
Off-balance sheet arrangements, excluding agreements with service providers	**628,167**	653,663
Total debt	**628,167**	653,663
Total debt	**628,167**	653,663
Cash and cash equivalents	**(213,975)**	(181,576)
Investments in ABCP	**(77,259)**	(78,751)
Total net debt	**336,933**	393,336

FINANCIAL HIGHLIGHTS

	Quarters ended January 31			
(in thousands of dollars, except per share amounts)	2012 $	2011 $	Difference $	Difference %
Consolidated Statements of Income				
Revenues	**829,296**	810,154	19,142	2.4
Operating loss[1]	**(31,839)**	(14,506)	(17,333)	(119.5)
Net loss	**(28,580)**	(12,525)	(16,055)	(128.2)
Net loss attributable to shareholders	**(29,489)**	(13,378)	(16,111)	(120.4)
Basic loss per share	**(0.77)**	(0.35)	(0.42)	(120.0)
Diluted loss per share	**(0.77)**	(0.35)	(0.42)	(120.0)
Adjusted after-tax loss[1]	**(29,941)**	(19,318)	(10,623)	(55.0)
Adjusted after-tax diluted loss per share	**(0.79)**	(0.51)	(0.28)	(54.9)
Consolidated Statements of Cash Flows				
Operating activities	**50,738**	47,577	3,161	6.6
Investing activities	**(14,362)**	(12,755)	(1,607)	(12.6)
Financing activities	**(2,262)**	(14,476)	12,214	84.4
Effect of exchange rate changes on cash and cash equivalents	**(1,715)**	(2,019)	304	15.1
Net change in cash and cash equivalents	**32,399**	18,327	14,072	76.8

	As at January 31, 2012 $	As at October 31, 2011 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**213,975**	181,576	32,399	17.8
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**462,934**	359,545	103,389	28.8
Investments in ABCP	**77,259**	78,751	(1,492)	(1.9)
	754,168	619,872	134,296	21.7
Total assets	**1,450,019**	1,224,245	225,774	18.4
Debt	—	—	—	—
Total debt[1]	**628,167**	653,663	(25,496)	(3.9)
Total net debt[1]	**336,933**	393,336	(56,403)	(14.3)

[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 (and 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 and airport services.

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

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

Transat's targets for fiscal 2012 are as follows:

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

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.

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended January 31			
	2012	2011	Difference	Difference
(in thousands of dollars)	$	$	$	%
Americas	**700,837**	675,561	25,276	3.7
Europe	**128,459**	134,593	(6,134)	(4.6)
	829,296	810,154	19,142	2.4

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

Revenues for the quarter ended January 31, 2012 were up $19.1 million year over year on higher average selling prices despite a 3.6% decrease in the volume of travellers from the corresponding period of 2011.

OPERATING EXPENSES

	Quarters ended January 31			
	2012	2011	Difference	Difference
(in thousands of dollars)	$	$	$	%
Costs of providing tourism services	**494,126**	499,001	(4,875)	(1.0)
Salaries and employee benefits	**95,114**	89,768	5,346	6.0
Aircraft fuel	**88,991**	65,795	23,196	35.3
Commissions	**40,071**	41,645	(1,574)	(3.8)
Aircraft maintenance	**27,569**	23,291	4,278	18.4
Airport and navigation fees	**17,974**	17,792	182	1.0
Aircraft rent	**19,882**	14,821	5,061	34.1
Other	**77,408**	72,547	4,861	6.7
Total	**861,135**	824,660	36,475	4.4

Our aggregate operating expenses for the first quarter rose $36.5 million or 4.4% compared with the corresponding period of 2011, owing primarily to higher 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*.

Since the first quarter of 2011, changes were made to our fleet by adding three 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.

The changes saw first-quarter operating expenses grow 5.7% in the Americas and drop 1.4% in Europe compared with the same period of 2011.

COSTS 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. These costs fell $4.9 million (1.0%) owing primarily to lower traveller volumes. However, the anticipated cost savings from lower seat purchases from third-party carriers, mainly Thomas Cook, were partially offset by higher fuel prices.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the quarter were up $5.3 million (6.0%) year over year. This increase 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.

AIRCRAFT FUEL

First-quarter aircraft fuel costs climbed $23.2 million (35.3%) from the corresponding period of 2011, mainly on the back of increased fuel prices and flight times for Air Transat aircraft.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the first quarter was down $1.6 million (3.8%) compared with the corresponding period of 2011. As a percentage of revenues, commissions fell to 4.8% for the first quarter of 2012 from 5.1% for the first quarter of 2011. The decrease 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. The first quarter saw a $4.3 million (18.4%) rise in these costs year over year, 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 for the first quarter ended January 31, 2012 were up $0.2 million (1.0%) year over year, in line with the higher number of flights logged by our aircraft.

AIRCRAFT RENT

Aircraft rent for the first quarter climbed $5.1 million (34.1%) from the corresponding period of 2011 as a result of adding three Airbus A330 to the fleet, offset by the retirement of two A310, since the same period last year.

OTHER

Other expenses for the first quarter rose $4.9 million (6.7%) from the corresponding period of 2011, prompted mainly by higher other air costs arising from increased flight times logged by our aircraft.

MARGIN (OPERATING LOSS)

In light of the foregoing, Transat reported a first-quarter operating loss of $31.8 million (3.8%) compared with $14.5 million (1.8%) for the same period of 2011. Soaring fuel prices conspired with intense market competition to compress margins over the period.

GEOGRAPHIC AREAS

AMERICAS

(in thousands of dollars)	Quarters ended January 31			
	2012 $	2011 $	Difference $	Difference %
Revenues	**700,837**	675,561	25,276	3.7
Operating expenses	**719,971**	681,463	38,508	5.7
Operating loss	**(19,134)**	(5,902)	(13,232)	(224.2)

First-quarter revenues at our North American subsidiaries derived from sales in Canada and abroad were up $25.3 million (3.7%) from the same period in 2011. Revenue growth was spurred by higher average selling prices despite 0.9% slippage in traveller volumes compared with the first quarter of 2011. A drop in traveller volumes was recorded on routes departing Canada for sun destinations (due to our move to cut capacity), offset by higher load factors on European-bound routes. Transat posted a first-quarter operating loss of 2.7% compared with 0.9% for the corresponding period of 2011. The pressure on our bottom line stemmed primarily from higher fuel costs and a fiercely competitive environment.

EUROPE

(in thousands of dollars)	Quarters ended January 31			
	2012 $	2011 $	Difference $	Difference %
Revenues	**128,459**	134,593	(6,134)	(4.6)
Operating expenses	**141,164**	143,197	(2,033)	(1.4)
Operating loss	**(12,705)**	(8,604)	(4,101)	(47.7)

First-quarter revenues at our European subsidiaries on sales in Europe and Canada were down $6.1 million (4.6%) year over year. Excluding a slight improvement by our U.K. subsidiary, revenues from our main European subsidiaries held steady but were dampened on translation into Canadian dollars. First-quarter traveller volumes were down 19.4% year over year. Our European operations reported an operating loss of 9.9% compared with 6.4% in the corresponding period of 2011.

OTHER EXPENSES (REVENUES)

(in thousands of dollars)	Quarters ended January 31			
	2012 $	2011 $	Difference $	Difference %
Amortization	**9,908**	11,202	(1,294)	(11.6)
Financing costs	**504**	868	(364)	(41.9)
Financing income	**(1,837)**	(1,932)	95	4.9
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,622)**	(3,838)	2,216	57.7
Foreign exchange loss (gain) on long-term monetary items	**(156)**	277	(433)	(156.3)
Loss (gain) on investments in ABCP	**780**	(3,133)	3,913	124.9
Share of net loss of an associate	**637**	569	68	12.0

AMORTIZATION

Amortization, including property, plant and equipment, intangible assets subject to amortization and deferred lease inducements, fell $1.3 million in the first quarter from the corresponding period of 2011. This change resulted from the decline in additions to property, plant and equipment and intangible assets over the past few years.

FINANCING COSTS

Financing costs include interest on long-term debt and other interest as well as financial expenses. First-quarter financing costs were down $0.4 million from the corresponding period of 2011, as a result of repayments of long-term debt in fiscal 2011.

FINANCING INCOME

Financing income for the first quarter was down $0.1 million 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 $1.6 million increase in fair value of derivative financial instruments used for aircraft fuel purchases for the first quarter compared with $3.8 million for the corresponding period of 2011.

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

The Corporation recorded a $0.2 million foreign exchange gain on long-term monetary items for the first quarter.

LOSS (GAIN) ON INVESTMENTS IN ABCP

The gain (loss) on investments in ABCP results from the change in the fair value of investments in ABCP during the period. The loss on investments in ABCP for the first quarter amounted to $0.8 million. (See *Investments in ABCP* for more information.)

SHARE OF NET (INCOME) LOSS OF AN ASSOCIATE

Our share of net loss (income) of a company subject to significant influence represents our share of the net loss (income) of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share for the first quarter amounted to $0.6 million compared with $0.6 million for the same period of 2011. While CIBV reported improved profitability compared with the corresponding quarter of 2011, its performance was dampened by the recognition of a foreign exchange loss on long-term debt.

INCOME TAXES

The Corporation recovered income taxes for the first quarter totalling $11.5 compared with $6.0 million for the corresponding period of the previous fiscal year. Excluding the share in net income of an associate, the effective tax rate for the current quarter was 29.1%, compared with 33.4% for the year-over-year period. The change in tax rate for the quarter 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*, net loss for the quarter ended January 31, 2012 totalled $28.6 million compared with $12.5 million year over year. Net loss attributable to shareholders stood at $29.5 million or $0.77 per share (basic and diluted) compared with $13.4 million or $0.35 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 38,054,000 for the first quarter of 2012 compared with 37,870,000 for corresponding period of 2011. See Note 10 to the *Unaudited Interim Condensed Consolidated Financial Statements*.

