TRANSAT A.T. INC. ANNUAL REPORT 2009

Transat: highlights 2009

Sales of $3.5 billion, up 1% from the prior year.

Margin of $93.4 million, compared with $127.8 million in 2008.

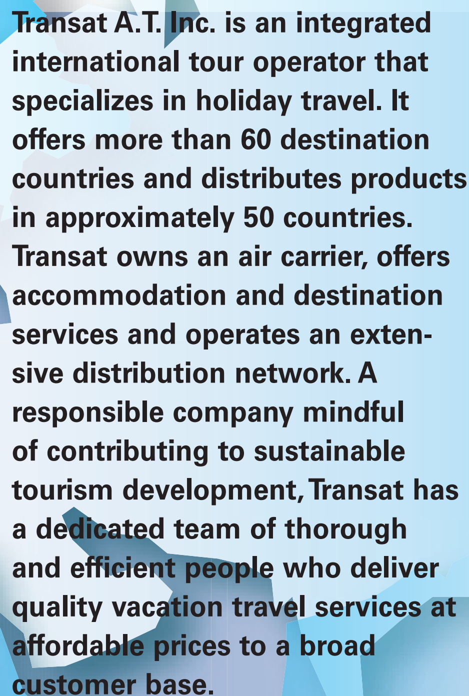
Net income of $61.8 million, compared with a net loss of $49.4 million in 2008.

Record volume of travellers outbound from Canada to sun destinations in winter.

A challenging year because of the recession and A (H1N1) influenza, which especially affected long-haul travel outbound from France and trips to Canada.

Creation of Transat France and streamlining of processes and structures.

Issuance of common shares for net proceeds of $60.5 million.



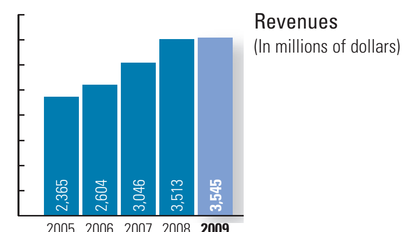
Transat A.T. Inc. is an integrated international tour operator that specializes in holiday travel. It offers more than 60 destination countries and distributes products in approximately 50 countries. Transat owns an air carrier, offers accommodation and destination services and operates an extensive distribution network. A responsible company mindful of contributing to sustainable tourism development, Transat has a dedicated team of thorough and efficient people who deliver quality vacation travel services at affordable prices to a broad customer base.

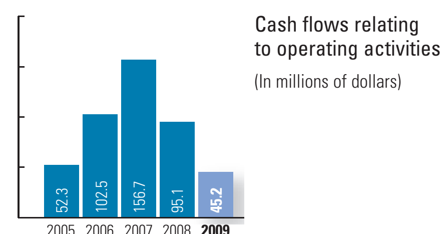
Highlights

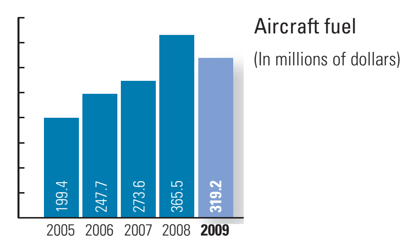
In thousands of Canadian dollars
except per share amounts and ratio

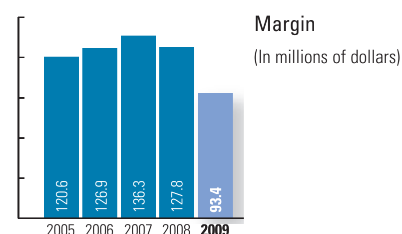
	2009	2008 Restated	Variance $	Variance %
Revenues	**3,545,341**	3,512,851	32,490	0.9
Margin [1]	**93,395**	127,768	(34,373)	(26.9)
Net income (loss)	**61,847**	(49,394)	111,241	225.2
Diluted earnings (loss) per share ($)	**1.85**	(1.49)	3.34	224.2
Cash flows relating to operating activities	**45,234**	95,069	(49,835)	(52.4)
Cash and cash equivalents	**180,552**	145,767	34,785	23.9
Total assets	**1,129,503**	1,267,214	(137,711)	(10.9)
Long-term debt (including the short-term portion)	**110,840**	153,241	(42,401)	(27.7)
Debt ratio [2]	**0.67**	0.73	(0.06)	(8.2)
Return on average shareholders' capital [3] (%)	**17.3**	(15.8)	33.1	209.5
Book value per share [4] ($)	**9.74**	10.59	(0.85)	(8.0)
Stock price as at October 31 (TRZ.B) ($)	**14.54**	11.36	3.18	28.0
Dividend per share ($)	**0.09**	0.36	(0.27)	(75.0)
Outstanding shares, end of year (in thousands)	**37,729**	32,678	5,051	15.5

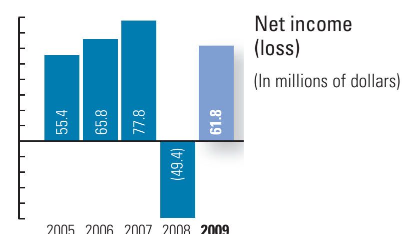
1 Margin: Revenues less operating expenses, according to the Consolidated Statements of Income.
2 Debt ratio: total liabilities divided by total assets.
3 Return on average shareholders'capital: Net income (loss) divided by average Shareholders' equity.
4 Book value per share: Shareholders'equity divided by total number of shares outstanding.











