TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2011

SEPTEMBER 7, 2011

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# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter and nine-month period ended July 31, 2011 compared with the quarter and nine-month period ended July 31, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements for the third quarter of fiscal 2011 and 2010, the notes thereto and the 2010 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third quarter update to the information contained in the MD&A section of our 2010 Annual Report. The risks and uncertainties set out in the MD&A of the 2010 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 7, 2011. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2011 and Annual Information Form for the year ended October 31, 2010.

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

### *CAUTION REGARDING FORWARD-LOOKING STATEMENTS*

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

Forward-looking statements, by their nature, necessarily involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, extreme weather conditions, fuel prices, armed conflicts, terrorist attacks, general industry, market and economic conditions, disease outbreaks, changes in demand due to the seasonal nature of the business, the ability to reduce operating costs and employee counts, labour relations, collective bargaining and labour disputes, pension issues, exchange and interest rates, availability of financing in the future, 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 the Corporation expects the results of the fourth quarter to be inferior to the record results reported in 2010.

In making these statements, the Corporation has assumed that price 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.

## NON-GAAP FINANCIAL MEASURES

This MD&A was drawn up using results and financial information determined under GAAP. We occasionally refer to non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that excludes or includes amounts that that would not be so adjusted in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP measures used by the Corporation are as follows:

| | |
|---|---|
| Margin (operating loss) | Revenues less operating expenses. |
| Adjusted income (loss) | Income (loss) before non-controlling interest in subsidiaries' results, income taxes, change in fair value of derivative financial instruments related to aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain). |
| Adjusted after-tax income (loss) | Net income (loss) before change in fair value of derivative financial instruments 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. |
| Net debt | Total debt (described above) less cash and cash equivalents and investments in ABCP. |

The above-described financial measures have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers or those used by financial analysts. They are furnished to provide additional information and should not be considered in isolation or as a substitute for financial performance measures calculated in accordance with GAAP. 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 GAAP financial measures, management uses adjusted income and adjusted after-tax income to measure the Corporation's ongoing and recurring operational performance. Management considers these measures 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 net debt to calculate the Corporation's indebtedness 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-GAAP financial measures to the most comparable GAAP financial measures:

| (In thousands of dollars, except per share amounts) | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | 2011<br>$ | 2010<br>$ | 2011<br>$ | 2010<br>$ |
| Revenues | 936,974 | 867,344 | 2,848,237 | 2,720,292 |
| Operating expenses | (922,370) | (813,403) | (2,839,103) | (2,670,562) |
| Margin | 14,604 | 53,941 | 9,134 | 49,730 |
| | | | | |
| Income (loss) before non-controlling interest in subsidiaries' results | (2,662) | 21,272 | (5,282) | 15,973 |
| Income taxes (recovery) | (239) | 13,831 | (5,096) | 8,351 |
| Change in fair value of derivative financial instruments related to aircraft fuel purchases | 8,342 | 2,968 | (3,651) | (7,350) |
| Non-monetary loss (gain) on investments in ABCP | (321) | 3,901 | (6,958) | (1,493) |
| Gain on disposal of assets related to restructuring | — | (76) | — | (1,036) |
| Adjusted income (loss) | 5,120 | 41,896 | (20,987) | 14,445 |
| | | | | |
| Net income (loss) | (2,877) | 20,925 | (7,730) | 13,251 |
| Change in fair value of derivative financial instruments related to aircraft fuel purchases | 8,342 | 2,968 | (3,651) | (7,350) |
| Non-monetary loss (gain) on investments in ABCP | (321) | 3,901 | (6,958) | (1,493) |
| Gain on disposal of assets related to restructuring | — | (76) | — | (1,036) |
| Tax impact | (2,390) | (890) | 1,009 | 2,564 |
| Adjusted after-tax income (loss) | 2,754 | 26,828 | (17,330) | 5,936 |
| | | | | |
| Adjusted after-tax income (loss) | 2,754 | 26,828 | (17,330) | 5,936 |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share | 38,044 | 38,217 | 37,910 | 38,039 |
| Diluted adjusted after-tax income (loss) per share | 0.07 | 0.70 | (0.46) | 0.16 |

| | As at July 31, 2011<br>$ | As at October 31, 2010<br>$ |
|---|---|---|
| Payments on current portion of long-term debt | 6,535 | 13,768 |
| Long-term debt | 344 | 15,291 |
| Off-balance sheet arrangements, excluding agreements with service providers | 598,819 | 643,750 |
| Total debt | 605,698 | 672,809 |
| | | |
| Total debt | 605,698 | 672,809 |
| Cash and cash equivalents | (307,642) | (180,627) |
| Investments in ABCP | (78,135) | (72,346) |
| Net debt | 219,921 | 419,836 |

## FINANCIAL HIGHLIGHTS

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of dollars, except per share amounts) | 2011 $ | 2010 $ | Variance $ | Variance % | 2011 $ | 2010 $ | Variance $ | Variance % |
| Consolidated Statements of Income | | | | | | | | |
| Revenues | 936,974 | 867,344 | 69,630 | 8.0 | 2,848,237 | 2,720,292 | 127,945 | 4.7 |
| Margin[1] | 14,604 | 53,941 | (39,337) | (72.9) | 9,134 | 49,730 | (40,596) | (81.6) |
| Net income (loss) | (2,877) | 20,925 | (23,802) | (113.7) | (7,730) | 13,251 | (20,981) | (158.3) |
| Basic earnings (loss) per share | (0.08) | 0.55 | (0.63) | (114.5) | (0.20) | 0.35 | (0.55) | (157.1) |
| Diluted earnings (loss) per share | (0.08) | 0.55 | (0.63) | (114.5) | (0.20) | 0.35 | (0.55) | (157.1) |
| Adjusted after-tax income (loss)[1] | 2,754 | 26,828 | (24,074) | (89.7) | (17,330) | 5,936 | (23,266) | (391.9) |
| Diluted adjusted after-tax income (loss) per share | 0.07 | 0.70 | (0.63) | (90.0) | (0.46) | 0.16 | (0.62) | (387.5) |
| Consolidated Statements of Cash Flows | | | | | | | | |
| Operating activities | 45,364 | 48,154 | (2,790) | (5.8) | 197,608 | 154,893 | 42,715 | 27.6 |
| Investing activities | (13,735) | (6,700) | (7,035) | (105.0) | (42,220) | (15,868) | (26,352) | (166.1) |
| Financing activities | 19 | (34,294) | 34,313 | 100.1 | (23,104) | (89,484) | 66,380 | 74.2 |
| Effect of exchange rate changes on cash and cash equivalents | (2,248) | 3,152 | (5,400) | (171.3) | (5,269) | (12,815) | 7,546 | 58.9 |
| Net change in cash and cash equivalents | 29,400 | 10,312 | 19,088 | 185.1 | 127,015 | 36,726 | 90,289 | 245.8 |

| | As at July 31, 2011 $ | As at October 31, 2010 $ | Variance $ | Variance % |
|---|---|---|---|---|
| Consolidated Balance Sheets | | | | |
| Cash and cash equivalents | 307,642 | 180,627 | 127,015 | 70.3 |
| Cash and cash equivalents in trust or otherwise reserved (short-term and long-term) | 337,884 | 352,650 | (14,766) | (4.2) |
| Investments in ABCP | 78,135 | 72,346 | 5,789 | 8.0 |
| | 723,661 | 605,623 | 118,038 | 19.5 |
| Total assets | 1,354,837 | 1,189,458 | 165,379 | 13.9 |
| Debt (short-term and long-term) | 6,879 | 29,059 | (22,180) | (76.3) |
| Total debt[1] | 605,698 | 672,809 | (67,111) | (10.0) |
| Net debt[1] | 219,921 | 419,836 | (199,915) | (47.6) |

[1] SEE NON-GAAP FINANCIAL MEASURES

## OVERVIEW

Transat is one of the largest fully integrated world-class tour operators in North America. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in ten other European countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with a total of over 500 travel agencies (including nearly 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.

According to the World Tourism Organization, the volume of international tourists grew nearly 7% in calendar 2010 after declining 4% in 2009. Transat's vision is to become a leading player in the Americas and build strong competitive positioning in several European countries by 2014. At present, we are a market leader in Canada, operating as an outgoing and incoming tour operator. We are a well-established outgoing tour operator in France and the U.K. and an incoming tour operator in Greece. We offer customers a broad range of international destinations spanning some 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.

For fiscal 2011, Transat has set the following targets:

- Continue the organizational transformation with the harmonized implementation of new information systems and related operating processes.
- Increase revenues at Transat Tours Canada through organic growth.
- Grow revenues and profitability at Transat France to become France's third largest tour operator by 2013.
- Strengthen our presence, expand sales and improve our bottom line in certain foreign markets.
- Actively pursue our plan to make Transat one of the industry's most responsible companies.
- Improve our competitiveness in terms of service quality and operating costs in the air carrier industry.
- Improve our organization's adaptability.