Adjusted after-tax loss for the first quarter totalled $29.9 million ($0.79 per share) compared with $19.3 million ($0.51 per share) for the first quarter 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 quarters of previous years, owing primarily to increases in traveller volumes and/or average selling prices. 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)	Q2-2010 (GAAP) $	Q3-2010 (GAAP) $	Q4-2010 (GAAP) $	Q1-2011 (IFRS) $	Q2-2011 (IFRS) $	Q3-2011 (IFRS) $	Q4-2011 (IFRS) $	Q1-2012 (IFRS) $
Revenues	1,060,386	867,344	778,585	810,154	1,101,109	936,974	809,927	**829,296**
Operating margin (loss)	8,198	53,941	77,852	(14,506)	9,299	14,736	20,981	**(31,839)**
Net income (loss)	n/a	n/a	n/a	(12,525)	10,095	(2,567)	(3,777)	**(28,580)**
Net income (loss) attributable to shareholders	6,198	20,925	52,356	(13,378)	8,715	(2,782)	(4,388)	**(29,489)**
Basic earnings (loss) per share	0.16	0.55	1.38	(0.35)	0.23	(0.07)	(0.12)	**(0.77)**
Diluted earnings (loss) per share	0.16	0.55	1.37	(0.35)	0.23	(0.07)	(0.12)	**(0.77)**
Adjusted after-tax income (loss)	(2,695)	26,828	47,726	(19,318)	(576)	2,849	10,221	**(29,941)**
Adjusted after-tax income (loss) per share	(0.07)	0.70	1.25	(0.51)	(0.02)	0.07	0.27	**(0.79)**

LIQUIDITY AND CAPITAL RESOURCES

As at January 31, 2012, cash and cash equivalents totalled $214.0 million compared with $181.6 million as at October 31, 2011. Cash and cash equivalents in trust or otherwise reserved amounted to $462.9 million as at the end of the first quarter of 2012 compared with $359.5 million as at October 31, 2011. The Corporation's balance sheet reflects a working capital deficiency of $5.6 million and a current ratio of 0.99 compared with working capital of $17.4 million and a ratio of 1.02 as at October 31, 2011.

Total assets grew $225.8 million or 18.4% to $1,450.0 million as at January 31, 2012 from $1,224.2 million as at October 31, 2011. This rise was driven mainly by a $103.4 million increase in cash and cash equivalents in trust or otherwise reserved, a $77.2 million increase in prepaid expenses and a $32.4 million increase in cash and cash equivalents. These changes reflect the seasonal nature of our operations. Shareholders' equity fell $30.2 million to $368.4 million as at January 31, 2012 from $398.6 million as at October 31, 2011, mainly due to the $29.5 million net loss attributable to shareholders.

CASH FLOWS

	Quarters ended January 31		
(in thousands of dollars)	2012 $	2011 $	Difference $
Cash flows related to operating activities	**50,738**	47,577	3,161
Cash flows related to investing activities	**(14,362)**	(12,755)	(1,607)
Cash flow related to financing activities	**(2,262)**	(14,476)	12,214
Effect of exchange rate changes on cash	**(1,715)**	(2,019)	304
Net change in cash and cash equivalents	**32,399**	18,327	14,072

OPERATING ACTIVITIES

In the first quarter, operating activities generated $50.7 million in cash flows compared with $47.6 million for the corresponding quarter of 2011. The $3.2 million year-over-year increase was mainly driven by the increase in the net change in non-cash working capital balances related to operations of $17.2 million, offset by a decline in profitability. The increase in the net change in non-cash working capital balances related to operations was primarily due to a larger increase in client deposits and deferred revenues during the period, offset by a smaller increase in cash and cash equivalents in trust or otherwise reserved and trade and other payables.

INVESTING ACTIVITIES

Cash flows used in investing activities for the first quarter totalled $14.4 million, up $1.6 million from the corresponding quarter of 2011. During the quarter, additions to property, plant and equipment and other intangible assets totalled $15.1 million, up $1.9 million from $13.2 million in 2011. We also recorded cash inflows of $0.7 million from investments in ABCP compared with $0.4 million in 2011.

FINANCING ACTIVITIES

Cash flows used in financing activities in the first quarter totalled $2.3 million, down $12.2 million from $14.5 million in the corresponding quarter of 2011. During the quarter, a share issuance generated proceeds of $0.3 million for the Corporation while dividends in the amount of $2.6 million were paid to a non-controlling shareholder.

FINANCING

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

The Corporation has access to a $100.0 million revolving credit facility maturing in 2015, which is renewable or immediately payable in the event of a change in control. The Corporation has a $60.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash as collateral security against 105% of the amount of the letters of credit. Under the terms and conditions of the agreement for the revolving credit facility for operations, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium based on certain financial ratios calculated on a consolidated basis. The terms of the agreements require the Corporation to comply with financial criteria and ratios. As at January 31, 2012, the Corporation was not in compliance with one of the conditions of the $100.0 million financing agreement. Lenders have unanimously waived this default so that the Corporation is in compliance with all its commitments to its lenders.

The Corporation also has access to an $83.4 million revolving credit facility which matures in 2013 or is immediately payable in the event of a change in control. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the LIBOR, plus a premium specific to the type of financing vehicle. This credit facility also includes options, now in effect following implementation of the ABCP restructuring plan, allowing the Corporation, at its discretion, to repay amounts drawn down as they fall due under certain conditions up to a maximum of $38.1 million using the restructured notes. This option is reported at fair value at each balance sheet date under *Derivative financial instruments*, and any change in fair value of the options is recorded in net income (loss) under *Gain on investments in ABCP*. The terms of the agreement require the Corporation to comply with financial criteria and ratios. As at January 31, 2012, the Corporation was not in compliance with certain conditions of the financing agreement in order to draw more than $38.1 million. The lender has waived this default so that the Corporation is in compliance with all its commitments to its lender.

As at January 31, 2012, these credit facility were undrawn, except for the $60.0 million facility for issuing for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued, under which $47.1 million was drawn down.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.5 million [$15.1 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 $628.2 million as at January 31, 2012 compared with $653.7 million as at October 31, 2011, and is detailed as follows:

(in thousands of dollars)	As at January 31, 2012 $	As at October 31, 2011 $
Guarantees		
Irrevocable letters of credit	**2,918**	2,798
Collateral security contracts	**12,875**	14,247
Operating leases		
Commitments under operating leases	**612,374**	636,618
	628,167	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 January 31, 2012, $12.2 million was drawn down under these credit facilities for issuing letters of credit to some of our service providers.

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

DEBT LEVELS

The Corporation's debt levels as at January 31, 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 $25.5 million to $628.2 million from $653.7 million. The decline in total debt resulted from repayments during the quarter ended January 31, 2012.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $336.9 million in total net debt as at January 31, 2012, down $56.4 million from $393.3 million as at October 31, 2011.

SHARES OUTSTANDING

As at January 31, 2012, there were three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at January 31, 2012, there were 943,990 Class A Variable Voting Shares outstanding and 37,133,697 Class B Voting Shares outstanding.

STOCK OPTIONS

As at March 14, 2012, there were a total of 2,416,097 stock options outstanding, 905,995 of which were exercisable.

INVESTMENTS IN ABCP

RESTRUCTURING

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

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

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

PORTFOLIO

During the quarter ended January 31, 2012, the Corporation received $0.7 million in principal repayments on ABCP supported solely by traditional securitized assets (MAV3 Traditional). The notional value of the new ABCP amounted to $115.7 million as at January 31, 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 $2.4 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 January 31, 2012, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the quarter ended January 31, 2012, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. [BlackRock], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation's management measured the fair value of its assets from these classes using said valuations. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also considered the information released by DBRS on September 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 0.9% [weighted average rate of 0.8%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 4.9-year period using discount rates ranging from 6.8% to 32.5% [weighted average rate of 10.0%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized a $0.8 million writedown in the fair value of its investments in ABCP on January 31, 2012. This adjustment does not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $77.3 million and the provision for impairment totalled $38.4 million, representing 33.2% of the notional value of $115.7 million.

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

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $3.6 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	—	4,980	4,980	(4,980)
Principal repayments	(1,284)	—	(1,284)	—
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**

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

(in thousands of dollars)	Notional value $	Provision for impairment $	Investments $
MAV2 Eligible			
Class A-1	34,415	(9,251)	25,164
Class A-2	63,894	(21,405)	42,489
Class B	11,598	(5,335)	6,263
Class C	3,403	(2,263)	1,140
	113,310	(38,254)	75,056
MAV3 Traditional	2,392	(189)	2,203
	115,702	(38,443)	77,259

OTHER

VACANCES TOURS MONT-ROYAL

On February 1, 2012, the Corporation acquired some of the assets of Québec tour operator Vacances Tours Mont-Royal for a cash consideration of $5.0 million. Vacances Tours Mont-Royal specializes in the sale of packages to sun destinations for Canadian travellers, to Cuba, the Dominican Republic and Mexico, among others. 180,000 of the seats sold by this operator were bought by Air Transat.

FLEET

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

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 – FINANCIAL INSTRUMENTS

In October 2010, the IASB issued IFRS 9, *Financial instruments*, which 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 section, rather than within the statement of income. IFRS 9 will be effective for the Corporation's fiscal years beginning on November 1, 2015, with earlier application 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 November 1, 2013, with earlier application 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 November 1, 2013, with earlier application 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 IFRSs. IFRS 13 will be effective for the Corporation's fiscal years beginning on November 1, 2013, with earlier application permitted.