MESSAGE FROM PRESIDENT TO SHAREHOLDER'S

Transat: Firm foundations for the future

The year 2009 was a rather difficult one across the board for the tourism industry, with the financial crisis and recession having led to a moderation of international demand. In Europe, despite a decline in bookings, the revenues and margins of the largest tour operators grew, thanks to reduced supply in the United Kingdom and Germany. In Canada, on the other hand, supply has remained abundant. We were ready for this, however, and early in the year implemented an extensive cost-reduction program, accompanied by a commercial strategy targeting volume. As a result, Transat posted higher revenues while maintaining its critical mass, market shares and ability to realize economies-of-scale. The margin suffered, of course, but not to the degree expected. All in all, the fiscal 2009 results correspond roughly with our forecasts.

Although 2009 will probably turn out to be one of the rare years in which international tourism numbers actually decline, Transat posted record volumes during the first half of the year. In the second half, our revenues declined slightly, but the margin increased. We succeeded in maintaining a high load factor on our aircraft throughout 2009, and the drop in the margin over the entire year is explained in very large measure by the intensity of the competition, given the oversupply situation in Canada.

The appearance of the A (H1N1) influenza virus in Mexico in April 2009, and its spread to the rest of the world, did not diminish customers' appetite for travel, at least in Canada, such that there has been only moderate impact on our margins. Demand for Mexico products decreased, of course—quite sharply so for the rest of the year—but we were able to offer alternative destinations very quickly. As a result, the first

wave of the flu pandemic had no notable adverse effect on our volumes.

At the end of the day, while 2009 was not a banner year in terms of financial results, our performance compared favourably with that of the majority of our direct competitors. Moreover, we are well positioned to profit from the economic recovery because we have successfully completed several major projects that will have lasting effects, among them:

- We reduced our infrastructure costs by streamlining certain internal processes and completing the integration of the Finance and Human Resources functions.
- We postponed the start of several projects, reduced our distribution costs, and curbed recruitment.
- During the second half of the year, we reduced our air operations costs, initiated the renewal of the Air Transat fleet, and adopted a global approach to airline seat management.
- We expanded our Canadian distribution network and boosted controlled sales, continuing to rely on a multi-channel approach.
- We proceeded with a share issue that generated net proceeds of some $60.5 million.

In so doing, we achieved two of our four strategic objectives for 2009: First, we increased the company's efficiency, productivity, competitiveness and agility through stringent management of costs and optimal use of resources, combining short-term results with long-term vision. Second, we continued to develop and implement our multi-channel distribution strategy.

Our third objective for 2009 was to consolidate our leadership position in the outgoing market. In Canada, we differentiated our offering and broadened our reach by introducing new city-pairs and new exclusive products, as well as enhancements to the customer experience. Seven new routes between Canada and sun destinations were inaugurated during the winter, and another four between Canada and Europe in the summer season. In France, despite a depressed market, we posted stable volumes and revenues.

Our fourth objective was to roll out a sustainable tourism plan aimed at making Transat a reference within the industry when it comes to corporate social responsibility. Progress on this front has been remarkable.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer

The outgoing Canadian market

Transat Tours Canada (TTC), which operates mainly under the brands Transat Holidays, Nolitours and Air Transat, posted strong winter season results, led by a 17.7% increase in volume to sun destinations. During the second half of the year, the number of Canadian travellers declined slightly, but we recorded very good load factors. Generally speaking, selling prices trended downward in 2009, as a result of strong competition stemming from oversupply. Fuel prices overall were down from 2008 levels, but Transat was not able to fully profit from this because of its hedging strategy (which consists of paying a price fixed in advance for part of the fuel it requires).

One of the most significant events in 2009 was the signing of a five-year partnership agreement (running from May 1, 2009, to April 30, 2014) with the Canadian-based carrier CanJet Airlines for chartering of narrow-body Boeing Next Generation 737-800 aircraft on sun destination routes. These extremely fuel-efficient 189-seat aircraft are well suited to our needs, as they allow us to serve smaller markets and adjust supply in response to market fluctuations. The agreement reached with CanJet is more beneficial than the one we had with WestJet Airlines since 2003, which it replaces, and it considerably strengthens TTC's position on the sun destinations market. Its positive impact began to be felt as early as summer 2009, and is expected to grow during the winter season.

We adopted and began implementing a transition plan for renewing the Air Transat fleet. Consisting of 18 wide-body jets (Airbus A330s and A310s) in 2009, the fleet should solely be made up of Airbus A330s within four years or so. A fifth Airbus A330 was added to the fleet in the fall of 2009, and an Airbus A310 was withdrawn. Two more A310s are slated to be withdrawn in 2010. Operating only one type of aircraft will result in lower operating costs and require adjustments to our commercial approach.

These two events—the signing of the agreement with CanJet Airlines and the launch of the Air Transat fleet renewal plan—are in keeping with a new, global air capacity management approach, applied in Canada but also in Europe, whereby our tour operators use more than 60 carriers. In France, for example, we reached an agreement with XL Airways, which will charter one of Air Transat's aircraft during winter 2010 to serve our tour operators based in that country, resulting in substantial savings. We may also seize opportunities for other agreements in the medium-haul market. This type of initiative, combined with use of a single aircraft type by Air Transat and the chartering of narrow-body jets, should translate into greater flexibility, reduced costs and superior performance.