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, our investments and access to the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

## CONSOLIDATED OPERATIONS

### REVENUES

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Variance | Variance | 2011 | 2010 | Variance | Variance |
| (In thousands of dollars) | $ | $ | $ | % | $ | $ | $ | % |
| Americas | 624,386 | 544,063 | 80,323 | 14.8 | 2,208,423 | 2,087,609 | 120,814 | 5.8 |
| Europe | 312,588 | 323,281 | (10,693) | (3.3) | 639,814 | 632,683 | 7,131 | 1.1 |
| | 936,974 | 867,344 | 69,630 | 8.0 | 2,848,237 | 2,720,292 | 127,945 | 4.7 |

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

Compared with the corresponding periods of fiscal 2010, revenues for the quarter and nine-month period ended July 31, 2011 were up $69.6 million and $127.9 million, respectively. These increases resulted from higher average selling prices, owing to fuel surcharge increases and the end of the seat purchase/sale agreement with Sunquest, particularly in the winter season, combined with higher traveller volumes. The Corporation logged year-over-year increases in traveller volumes for the quarter and nine-month period of 4.3% and 0.5%, respectively. The appreciation of the euro and pound sterling relative to the Canadian dollar also boosted revenues.

Revenues for the third quarter rose 14.8% in the Americas and slipped 3.3% in Europe, whereas the nine-month period saw revenue growth in both the Americas and Europe of 5.8% and 1.1%, respectively.

## OPERATING EXPENSES

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| | 2011 | 2010 | Variance | Variance | 2011 | 2010 | Variance | Variance |
| (In thousands of dollars) | $ | $ | $ | % | $ | $ | $ | % |
| Direct costs | 482,893 | 468,229 | 14,664 | 3.1 | 1,662,839 | 1,689,917 | (20,078) | (1.6) |
| Aircraft fuel | 137,106 | 86,376 | 50,730 | 58.7 | 307,273 | 213,821 | 93,452 | 43.7 |
| Salaries and employee benefits | 96,826 | 85,794 | 11,032 | 12.9 | 279,034 | 253,644 | 25,390 | 10.0 |
| Commissions | 33,461 | 34,630 | (1,169) | (3.4) | 136,239 | 127,738 | 8,501 | 6.7 |
| Aircraft maintenance | 29,419 | 23,707 | 5,712 | 24.1 | 83,653 | 67,030 | 16,623 | 24.8 |
| Airport and navigation fees | 32,115 | 25,733 | 6,382 | 24.8 | 73,311 | 59,809 | 13,502 | 22.6 |
| Aircraft rent | 17,848 | 13,595 | 4,253 | 31.3 | 49,758 | 41,192 | 8,566 | 20.8 |
| Other | 92,702 | 75,339 | 17,363 | 23.0 | 246,996 | 217,411 | 29,585 | 13.6 |
| Total | 922,370 | 813,403 | 108,967 | 13.4 | 2,839,103 | 2,670,562 | 168,541 | 6.3 |

Our aggregate operating expenses for the quarter and nine-month period were up $109.0 million (13.4%) and $168.5 million, respectively, from the corresponding periods of 2010. The rise in operating expenses for the quarter and nine-month period was driven mainly by higher fuel costs, alongside a year-over-year increase in overall traveller volumes for the same periods. With the addition of Airbus 330 aircraft over the past year, the number of flights by aircraft in our fleet went up, which in particular trimmed direct costs, especially in the winter season, but increased other operating costs relative to the corresponding quarter and nine-month period of fiscal 2010. However, the strength of the Canadian dollar against its U.S. counterpart helped curb costs for the quarter and nine-month period. On the other hand, the Canadian dollar depreciated against the euro and pound sterling, which increased operating expenses at our foreign subsidiaries on translation into Canadian dollars as well as foreign currency expenses at our Canadian subsidiaries.

In light of the foregoing, operating expenses in the Americas for the quarter and nine-month period were up 23.7% and 8.2%, respectively. In Europe, operating expenses for the quarter and nine-month period fell 4.7% and 0.1%, respectively.

### DIRECT COSTS

Direct costs are incurred by our tour operators. They include hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. During the third quarter, these costs were up $14.7 million (3.1%), owing primarily to growth in hotel room costs, greater business activity and, to a lesser extent, a weaker Canadian dollar against the euro relative to 2010. For the nine-month period, direct costs fell $20.1 million (1.6%), resulting mainly from lower seat purchases due to our seat purchasing contract with Sunquest came to an end and the strength of the Canadian dollar, offset by a rise in hotel room costs.

### AIRCRAFT FUEL

Year over year, aircraft fuel costs for the quarter and nine-month period were up $50.7 million (58.7%) and $93.5 million (43.7%), respectively. Higher costs for the quarter and period were driven mainly by the surge in fuel prices and more flights logged by our fleet of aircraft.

### SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the quarter and the nine-month period rose $11.0 million (12.9%) and $25.4 million (10.0%), respectively, compared with the corresponding periods of 2010. The quarterly and nine-month period increases stemmed among others from new hires, primarily following the addition of new aircraft to our fleet and, to a lesser degree, annual salary increases.

### 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 third quarter and nine-month period was down $1.2 million (3.4%) and $8.5 million (6.7%), respectively, compared with the corresponding periods of 2010. As a percentage of revenues, commissions for the third quarter fell to 3.6% from 4.0% for the same period of fiscal 2010. The decrease stemmed from the lower revenue levels used to calculate commissions. Year over year, commission expense for the nine-month period rose to 4.8% from 4.7%, owing primarily the higher revenue levels used to calculate commissions.

#### AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Costs for the third quarter and nine-month period ended July 31, 2011 were up $5.7 million (24.1%) and $16.6 million (24.8%), respectively, compared with the same periods of fiscal 2010. These increases resulted mainly from the rise in flights logged by our fleet. At the beginning of the nine-month period ended July 31, 2010, we revised some of our future maintenance cost assumptions downward following a new agreement entered into with a supplier and the optimization of our maintenance schedule.

#### AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Year over year, fees for the third quarter and nine-month period ended July 31, 2011 were up $6.4 million (24.8%) and $13.5 million (22.6%), respectively, owing primarily to the greater number of flights by our aircraft fleet, offset by a stronger Canadian dollar.

#### AIRCRAFT RENT

Aircraft rent for the third quarter and nine-month period rose $4.3 million (31.3%) and $8.6 million (20.8%), respectively, compared with the same periods of 2010, These increases resulted from the addition of three Airbus A330s in the first quarter of 2011 and the addition of an Airbus A330 in the second quarter of fiscal 2011, partially offset by the retirement of one Airbus A310 in the first quarter of 2011 and the strength of the Canadian dollar against its U.S. counterpart.

#### OTHER

Other expenses for the third quarter and nine-month period were up $17.4 million (23.0%) and $29.6 million (13.6%), respectively, compared with fiscal 2010, owing primarily to greater business activity.

## MARGIN

In light of the foregoing, the Corporation recorded a margin of $14.6 million (1.6%) for the third quarter compared with $53.9 million (6.2%) in the corresponding period of fiscal 2010. For the nine-month period, the Corporation reported a margin of $9.1 million (0.3%) compared with $49.7 million (1.8%) for the same period a year earlier. Soaring fuel prices with lower load factors, higher overall transatlantic capacity and downward pressure on selling prices to compress our margins for the quarter and the nine-month period.

## GEOGRAPHIC AREAS

#### AMERICAS

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of dollars) | 2011<br>$ | 2010<br>$ | Variance<br>$ | Variance<br>% | 2011<br>$ | 2010<br>$ | Variance<br>$ | Variance<br>% |
| Revenues | 624,386 | 544,063 | 80,323 | 14.8 | 2,208,423 | 2,087,609 | 120,814 | 5.8 |
| Operating expenses | 640,354 | 517,482 | 122,872 | 23.7 | 2,220,791 | 2,051,869 | 168,922 | 8.2 |
| Margin (operating loss) | (15,968) | 26,581 | (42,549) | (160.1) | (12,368) | 35,740 | (48,108) | (134.6) |

Revenues for the third quarter and nine-month period at our North American subsidiaries derived from sales in Canada and abroad grew $80.3 million (14.8%) and $120.8 million (5.8%), respectively, compared with the same periods of 2010. The increase in revenues in the third quarter resulted from a 20.5% rise in travel volumes, driven by increased capacity relative to 2010 and slightly lower average selling prices—a result of fierce market competition and longer supply in the transatlantic segment than in the corresponding period of 2010. For the nine-month period, the increase stemmed from a 6.0% rise in traveller volumes, while average selling prices were slightly lower than the corresponding period of 2010. The Corporation reported an operating loss of 2.6% for the quarter, compared with a margin of 4.9% year over year, and a 0.6% operating loss for the first nine months of 2011, compared with a margin of 1.7% for the same period the year before. Margin erosion stemmed primarily from higher fuel costs and, to a lesser extent for nine-month period, from the drop in aircraft load factors.