IAS 1 – PRESENTATION OF FINANCIAL STATEMENTS

In June 2011, the IASB amended IAS 1, *Presentation of financial statements*. The principle change resulting from the amendments to IAS 1 is a requirement to group together items within other comprehensive income that may be reclassified to the statement of income. The

amendments also reaffirm existing requirements that items in other comprehensive income and net income should be presented as either a single statement or two consecutive statements. The amendments to IAS 1 will be effective for the Corporation's fiscal years beginning on November 1, 2012, with earlier application permitted. The Corporation does not expect any changes to its consolidated financial statement presentation from this amendment as the items within other comprehensive income that may be reclassified to the statement of income are already grouped together.

IAS 19 – EMPLOYEE BENEFITS

In June 2011, the IASB amended IAS 19, *Employee benefits*. The amendments eliminate the option to defer the recognition of 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, 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 November 1, 2013, with earlier application 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 January 31, 2012 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;

- Internal control over financial reporting ("ICFR"), which provides reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with IFRS in its financial statements.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended January 31, 2012 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

The Canadian sun destinations market accounts for a very significant portion of Transat's business in the winter. For that market, Transat's capacity in the second quarter is approximately 2% higher than the capacity offered at the same date last year. Load factors are similar; selling prices are higher, but fuel costs and the US dollar are also higher.

On the transatlantic market, capacity is superior to last year and load factors are similar; selling prices are higher, as are fuel costs.

In France, bookings and selling prices are slightly up.

For the second quarter, results could be slightly inferior to last year, as savings stemming from the restructuring implemented in the fourth quarter of 2011 and other cost saving measures should be offset by higher fuel prices.

On the transatlantic market, for the summer, Transat's capacity, load factors, and bookings are similar to last year at the same date. Selling prices and fuel costs are higher in the same proportion. In France, bookings are superior to last year and prices are similar.

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

(in thousands of Canadian dollars) (unaudited)	As at January 31, 2012 $	As at October 31, 2011 $	As at November 1, 2010 $
ASSETS			
Current assets			
Cash and cash equivalents	**213,975**	181,576	180,627
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	**426,671**	323,314	320,428
Trade and other receivables *[note 15]*	**129,426**	124,000	146,944
Income taxes receivable	**19,156**	17,749	4,738
Inventories	**12,046**	11,096	9,867
Prepaid expenses	**132,380**	55,196	50,297
Derivative financial instruments	**9,771**	7,935	868
Current portion of deposits	**30,286**	15,599	12,554
Current assets	**973,711**	736,465	726,323
Cash and cash equivalents reserved	**36,263**	36,231	32,222
Investments in ABCP *[note 6]*	**77,259**	78,751	72,346
Deposits	**23,834**	33,907	29,837
Deferred income tax assets *[note 15]*	**25,327**	26,723	15,047
Property, plant and equipment *[note 15]*	**90,076**	86,520	88,376
Goodwill *[note 15]*	**106,795**	109,495	112,454
Intangible assets *[note 15]*	**53,015**	52,347	50,464
Derivative financial instruments	**—**	—	23
Investments and other assets *[note 7]*	**63,739**	63,806	64,868
Non-current assets	**476,308**	487,780	465,637
Total assets	**1,450,019**	1,224,245	1,191,960
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	**352,040**	355,130	300,239
Current portion of provision for overhaul of leased aircraft *[note 15]*	**17,269**	19,088	18,301
Income taxes payable	**5,960**	7,943	14,608
Customer deposits and deferred income	**598,424**	331,280	313,695
Derivative financial instruments	**5,663**	5,659	4,116
Current portion of long-term debt	—	—	13,768
Current liabilities	**979,356**	719,100	664,727
Long–term debt *[note 8]*	**—**	—	15,291
Provision for overhaul of leased aircraft	**13,028**	14,230	12,408
Other liabilities *[notes 9 and 15]*	**78,447**	78,048	71,486
Deferred income tax liabilities *[note 15]*	**10,814**	14,274	12,476
Non-current liabilities	**102,289**	106,552	111,661
Shareholders' equity			
Share capital *[note 10]*	**219,809**	219,462	217,604
Share-based payment reserve	**11,562**	11,063	9,090
Retained earnings	**146,785**	176,274	190,400
Unrecognized gain (loss) on cash flow hedge	**2,170**	1,948	(1,522)
Foreign currency translation adjustment	**(11,952)**	(10,154)	—
Total shareholders' equity	**368,374**	398,593	415,572
Total liabilities and equity	**1,450,019**	1,224,245	1,191,960

See accompanying notes to consolidated condensed interim financial statement

NOTICE

The Corporation's independent auditors have not performed a review of the accompanying condensed interim 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

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Three-month periods ended January 31 2012 $	2011 $
Revenues	**829,296**	810,154
Operating expenses		
Cost of providing tourism services	**494,126**	499,001
Salaries and employee benefits	**95,114**	89,768
Aircraft fuel	**88,991**	65,795
Commissions	**40,071**	41,645
Aircraft maintenance	**27,569**	23,291
Airport and navigation fees	**17,974**	17,792
Aircraft rent	**19,882**	14,821
Other	**77,408**	72,547
	861,135	824,660
	(31,839)	(14,506)
Depreciation and amortization	**9,908**	11,202
Financing cost	**504**	868
Financing income	**(1,837)**	(1,932)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,622)**	(3,838)
Foreign exchange loss (gain) on long-term monetary items	**(156)**	277
Loss (gain) on investments in ABCP *[note 6]*	**780**	(3,133)
Share of net (income) loss of an associate	**637**	569
	8,214	4,013
Loss before income tax expense	**(40,053)**	(18,519)
Income taxes (recovery) *[note 15]*		
Current	**(9,100)**	(5,857)
Deferred	**(2,373)**	(137)
	(11,473)	(5,994)
Net loss	**(28,580)**	(12,525)
Net income (loss) attributable to:		
Shareholders	**(29,489)**	(13,378)
Minority interests	**909**	853
	(28,580)	(12,525)
Loss per share attributable to shareholders *[note 10]*		
Basic	**(0.77)**	(0.35)
Diluted	**(0.77)**	(0.35)

See accompanying notes to consolidated condensed interim financial statement

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

(in thousands of Canadian dollars, except per share amounts) (unaudited)	Three-month periods ended January 31 2012 $	 2011 $
Net loss for the period	**(28,580)**	(12,525)
Other comprehensive income		
Items that will be reclassified to net income		
Change in fair value of derivatives designated as cash flow hedges	**(597)**	655
Reclassification in income	**973**	(1,042)
Deferred income taxes	**(154)**	(48)
	222	(435)
Foreign exchange losses on the translation of financial statements of foreign subsidiaries	**(1,798)**	(3,389)
Total other comprehensive income	**(1,576)**	(3,824)
Comprehensive income (loss) for the period	**(30,156)**	(16,349)
Attributable to:		
Shareholders	**(31,069)**	(17,182)
Minority interests	**913**	833
	(30,156)	(16,349)

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

				Accumulated other comprehensive income				
(in thousands of Canadian dollars) (unaudited)	Share capital $	Share-based payment reserve $	Retained earnings $	Unrecognized gain (loss) on cash flow hedge $	Foreign Currency translation adjustment $	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	—	—	(13,378)	—	—	(13,378)	853	(12,525)
Other comprehensive loss	—	—	—	(435)	(3,369)	(3,804)	(20)	(3,824)
Comprehensive income	—	—	(13,378)	(435)	(3,369)	(17,182)	833	(16,349)
Issued from treasury	308	—	—	—	—	308	—	308
Exercise of options	417	—	—	—	—	417	—	417
Share-based expense	—	549	—	—	—	549	—	549
Reclassification of non-controlling interests liability	—	—	—	—	—	—	(853)	(853)
Reclassification of non-controlling interests' foreign currency translation adjustment	—	—	—	—	(20)	(20)	20	—
	725	549	—	—	(20)	1,254	833	421
Balance as at January 31, 2011	218,329	9,639	177,022	(1,957)	(3,389)	399,644	—	399,644
Net income for the period	—	—	1,545	—	—	1,545	2,206	3,751
Other comprehensive income (loss)	—	—	154	3,905	(6,880)	(2,821)	115	(2,706)
Comprehensive income	—	—	1,699	3,905	(6,880)	(1,276)	2,321	1,045
Issued from treasury	1,053	—	—	—	—	1,053	—	1,053
Exercise of options	80	(127)	—	—	—	(47)	—	(47)
Share-based expense	—	1,551	—	—	—	1,551	—	1,551
Change in fair value of options	—	—	(2,447)	—	—	(2,447)	—	(2,447)
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(2,206)	(2,206)
Reclassification of non-controlling interests' foreign currency translation adjustment	—	—	—	—	115	115	(115)	—
	1,133	1,424	(2,447)	—	115	225	(2,321)	(2,096)
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	—	—	(29,489)	—	—	(29,489)	909	(28,580)
Other comprehensive income (loss)	—	—	—	222	(1,802)	(1,580)	4	(1,576)
Comprehensive income	—	—	(29,489)	222	(1,802)	(31,069)	913	(30,156)
Issued from treasury	347	—	—	—	—	347	—	347
Share-based expense	—	499	—	—	—	499	—	499
Reclassification of non-controlling interest liability	—	—	—	—	—	—	(909)	(909)
Reclassification of non-controlling interests' foreign currency translation adjustment	—	—	—	—	4	4	(4)	—
	347	499	—	—	4	850	(913)	(63)
Balance as at January 31, 2012	**219,809**	**11,562**	**146,785**	**2,170**	**(11,952)**	**368,374**	**—**	**368,374**