In 2009, Air Transat improved customer experience by introducing new in-flight meals and creating Option Plus, a range of optional services available to Economy Class passengers. The air carrier's on-time performance and fleet reliability, which are far superior to the average, were maintained. Air Transat received the Business Evolution Award from the U.S. consulting firm Aberdeen Group, for exceptional-quality management of its supply chain. It also won the Airbus A300/A310 Family Operational Excellence Award for excellence in management of its A310 aircraft. Lastly, Air Transat was once again named the favourite airline of Canadian travel agents in the holiday travel category.

In Canada, we make approximately 30% of our sales through our distribution network (453 travel agencies) and our websites. Transat Distribution Canada (TDC) continued to expand its presence from coast to coast, recruiting some 25 new franchises in 2009. TDC, which had 431 agencies, including 354 franchises, as of October 31, 2009, successfully introduced new incentive programs for travel advisors, and strengthened its support of Transat. In addition, our business unit tripcentral.ca, which has a Web presence as well as 22 travel agencies in Canada, took over management of our online agency exitnow.ca.

The outgoing European market

Because of the fears raised by the worldwide economic slowdown and, to a lesser extent, the A (H1N1) flu virus, conditions in the outgoing European market were challenging. This was particularly true in France, where international tourism, especially on long-haul routes, declined sharply. In spite of depressed demand and downwardly trending sale prices, we posted relatively stable revenue and a positive margin in that country; many tour operators cannot make the same claim. In the United Kingdom, a major market for Transat, we were able to take advantage of the decreased seat supply, and our volumes, revenue and margin all moved higher. In Europe, and particularly in the U.K., however, sales of Canadian-destination guided and FIT tours were down, which had an impact on Jonview Canada's business.

In Europe, the number of travellers increased by 6.6% in the first half of the year and by 5.6% in the second. The growth observed in the summer season was largely attributable to sales of trips to Canadian destinations from the United Kingdom, while sales of travel departing from other countries, including France, were generally stagnant or in decline.

Vacances Transat (France) saw its revenue shrink in 2009 as a result of its exposure to the long-haul market, but that drop was almost entirely offset by an increase in volumes at Look Voyages, whose products focus on short- and medium-haul travel and the all-inclusive "club" format. This seems to indicate that these uncertain times have led travellers to opt for more "reassuring" travel products, and that the scope of our offering helped us resist the pressures well. In addition, Vacances Transat was able to cushion the blow because its product range is much richer than it was a few years ago.

In 2009, we created Transat France, a structure that groups our two tour operators' Finance, Legal, Information Systems and Human Resources departments under a single management entity. In doing so, we realized efficiency gains, and it will from now on be easier to have our business units share a common vision. We also announced, in September, structural changes to our distribution network. To improve our adaptability to market conditions and maintain an uncompromising focus on tourism and leisure travel, we plan to dispose of 28 of our 63 travel agencies in France. This operation requires the implementation of a job protection plan, and restructuring costs will be incurred. The remaining 35 agencies will be formally brought under Look Voyages, and will play an important role, not only because we are continuing to build on multi-channel distribution, but also because, as announced in November, Transat France, in its capacity as a tour operator, will become a partner of choice of AFAT Voyages Sélectour, France's biggest travel agency network, as of early 2010.

As part of this commercial partnership, our 35 agencies will become members of that network, bringing its total number of agencies in France to more than 1,200. Meanwhile, a certain number of existing independent agencies will adopt the Look Voyages brand name. This operation will therefore expand our reach and brand visibility in France.

Incoming markets and destination services

It has been a difficult year for Canada as a travel destination. Several factors are to blame: first of all, the recession, which curbed the inclinations of European travellers; second, the tendency of vacationers to choose medium-haul travel in troubled economic times; and finally the growing attractiveness of certain Asian destinations. Consequently, Jonview Canada recorded a sizable drop in its number of travellers in 2009. That decline was widespread, but was particularly felt in departures from the U.K. (in spite of an increase in volume for Canadian Affair) and France. Jonview Canada remained profitable, however, thanks to a cost-reduction plan introduced very early in the year along with renegotiation of certain supplier agreements. Despite the fact that the economic climate clearly played a central role in the decline, such traveller disinterest in Canada is symptomatic of a worrisome trend that cannot be reversed unless the Canadian government steps up efforts to attract international tourism.

Tourgreece, for its part, welcomed fewer Canadian visitors, but handled more travellers from Latin America and Asia, in the end achieving volumes similar to those of 2008.

With regard to destination services provided in Mexico and the Dominican Republic, it must be noted that the sharp drop in volume to Mexico during the second quarter (because of the flu outbreak) was offset by an influx of new customers, including Americans, such that profitability of these operations increased in comparison to 2008.

Our hotel joint venture, which includes three establishments in Mexico, felt the impact of the A (H1N1) flu pandemic during the second half of the year, which led us to close one hotel for a two-month period as a cost-reduction measure. Despite all this, our hotel operations, driven by strong performance in the Dominican Republic, closed out the year with results similar to those of 2008.

Human Resources

We revised the structure of our Human Resources function in 2009 so as to better adapt it to the organization's needs. Centres of excellence in staffing, organizational development and labour relations were created.

Transat operates in an industry in which human potential and organizational efficiency are important success factors. As a result, strategic development of skills, employee loyalty and engagement, and the organization's ongoing adaptation to market realities constitute priorities. To this end, we have implemented a training program in which 150 first-level managers are enrolled—an initiative that will widen in scope during 2010 with the launch of new modules. We are also continuing with a finely targeted, accelerated training program built around a Web-based tool designed to promote periodic interaction between executives and participants, with the goal of ensuring sustained, documented progress. In addition, we plan to revisit our incentive compensation and group insurance programs so as to enhance the attractiveness of our offer as an employer and to build employee loyalty.