### EUROPE

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of dollars) | 2011 $ | 2010 $ | Variance $ | Variance % | 2011 $ | 2010 $ | Variance $ | Variance % |
| Revenues | 312,588 | 323,281 | (10,693) | (3.3) | 639,814 | 632,683 | 7,131 | 1.1 |
| Operating expenses | 282,016 | 295,921 | (13,905) | (4.7) | 618,312 | 618,693 | (381) | (0.1) |
| Margin | 30,572 | 27,360 | 3,212 | 11.7 | 21,502 | 13,990 | 7,512 | 53.7 |

Relative to the corresponding periods of 2010, revenues at our European subsidiaries derived from sales to customers in Europe and Canada declined $10.7 million (3.3%) in the third quarter and rose $7.1 million (1.1%) in the nine-month period. Except for our subsidiary Vacances Transat (France), which mainly sells packages to destinations in the Americas, revenues at our main European subsidiaries fell over the quarter, despite higher average selling prices. Traveller volumes were down 23.0% for the period, year over year, owing primarily to crises in certain North African countries, which include several popular summer destinations for our European customers. For the nine-month period, the revenue growth was driven by higher average prices, whereas traveller volumes were down 17.2% compared with the same period of 2010. Margin for the quarter and nine-month period ended July 31, 2011 at our European operations amounted to $30.6 million (9.8%) and $21.5 million (3.4%) compared with $27.4 million (8.5%) and $14.0 million (2.2%) for the corresponding periods of 2010. These margin improvements for the third quarter and nine-month period resulted primarily from higher selling prices. In addition, in fiscal 2010, our margin for the first nine months of the year was reduced by additional costs incurred by our European companies owing to volcanic activity in Iceland.

## OTHER EXPENSES (REVENUES)

| | Quarters ended July 31 | | | | Nine-month periods ended July 31 | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands of dollars) | 2011 $ | 2010 $ | Variance $ | Variance % | 2011 $ | 2010 $ | Variance $ | Variance % |
| Amortization | 10,800 | 11,858 | (1,058) | (8.9) | 33,057 | 36,083 | (3,026) | (8.4) |
| Interest on long-term debt | 307 | 489 | (182) | (37.2) | 1,081 | 1,678 | (597) | (35.6) |
| Other interest and financial expenses | 593 | 695 | (102) | (14.7) | 1,595 | 1,572 | 23 | 1.5 |
| Interest income | (1,934) | (673) | (1,261) | (187.4) | (5,638) | (1,710) | (3,928) | (229.7) |
| Change in fair value of derivative financial instruments related to aircraft fuel purchases | 8,342 | 2,968 | 5,374 | 181.1 | (3,651) | (7,350) | 3,699 | (50.3) |
| Foreign exchange loss (gain) on long-term monetary items | (144) | (428) | 284 | 66.4 | 1,212 | (97) | 1,309 | 1349.5 |
| Loss (gain) on investments in ABCP | (321) | 3,901 | (4,222) | (108.2) | (6,958) | (1,493) | (5,465) | (366.0) |
| Gain on disposal of assets related to restructuring | — | (76) | 76 | 100.0 | — | (1,036) | 1,036 | 100.0 |
| Share of net loss (income) of a company subject to significant influence | (138) | 104 | (242) | (232.7) | (1,186) | (2,241) | 1,055 | 47.1 |

### AMORTIZATION

Amortization includes amortization of property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. The Corporation reported year-over-year decreases in amortization for the third quarter and nine-month period of $1.1 million and $3.0 million, respectively, as a result of fewer additions to property, plant and equipment and intangible assets than in the past few fiscal years. In fiscal 2010, amortization expense included deferred gains on a debt repayment option for the quarter and nine-month period of $1.1 million and $3.2 million, respectively.

### INTEREST ON LONG-TERM DEBT

Year over year, interest on long-term debt for the third quarter and nine-month period fell $0.2 million and $0.6 million, respectively, owing primarily to lower average debt balances than in the corresponding periods of fiscal 2010.

### OTHER INTEREST AND FINANCIAL EXPENSES

Other interest and financial expenses decreased by $0.1 million in the third quarter, while they were flat for the nine-month period, compared with the corresponding periods of fiscal 2010.

#### INTEREST INCOME

Interest income for the third quarter and nine-month period grew $1.3 million and $3.9 million, respectively, compared with the same periods a year earlier, owing mainly to higher average balances of cash and cash equivalents than in fiscal 2010.

#### CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS RELATED TO AIRCRAFT FUEL PURCHASES

The change in fair value of derivative financial instruments related to 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 an $8.3 million decline in fair value of derivative financial instruments used for aircraft fuel purchases for the third quarter compared with $3.0 million, year over year. For the nine-month period, the Corporation reported a $3.7 million increase in fair value of derivative financial instruments used for aircraft fuel purchases compared with $7.4 million for the same period of the previous year.

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

The Corporation recorded a $0.1 million foreign exchange gain on long-term monetary items for the third quarter, while it reported a $1.2 million foreign exchange loss for the nine-month period.

#### LOSS (GAIN) ON INVESTMENTS IN ABCP

The gain on investments in ABCP results from the change in the fair value of investments in ABCP during the period. The gain on investments in ABCP for the third quarter and nine-month period amounted to $0.3 million and $7.0 million, respectively. (See *Investments in ABCP* for more information.)

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

Our share of net income of a company subject to significant influence represents our share of net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. The share of net income for the third quarter amounted to $0.1 million compared with a share of net loss of $0.1 million for the corresponding quarter of fiscal 2010. For the nine-month period, our share of net income amounted to $1.2 million compared with $2.2 million for the same period of fiscal 2010. The decline for the nine-month period was primarily triggered by the foreign exchange loss on long-term debt, despite the company's improved operational profitability.

### INCOME TAXES

The Corporation recorded $0.2 million in income tax recovery for the third quarter compared with a $13.8 million income tax expense for the corresponding quarter of the previous fiscal year. For the nine-month period ended July 31, 2011, income tax recovery amounted to $5.1 million compared with an $8.4 million income tax expense, year over year. Excluding the share in net loss (income) of a company subject to significant influence, the effective tax rate for the quarter and nine-month period was 7.9% and 44.1%, respectively, compared with 39.3% and 37.8% for the respective periods of fiscal 2010. The changes in tax rates for the quarter and the nine-month period resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

### NET INCOME (LOSS)

In light of the items discussed in *Consolidated operations*, net loss for the quarter ended July 31, 2011 totalled $2.9 million or $0.08 per share compared with net income of $20.9 million or $0.55 per share for the corresponding quarter of the previous fiscal year. The weighted average number of shares outstanding used to establish the per share amounts for the third quarter of fiscal 2011 was 38,044,000 compared with 37,904,000 for the corresponding period of fiscal 2010.

For the nine-month period ended July 31, 2011, net loss stood at $7.7 million or $0.20 per share, compared with a net income of $13.3 million, or $0.35 per share, for the corresponding period of the preceding fiscal year. The weighted average number of shares outstanding used to determine the per share amounts for the nine-month period ended July 31, 2011 was 37,910,000 compared with 37,782,000 for the corresponding period of fiscal 2010.

On a diluted basis, loss per share for the third quarter and nine-month period ended July 31, 2011 amounted to $0.08 and $0.20, respectively, compared with earnings per share of $0.55 and $0.35 for the respective periods of fiscal 2010. The adjusted weighted average number of shares used to compute these amounts for the third quarter and nine-month period was 38,044,000 and 37,910,000, respectively, compared with 38,217,000 and 38,039,000 for the respective year-over-year periods. *See note 8 to the unaudited Interim Consolidated Financial Statements.*

For the third quarter, adjusted after-tax income stood at $2.8 million ($0.07 per share) compared with $26.8 million ($0.70 per share) for the third quarter of fiscal 2010. For the nine-month period ended July 31, 2011, adjusted after-tax loss amounted to $17.3 million ($0.46 per share) compared with adjusted after-tax income of $5.9 million ($0.16 per share) for the same period a year earlier.

### 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 sometimes varies significantly from quarter to quarter.

| (In thousands of dollars, except per share amounts) | Q4-2009 $ | Q1-2010 $ | Q2-2010 $ | Q3-2010 $ | Q4-2010 $ | Q1-2011 $ | Q2-2011 $ | Q3-2011 $ |
|---|---|---|---|---|---|---|---|---|
| Revenues | 719,656 | 792,562 | 1,060,386 | 867,344 | 788,585 | 810,154 | 1,101,109 | 936,974 |
| Margin (operating loss) | 35,576 | (12,409) | 8,198 | 53,941 | 77,852 | (14,638) | 9,168 | 14,604 |
| Net income (loss) | 18,106 | (13,872) | 6,198 | 20,925 | 52,356 | (13,473) | 8,620 | (2,877) |
| Basic earnings (loss) per share | 0.53 | (0.37) | 0.16 | 0.55 | 1.38 | (0.36) | 0.23 | (0.08) |
| Diluted earnings (loss) per share | 0.52 | (0.37) | 0.16 | 0.55 | 1.37 | (0.36) | 0.23 | (0.08) |

## LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2011, cash and cash equivalents totalled $307.6 million compared with $180.6 million as at October 31, 2010. Cash and cash equivalents in trust or otherwise reserved amounted to $337.9 million as at the end of the third quarter of fiscal 2011 compared with $352.7 million as at October 31, 2010. Our balance sheet reflects working capital of $17.8 million and a ratio of 1.02 compared with $64.3 million and 1.10 as at October 31, 2010.