See accompanying notes to consolidated condensed interim financial statement

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

(in thousands of Canadian dollars) (unaudited)	Three-month periods ended January 31 2012 $	2011 $
OPERATING ACTIVITIES		
Loss for the period	**(28,580)**	(12,525)
Operating items not involving an outlay (receipt) of cash :		
Depreciation and amortization	**9,908**	11,202
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(1,622)**	(3,838)
Foreign exchange loss (gain) on long-term monetary items	**(156)**	277
Loss (gain) on investments in ABCP	**780**	(3,133)
Share of net (income) loss of an associate	**637**	569
Deferred income taxes	**(2,373)**	(137)
Employee benefits	**521**	442
Share-based expense	**499**	549
	(20,386)	(6,594)
Net change in non-cash working capital balances related to operations	**74,336**	57,121
Net change in other assets and liabilities related to operation	**(191)**	(5,427)
Net change in provision for overhaul of leased aircraft	**(3,021)**	2,477
Cash flows related to operating activities	**50,738**	47,577
INVESTING ACTIVITIES		
Additions to property, plant and equipment and to intangible assets	**(15,074)**	(13,179)
Realization of principal of investments in ABCP	**712**	424
Cash flow related to investing activities	**(14 362)**	(12,755)
FINANCING ACTIVITIES		
Net change in credit facilities and other debt	**—**	(15,076)
Proceeds from issuance of shares	**347**	600
Dividend paid to a non-controlling interest	**(2,609)**	—
Cash flow related to financing activities	**(2,262)**	(14,476)
Effect of exchange rate changes on cash and cash equivalents	**(1,715)**	(2,019)
Net change in cash and cash equivalents	**32,399**	18,327
Cash and cash equivalents, beginning of the period	**181,576**	180,627
Cash and cash equivalents, end of the period	**213,975**	198,954
Supplementary information		
Income taxes paid	**(5,578)**	14,248
Interest paid	**241**	64

See accompanying notes to consolidated condensed interim financial statement

[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 of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations, and accommodations.

The condensed interim consolidated financial statements of Transat A.T. Inc. for the three-month period ended January 31, 2012 were approved by the Corporation's board of directors on March 14, 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 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These condensed interim consolidated financial statements represent the first financial statements of the Corporation and its subsidiaries 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 condensed interim consolidated financial statements have been prepared in accordance with IAS 34, *Interim financial reporting*, and IFRS 1, *First time adoption of IFRS.* The condensed interim 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.

These condensed interim 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 condensed interim 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. Note 14 contains reconciliations and descriptions of the effect of the transition from previous Canadian GAAP to IFRS on equity, earnings, comprehensive income and cash-flows along with line-by-line reconciliations of the statement of financial position as at October 31, 2011 and November 1, 2010, and the income statement and statement of comprehensive income for the three-month period ended January 31, 2011, and for the year ended October 31, 2011. Certain disclosures that are required to be included in the annual financial statements prepared in accordance with IFRS that were not included in the Corporation's most recent annual financial statements prepared in accordance with the previous Canadian GAAP have been included in these condensed interim financial statements for the comparative annual period.

The accounting policies and basis of preparation differ from those set out in the Annual Report for the year ended October 31, 2011, which was prepared in accordance with previous Canadian GAAP, as defined by the Canadian Institute of Chartered Accountants.

These condensed interim consolidated financial statements have been prepared on a going concern basis, under the historical cost basis, except for certain financial instruments and liabilities related to the obligation of the Corporation to purchase shares of non-controlling interests in subsidiaries which have been measured at fair value *[see note 14]*.

BASIS OF CONSOLIDATION

The condensed interim consolidated financial statements include the financial statements of the Corporation and its subsidiaries. In accordance with SIC 12, Consolidation - Special Purpose Entities, issued by the International Financial Reporting Interpretations Committee ["IFRIC"], which requires the consolidation of special purpose entities under certain conditions, one special purpose entity formed to lease three aircraft was also consolidated.

SUBSIDIARIES

Subsidiaries are entities over which the Corporation has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date when such control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- cost is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- the excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;
- if the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the income statement;
- contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the income statement when the contingent consideration is a financial liability;
- upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the income statement; and
- for each business combination including non-controlling interests, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Non-controlling interests, which represent the portion of profit or loss and net assets in subsidiaries that are not held at 100% by the Corporation, are presented separately within equity in the consolidated statement of financial position. Non-controlling interests in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares are reclassified as liabilities, deeming exercise of the option. 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.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra group transactions and dividends are eliminated in full upon consolidation.

INVESTMENT IN AN ASSOCIATE

An associate is an entity over which the Corporation has significant influence, but no control. The Corporation's investment in an associate is accounted for using the equity method as follows:

- Investment is initially recognized at cost;
- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;
- The Corporation's share of post-acquisition profits or losses is recognized in the income statement and is adjusted against the carrying amount of the investment; and
- Gains on transactions between the Corporation and its equity method investee are eliminated to the extent of the Corporation's interest in this entity and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary, are recognized in the income statement, except for qualifying cash flow hedges which are deferred and presented as Unrecognized gain (loss) on cash flow hedge in Accumulated other comprehensive income in Equity.

GROUP COMPANIES

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated at the period end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The exchange differences arising from the translation are recognized in Foreign currency translation adjustments in Accumulated other comprehensive income in equity. On disposal of a foreign operation, the component of Foreign currency translation adjustments relating to that particular foreign operation is recognized in the consolidated income statement.

CASH EQUIVALENTS

Cash equivalents consist primarily of term deposits and bankers' acceptances that are highly liquid and readily convertible into known amounts of cash with initial maturities of less than three months.

INVENTORIES

Inventories, consisting primarily of supplies and aircraft parts, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Replacement cost may be used as indicator for net realizable value.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Depreciation on property, plant and equipment is calculated on a straight line basis, unless otherwise specified, and aims to write down their cost to their estimated residual value over their expected useful lives as follows:

Aircraft equipment, including spare engines and rotable spare parts	5 to 10 years or use
Office furniture and equipment	3 to 10 years
Leasehold improvements	Lease term
Administrative building	10 to 45 years

Fleet includes acquired aircraft and the improvements to aircraft under operating leases. A portion of the cost of acquired aircraft is allocated to the "major maintenance activities" subclass, which relates to airframe, engine and landing gear overhaul costs, and the remaining cost, is allocated to Aircraft. Aircraft and major maintenance activities are depreciated taking into account their expected estimated residual value. Aircraft are depreciated on a straight-line basis over seven- to ten-year periods, and major maintenance activities are depreciated according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are depreciated according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred. Improvements to aircraft under operating leases are depreciated on a straight-line basis over the lesser of corresponding lease term or their useful life.

Estimated residual values and useful lives are reviewed annually and adjusted if appropriate.

GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash-generating unit ["CGU"] that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

INTANGIBLE ASSETS

INTERNALLY GENERATED INTANGIBLE ASSETS

Internally generated intangible assets include developed or modified application software. These costs are capitalized when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use it;
- there is an ability to use the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project.

ACQUIRED INTANGIBLE ASSETS

Acquired intangible assets are recorded at cost. The cost of intangible assets acquired in a business combination is recorded at fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and accumulated impairment losses, if any.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over their respective useful economic lives, as follows:

Software	3 to 10 years
Customer lists	7 to 10 years

Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually and adjusted if appropriate.

Intangible assets with indefinite useful lives, which consist mainly of trademarks, are not amortized, but are tested for impairment annually, either individually or at the CGU level. The assessment of indefinite life is reviewed periodically to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

OPERATING LEASE AND DEFERRED LEASE INDUCEMENTS

Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as operating leases. Operating lease payments are recognised as an expense on a straight-line basis over the related lease term.

Deferred lease inducements consist of lease incentive amounts received from landlords and rent-free lease periods. These lease inducements are recognized through other liabilities and are amortized over the life of the initial lease term on a straight-line basis as a reduction of amortization expense.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, trade and other receivables, deposits on leased aircraft and engines, investments in ABCP and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables, long-term debt, derivative financial instruments with a negative fair value and put options held by non-controlling interests.

Financial assets and financial liabilities, including derivative financial instruments are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial assets at fair value through profit or loss, loans and receivables and financial liabilities at fair value through profit or loss or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial

assets/liabilities at fair value through profit or loss unless they are designated within an effective hedging relationship. Classification is determined by management on initial recognition based on the purpose for their acquisition. Put options held by non-controlling interests are initially measured at fair value with changes in fair value being recorded in retained earnings.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets/liabilities through profit or loss

Financial assets, financial liabilities and derivative financial instruments classified as financial assets/liabilities at fair value through profit or loss are measured at fair value at the period end date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of income as they occur.

Loans and receivables and other financial liabilities

Financial assets as loans and receivables and financial liabilities classified as other liabilities are recorded at amortized cost using the effective interest method.

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Corporation uses derivative financial instruments to hedge against future currency exchange rate variations related to its long-term debt obligations, operating lease payments, receipts of revenues from certain tour operators and disbursements pertaining to certain operating expenses in foreign currencies. For hedge accounting purposes, the Corporation designates its derivative financial instruments related to foreign currencies as hedging instruments.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. This process includes linking all derivative financial instruments to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

These derivative financial instruments are designated as cash flow hedges except for the contracts related to U.S. dollar loans payable secured by aircraft, which are designated as fair value hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in "Other comprehensive income" in the consolidated statement of comprehensive income. Any ineffectiveness within a cash flow hedge is recognized in net income as it arises in the same consolidated income statement account as the hedged item when realized. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within "Accumulated other comprehensive income" as "Unrealized gain (loss) on cash flow hedge" until the hedged item is settled, and future changes in value of the derivative are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in "Accumulated other comprehensive income" as "Unrealized gain (loss) on cash flow hedge" until the related hedged item settles, at which time amounts recognized in "Unrealized gain (loss) on cash flow hedge" are reclassified to the same account in the consolidated statement of income that records the hedged item. For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in the same account in the consolidated statement of income as the hedged item.