Lastly, implementation of a change-management method and development of a support expertise will go a long way toward ensuring the smooth integration of the organizational changes orchestrated over the past two years.

Corporate social responsibility

Since 2007, jointly with our employees and partners, we have stepped up efforts to improve our performance in terms of responsible management. We seek to forge dynamic relationships with our stakeholders and adopt exemplary practices, and to encourage our partners to do the same. Taking a sustainable development perspective, our goal as a tour operator is to reconcile economic development, environmental stewardship and respect for local populations.

Although this is a vast project and much work remains to be done—let alone the fact that we face demanding economic times—we have achieved significant progress that has enabled Transat to stand out. Our principal initiatives were summarized in our first corporate social responsibility report, issued in January 2009; an update will be published in January 2011.

Actions taken in 2009 include development of an internal environmental footprint report; preparation of an action plan based on a series of indicators; development of a program to promote sustainable tourism to our hotel partners, with an accompanying guide to exemplary practices that will be distributed in 2010; our ongoing program to support sustainable tourism projects in destination countries; active participation in industry-led efforts; and the signing of a partnership agreement with SOS Children's Villages, a major international humanitarian organization.

Financial position

We posted revenues of $3.5 billion for fiscal 2009, a 1% increase over 2008, a margin of $93.4 million, versus $127.8 million the previous year, and net income of $61.8 million ($1.85 per share on a diluted basis), compared with a net loss of $49.4 million ($1.49 per share). The results include the following non-cash and non-operating items: impact of hedge accounting standards, impact of asset-backed commercial paper revaluation, repurchase of preferred shares and restructuring costs. Excluding these, adjusted after-tax income is $33.7 million in 2009 ($1.01 per share), compared with $55.4 million ($1.67 per share) in 2008.

The decrease in the margin is attributable mainly to the impact of extremely intense competition on selling prices, in a context of oversupply, and to the efforts made to stimulate demand. Long-haul travel outbound from France and travel from all origin countries inbound to Canada were the market segments in which our volumes suffered most. All things considered, the other segments performed well under the circumstances, with relatively low selling prices helping to shore up demand. Our cost-reduction programs also had a favourable impact on results.

During the year, we revised our hedging policy, especially with respect to fuel, to better account for travel market conditions, and the extreme volatility of prices.

In 2009, Transat issued close to 4.9 million common shares, generating gross proceeds of $63.5 million. Net proceeds ($60.5 million) will be used for general corporate purposes, including working capital financing, capital expenditures and, potentially, acquisitions. In the wake of this issue, and considering the existing credit facilities, Transat has sufficient liquidity and is properly positioned to pursue its strategic objectives.

Outlook for 2010

It appears that the recession, technically speaking, will not continue into 2010, unless the economy falters again, which some specialists do not rule out. The experts agree, however, on the fact that the recovery, if and when it gains traction, will be slow. At any rate, we cannot but notice that tourism has once again proved its resiliency in the face of changing economic fortunes. The impact has been less severe than in other sectors and, barring any extremely unpleasant surprises with the A (H1N1) flu, we believe it is reasonable to expect a solid recovery during the winter of 2011.

Although, generally speaking, the Foreign Independent Travel (FIT) segment will probably experience faster growth than package travel, the latter should continue on an upward curve because it remains an extremely popular product, especially in times of uncertainty. We will continue to market all travel formats that consumers demand. Over the short term, we expect to be intensifying our activities in the tour segment and offering an increasingly comprehensive FIT travel product line. Significant milestones have been achieved in this regard during 2009: we have overhauled Rêvatours' selection of outbound-from-Canada offerings, and entered into a unique partnership with GAP Adventures. We have also taken steps to implement a new technology platform in Canada and in France with an eye to enriching our FIT offering.

The competitive landscape is changing. In Canada, a major tour operator has dropped off the map, two others have merged, and the country's two largest air carriers have strengthened their presence in leisure travel. In France as well, consolidation forces are at work, and the entire industry has had to cope with the consequences of the world's two biggest tour operators—both of which benefit from extensive distribution networks—having made the country their battlefield. Under the circumstances, it is worth recalling the following facts:

- In the transatlantic market, Transat has an unparalleled offering, uniquely adapted to vacationers (Canadian and European), with nearly 70 routes between 34 European and 9 Canadian cities, open-jaw options, and access to products (coach tours, cruises, vehicle rentals and hotel packages) tailored for the leisure traveller, all at highly competitive prices.

- In the sun destinations market, departing from both Canada and France, we offer more than 400 hotels as part of a product line that stands out from the competition thanks to long-standing business relationships, exclusivity and the presence of our expert teams at destination. In addition, the combination of CanJet Airlines and Air Transat along with initiatives such as the agreement reached with XL Airways mean that we can rapidly adapt to fluctuations in demand.

- In all of its markets, Transat continues to rely on an ever-growing multi-channel distribution system, with controlled sales and online sales constantly on the rise.

As we enter fiscal 2010, Transat is in a strong position, both strategically and financially. Our organization has realized significant efficiency and flexibility gains, we are controlling costs effectively, and we have a robust financial structure.

With two of the company's founders having retired—as part of a carefully prepared transition—we are proud to be able to count on a competent, close-knit and dynamic management team. On November 1, 2009, Nelson Gentiletti was appointed Chief Operating Officer. Denis Pétrin, who has been with Transat since 1990, replaced Mr. Gentiletti in the position of Vice-President, Finance and Administration and Chief Financial Officer, while Michael DiLollo, who has been with us since 1991, succeeded Mr. Gentiletti as President of Transat Tours Canada. We were also pleased to announce the appointment of Michel Bellefeuille as Vice-President and Chief Information Officer. Finally, Mr. Yves Lalumière was appointed Vice-President and General Manager of Transat Distribution Canada.