Total assets rose $165.4 million (13.9%) to $1,354.8 million as at July 31, 2011 from $1,189.5 million as at October 31, 2010. This increase resulted mainly from a $127.0 million increase in cash and cash equivalents, a $16.6 million increase in deposits, a $16.5 million increase in prepaid expenses and a $15.8 million increase in income taxes receivables, offset by a $15.9 million decrease in receivables. These changes reflect the seasonal nature of our operations. Shareholders' equity fell $16.2 million to $422.9 million as at July 31, 2011 from $439.1 million as at October 31, 2010, owing primarily to the $7.6 million foreign exchange loss on translating the financial statements of our self-sustaining foreign operations and our $7.7 million net loss.

### CASH FLOWS

| | Quarters ended July 31 | | | Nine-month periods ended July 31 | | |
|---|---|---|---|---|---|---|
| (In thousands of dollars) | 2011 $ | 2010 $ | Variance $ | 2011 $ | 2010 $ | Variance $ |
| Cash flows related to operating activities | 45,364 | 48,154 | (2,790) | 197,608 | 154,893 | 42,715 |
| Cash flows related to investing activities | (13,735) | (6,700) | (7,035) | (42,220) | (15,868) | (26,352) |
| Cash flows related to financing activities | 19 | (34,294) | 34,313 | (23,104) | (89,484) | 66,380 |
| Effect of exchange rate changes on cash | (2,248) | 3,152 | (5,400) | (5,269) | (12,815) | 7,546 |
| Net change in cash and cash equivalents | 29,400 | 10,312 | 19,088 | 127,015 | 36,726 | 90,289 |

#### OPERATING ACTIVITIES

During the third quarter, operating activities generated $45.4 million in cash flows compared with $48.2 million for the corresponding quarter of 2010. This $2.8 million year-over-year decrease for the quarter resulted mainly from a decline in profitability, offset by a $27.2 million increase reflected in the net change in non-cash working capital balances related to operations. The increase was primarily attributable to a larger increase in accounts payable and larger decreases in cash and cash equivalents in trust or otherwise reserved, and client deposits and deferred revenues during the period, compared with the corresponding period of 2010.

Cash flows provided by operating activities for the nine-month period ended July 31, 2011 were up $42.7 million to $197.6 million from $154.9 million compared with the same period of 2010. The increase was primarily attributable to a $55.6 million increase in the net change in non-cash working capital balances related to operations, which was driven by a larger increase in accounts payable and larger decreases in cash and cash equivalents in trust or otherwise reserved, accounts payable, and client deposits and deferred revenues during the period, compared with the corresponding period of 2010. The increase also resulted from increases in the net change in other assets and liabilities of $8.3 million and the net change in provision for overhaul of leased aircraft of $6.0 million, offset by lower profitability.

INVESTING ACTIVITIES

Cash flows used in investing activities for the third quarter totalled $13.7 million, up $7.0 million from the corresponding period of fiscal 2010. During the quarter, additions to property, plant and equipment and other intangible assets totalled $14.1 million, up $6.6 million from $7.6 million for the corresponding period of fiscal 2010. We also recorded cash inflows of $0.4 million from investments in ABCP compared with $0.8 million in 2010.

For the nine-month period ended July 31, cash flows used in investing activities amounted to $42.2 million, up $26.4 million from $15.9 million for the same period of fiscal 2010. Investments in property, plant and equipment and other intangible assets for the period were up $23.3 million while the balance of cash and cash equivalents reserved rose $0.5 million. Also during the nine-month period, we received $1.2 million from investments in ABCP compared with $2.6 million for the same period of fiscal 2010. During the nine-month period of fiscal 2010, we paid $0.5 million to acquire the outstanding shares of Tourgreece that we did not already own while we received proceeds totalling $1.6 million on the sale of a number of agencies in our French distribution network.

FINANCING ACTIVITIES

Cash flows used in financing activities for the third quarter totalled $19,000, down $34.3 million from $34.3 million in the corresponding period of fiscal 2010. During the quarter, a share issuance generated proceeds of $0.3 million for the Corporation while a subsidiary paid dividends in the amount of $0.3 million to a non-controlling shareholder.

For the nine-month period, cash flows used in financing activities amounted to $23.1 million, down $66.4 million from $89.5 million for the same period of 2010. This decline resulted primarily from a $66.6 million decrease in repayments on credit facilities and other debt compared with fiscal 2010. During the period, a share issuance generated proceeds of $1.3 million for the Corporation, up $0.2 million from 2010, while a subsidiary paid dividends in the amount of $2.5. million to a non-controlling shareholder compared with $2.1 million in 2010.

## FINANCING

As at July 31, 2011, the Corporation had several types of financing, consisting primarily of two revolving term credit facilities, loans secured by aircraft and lines of credit.

On July 29, 2011, the Corporation renewed the agreements for its revolving credit facilities for operations and issuance of letters of credit. Under the new agreements, 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 letters of credit. Under the terms and conditions of the agreement for the operating revolving credit facility, 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 July 31, 2011, all financial ratios were met.

The Corporation also has access to an $84.6 million revolving credit facility which matures in 2012 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 $45.9 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 under *Gain on the investments in ABCP*. The terms of the agreement require the Corporation to comply with financial criteria and ratios. As at July 31, 2011, all financial criteria and ratios were met.

As at July 31, 2011, 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 $46.2 million was drawn down.

The loans secured by aircraft of the Corporation amounted to $6.4 million [US$6.7 million] as at July 31, 2011. These loans, which bore interest at LIBOR plus 2.15% and 3.25%, were repaid on August 1, 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €9.0 million [$12.3 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 consolidated interim financial statements as at July 31, 2011. As at July 31, 2011 and October 31, 2010, these obligations, reported in liabilities, amounted to $6.9 million and $29.1 million, respectively.

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

- Guarantees
- Operating leases

Estimated off-balance sheet debt, excluding agreements with service providers, amounted to approximately $598.8 million as at July 31, 2011 compared with $643.8 million as at October 31, 2010, and is detailed as follows:

| (In thousands of dollars) | As at July 31, 2011 $ | As at October 31, 2010 $ |
|---|---|---|
| Guarantees | | |
| Irrevocable letters of credit | 4,078 | 5,273 |
| Collateral security contracts | 674 | 957 |
| Operating leases | | |
| Commitments under operating leases | 594,067 | 637,520 |
| | 598,819 | 643,750 |

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

In addition, the Corporation has a $50.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at July 31, 2011, $12.8 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 July 31, 2011 were lower than as at October 31, 2010.

Balance sheet debt decreased $22.2 million to $6.9 million from $29.1 million and our off-balance sheet debt decreased $44.9 million to $598.8 million from $643.8 million, collectively representing a $67.1 million decrease in total debt compared with October 31, 2010. The decreases in balance sheet and off-balance sheet debt resulted from repayments made during the nine-month period ended July 31, 2011 and the Canadian dollar's strengthening against the U.S. currency. Our off-balance sheet debt also reflects payments under a lease entered into in the second quarter for a new aircraft.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $219.9 million in net debt as at July 31, 2011, down $199.9 million from $419.8 million as at October 31, 2010.

### OUTSTANDING SHARES

As at July 31, 2011, there were three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at July 31, 2011, there were 797,420 Class A Variable Voting Shares outstanding and 37,166,107 Class B Voting Shares outstanding.

### STOCK OPTIONS

As at September 7, 2011, there were a total of 1,895,125 stock options outstanding, 913,244 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 nine-month period ended July 31, 2011, the Corporation received $1.2 million in principal repayments on ABCP supported solely by traditional securitized assets (MAV3 Traditional). The notional value of the new ABCP amounted to $117.0 million as at July 31, 2011 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 $3.6 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 July 31, 2011, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the nine-month period ended

July 31, 2011, 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 21, 2010, upgrading ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] from Class A-1 to A+ and confirming the BBB− rating of Class A-2.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest at rates ranging from 0.0% to 1.8% [weighted average rate of 1.5%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 5.4-year period using discount rates ranging from 6.4% to 34.3% [weighted average rate of 11.5%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized increases, on July 31, 2011, in the fair value of its investments in ABCP for the quarter and nine-month period of $0.3 million and $7.0 million, respectively. As at this date, the ABCP investment portfolio had a fair value of $78.1 million and the provision for impairment totalled $38.8 million, representing 33.2% of the notional value of $117.0 million.