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

In the normal course of business and to manage exposure to fuel pricing instability, the Corporation also enters into derivative financial instruments used for aircraft fuel purchases that have not been designated for hedge accounting. These derivatives are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under "Change in fair value of derivative financial instruments used for aircraft fuel purchases" in the consolidated statement of income. When realized at maturity of these derivative financial instruments, any gains or losses are reclassified to "Aircraft fuel."

It is the Corporation's policy not to speculate on derivative financial instruments; accordingly, these instruments are normally purchased for risk management purposes and maintained until maturity.

TRANSACTION COSTS

Transaction costs related to financial assets and financial liabilities classified as financial assets/liabilities at fair value through profit or loss are expensed as incurred. Transactions costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

FAIR VALUE

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

The Corporation categorizes its financial assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other industry standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

IMPAIRMENT OF FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset [an incurred "loss event"] and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The Corporation assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. The value in use is calculated using estimated net cash flows, with detailed projections generally over a five-year period and subsequent years being extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model may be used. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The following criteria are also applied in assessing impairment of specific assets:

GOODWILL

Goodwill is tested annually [as at October 31] for impairment and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each CGU [or group of CGU] to which the goodwill relates. Where the recoverable amount of the CGU is less than their carrying amount, an impairment loss is recognized.

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment annually [as at October 31] either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

REVERSAL OF IMPAIRMENT LOSSES

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement. Impairment losses relating to goodwill cannot be reversed in future periods.

PROVISIONS

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Provisions are measured at their present value.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under the aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The excess of the maintenance obligation over maintenance deposits made to lessors and unclaimed is included in liabilities under "Provision for overhaul of leased aircraft."

EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. Certain non Canadian employees also benefit from post-employment benefits. The net periodic pension expense for these plans is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, the expected mortality and the expected rate of future compensation. Actual results will differ from results which are estimated based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the income statement. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits become vested. These benefits are unfunded.

The liability recognized in the statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in retained earnings and included in the statement of comprehensive income.

Contributions to defined contribution pension plans are expensed as incurred, which is as the related employee service is rendered.

Termination benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Corporation recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

REVENUE RECOGNITION

The Corporation recognizes revenues once all the significant risks and rewards of the service have been transferred to the customer. As a result, revenues earned from passenger transportation are recognized upon each return flight. Revenues of tour operators and the related costs are recognized at the time of the departure of the passengers. Commission revenues of travel agencies are recognized at the time of reservation. Amounts received from customers for services not yet rendered are included in current liabilities as "Customer deposits and deferred income."

Revenues where the Corporation provides multiple services such as air transportation, tour operator and travel agency services are deferred and only recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. The Corporation treats these different services as separate units of accounting as each service has a value to the customer on a stand-alone basis and the consideration paid for these services is allocated using the relative fair value of each deliverable.

INCOME TAXES

The Corporation provides for income taxes using the liability method. Under this method, deferred income tax assets and liabilities are calculated based on differences between the carrying value and tax basis of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Deferred income tax asset and liability are recognized directly in income, other comprehensive income, or equity based on the classification of the item to which they relate.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

SHARE-BASED PLANS

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash payments.

EQUITY-SETTLED TRANSACTIONS

For equity-settled share-based compensation [Stock option plan], expense is based on the grant date fair value of the awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. The value of the compensation is measured using a Black-Scholes option pricing model. For awards with graded vesting, the fair value of each tranche is recognized over its respective vesting period. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to share-based payment reserve are credited to share capital.

CASH-SETTLED TRANSACTIONS

For cash-settled share-based compensation [Deferred share unit plan and Restricted share unit plan], the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The value of the compensation is measured based on the closing price of Class B Share of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance and/or service conditions are satisfied. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions in the income statement.

EMPLOYEE SHARE PURCHASE PLANS

The Corporation's contributions to the employee share purchase plans [Stock ownership incentive and capital accumulation plan and Permanent stock ownership incentive plan] correspond to the shares acquired in the marketplace by the Corporation. These contributions are measured at cost and are recognized over the period from the acquisition date to the date that the award vests to the participant. Any consideration paid by the participant to purchase shares under the stock plan is credited to share capital.

EARNINGS PER SHARE

Basic earnings per share is computed based on net income attributable to equity holders of the Corporation, divided by the weighted-average number of Class A variable voting shares and Class B voting shares outstanding during the year.

Diluted earnings per share is calculated by adjusting net income attributable to equity holders of the Corporation for any changes in income or expense that would result from the exercise of dilutive elements. The weighted-average number Class A variable voting shares and Class B voting shares outstanding is increased by the weighted average number of additional Class A variable voting shares and Class B voting shares that would have been outstanding assuming the exercise of all dilutive elements.

Note 3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments however, may change due to market changes or circumstances arising beyond the control of the Corporation. Such changes are reflected in the assumptions when they occur.

AMORTIZATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT, GOODWILL AND INTANGIBLE ASSETS

Property, plant and equipment, intangible assets and goodwill represented $90,076, $53,015 and $106,795 respectively of total assets on the consolidated statement of financial position at January 31, 2012. Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the different cash generating units, including a sensitivity analysis, are further explained in Note 15.

Property, plant and equipment are amortized, taking into account their residual value, over their estimated useful life. Aircraft and aircraft components account for a major subclass of property, plant and equipment. The amortization charge depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal.

Changes in estimated useful life and residual value of aircraft could have a significant impact on amortization expense. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

ASSET BACKED COMMERCIAL PAPER

The fair value of the asset backed commercial paper recorded in the statement of financial position cannot be entirely derived from active markets. Their fair value is determined using the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as credit risk attributable to the underlying assets, relevant market interest rates, and amounts to be received. Actual results will differ from results which are estimated based on assumptions. See note 6 for further details including an estimate of the impact on the financial statements from changes in the most critical assumptions.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The estimates used to establish the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leases return conditions, and other facts and reasonable assumptions under the circumstances. Because the determination of the provision for overhaul of leased aircraft requires the use of various assumptions, there is measurement uncertainty inherent in the calculation process. Actual results will differ from results which are estimated based on assumptions.

EMPLOYEE FUTURE BENEFITS

The cost of defined benefit pension plans and other post-employment benefits and the present value of the associated obligations are determined using actuarial valuations. These actuarial valuations require the use of assumptions such as the discount rate to measure obligations, the expected mortality and the expected rate of future compensation. Because the determination of the cost and obligations associated with employee future benefits requires the use of various assumptions, there is measurement uncertainty inherent in the actuarial valuation process. Actual results will differ from results which are estimated based on assumptions.

TAXES

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax laws, and the amount and timing of future taxable income. Given the wide range of international business relationships, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Corporation subsidiaries' domicile. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9 – FINANCIAL INSTRUMENTS

In October 2010, the IASB issued IFRS 9 *Financial instruments*, which represent the completion of the first of a three-part project to replace IAS 39 *Financial instruments: Recognition and measurement*. The first phase addressed the classification and measurement of financial assets and financial liabilities whereas the next two phases will cover impairment of financial assets and hedge accounting. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the equity's own credit risk in the other comprehensive income section, rather than within the statement of income. IFRS 9 will be effective for the Corporation's fiscal years beginning on November 1, 2015, with earlier application 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 November 1, 2013, with earlier application 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 November 1, 2013, with earlier application 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 IFRSs. IFRS 13 will be effective for the Corporation's fiscal years beginning on November 1, 2013, with earlier application permitted.

IAS 1 – Presentation of financial statements

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

IAS 19 – Employee benefits

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

Note 5 Cash and cash equivalents in trust or otherwise reserved

As at January 31, 2012, cash and cash equivalents in trust or otherwise reserved included $386,161 [$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 regulatory bodies and the Corporation's business agreement with one of its credit card processor. Cash and cash equivalents in trust or otherwise reserved also include $76,773, of which $36,263 was recorded as non-current assets [$78,253 as at October 31, 2011, of which $36,231 was presented as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 INVESTMENTS IN ABCP

RESTRUCTURATION

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

In fiscal 2011, the Corporation received $712 in principal repayments on ABCP supported solely by traditional securitized assets [MAV3 Traditional].

The notional value of the new ABCP amounted to $115,702 as at January 31, 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 $2,392 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 January 31, 2012, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the three-month period ended January 31, 2012, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. ["BlackRock"], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported exclusively by traditional securitized assets [MAV3 Traditional]. The Corporation's management measured the fair value of its assets from these classes using said valuations. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also considered the information released by DBRS on September 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 0.9% [weighted average rate of 0.8%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 4.9-year period using discount rates ranging from 6.8% to 32.5% [weighted average rate of 10.0%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized a $780 decrease in the fair value of its investments in ABCP on January 31, 2012. This adjustment do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $77,259 and the provision for impairment totalled $38,443, representing 33.2% of the notional value of $115,702.