In his new role, Mr. Gentiletti will oversee all of the company's operations and be directly responsible for Transat Tours Canada, Transat France, Transat Distribution Canada, Air Transat, Canadian Affair, Air Consultants Europe, Jonview Canada, tripcentral.ca, Rêvatours and Merika Tours. This changing of the guard, which has been in the works for some time, is a significant step for Transat. We are privileged to be able to rely on a talented team that has had sufficient time to amass valuable experience before taking over the reins.

Together with the undersigned, two great builders, Lina De Cesare and Philippe Sureau, have dedicated some 30 years of their lives to guiding Transat's growth with unstinting passion and determination. Without them, Transat would not be the leader that it is today. I wish to express to them my utmost respect and acknowledgment. I also thank them on behalf of our shareholders, our partners and our employees. Luckily, Lina and Philippe will continue to sit on Transat's Board of Directors, and will act as special advisors to the President and Chief Executive Officer.

I extend warm thanks to all Transat personnel, the members of the management team and the Board of Directors for their contribution and dedication. I also thank our shareholders, including those who purchased shares as part of our most recent issue, and I want to assure each of them that we will continue, without fail, to give the best of ourselves and remain focused on our objective: to grow the company's value.

Jean-Marc Eustache
Chairman of the Board
President and Chief Executive Officer

January 13, 2010

AMERICA

OUTGOING TOUR OPERATORS AND AIR TRANSPORTATION

Transat Tours Canada (TTC) (Transat Holidays, Nolitours and Air Transat)	2009	2008	2007
Revenues	**2,394,000**	2,371,000	2,117,000
Employees	**2,926**	3,051	2,881
Passengers[1]	**3,207,000**	3,181,000	2,918,000
Travellers[2]	**1,619,000**	1,492,000	1,348,000

Rêvatours	2009	2008	2007
Revenues	**11,700**	13,800	13,000
Employees	**18**	25	27
Travellers	**3,300**	4,700	4,300

INCOMING TOUR OPERATORS AND DESTINATION SERVICES

Jonview Canada	2009	2008	2007
Revenues	**105,400**	127,500	121,000
Employees	**203**	288	238
Travellers	**206,000**	263,000	249,000

Other	2009	2008	2007
Revenues	**52,700**	43,200	32,000
Employees	**294**	263	107

RETAIL DISTRIBUTION

Transat Distribution Canada (Club Voyages, Marlin Travel, TravelPlus, Voyages en Liberté	2009	2008	2007
Revenues (commissions and franchise)	**58,900**	67,100	61,400
Outlets owned	**77**	78	83
Employees	**489**	581	577
Outlets	**354**	337	304

Tripcentral.ca and exitnow.ca	2009	2008	2007
Revenues (commissions)	**9,300**	8,700	7,400
Employees	**136**	110	100
Outlets	**22**	22	22

OTHER AIRLINE SERVICES

Handlex	2009	2008	2007
Revenues	**54,900**	54,200	49,500
Employees	**1,033**	1,147	1,203

1 Airlines record flight segments in terms of passengers
2 Tour operators record round-trip travellers
3 Including Lookéa cruise in Egypt

All subsidiaries wholly owned, except:
Jonview Canada (80.07%)
Tourgreece (90.0%)
Travel Superstore Inc. (Tripcentral.ca) (64.6%)

EUROPE

OUTGOING TOUR OPERATORS

Vacances Transat (France) (Vacances Transat (France), Bennett Voyages and Brokair)	2009	2008	2007
Revenues (€)	**202,000**	231,000	211,000
Employees	**228**	240	220
Travellers	**167,000**	182,000	155,000

Look Voyages	2009	2008	2007
Revenues (€)	**260,000**	235,000	189,000
Employees	**339**	342	309
Travellers	**284,000**	257,000	213,000
Club Lookéa/summer[3]	**32**	28	26
Club Lookéa/winter[3]	**14**	13	12

Amplitravel	2009	2008	2007
Revenues (€)	**36,500**	44,000	19,000
Employees	**18**	18	19
Travellers	**113,000**	124,000	46,000

Air Consultants Europe	2009	2008	2007
Revenues (commissions) (€)	**2,300**	3,400	3,300
Employees	**23**	26	23
Travellers	**49,000**	58,000	46,000

Canadian Affair	2009	2008	2007
Revenues (£)	**110,700**	89,700	71,000
Employees	**77**	67	75
Travellers	**216,000**	176,000	161,500

INCOMING TOUR OPERATORS AND DESTINATION SERVICES

Tourgreece	2009	2008	2007
Revenues (€)	**17,800**	19,600	20,700
Employees	**32**	34	30
Travellers	**80,000**	69,000	72,000

RETAIL DISTRIBUTION

Eurocharter	2009	2008	2007
Revenues (commissions) (€)	**8,500**	10,300	10,300
Employees	**177**	198	191
Outlets owned	**63**	67	69

Transat: overview

Transat A.T. Inc. is an integrated international tour operator that specializes in holiday travel. It offers more than 60 destination countries and distributes products in approximately 50 countries. Transat owns an air carrier, offers accommodation and destination services and operates an extensive distribution network. A responsible company mindful of contributing to sustainable tourism development, Transat has a dedicated team of thorough and efficient people who deliver quality vacation travel services at affordable prices to a broad customer base.