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

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $3.6 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 *Gain on investments in ABCP* in the consolidated statement of income (loss):

| (In thousands of dollars) | Notional value of investments in ABCP $ | Provision for impairment of investments in ABCP $ | Investments in ABCP $ | Loss (gain) on investments in ABCP $ |
|---|---|---|---|---|
| Balance as at October 31, 2009 | 128,835 | (57,434) | 71,401 | |
| Increase in value of investments in ABCP | — | 5,394 | 5,394 | (5,394) |
| Principal repayments | (1,801) | — | (1,801) | — |
| Share of cash accumulated in conduits | — | (620) | (620) | — |
| Balance as at April 30, 2010; impact on results for period ended April 30, 2010 | 127,034 | (52,660) | 74,374 | (5,394) |
| Writedown of investments in ABCP | — | (3,901) | (3,901) | 3,901 |
| Principal repayments | (791) | — | (791) | — |
| Balance as at July 31, 2010; impact on results for period ended July 31, 2010 | 126,243 | (56,561) | 69,682 | (1,493) |
| Disposal of investments in ABCP | (7,630) | 7,630 | — | — |
| Increase in value of investments in ABCP | — | 3,155 | 3,155 | (3,155) |
| Principal repayments | (491) | — | (491) | — |
| Balance as at October 31, 2010; impact on results for the year ended October 31, 2010 | 118,122 | (45,776) | 72,346 | (4,648) |
| Increase in value of investments in ABCP | — | 6,637 | 6,637 | (6,637) |
| Principal repayments | (795) | — | (795) | — |
| Balance as at April 30, 2011; impact on results for period ended April 30, 2011 | 117,327 | (39,139) | 78,188 | (6,637) |
| Increase in value of investments in ABCP | — | 321 | 321 | (321) |
| Principal repayments | (374) | — | (374) | — |
| Balance as at July 31, 2011; impact on results for period ended July 31, 2011 | 116,953 | (38,818) | 78,135 | (6,958) |

The balance of investments in ABCP as at July 31, 2011 is detailed as follows:

| (In thousands of dollars) | Notional value of investments in ABCP $ | Provision for impairment of investments in ABCP $ | Investments in ABCP $ |
|---|---|---|---|
| MAV2 Eligible | | | |
| Class A-1 | 34,415 | (7,177) | 27,238 |
| Class A-2 | 63,894 | (20,467) | 43,427 |
| Class B | 11,598 | (8,331) | 3,267 |
| Class C | 3,403 | (2,839) | 564 |
| | 113,310 | (38,814) | 74,496 |
| MAV3 Traditional | 3,643 | (4) | 3,639 |
| | 116,953 | (38,818) | 78,135 |

## OTHER

### CHANGES IN MANAGEMENT TEAM

The Corporation has begun reviewing all operations and developing an action plan focused mainly on reducing direct and operating costs, and on revisiting its approach to IT systems, in order to return to profitability. This is in addition to projects already under way aimed at optimizing the management of airline assets and improving product strategies. In addition, Transat is immediately starting to implement changes to simplify its organizational structure in Canada, in order to accelerate decision-making and execution. As a consequence, the

Corporation has announced on September 8 the departure of Chief Operating Officer Nelson Gentiletti, as well as Transat Tours Canada President Michael DiLollo.

Allen B. Graham, President and Chief Executive Officer of Air Transat, has been appointed President, Transat Canada. Reporting to the President and CEO, he will oversee the operations of business units Air Transat, Transat Tours Canada, Transat Distribution Canada, Canadian Affair, Air Consultants Europe and Handlex. Transat France, Transat Discoveries, tripcentral.ca and Jonview Canada will report directly to the President and CEO. André De Montigny is appointed President, Transat International and will be responsible for Eleva Travel, Tourgreece, Trafic Tours, Turissimo and hotel operations, while remaining Vice-President, Business Development.

### AIR TRANSAT

On August 4, 2011, the Corporation announced that the flight attendants of Air Transat, represented by the Canadian Union of Public Employees (CUPE), have ratified the agreement in principle to renew their collective agreement. The new five-year agreement will expire in 2015.

### HANDLEX

On February 15, 2011, Handlex, one of the Corporation's subsidiaries, locked out 400 of its ramp and baggage workers at airports in Toronto and Montréal, following the rejection of its most recent offer to renew the collective bargaining agreement, which expired in November 2010, and the strike action launched by the union. A contingency plan was immediately implemented to ensure continuity of operations and services for all airlines served by Handlex, including Air Transat. On March 7, 2011, Handlex and its ramp and employees at airports in Toronto and Montréal agreed to renew the collective bargaining agreement.

### NEW CREDIT CARD PROCESSOR

On February 28, 2011, we announced the signing of an agreement with a second credit card processor in Canada effective immediately, expiring on February 28, 2015.

Credit card transactions processed in Canada under this new agreement will be subject to the requirement of segregating funds in a restricted bank account. However, the Corporation is required to maintain certain levels of unrestricted cash and other cash equivalents at each quarter-end, as well as certain financial ratios similar to those set out in its bank credit agreements. The Corporation's failure to comply with these covenants could result in a variety of adverse consequences, including an obligation by Transat to provide this new credit card processor with a letter of credit according to a predetermined formula based on the quarterly dollar volume of credit card transactions processed by this new credit card processor.

### FLEET

The Air Transat fleet currently consists of 12 Airbus A310 aircraft (249 seats), which will be gradually retired, and ten Airbus A330 (342 seats). During the nine-month period ended July 31, 2011, one A310 was retired and four A330s were commissioned. The eleventh and twelfth A330s are slated for commissioning in fall 2011.

## FUTURE CHANGES IN ACCOUNTING POLICIES

### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the AcSB confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards [IFRS] for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012. The Corporation has prepared an IFRS transition plan consisting of three phases: design and planning; identification of differences and development of solutions; and implementation and review.

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

Phase 2, which focused on identifying the differences between IFRS and the Corporation's accounting policies, and developing solutions, is now complete. During this stage, the Corporation performed a detailed analysis of IFRS, which consisted first in identifying the differences between IFRS and the Corporation's current accounting policies to prioritize key areas that will be more significantly impacted by the changeover and then determining the options permitted under IFRS at the effective date and on an ongoing basis in order to finalize conclusions. The second stage of Phase 2 included detailed planning of information technology and human resources requirements as they relate to the changeover. We also identified internal procedures and systems that require updating and adapting, including adjustments to existing internal control procedures and the implementation of additional internal control over financial reporting and disclosure controls and procedures that are necessary to certify financial reporting during the changeover and post-implementation periods.

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

The following table provides a progress update on timelines for core items of the IFRS conversion plan as at July 31, 2011:

| | Core item(s) | Timeline | Progress |
|---|---|---|---|
| Financial information | Identify differences and develop solutions for accounting policy elections, particularly permitted elections under IFRS, including those involving permitted exemptions under IFRS 1. | During fiscal 2011. | The analyses have been completed, and in certain cases, we are finalizing the quantified effects of differences. |
| | Develop a model set of IFRS financial statements with accompanying notes. | During fiscal 2011. | Development of a model set of IFRS financial statements is underway. |
| | Prepare an opening balance sheet and compile financial information to prepare comparative IFRS financial statements. | During fiscal 2011. | Analysis began in the second quarter of fiscal 2011.<br>The preparation of the opening balance sheet and compilation of financial information are underway. |
| Information technology and data systems | Assess the effects of changes on information and data systems, and make the necessary changes. | Changes to information and data systems finalized in a timely fashion to compile the financial information during fiscal 2011. Follow-ups and updates during fiscal 2011. | Our assessment of the effects of changes on information and data systems is in its final stage of analysis. |
| Internal control over financial reporting | Assess the effects of changes on internal control over financial reporting and disclosures controls and procedures and implement modifications as necessary. | Implement the required modifications starting in the first quarter of fiscal 2011. Follow-ups and updates during fiscal 2011. | Our assessment of the effects on internal control over financial reporting is in its final stage of analysis. |
| Business activity | Determine the conversion's impact on the Corporation's business activity. | Changes to be finalized before October 31, 2011. | Our assessment of the effects on business activity is in its final stage of analysis. |

| | Core item(s) | Timeline | Progress |
|---|---|---|---|
| Training and communications | Offer training to affected employees, management and the Board of Directors and its relevant committees, particularly the Audit Committee. | During fiscal 2010 and 2011. | Training is being offered in a timely fashion in accordance with conversion timelines. |
| | Provide conversion plan status reports to internal and external stakeholders. | During fiscal 2010 and 2011. | Periodic status reports are sent to internal and external stakeholders. |

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

| Exemption | Application of exemption |
|---|---|
| Business combinations | The Corporation expects to elect not to retrospectively restate business acquisitions completed prior to November 1, 2010. |
| Employee benefits | The Corporation expects to elect to recognize cumulative actuarial gains and losses arising from its defined benefit pension plans through opening retained earnings at the IFRS transition date and prospectively apply IAS 19, *Employee Benefits*. The application of this exemption will result in the recognition, as at November 1, 2010 of a $6.7 million decrease in the Corporation's opening retained earnings balance at the IFRS transition date. |
| Cumulative translation adjustments | The Corporation expects to elect to recognize cumulative translation adjustments through opening retained earnings at the IFRS transition date. The application of this exemption will result in the recognition, as at November 1, 2010 of a $16.8 million decrease in the Corporation's opening retained earnings balance at the IFRS transition date. |
| Share-based payment transactions | The Corporation expects to apply the exemption enabling it not to retrospectively apply IFRS 2, *Share-based Payment*, to share-based payment transactions prior to the transition date. |