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 $3,600 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):

	Notional value $	Provision for impairment $	Investments $	Loss (gain) $
Balance as at November 1, 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 the period ended January 31, 2011	117,698	(42,643)	75,055	(3,133)
Increase in value of investments in ABCP	—	4,980	4,980	(4,980)
Principal repayments	(1,284)	—	(1,284)	—
Balance as at October 31, 2011 / Impact on results for the year ended October 31, 2011	116,414	(37,663)	78,751	(8,113)
Decrease in value of investments in ABCP	—	(780)	(780)	780
Principal repayments	(712)	—	(712)	—
Balance as at January 31, 2012 / Impact on results for the period ended January 31, 2012	**115,702**	**(38,443)**	**77,259**	**780**

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

	Notional value $	Provision for impairment $	Investments $
MAV 2 Eligible			
Class A-1	34,415	(9,251)	25,164
Class A-2	63,894	(21,405)	42,489
Class B	11,598	(5,335)	6,263
Class C	3,403	(2,263)	1,140
	113,310	(38,254)	75,056
MAV 3 Traditional	2,392	(189)	2,203
	115,702	**(38,443)**	**77,259**

Note 7 INVESTMENTS IN ASSOCIATES AND OTHER ASSETS

	As at January 31, 2012 $	As at October 31, 2011 $	As at November 1, 2010 $
Investment in associates - Caribbean Investments B.V. [« CIBV »]	**60,689**	60,612	61,239
Deferred costs, unamortized balance	**1,194**	1,301	1,868
Other investments	**80**	80	115
Sundry	**1,776**	1,813	1,646
	63,739	63,806	64,868

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

	$
Balance as at October 31, 2011	60,612
Share of net loss	(637)
Translation adjustment	714
Balance as at January 31, 2012	60,689

Note 8 LONG-TERM DEBT

As at January 31, 2012, the Corporation had a $100,000 revolving credit facility for operations maturing in 2015, which is renewable or immediately payable in the event of a change in control. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the LIBOR, plus a premium based on certain financial ratios calculated on a consolidated basis. The terms of the agreements require the Corporation to comply with financial criteria and ratios. As at January 31, 2012, the Corporation was not in compliance with one of the conditions of the $100,000 financing agreement. Lenders have unanimously waived this default so that the Corporation is in compliance with all its commitments to its lenders.

As at January 31, 2012, the Corporation had an $83,386 revolving credit facility which matures in 2013 or is immediately payable in the event of a change in control. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the LIBOR, plus a premium specific to the type of financing vehicle. The revolving term credit facilities bore interest at an average rate of 2.00% for the year ended October 31, 2011. This credit facility also includes options, now in effect following implementation of the ABCP restructuring plan [see note 6], allowing the Corporation, at its discretion, to repay amounts drawn down as they fall due under certain conditions up to a maximum of $38,068 using the restructured notes. The fair value of this option, as at the grant date and since then at each balance sheet date, is not material. The terms of the agreements require the Corporation to comply with financial criteria and ratios. As at January 31, 2012, the Corporation was not in compliance with one of the conditions of the financing agreement in order to draw more than $38,068. The lender has waived this default so that the Corporation is in compliance with all its commitments to its lender.

As at January 31, 2012, the Corporation had a $60,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash as collateral security against 105% of letters of credit.

As at January 31, 2012, these credit facilities were undrawn, except for the $60,000 facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued, under which $48,100 million was drawn down.

Note 9 OTHER LIABILITIES

	As at January 31, 2012 $	As at October 31, 2011 $	As at November 1, 2010 $
Employee benefits	**28,651**	28,307	26,924
Deferred lease inducements	**22,497**	20,831	18,500
Non-controlling interests	**27,299**	28,910	26,062
	78,447	78,048	71,486

Note 10 SHAREHOLDERS' 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 the Class A Shares and the Class B Shares were as follows:

	Number of shares	Amount ($)
Balance as at November 1, 2010	37,849,834	217,604
Issued from treasury	129,067	1,361
Exercise of options	42,819	497
Balance as at October 31, 2011	38,021,720	219,462
Issued from treasury	55,967	347
Balance as at January 31, 2012	**38,077,687**	**219,809**

As at January 31, 2012, the number of Class A Shares and Class B Shares stood at 943,990 and 37,133,697, 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	(62,753)	14.18
Balance as at January 31, 2012	**2,416,097**	**14.09**
Options exercisable as at January 31, 2012	**905,995**	**19.66**

EARNINGS (LOSS) PER SHARE

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

	Quarters ended January 31	
	2012	2011
(in thousands of dollars, except per share amounts)	$	$
NUMERATOR		
Net loss attributable to equity holders of the Corporation of basic earnings per share and for diluted earnings per share	**(29,489)**	(13,378)
DENOMINATOR		
Weighted average number of outstanding shares and adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**38,054**	37,870
Earnings (loss) per share		
Basic	**(0.77)**	(0.35)
Diluted	**(0.77)**	(0.35)

Given the losses recorded for the three-month periods ended January 31, 2011 and 2012, the 2,416,097 stock options outstanding were excluded from the computation of diluted loss per share because of their antidilutive effect [1,905,233 stock options for the three-month period ended January 31, 2011].

Note 11 SEGMENTED INFORMATION

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. Therefore, the consolidated statements of income include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and in Europe. Geographic intersegment sales are accounted for at prices that take into account market conditions and other considerations.

	Three-month period ended January 31, 2012		
	Americas	Europe	Total
	$	$	$
Revenues	700,837	128,459	**829,296**
Operating expenses	719,971	141,164	**861,135**
	(19,134)	**(12,705)**	**(31,839)**

	Three-month period ended January 31, 2011		
	Americas	Europe	Total
	$	$	$
Revenues	675,561	134,593	810,154
Operating expenses	681,463	143,197	824,660
	(5,902)	(8,604)	(14,506)

	Revenues [(1)]		Property, plant and equipment, goodwill and other intangible assets		
	Three-month period ended January 31		As at	As at	As at
	2012	2011	January 31, 2012	October 31, 2011	November 1, 2010
	$	$	$	$	$
Canada	**684,781**	664,131	**155,701**	149,848	147,247
France	**113,422**	112,565	**46,803**	49,697	57,587
United Kingdom	**14,718**	21,587	**33,012**	33,711	34,517
Other	**16,375**	11,871	**14,370**	15,106	11,943
	829,296	810,154	**249,886**	248,362	251,294

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

Note 12 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 January 31, 2012, the total guarantees provided by the Corporation under the letters of credit amounted to $566. 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 activities in the province of Québec. These agreements typically cover a one-year period and are renewable annually. As at January 31, 2012, these guarantees totalled $688. Historically, the Corporation has not made any significant payments under such agreements. As at January 31, 2012, no amounts have been accrued with respect to the above-mentioned agreements.

GUARANTEE 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 January 31, 2012, $12,187 had been drawn down under the facility.

Note 13 SUBSEQUENT EVENT

On February 1, 2012, the Corporation acquired the assets of Canadian tour operator Vacances Tours Mont-Royal for a cash consideration of $5,000.

Note 14 TRANSITION TO IFRS

These condensed interim consolidated financial statements for the three-month period ended January 31, 2012 represent the first condensed interim financial statements of the Corporation and its subsidiaries 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 explains how the transition from previous Canadian GAAP to IFRS affected the Corporation's reported financial position as at November 1, 2010 [the "transition date"] and October 31, 2011, as well as comprehensive income and cash-flows for the year ended October 31, 2011 and the three-month period ended January 31, 2011.

In summary, the adoption of IFRS decreased the total equity's carrying value by $25,392 and $23,500 as at October 31, 2011 and November 1, 2010 respectively compared to previous Canadian GAAP's carrying value as at the same dates. For the three-month period ended January 31, 2011, consolidated net loss have been reduced by $948 and consolidated comprehensive income has been decreased by $977 compared to the figures previously disclosed under previous Canadian GAAP in the Corporation's unaudited interim consolidated financial statements.

The Corporation has applied 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 provided comparative financial information and applied the same accounting policies, as described in note 2 to these condensed interim financial statements, throughout all periods presented. The Corporation has also retrospectively applied all effective IFRS standards as of January 31, 2012, as required, and applied certain optional exemptions and mandatory exceptions as applicable for first time adopters. The effects of the transition to IFRS from previous Canadian GAAP on equity and comprehensive income are presented and further explained in the tables of this note.

Amounts in the consolidated statements of income, comprehensive income, financial position, changes in equity and cash flows for the comparative period to be included in our first annual financial statements to be prepared under IFRS for the fiscal year ending October 31, 2012 may differ from the restated figures presented in this note, if new standards are adopted prior to October 31, 2012 or if the Corporation modifies the choices made with regard to its accounting policies under IFRS.

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) The Corporation attributed total comprehensive income to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance on a prospective basis from the date of transition;

2) OPTIONAL EXEMPTIONS FROM FULL 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 that were completed prior to the IFRS transition date.

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

c) The Corporation has elected to recognize all cumulative actuarial gains and losses arising from its defined benefit pension plans and from its other post-employment benefit plans through opening retained earnings at the IFRS transition date and prospectively apply IAS 19, Employee Benefits. Further, the Corporation has 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)	October 31, 2011 $	January 31, 2011 $	November 1, 2010 $
Financial position:			
Deferred income tax assets	2,502	2,502	2,502
Trade and other payables	(116)	(116)	(116)
Other liabilities – Employee benefits	8,294	8,294	8,294
Retained earnings			
Employee benefits	(8,178)	(8,178)	(8,178)
Income taxes	2,502	2,502	2,502

d) The Corporation has elected to recognize cumulative translation adjustments through opening retained earnings at the IFRS transition date.