OUTGOING TOUR OPERATORS

Transat Tours Canada (TTC)

Transat Holidays, Nolitours, Air Transat

Caribbean, Latin America and Mexico from Canada, Canada-Europe market and cruises

Rêvatours

Eastern Europe, Asia, North Africa, etc. from Canada

Merika Tours

North American destinations from Canada

Transat Tours Canada (TTC) operates mainly under the Transat Holidays, Nolitours and Air Transat brands. The leading tour operator for holiday travel between Canada and Europe, TTC also offers Canadians year-round travel to Mexico and the Caribbean, as well as cruise travel on all of the world's oceans through agreements with the best cruise operators. TTC also offers a wide array of tours and accommodations on both sides of the Atlantic, including Transat as well as other partner products.

Under the Rêvatours brand, TTC markets tours and custom-tailored products in 30 countries in Europe, Asia, Africa and South America. Under the Merika Tours brand, it also offers Canadians a range of North American destinations.

Air Consultants Europe (ACE)

TTC's representative in Germany, the Netherlands, Belgium, Luxembourg and Austria

A major European partner of TTC, ACE also works very closely with Jonview Canada to market Transat products in Canadian destinations to travellers departing from Germany, Austria, Belgium, Luxembourg and the Netherlands.

Look Voyages

Mediterranean basin, Africa, Asia, Caribbean, Mexico, etc. from France

Amplitravel

Tunisia from France

Look Voyages maintains its strong performance, leveraging the winning formula of its Clubs Lookéa network (32 resort clubs in 16 countries as of summer 2009) while diversifying its offering to include a range of travel and tour products. A champion of the multichannel approach, Look Voyages controls a significant proportion of its distribution. Look Voyages continues to offer products, including travel to Tunisia under the Amplitravel brand, that respond to the expectations of a large market segment .

Vacances Transat (France)

America, Caribbean, Asia and Africa from France

Bennett

Tours in Eastern Europe, Scandinavia, Scotland and Ireland

Brokair

Group tours from France

The leading tour operator in the French market offering travel to Canada, Vacances Transat (France) also enjoys a growing reputation as a specialist in tour products to the four corners of the globe. Also operating under the Bennett (destinations in Northern Europe) and Brokair (specializing in group travel) brands, the tour operator offered 34 destination countries and partnered with some 30 carriers outbound from France in 2009.

Canadian Affair

Canada-UK market

As the United Kingdom's leading tour operator specializing in travel to Canada, Canadian Affair works hand-in-hand with Transat Tours Canada, Jonview Canada, Air Transat and Thomas Cook Airlines.

INCOMING TOUR OPERATORS DESTINATION SERVICES

Jonview Canada (80.07%)

Tours and packages from Canada

Jonview Canada, the leading incoming tour operator in Canada, markets its products in approximately 50 countries, not only in Europe but also in a growing number of emerging markets.

Tourgreece (90.0%)

Tours and packages to Greece

Close to 15 million tourists visit Greece each year, and Tourgreece handles approximately 80,000 of them, ranking it among the largest incoming tour operators in the country.

Trafic Tours (70.0%)

Excursions and destination services in Mexico

Turissimo (70.0%)

Excursions and destination services in Dominican Republic

Trafic Tours and Turissimo offer excursions and other destination services to vacationers in the greater region of Puerto Vallarta, Cancun and the Maya Riviera, Mexico, as well as in the Dominican Republic.

Transat Holidays USA

Destination services and travel agency in Florida

ACCOMMODATION

Ocean Hotels (35.0%)

Hotels in Mexico and Dominican Republic

In partnership with leading Spanish chain H10 Hotels, Transat owns a 35% interest in a joint venture that operates five hotels in three complexes in Mexico and the Dominican Republic.

RETAIL DISTRIBUTION

Transat Distribution Canada (TDC)

Network of 431 travel agencies in Canada (Club Voyages, Voyages en Liberté, TravelPlus, Marlin Travel)

At year-end 2009, Transat Distribution Canada (TDC) included 431 agencies (including 354 franchises) and approximately 2,300 travel advisors. Sales by this cross-Canada distribution network, all brands combined, totalled $1.3 billion in 2009.

tripcentral.ca (64.6%)

Network of 22 travel agencies in Canada, tripcentral.ca and exitnow.ca

Eurocharter

Network of travel agencies in France

With Eurocharter, we operate approximately 60 travel agencies in France. In 2010, 35 of these agencies will be placed under the responsibility of Look Voyages and will become members of the AFAT Voyages Sélectour network. .

AIR TRANSPORTATION

Air Transat

Charter air carrier specializing in holiday travel

Air Transat operates a fleet of 18 aircraft (13 Airbus A310s and 5 Airbus A330s). Its on-time, fleet-reliability and fuel-management performance remain among the best in the industry. Several factors combine to make Air Transat a first-rate airline in its category: its qualified, friendly cabin crews, an outstanding program for young families, its Club Class, etc.

Handlex

Airport ground services in Montreal, Toronto and Vancouver

Handlex provides airport ground services (passenger check-in, baggage and cargo handling, aircraft cleaning, ramp services and ground-services equipment maintenance) to 24 carriers, including Air Transat, at Montreal, Toronto and Vancouver international airports. Handlex provided service for nearly 15,000 departures in 2009, and posted very good financial and operational results over the fiscal year just ended.