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

| Accounting area | Main differences with potential impact for the Corporation | Progress |
|---|---|---|
| Financial statement presentation and disclosure | • IFRS require a different format and additional disclosures in the notes to financial statements. | A model set of financial statements has been prepared and is subject to change based on the conclusions of our overall work. |
| Property, plant and equipment | • Separate recognition of components of significant assets and amortization of components over various useful lives. | Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation. |
| Asset impairment | • Grouping of assets in cash generating units (CGUs) on the basis of largely independent cash inflows for impairment testing purposes, using a discounted future cash flow method in a single-step approach.<br>• Goodwill allocated to and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies.<br>• In certain circumstances, previous impairment charges on assets other than goodwill are required to be reversed. | Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation. |

| Accounting area | Main differences with potential impact for the Corporation | Progress |
|---|---|---|
| Leases | • IFRS require the use of qualitative versus quantitative thresholds as under Canadian GAAP in accounting for capital leases. | Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation. |
| Business combinations | • Acquisition and restructuring costs are expensed as incurred. Contingent consideration is measured at its acquisition-date fair value with subsequent changes in fair value recognized through income.<br>• Changes in equity interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions.<br>• Non-controlling interests are reported separately from shareholders' equity. | Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation. |
| Income taxes | • Recognition and measurement criteria for deferred tax assets and liabilities may differ. | Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation. |
| Provisions and contingencies | • A different threshold is used to recognize contingent liabilities, which could impact the timing for recognition of provisions. | Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation. |
| Employee benefits | • Immediate recognition of past service costs for which benefits are vested through opening retained earnings at the transition date and subsequently through income.<br>• After the transition to IFRS, an entity may recognize actuarial gains and losses as they occur in comprehensive income with no impact on income. | Preliminary conclusions indicate there could be differences with significant impact for the Corporation at the IFRS transition date. However, changes in actuarial gains or losses will be recognized through comprehensive income without any impact on the statement of income. |

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

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

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

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

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

## CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators *National Instrument 52-109*, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2011 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 Canadian GAAP in its financial statements.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2011 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

## OUTLOOK

The transatlantic market accounts for a very significant portion of Transat's business in the summer. For the fourth quarter, the Corporation's capacity is 12% higher than in 2010. Slightly more than 80% of capacity has been sold and load factors are 4% inferior to the previous year at the same date. Selling prices (including fuel surcharges) are similar to last year, despite an increase of approximately 30% of fuel prices, when expressed in Canadian dollars.

In France, bookings for medium-haul travel are slightly behind compared to last year, due to unrest in North Africa. However, the decrease in bookings for North African destinations, notably Tunisia and Egypt, is partially offset by the rise on other destinations. On long-haul travel, bookings are more than 10% higher than the prior year. Average selling prices are higher than last year.

Consequently, Transat expects the results of the fourth quarter to be inferior to the record results reported last year.

# TRANSAT A.T. INC.
## CONSOLIDATED BALANCE SHEETS

| (in thousands of dollars) (unaudited) | As at July 31, 2011 $ | As at October 31, 2010 $ |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 307,642 | 180,627 |
| Cash and cash equivalents in trust or otherwise reserved *[note 3]* | 301,759 | 320,428 |
| Accounts receivable | 131,062 | 146,944 |
| Income taxes receivable | 20,554 | 4,738 |
| Future income tax assets | 3,368 | 2,895 |
| Inventories | 10,621 | 9,867 |
| Prepaid expenses | 66,789 | 50,297 |
| Derivative financial instruments | 5,806 | 868 |
| Current portion of deposits | 30,063 | 12,554 |
| Total current assets | 877,664 | 729,218 |
| Cash and cash equivalents reserved *[note 3]* | 36,125 | 32,222 |
| Investments in ABCP *[note 4]* | 78,135 | 72,346 |
| Deposits | 28,933 | 29,837 |
| Future income tax assets | 18,035 | 9,650 |
| Property, plant and equipment | 86,413 | 88,376 |
| Goodwill | 111,008 | 112,454 |
| Other intangible assets | 57,100 | 50,464 |
| Derivative financial instruments | — | 23 |
| Investments and other assets *[note 5]* | 61,424 | 64,868 |
| | 1,354,837 | 1,189,458 |
| LIABILITIES AND SHAREHOLDER'S EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 419,918 | 300,355 |
| Current portion of provision for overhaul of leased aircraft | 28,776 | 18,301 |
| Income taxes payable | 7,176 | 14,608 |
| Future income tax liabilities | 13 | 106 |
| Customer deposits and deferred income | 386,703 | 313,695 |
| Derivative financial instruments | 10,771 | 4,116 |
| Payments on current portion of long-term debt | 6,535 | 13,768 |
| Total current liabilities | 859,892 | 664,949 |
| Long–term debt *[note 6]* | 344 | 15,291 |
| Provision for overhaul of leased aircraft | 11,115 | 12,408 |
| Other liabilities *[note 7]* | 48,423 | 45,368 |
| Future income tax liabilities | 12,208 | 12,370 |
| | 931,982 | 750,386 |
| Shareholder's equity | | |
| Share capital *[note 8]* | 219,056 | 217,604 |
| Retained earnings | 222,973 | 230,703 |
| Contributed surplus | 11,232 | 9,090 |
| Accumulated other comprehensive loss *[note 9]* | (30,406) | (18,325) |
| | 422,855 | 439,072 |
| | 1,354,837 | 1,189,458 |

See accompanying notes to consolidated interim financial statement

### NOTICE

The Corporation's independent auditors have not performed a review of the accompanying financial statements in accordance with the Canadian 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 dollars, except per share amounts) (unaudited) | Quarters ended July 31 2011 $ | 2010 $ | Nine-month periods ended July 31 2011 $ | 2010 $ |
|---|---|---|---|---|
| Revenues | 936,974 | 867,344 | 2,848,237 | 2,720,292 |
| Operating expenses | | | | |
| Direct costs | 482,893 | 468,229 | 1,662,839 | 1,689,917 |
| Aircraft fuel | 137,106 | 86,376 | 307,273 | 213,821 |
| Salaries and employee benefits | 96,826 | 85,794 | 279,034 | 253,644 |
| Commissions | 33,461 | 34,630 | 136,239 | 127,738 |
| Aircraft maintenance | 29,419 | 23,707 | 83,653 | 67,030 |
| Airport and navigation fees | 32,115 | 25,733 | 73,311 | 59,809 |
| Aircraft rent | 17,848 | 13,595 | 49,758 | 41,192 |
| Other | 92,702 | 75,339 | 246,996 | 217,411 |
| | 922,370 | 813,403 | 2,839,103 | 2,670,562 |
| | 14,604 | 53,941 | 9,134 | 49,730 |
| Amortization | 10,800 | 11,858 | 33,057 | 36,083 |
| Interest on long-term debt | 307 | 489 | 1,081 | 1,678 |
| Other interest and financial expenses | 593 | 695 | 1,595 | 1,572 |
| Interest income | (1,934) | (673) | (5,638) | (1,710) |
| Change in fair value of derivative financial instruments used for aircraft fuel purchases | 8,342 | 2,968 | (3,651) | (7,350) |
| Foreign exchange loss (gain) on long-term monetary items | (144) | (428) | 1,212 | (97) |
| Loss (gain) on investments in ABCP *[note 4]* | (321) | 3,901 | (6,958) | (1,493) |
| Gain on disposal of assets under the restructuring plan | — | (76) | — | (1,036) |
| Share of net (income) loss of a company subject to significant influence | (138) | 104 | (1,186) | (2,241) |
| | 17,505 | 18,838 | 19,512 | 25,406 |
| Income (loss) before the undernoted items | (2,901) | 35,103 | (10,378) | 24,324 |
| Income taxes (recovery) | | | | |
| Current | 7,912 | 14,244 | 2,280 | 11,365 |
| Future | (8,151) | (413) | (7,376) | (3,014) |
| | (239) | 13,831 | (5,096) | 8,351 |
| Income (loss) before non-controlling interest in subsidiaries' results | (2,662) | 21,272 | (5,282) | 15,973 |
| Non-controlling interest in subsidiaries' results | (215) | (347) | (2,448) | (2,722) |
| Net income (loss) for the period | (2,877) | 20,925 | (7,730) | 13,251 |
| Earnings (loss) per share *[note 8]* | | | | |
| Basic | (0.08) | 0.55 | (0.20) | 0.35 |
| Diluted | (0.08) | 0.55 | (0.20) | 0.35 |