The application of this exemption resulted in the following adjustments:

Increase (decrease)	October 31, 2011 $	January 31, 2011 $	November 1, 2010 $
Financial position:			
Retained earnings	(16,803)	(16,803)	(16,803)
Foreign currency translation adjustments	16,803	16,803	16,803

3) CHANGES IN ACCOUNTING POLICIES

In addition to the exemptions and exceptions discussed above, the following narratives explain the significant differences between the previous Canadian GAAP accounting policies and the current IFRS accounting policies applied by the Corporation. Only the differences having an impact on the Corporation are described below. The following is not a complete 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 and therefore generally giving effect to increased 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 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 exercise of the option. 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)	October 31, 2011 $	January 31, 2011 $	November 1, 2010 $
Financial position:			
Other liabilities – Non-controlling interests	20,271	17,824	17,824
Retained earnings			
Opening balance	(17,824)	(17,824)	(17,824)
Change in fair value of put options held by non-controlling interests	(2,447)	—	—

b) RETIREMENT BENEFITS

Previous Canadian GAAP — The excess of actuarial gain and losses over 10% of the benefit obligation was amortized through income 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 gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets in other comprehensive income. Vested past service costs of defined benefit arrangements must be recognized in income immediately as granted.

This change of accounting policy resulted in the following adjustments:

Increase (decrease)	October 31, 2011 $	January 31, 2011 $
Financial position:		
Deferred income tax assets	(222)	(51)
Other liabilities – Employee benefits	(777)	(175)
Net earnings:		
Salaries – Employee benefits	526	132
Income taxes	(146)	(37)
Comprehensive loss:		
Foreign currency translation adjustment	21	29
Actuarial loss	220	—
Income taxes	(66)	—

4) PRESENTATION DIFFERENCES

Certain presentation differences between previous Canadian GAAP and IFRS have no impact on reported comprehensive income or total equity. Some line items are described differently under IFRS compared to previous Canadian GAAP, although the assets and liabilities included in these line items are unaffected. Presentation differences resulted in the following reclassification adjustments:

Increase (decrease)	October 31, 2011 $	January 31, 2011 $	November 1, 2010 $
Financial position:			
Future income tax assets (current)	(6,065)	(2,167)	(2,895)
Deferred income tax assets	6,065	2,167	2,895
Future income tax liabilities (current)	(513)	(41)	(106)
Deferred income tax liabilities	513	41	106

5) RECONCILIATIONS

The following reconciliations illustrate the reclassifications and restatements from previous Canadian GAAP to IFRS to the consolidated statements of financial position as at November 1, 2010 and October 31, 2011.

Consolidated statement of financial position as at November 1, 2010 (in thousands of dollars) (unaudited)

Canadian GAAP line items	Note 14	Canadian GAAP	Restatements	Reclassifications	IFRS	IFRS line items
ASSETS						ASSETS
Current assets						**Current assets**
Cash and cash equivalents		180,627	—	—	180,627	Cash and cash equivalents
Cash and cash equivalents in trust or otherwise reserved		320,428	—	—	320,428	Cash and cash equivalents in trust or otherwise reserved
Accounts receivable		146,944	—	—	146,944	Trade and other receivables
Income taxes receivable		4,738	—	—	4,738	Income taxes receivable
Future income tax assets	4	2,895	—	(2,895)		
Inventories		9,867	—	—	9,867	Inventories
Prepaid expenses		50,297	—	—	50,297	Prepaid expenses
Derivative financial instruments		868	—	—	868	Derivative financial instruments
Current portion of deposits		12,554	—	—	12,554	Current portion of deposits
Total current assets		729,218	—	(2,895)	726,323	**Current assets**
Cash and cash equivalents reserved		32,222	—	—	32,222	Cash and cash equivalents reserved
Investments in ABCP		72,346	—	—	72,346	Investments in ABCP
Deposits		29,837	—	—	29,837	Deposits
Future income tax assets	2c), 4	9,650	2,502	2,895	15,047	Deferred income tax assets
Property, plant and equipment		88,376	—	—	88,376	Property, plant and equipment
Goodwill		112,454	—	—	112,454	Goodwill
Other intangible assets		50,464	—	—	50,464	Intangible assets
Derivative financial instruments		23	—	—	23	Derivative financial instruments
Investments and other assets		64,868	—	—	64,868	Investments and other assets
		460,240	2,502	2,895	465,637	**Non-current assets**
		1,189,458	2,502	—	1,191,960	**Total assets**
LIABILITIES AND SHAREHOLDER'S EQUITY						LIABILITIES AND EQUITY
Current liabilities						**Current liabilities**
Accounts payable and accrued liabilities	2c)	300,355	(116)	—	300,239	Trade and other payables
Current portion of provision for overhaul of leased aircraft		18,301	—	—	18,301	Current portion of provision for overhaul of leased aircraft
Income taxes payable		14,608	—	—	14,608	Income taxes payable
Future income tax liabilities	4)	106	—	(106)		
Customer deposits and deferred income		313,695	—	—	313,695	Customer deposits and deferred income
Derivative financial instruments		4,116	—	—	4,116	Derivative financial instruments
Payments on current portion of long-term debt		13,768	—	—	13,768	Current portion of long-term debt
Total current liabilities		664,949	(116)	(106)	664,727	**Current liabilities**
Long–term debt		15,291	—	—	15,291	Long–term debt
Provision for overhaul of leased aircraft		12,408	—	—	12,408	Provision for overhaul of leased aircraft
Other liabilities	2c), 3a)iii)	45,368	26,118	—	71,486	Other liabilities
Future income tax liabilities	4)	12,370	—	106	12,476	Deferred income tax liabilities
		85,437	26,118	106	111,661	**Non-current liabilities**
Shareholders' equity						**Shareholders' equity**
Share capital		217,604	—	—	217,604	Share capital
Contributed surplus		9,090	—	—	9,090	Share-based payment reserve
Retained earnings	2c), 2d), 3a)iii)	230,703	(40,303)	—	190,400	Retained earnings
Cash flow hedges		(1,522)	—	—	(1,522)	Unrecognized gain (loss) on cash flow hedge
Deferred translation adjustments	2d)	(16,803)	16,803	—	—	Foreign currency translation adjustment
		439,072	(23,500)	—	415,572	**Total shareholders' equity**
		1,189,458	2,502	—	1,191,960	**Total liabilities and equity**

Consolidated statement of financial position as at October 31, 2011 (in thousands of dollars) (unaudited)

	Note 14	Canadian GAAP	Restatements	Reclassifications	IFRS
ASSETS					
Current assets					
Cash and cash equivalents		181,576	—	—	181,576
Cash and cash equivalents in trust or otherwise reserved		323,314	—	—	323,314
Trade and other receivables		124,000	—	—	124,000
Income taxes receivable		17,749	—	—	17,749
Future income tax assets	4)	6,065	—	(6,065)	
Inventories		11,096	—	—	11,096
Prepaid expenses		55,196	—	—	55,196
Derivative financial instruments		7,935	—	—	7,935
Current portion of deposits		15,599	—	—	15,599
Current assets		742,530	—	(6,065)	736,465
Cash and cash equivalents reserved		36,231	—	—	36,231
Investments in ABCP		78,751	—	—	78,751
Deposits		33,907	—	—	33,907
Deferred income tax assets	2c), 3b), 4)	18,378	2,280	6,065	26,723
Property, plant and equipment		86,520	—	—	86,520
Goodwill		109,495	—	—	109,495
Intangible assets		52,347	—	—	52,347
Derivative financial instruments		—	—	—	—
Investments and other assets		63,806	—	—	63,806
Non-current assets		479,435	2,280	6,065	487,780
Total assets		1,221,965	2,280	—	1,224,245
LIABILITIES AND EQUITY					
Current liabilities					
Trade and other payables	2c)	355,246	(116)	—	355,130
Current portion of provision for overhaul of leased aircraft		19,088	—	—	19,088
Income taxes payable		7,943	—	—	7,943
Future income tax liabilities	4)	513	—	(513)	
Customer deposits and deferred income		331,280	—	—	331,280
Derivative financial instruments		5,659	—	—	5,659
Current portion of long-term debt		—	—	—	—
Current liabilities		719,729	(116)	(513)	719,100
Long–term debt		—	—	—	—
Provision for overhaul of leased aircraft		14,230	—	—	14,230
Other liabilities	2c) 3a)iii), 3b)	50,260	27,788	—	78,048
Deferred income tax liabilities	4)	13,761	—	513	14,274
Non-current liabilities		78,251	27,788	513	106,552
Shareholders' equity					
Share capital		219,462	—	—	219,462
Share-based payment reserve		11,063	—	—	11,063
Retained earnings	2c), 2d), 3a)iii), 3b)	218,490	(42,216)	—	176,274
Unrecognized gain (loss) on cash flow hedge		1,948	—	—	1,948
Foreign currency translation adjustment	2d), 3b)	(26,978)	16,824	—	(10,154)
Total shareholders' equity		423,985	(25,392)	—	398,593
Total liabilities and equity		1,221,965	2,280	—	1,224,245

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

(in thousands of dollars) (unaudited)	Note 14	October 31, 2011	January 31, 2011	November 1, 2010
Equity under Canadian GAAP, as reported		**423,985**	**423,020**	**439,072**
Restatement of the measurement and recognition of:				
Employee benefits	2c) et 3b)	(7,652)	(8,046)	(8,178)
Change in fair value of put options held by non-controlling interests	3a)iii)	(20,271)	(17,824)	(17,824)
Actuarial loss	3b)	220	—	—
Foreign currency translation adjustment	3b)	21	29	—
		(27,682)	(25,841)	(26,002)
Income tax impact of all restatements	2c) et 3b)	2,290	2,465	2,502
Total restatements		(25,392)	(23,376)	(23,500)
Equity under IFRS		**398,593**	**399,644**	**415,572**