Unless otherwise indicated, Transat A.T. Inc. holds a 100% interest in all business units.

Corporate social responsibility

Since 2007, one of our priorities as a company has been improving our performance in the area of corporate social responsibility and sustainable tourism. While developing constructive dialogue with our stakeholders, we are gradually incorporating exemplary practices into all spheres of our operations, and encouraging our partners to do likewise. In keeping with the principles of sustainable development, our ambition is to reconcile economic development, environmental stewardship and respect for local populations. We adopted our Policy for Sustainable Tourism in June 2008, and published an initial corporate social responsibility report in January 2009.

During fiscal 2009, we continued work on an internal environmental footprint report begun in 2008, and on an action plan with associated performance indicators. Judging from the progress accomplished thus far, we believe that our environmental record in fiscal 2009 will prove sufficiently reliable to serve as a benchmark for subsequent years. At the same time, progress has been made on the Air Transat LEED-EB certification project, and we have continued our actions in responsible resource management by practicingre-use, recycling and recovery of waste materials.

Air Transat continues to demonstrate a good track record when it comes to greenhouse gas emissions, thanks mainly to its fuel-management program—which has been constantly improved since it was first implemented in 2003—and very high load factors.

CO_2 emissions linked to Air Transat flights (November 1 to October 31)

	Total CO_2 emissions (tonnes)	Fuel consumption (L) and CO_2 emissions (kg) (per passenger per 100 km)
2009	1,139,773	3.28 litres (8.30 kg)
2008	1,137,629	3.26 litres (8.25 kg)
2007	1,013,970	3.17 litres (8.02 kg)

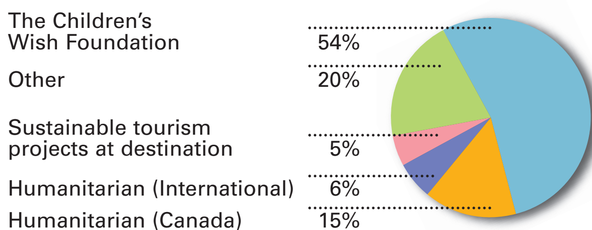
The year-over-year increases in total emissions are attributable to the increased numbers of flights. The increase in fuel consumption per passenger per 100 km, from 2007 to 2008, and from 2008 to 2009, is mainly attributable to the reduction in the number of seats on board aircraft in 2008.

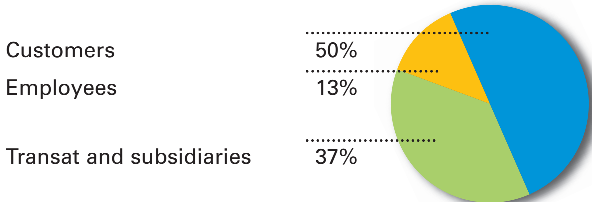
We have drawn up an action plan to encourage our partners in the hotel industry to adopt more responsible practices. The plan will be rolled out in 2010 in the form of a pilot project involving about 100 hoteliers. As part of development of this project, Transat has improved its knowledge of responsible hotel management, thanks in part to a study on hotel certification schemes conducted in 2009 by the Transat Chair in Tourism at Université du Québec à Montréal.

Under our program to support sustainable tourism projects sponsored by communities and non-profit organizations, we funded initiatives in Turkey, Mexico, Morocco and Peru in 2009. Since 2007, we have supported 12 local initiatives in 8 different countries, investing a total of nearly half a million dollars. These projects, many of which would not have seen the light of day without Transat's backing, share the common goal of stimulating local economic activity from a sustainable development perspective.

On the humanitarian causes front, we signed a three-year partnership agreement with SOS Children's Villages, an organization that has been working with orphaned and abandoned children since 1949. SOS Children's Villages is active in 132 countries.

Philanthropic contributions in 2009





Tourism Industry Association of Canada (TIAC) and the Tour Operators' Initiative for the Sustainable Development of Tourism (TOI), as well as the creation of the Transat Prize in Sustainable Tourism as part of the Grands Prix du tourisme québécois.

We have stepped up our efforts to raise staff and customer awareness of the issues of sustainable development. The tools deployed to this end include our corporate social responsibility report, published in January 2009, as well as our tour operators' brochures, in-flight magazine, websites, and a video that has been shown in our aircraft since June 2009.

The strength of a great team

At Transat, we believe our organization must constantly evolve. First of all, because we need to be able to adjust to our rapidly changing business environment. Second, because an organization, just like its members, must be prepared to renew itself and to learn if it is to progress.

A learning organization must have a wide array of tools and opportunities at its disposal for development of its personnel, and be capable of making the most of each individual's expertise, knowledge, and experience.

With this in mind, we have implemented a training program for first-level managers (150 participants) as well as a certificate program in organizational management for our Canada-based staff (90 participants). We have also developed online Transat skills training tools, and set up co-development groups that allow employees to share their knowledge and experience, as well as their thoughts on topics of concern to them.

In multiplying the possibilities for development and facilitating interactions amongst the greatest possible number of people across our different business units, we also seek to nurture a global vision of the company in a growing number of our employees and managers.

We have created a Web-based tool that integrates various online training activities to help managers map out realistic development plans with their employees. Designed to encourage discussion and exchanges, this tool enables real-time tracking of development plans via a system of e-mail alerts.

We have also developed similar approaches for performance assessment as well as for integrating and guiding new employees.

At Transat, we are convinced that increased interactions among our employees help foster an enthusiasm that can only enhance the organization's agility in adapting to the changes set in motion two years ago to capitalize on the strength of a great team.