See accompanying notes to consolidated interim financial statement

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

| | Quarters ended July 31 | | Nine-month periods ended July 31 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| (in thousands of dollars) (unaudited) | $ | $ | $ | $ |
| Net income (loss) for the period | (2,877) | 20,925 | (7,730) | 13,251 |
| Other comprehensive income | | | | |
| Change in fair value of derivatives designated as cash flow hedges | 285 | 7,174 | 903 | 41,250 |
| Reclassification in income | (2,363) | (4,020) | (6,945) | (20,126) |
| Future income taxes | 565 | (943) | 1,570 | (6,319) |
| | (1,513) | 2,211 | (4,472) | 14,085 |
| Foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign subsidiaries due to (appreciation) depreciation of Canadian dollars vs. euro, pound sterling and U.S. dollar at balance sheet date | (1,553) | 3,038 | (7,609) | (14,379) |
| | (3,066) | 5,249 | (12,081) | 426 |
| Comprehensive income (loss) for the period | (5,943) | 26,174 | (19,811) | 13,677 |

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

| (in thousands of dollars) (unaudited) | Share capital $ | Contributed surplus $ | Retained earnings $ | Accumulated other comprehensive income (loss) $ | Shareholders' equity $ |
|---|---|---|---|---|---|
| Balance as at October 31, 2009 | 216,236 | 6,642 | 165,096 | (20,613) | 367,361 |
| Net income for the period | — | — | 13,251 | — | 13,251 |
| Other comprehensive loss | — | — | — | 426 | 426 |
| Issued from treasury | 951 | — | — | — | 951 |
| Exercise of options | 142 | — | — | — | 142 |
| Compensation expense for stock option plan | — | 1,770 | — | — | 1,770 |
| Balance as at July 31, 2010 | 217,329 | 8,412 | 178,347 | (20,187) | 383,901 |
| Net income for the period | — | — | 52,356 | — | 52,356 |
| Other comprehensive income | — | — | — | 1,862 | 1,862 |
| Issued from treasury | 275 | — | — | — | 275 |
| Compensation expense for stock option plan | — | 678 | — | — | 678 |
| Balance as at October 31, 2010 | 217,604 | 9,090 | 230,703 | (18,325) | 439,072 |
| Net loss for the period | — | — | (7,730) | — | (7,730) |
| Other comprehensive income | — | — | — | (12,081) | (12,081) |
| Issued from treasury | 978 | — | — | — | 978 |
| Exercise of options | 474 | — | — | — | 474 |
| Compensation expense for stock option plan | — | 2,142 | — | — | 2,142 |
| Balance as at July 31, 2011 | 219,056 | 11,232 | 222,973 | (30,406) | 422,855 |

See accompanying notes to consolidated interim financial statement

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

| (in thousands of dollars) (unaudited) | Quarters ended July 31 2011 $ | 2010 $ | Nine-month periods ended July 31 2011 $ | 2010 $ |
|---|---|---|---|---|
| OPERATING ACTIVITIES | | | | |
| Net income (loss) for the period | (2,877) | 20,925 | (7,730) | 13,251 |
| Operating items not involving an outlay (receipt) of cash : | | | | |
| Amortization | 10,800 | 11,858 | 33,057 | 36,083 |
| Change in fair value of derivative financial instruments used for aircraft fuel purchases | 8,342 | 2,968 | (3,651) | (7,350) |
| Foreign exchange loss (gain) on long-term monetary items | (144) | (428) | 1,212 | (97) |
| Loss (gain) on investments in ABCP | (321) | 3,901 | (6,958) | (873) |
| Gain on disposal of assets under the restructuring plan | — | (76) | — | (1,036) |
| Share of net (income) loss of a company subject to significant influence | (138) | 104 | (1,186) | (2,241) |
| Non-controlling interest in subsidiaries' results | 215 | 347 | 2,448 | 2,722 |
| Future income taxes | (8,151) | (413) | (7,376) | (3,014) |
| Pension expense | 573 | 566 | 1,720 | 1,699 |
| Compensation expense related to stock option plan | 598 | 699 | 2,142 | 1,770 |
| | 8,897 | 40,451 | 13,678 | 40,914 |
| Net change in non-cash working capital balances related to operations | 35,686 | 8,439 | 185,169 | 129,585 |
| Net change in other assets and liabilities related to operation | (3,719) | (4,130) | (10,421) | (18,755) |
| Net change in provision for overhaul of leased aircraft | 4,500 | 3,394 | 9,182 | 3,149 |
| Cash flows related to operating activities | 45,364 | 48,154 | 197,608 | 154,893 |
| INVESTING ACTIVITIES | | | | |
| Additions to property, plant and equipment and to intangible assets | (14,109) | (7,552) | (39,192) | (15,877) |
| Proceeds on disposal of property, plant and equipment and to intangible assets under the restructuring plan *[note 10]* | — | 61 | — | 1,605 |
| Realization of principal of investments in ABCP | 374 | 791 | 1,169 | 2,592 |
| Increase in cash and cash equivalent reserved | — | — | (4,197) | (3,684) |
| Consideration paid for acquired companies *[note 7]* | — | — | — | (504) |
| Cash flow related to investing activities | (13,735) | (6,700) | (42,220) | (15,868) |
| FINANCING ACTIVITIES | | | | |
| Net change in credit facilities and other debt | — | (34,612) | (15,076) | (78,466) |
| Debenture and loan repayments | (23) | — | (6,825) | (10,033) |
| Proceeds from issuance of shares | 346 | 318 | 1,325 | 1,093 |
| Dividend paid to a non-controlling interest | (304) | — | (2,528) | (2,078) |
| Cash flow related to financing activities | 19 | (34,294) | (23,104) | (89,484) |
| Effect of exchange rate changes on cash and cash equivalents | (2,248) | 3,152 | (5,269) | (12,815) |
| Net change in cash and cash equivalents | 29,400 | 10,312 | 127,015 | 36,726 |
| Cash and cash equivalents, beginning of the period | 278,242 | 206,966 | 180,627 | 180,552 |
| Cash and cash equivalents, end of the period | 307,642 | 217,278 | 307,642 | 217,278 |
| Supplementary information | | | | |
| Income taxes paid | 2,096 | (338) | 24,619 | (8,177) |
| Interest paid | 245 | 291 | 1,476 | 2,438 |

See accompanying notes to consolidated interim financial statement

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

## Note 1 BASIS OF PRESENTATION

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2010 Annual Report.

## Note 2 FUTURE CHANGES IN ACCOUNTING POLICIES

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

In January 2009, the CICA issued three new accounting standards: Section 1582, *Business Combinations*, Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*. These new standards will be effective for financial statements related to fiscal years beginning on or after January 1, 2011. The Corporation does not intend to opt for early adoption of these standards.

## Note 3 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2011, cash and cash equivalents in trust or otherwise reserved included $260,828 [$266,617 as at October 31, 2010] 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 $77,056, of which $36,125 was recorded as non-current assets [$86,033 as at October 31, 2010, of which $32,222 was presented as non-current assets], which was pledged as collateral security against letters of credit.

## Note 4 INVESTMENTS IN ABCP

RESTRUCTURING

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

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

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

PORTFOLIO

During the nine-month period ended July 31, 2011, the Corporation received $1,169 in the form of principal repayments on ABCP supported solely by traditional securitized assets ["MAV3 Traditional"]. The notional value of the new ABCP amounted to $116,953 as at July 31, 2011 and is detailed as follows:

MAV2 Eligible

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

MAV3 Traditional

The Corporation holds $3,643 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 July 31, 2011, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the nine-month period ended July 31, 2011, 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 took into account the information released by DBRS on September 21, 2010. DBRS upgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) of Class A-1 to A+ and confirmed the BBB− rating of Class A-2.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 1.8% [weighted average rate of 1.5%], depending on the type of series. These future cash flows were discounted, according to the type of series, over 5.4-year periods using discount rates ranging from 6.4% to 34.3% [weighted average rate of 11.5%], which factor in liquidity.

As a result of this new valuation, on July 31, 2011, the Corporation recognized an increase in the fair value of its investments in ABCP of $321, $6,958 for the nine-month period. The ABCP investment portfolio had a fair value of $78,135 and the provision for impairment totalled $38,818, representing 33.2% of the notional value of $116,953.