(in thousands of dollars) (unaudited)	Note 14	Year ended October 31, 2011	Three-month period ended January 31, 2011
Net loss under Canadian GAAP, as reported		**(12,213)**	**(13,473)**
Restatement of the measurement and recognition of:			
Employee benefits	3b)	526	132
Non-controlling interests		3,059	853
		3,585	985
Income tax impact of all restatements	3b)	(146)	(37)
Total restatements		3,439	948
Net loss under IFRS		**(8,774)**	**(12,525)**
Basic and diluted loss per share under Canadian GAAP, as reported		**(0.32)**	**(0.36)**
Impact of IFRS restatements on net loss		0.01	0.01
Basic and diluted loss per share attributable to shareholders under IFRS		**(0.31)**	**(0.35)**

(in thousands of dollars) (unaudited)	Note 14	Year ended October 31, 2011	Three-month period ended January 31, 2011
Comprehensive loss under Canadian GAAP, as reported		**(18,918)**	**(17,326)**
Differences on net loss		3,439	948
Differences on comprehensive loss:			
Change in fair value of put options held by non-controlling interests	3a)iii)	(2,447)	—
Actuarial loss	3b)	220	—
Income tax impact of all restatements	3b)	(66)	—
Foreign currency translation adjustment	3b)	21	29
		(2,272)	29
Comprehensive loss under IFRS		**(17,751)**	**(16,349)**

The previously described transition adjustments did not have an impact on the reported amount of cash provided by operating activities nor on the amounts of cash used by investing and financing activities. Furthermore, the transition from previous Canadian GAAP to IFRS did not have any significant impact on the components of the Corporation's condensed interim consolidated statement of cash flows for the three-month period ended January 31, 2011 nor on those of the consolidated statement of cash flows for the year ended October 31, 2011.

Note 15 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 condensed interim financial statements.

Certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with IFRS have been omitted or condensed as the Corporation does not consider such information material to the understanding of its condensed interim consolidated financial statements.

TRADE AND OTHER RECEIVABLES

	October 31, 2011	November 1, 2010
	$	$
Trade receivables	71,954	73,351
Taxes receivables	15,647	26,296
Other receivables	36,399	45,297
	124,000	146,944

The amounts presented in the statement of financial position are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables, and as such the movement in the allowance for doubtful accounts from one period to another has been stable.

PROPERTY, PLANT AND EQUIPMENT

	Fleet	Aircraft equipment	Office furniture and equipment	Building and leasehold improvements	Total
	$	$	$	$	$
Cost					
Balance as at November 1, 2010	194,181	93,150	77,263	41,455	406,049
Additions	20,772	2,424	4,617	4,800	32,613
Disposals	—	—	(13,303)	—	(13,303)
Translation adjustment	—	—	(229)	(287)	(516)
Balance as at October 31, 2011	214,953	95,574	68,348	45,968	424,843
Accumulated depreciation and impairment					
Balance as at November 1, 2010	157,315	73,167	63,115	24,076	317,673
Depreciation	19,756	4,227	6,860	3,397	34,240
Disposals	—	—	(13,303)	—	(13,303)
Translation adjustment	—	—	(141)	(146)	(287)
Balance as at October 31, 2011	177,071	77,394	56,531	27,327	338,323
Net book value as at October 31, 2011	37,882	18,180	11,817	18,641	86,520

GOODWILL AND INTANGIBLE ASSETS

	Goodwill $	Software $	Trademarks $	Customer lists $	Total $
Cost					
Balance as at November 1, 2010	112,454	89,432	14,687	12,040	228,613
Additions	—	22,252	213	209	22,674
Disposals	—	(10,870)	—	—	(10,870)
Translation adjustment	(2,959)	(230)	(206)	(104)	(3,499)
Balance as at October 31, 2011	109,495	100,584	14,694	12,145	236,918
Accumulated depreciation and impairment					
Balance as at November 1, 2010	—	60,126	—	5,569	65,695
Depreciation	—	8,241	—	1,316	9,557
Disposals	—	(36)	—	—	(36)
Translation adjustment	—	(125)	—	(15)	(140)
Balance as at October 31, 2011	—	68,206	—	6,870	75,076
Net book value as at October 31, 2011	109,495	32,378	14,694	5,275	161,842

The aggregate carrying amounts of goodwill and trademarks allocated to each CGU are as follows:

	October 31, 2011		November 1, 2010	
	Goodwill $	Trademarks $	Goodwill $	Trademarks $
Canada – United Kingdom – Netherlands *	63,483	14,683	63,911	14,671
France *	35,687	—	41,433	—
Other *	10,325	11	7,110	16
Net book value as at October 31, 2011	109,495	14,694	112,454	14,687

* Multiple individual CGU's

In accordance with accounting standards, the Corporation annually tests the carrying value of goodwill for impairment purposes. As at October 31, 2011, the review was undertaken on a value in use basis, assessing whether the carrying value of goodwill of each CGU was supported by the net present value of future cash flows derived from CGU's assets.

The key assumptions used in the value in use calculations are those regarding the discount rates, revenue and cost growth rates and the level of capital expenditure required during the year. The discount rate calculation is based on the specific circumstances of the Corporation and derived from its weighted average cost of capital [WACC]. The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Corporation's investors whereas the cost of debt is based on the interest bearing borrowings the Corporation is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The pre-tax discount rate used for impairment reviews was 11.2% as at October 31, 2011. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and three year plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond five years are extrapolated based on estimated growth rates which do not exceed the average long-term growth rates for the relevant markets. The growth rate is based on industry trend. The growth rate used for impairment reviews was 3% as at October 31, 2011.

On October 31, 2011, the Corporation performed its annual test for impairment of goodwill, and no impairment was detected. The Corporation's management is of the opinion that no significant change in the key assumptions used to calculate the fair value of each of its CGU could produce carrying amounts higher than those fair values, with the exception of one CGU in France. This CGU, which includes outgoing tour operators and a travel agency network, generates a significant percentage of its revenues from the sale of products to North Africa, including Tunisia, Morocco and Egypt. In establishing its assumptions for the measurement of this CGU, management considered, among other factors, the potential impact on its future results of the prevailing political climate in certain North African countries and current economic conditions in Europe. The fair value calculated for this CGU was higher than its carrying amount, which includes a goodwill of $30,639. However, a change in the assumptions used could result in an impairment in goodwill for this CGU. Furthermore, outcomes could be different if political instability in certain North African countries does not subside in the medium term.

As at October 31, 2011, the Corporation performed its annual tests for impairment of trademarks and no impairment was detected.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

	$
Balance as at November 1, 2010	30,709
Additional provisions and accretion	16,639
Utilization of provisions	(11,348)
Unused amounts released	(1,992)
Translation adjustment	(690)
Balance as at October 31, 2011	33,318
Current provisions	19,088
Non-current provisions	14,230
Balance as at October 31, 2011	33,318

The overhaul of leased aircraft provision relates to maintenance on leased aircraft and spares used by the Corporation's airlines in respect of operating leases.

EMPLOYEE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees. Certain non Canadian employees also benefit from post-employment benefits. Costs for all future employee benefits are accrued over the periods in which employees earn the benefits.

The defined benefit pension plans to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. The post-employment benefits to certain non Canadian employees consist of an allowance paid at the retirement date of the eligible employees. These arrangements are not funded; however, to secure its obligations related to the defined benefit pension plans, the Corporation has issued a $31,973 letter of credit to the trustee *[see note 5]*. The Corporation uses an actuarial estimate to measure the accrued benefit obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation and in the other post-employment benefit obligation:

	Pension benefits $	Other benefits $	Total $
Present value of obligations as at November 1, 2010	25,325	1,599	26,924
Current service cost	961	108	1,069
Interest cost	1,231	49	1,280
Benefits paid	(715)	—	(715)
Actuarial loss on obligation	(220)	—	(220)
Foreign currency translation adjustment	—	(31)	(31)
Present value of obligations as at October 31, 2011	26,582	1,725	28,307

INCOME TAXES

The major components of the income tax expense for the year ended October 31, 2011 are:

Consolidated statement of income	$
Current	
Current income taxes	7,176
Adjustment to taxes payable for prior years	(176)
	7,000
Deferred	
Relating to temporary differences	(11,894)
Unrecognized tax benefits	238
	(11,656)
Income tax expense	(4,656)

Consolidated statement of comprehensive income	$
Deferred	
Change in fair value of derivatives designated as cash flow hedges	1,722
Change in defined benefits plans – Actuarial gain on obligation	66
Income tax expense	1,788

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the year ended October 31, 2011:

	%	$
Income taxes at the statutory rate	28.7	(3,848)
Increase (decrease) resulting from:		
Effect of differences in Canadian and foreign tax rates	23.0	(3,083)
Non deductible (non taxable) items	(12.8)	1,719
Unrecognized tax benefits	(1.8)	238
Adjustments for prior years	1.3	(176)
Effect of differences in tax rates on temporary items	(1.1)	144
Other	(2.6)	350
	34.7	(4,656)

Deferred income taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components of the deferred income tax assets and liabilities were as follows:

	Consolidated statement of financial position		Consolidated statement of income
	As at October 31, 2011	As at November 1, 2010	2011
	$	$	$
Deferred tax losses	15,516	6,362	9,154
Excess of tax value over net carrying value of:			
Property, plant and equipment and software	(7,772)	(11,289)	3,517
Intangible assets, excluding software	(4,628)	(4,906)	278
Derivative financial instruments	(596)	465	661
Other financial assets and other assets	(2,827)	(2,292)	(535)
Provisions	2,447	4,170	(1,723)
Employee benefits	7,872	7,502	426
Other financial liabilities and other liabilities	2,437	2,559	(122)
	12,449	2,571	11,656
Deferred tax assets	26,723	15,047	
Deferred tax liabilities	(14,274)	(12,476)	
	12,449	2,571	

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