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 $3,600 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 Gain on investments in ABCP in the consolidated statement of income:

| (In thousands of dollars) | Notional value of investments in ABCP $ | Provision for impairment of investments in ABCP $ | Investments in ABCP $ | Loss (gain) on investments in ABCP $ |
|---|---|---|---|---|
| Balance as at October 31, 2009 | 128,835 | (57,434) | 71,401 | |
| Appreciation in value of investments in ABCP | — | 5,394 | 5,394 | (5,394) |
| Principal repayments | (1,801) | — | (1,801) | — |
| Share of cash accumulated in conduits | — | (620) | (620) | — |
| Balance as at April 30, 2010; impact on results for the period ended April 30, 2010 | 127,034 | (52,660) | 74,374 | (5,394) |
| Appreciation in value of investments in ABCP | — | (3,901) | (3,901) | 3,901 |
| Principal repayments | (791) | — | (791) | — |
| Balance as at July 31, 2010; impact on results the period ended July 31, 2010 | 126,243 | (56,561) | 69,682 | (1,493) |
| Disposal of investments in ABCP | (7,630) | 7,630 | — | — |
| Appreciation in value of investments in ABCP | — | 3,155 | 3,155 | (3,155) |
| Principal repayments | (491) | — | (491) | — |
| Balance as at October 31, 2010; impact on results for fiscal year ended October 31, 2010 | 118,122 | (45,776) | 72,346 | (4,648) |
| Appreciation in value of investments in ABCP | — | 6,637 | 6,637 | (6,637) |
| Principal repayments | (795) | — | (795) | — |
| Balance as at April 30, 2011; impact on results for period ended April 30, 2011 | 117,327 | (39,139) | 78,188 | (6,637) |
| Appreciation in value of investments in ABCP | — | 321 | 321 | (321) |
| Principal repayments | (374) | — | (374) | — |
| Balance as at July 31, 2011; impact on results for the period ended July 31, 2011 | 116,953 | (38,818) | 78,135 | (6,958) |

The balance of investments in ABCP as at July 31, 2011 is detailed as follows:

| (In thousands of dollars) | Notional value of investments in ABCP $ | Provision for impairment of investments in ABCP $ | Investments in ABCP $ |
|---|---|---|---|
| MAV2 Eligible | | | |
| Class A-1 | 34,415 | (7,177) | 27,238 |
| Class A-2 | 63,894 | (20,467) | 43,427 |
| Class B | 11,598 | (8,331) | 3,267 |
| Class C | 3,403 | (2,839) | 564 |
| | 113,310 | (38,814) | 74,496 |
| MAV3 Traditional | 3,643 | (4) | 3,639 |
| | 116,953 | (38,818) | 78,135 |

## Note 5 INVESTMENTS AND OTHER ASSETS

| | As at July 31, 2011 $ | As at October 31, 2010 $ |
|---|---|---|
| Investment in Caribbean Investments B.V. | 58,625 | 61,239 |
| Deferred costs, unamortized balance | 1,079 | 1,868 |
| Other investments | 79 | 115 |
| Sundry | 1,641 | 1,646 |
| | 61,424 | 64,868 |

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

| | $ |
|---|---|
| Balance as at October 31, 2010 | 61,239 |
| Share of net income | 1,186 |
| Translation adjustment | (3,800) |
| Balance as at July 31, 2011 | 58,625 |

## Note 6 LONG-TERM DEBT

| | As at July 31, 2011 $ | As at October 31, 2010 $ |
|---|---|---|
| Loan secured by aircraft amounting to US$6,667 [US$13,333 as at October 31, 2010] | 6,359 | 13,584 |
| Drawdowns under the revolving term credit facility maturing in 2012 | — | 15,000 |
| Other | 520 | 475 |
| | 6,879 | 29,059 |
| Less: current portion | 6,535 | 13,768 |
| | 344 | 15,291 |

## Note 7 OTHER LIABILITIES

| | As at July 31, 2011 $ | As at October 31, 2010 $ |
|---|---|---|
| Accrued benefit liabilities | 19,756 | 18,630 |
| Deferred lease inducements | 21,215 | 18,500 |
| Non-controlling interest | 7,452 | 8,238 |
| | 48,423 | 45,368 |

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

## Note 8 SHARE CAPITAL

### A) SHARE CAPITAL

AUTHORIZED

Class A variable voting shares

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

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

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

Class B voting shares

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

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

Preferred shares

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

ISSUED AND OUTSTANDING

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

| | Number of shares | Amount ($) |
|---|---|---|
| Balance as at October 31, 2010 | 37,849,834 | 217,604 |
| Issued from treasury | 76,795 | 978 |
| Exercise of options | 36,898 | 474 |
| Balance as at July 31, 2011 | 37,963,527 | 219,056 |

As at July 31, 2011, the number of Class A Shares and Class B Shares amounted to 797,420 and 37,166,107, respectively.

B) OPTIONS

| | Number of options | Weighted average price ($) |
|---|---|---|
| Balance as at October 31, 2010 | 1,722,302 | 16.04 |
| Granted | 237,239 | 19.24 |
| Exercised | (36,898) | 9.41 |
| Cancelled | (27,518) | 17.13 |
| Balance as at July 31, 2011 | 1,895,125 | 16.56 |
| Options exercisable as at July 31, 2011 | 913,244 | 19.54 |

C) EARNINGS (LOSS) PER SHARE

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

| | Quarters ended July 31 | | Nine-month periods ended July | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| (in thousands of dollars, except per share amounts) | $ | $ | $ | $ |
| Numerator | | | | |
| Income (loss) attributable to voting shareholders and used to calculate diluted earnings (loss) per share | (2,877) | 20,925 | (7,730) | 13,251 |
| Denominator | | | | |
| Weighted average number of outstanding shares | 38,044 | 37,904 | 37,910 | 37,782 |
| Stock options | — | 313 | — | 253 |
| Debentures that may be settled in voting shares | — | — | — | 4 |
| Weighted average number of outstanding shares and adjusted weighted average number of outstanding shares used in computing diluted income (loss) per share | 38,044 | 38,217 | 37,910 | 38,039 |
| Earnings (loss) per share | | | | |
| Basic | (0.08) | 0.55 | (0.20) | 0.35 |
| Diluted | (0.08) | 0.55 | (0.20) | 0.35 |

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

In computing diluted earnings per share for the three-month and nine-month periods ended July 31, 2010, 544,805 stock options were excluded from the computation of diluted earnings per share because the exercise price on these options exceeded the average price of the Corporation's share for the respective periods.

## Note 9 ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the accumulated other comprehensive income were as follows for the quarter ended July 31, 2011:

| | Cash flow hedges $ | Cumulative translation adjustment $ | Accumulated other comprehensive income (loss) $ |
|---|---|---|---|
| Accumulated other comprehensive income (loss) | | | |
| Balance as at October 31, 2010 | (1,522) | (16,803) | (18,325) |
| Change during the period | (2,959) | (6,056) | (9,015) |
| Balance as at April 30, 2011 | (4,481) | (22,859) | (27,340) |
| Change during the period | (1,513) | (1,553) | (3,066) |
| Balance as at July 31, 2011 | (5,994) | (24,412) | (30,406) |

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

| | Cash flow hedges $ | Cumulative translation adjustment $ | Accumulated other comprehensive income (loss) $ |
|---|---|---|---|
| Accumulated other comprehensive income (loss) | | | |
| Balance as at October 31, 2009 | (17,043) | (3,570) | (20,613) |
| Change during the period | 12,594 | (17,417) | (4,823) |
| Balance as at April 30, 2010 | (4,449) | (20,987) | (25,436) |
| Change during the period | 2,211 | 3,038 | 5,249 |
| Balance as at July 31, 2010 | (2,238) | (17,949) | (20,187) |

## Note 10 SEGMENTED INFORMATION

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

| | Three-month period ended July 31, 2011 | | | Nine-month period ended July 31, 2011 | | |
|---|---|---|---|---|---|---|
| | Americas $ | Europe $ | Total $ | Americas $ | Europe $ | Total $ |
| Revenues | 624,386 | 312,588 | 936,974 | 2,208,423 | 639,814 | 2,848,237 |
| Operating expenses | 640,354 | 282,016 | 922,370 | 2,220,791 | 618,312 | 2,839,103 |
| | (15,968) | 30,572 | 14,604 | (12,368) | 21,502 | 9,134 |
| Property, plant and equipment, goodwill and other intangible assets [1] | | | | 146,296 | 108,225 | 254,521 |

| | Three-month period ended July 31, 2010 | | | Nine-month periods ended July 31, 2010 | | |
|---|---|---|---|---|---|---|
| | Americas $ | Europe $ | Total $ | Americas $ | Europe $ | Total $ |
| Revenues | 544,063 | 323,281 | 867,344 | 2,087,609 | 632,683 | 2,720,292 |
| Operating expenses | 517,482 | 295,921 | 813,403 | 2,051,869 | 618,693 | 2,670,562 |
| | 26,581 | 27,360 | 53,941 | 35,740 | 13,990 | 49,730 |
| Property, plant and equipment, goodwill and other intangible assets [2] | | | | 139,705 | 111,589 | 251,294 |

[1] As at July 31, 2011
[2] As at October 31, 2010

## Note 11 GUARANTEES

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

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

Notes 4, 11, 12, 13 and 21 to the 2010 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

IRREVOCABLE LETTERS OF CREDIT

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

The corporation has also issued letters of credit to provincial regulatory agencies guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totalled $554 as at July 31, 2011. Historically, the Corporation has not made any significant payments under such letters of credit.

SECURITY CONTRACTS

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totalled $674 as at July 31, 2011. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2011, no amounts had been accrued with respect to the above-mentioned agreements.

SECURITY FACILITY

The Corporation has a $50,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at July 31, 2011, an amount of $12,832 was used under this facility.

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