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This Management's Discussion and Analysis (MD&A) provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2009, compared with the year ended October 31, 2008, and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto beginning on page 38. The information contained herein is dated as of January 13, 2010. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2009 and Annual Information Form.

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

The 2008 and 2007 figures have been reclassified, where necessary, to reflect changes in accounting policies regarding the recognition of goodwill and intangible assets, adjustments to the carrying amount of an investment and reclassification of amounts of cash and cash equivalents reserved as non-current, made as of November 1, 2008 and summarized in note 3 to the Consolidated Financial Statements.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation should have the resources it needs to meet its 2010 objectives and continue building on its long-term strategies.
- The outlook whereby our 2010 revenues and total volume of travellers are expected to outpace 2009 levels.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2010.
- The outlook whereby additions to property, plant and equipment and intangible assets are expected to range from $35.0 million to $45.0 million.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects to capitalize on lower input costs.

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

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

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

FINANCIAL HIGHLIGHTS

(In thousands of dollars)	2009	2008 Restated[1]	2007 Restated[1]	Variance 2009	Variance 2008
	$	$	$	%	%
Consolidated Statements of Income					
Revenues	**3,545,341**	3,512,851	3,045,917	**0.9**	15.3
Margin[2]	**93,395**	127,768	136,347	**(26.9)**	(6.3)
Net income (loss)	**61,847**	(49,394)	77,822	**225.2**	(163.5)
Basic earnings (loss) per share	**1.86**	(1.49)	2.30	**224.8**	(164.8)
Diluted earnings (loss) per share	**1.85**	(1.49)	2.28	**224.2**	(165.4)
Dividend – Class A and Class B shares	**0.09**	0.36	0.34	**(75.0)**	5.9
Consolidated Statements of Cash Flows					
Operating activities	**45,234**	95,069	156,728	**(52.4)**	(39.3)
Investing activities	**(26,662)**	(142,027)	(195,657)	**81.2**	27.4
Financing activities	**18,303**	15,091	(14,830)	**21.3**	201.8
Effect of exchange rate changes on cash and cash equivalents	**(2,090)**	10,866	5,640	**(119.2)**	92.7
Net change in cash and cash equivalents	**34,785**	(21,001)	(48,119)	**265.6**	56.4

	As at October 31 2009	As at October 31 2008 Restated[1]	As at October 31 2007 Restated[1]	Variance 2009	Variance 2008
	$	$	$	%	%
Consolidated Balance Sheets					
Cash and cash equivalents	**180,552**	145,767	166,768	**23.9**	(12.6)
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	**272,726**	256,697	168,196	**6.2**	52.6
Investments in ABCP	**71,401**	86,595	142,346	**(17.5)**	(39.2)
Total assets	**1,129,503**	1,267,214	1,072,377	**(10.9)**	18.2
Debt (short-term and long-term)	**110,840**	153,241	91,837	**(27.7)**	66.9
Total debt[2]	**507,273**	450,335	371,146	**12.6**	21.3
Net debt[2]	**255,320**	217,973	62,032	**17.1**	251.4

[1] NEW ACCOUNTING POLICIES AND OTHER CHANGES
See New accounting policies and other changes.

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

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

Total debt is used by management to assess the Corporation's future cash requirements. It represents the combination of balance sheet debt (long-term debt and debenture) and operating lease obligations, presented on p.28.

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

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

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

The "holiday travel" industry consists mainly of tour operators, traditional and online travel agencies, destination service providers or hotel operators, and air carriers. Each of these subsectors includes companies with different operating models.

Generally, "outgoing" tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, generally through travel agencies. "Incoming" tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground transfers between airports and hotels. Travel agencies, operating independently or in networks, are distributors serving as intermediaries between tour operators and consumers. Air carriers sell seats through travel agencies or directly to tour operators, who use them in building packages.

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

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

VISION

According to the World Tourism Organization, there were some 922 million international tourists in 2008. This market is expected to continue expanding despite the predictable decline in 2009. Transat's vision is to become a leading player in the Americas and build strong competitive positioning in several European countries by 2014. At present, we are a market leader in Canada, operating as an outgoing and incoming tour operator. We are a well-established outgoing tour operator in France and the U.K. and an incoming tour operator in Greece. We offer our customers a broad range of international destinations spanning some 60 countries. Over time, we intend to expand our business to other countries where we believe there is high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

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

With regard to vertical integration, the key growth drivers are multichannel distribution, which Transat will continue developing by expanding its physical market presence and by investing in technological solutions to better meet the increasingly varied expectations of consumers through a heightened presence at destination, either in the form of hotels, incoming tour operators or destination-based service providers.

Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure to grow its margin and market share in all its markets. Cost management remains a core strategic issue in light of the tourism industry's slim margins. On this front, the Corporation's move in 2009 to transition Air Transat's fleet to a single model (from the current two) by 2013 is expected to generate significant savings. Moreover, under an agreement entered into in 2009, Transat gained flexible access to third-party narrow-bodied aircraft over the next five years, yielding it further financial advantages for the Corporation.

Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. This phenomenon, heightened by the anticipated growth in tourism and air travel, manifests itself in various ways, particularly through regulations and tariffs on greenhouse gas emissions and higher customer and investor expectations in this area. Given this trend and the vested interest tourism companies have in seeing the environment protected and destination communities remaining amenable to tourism, Transat took a marked shift in 2006 in adopting avant-garde policies on corporate responsibility and sustainable tourism. In doing so, the Corporation targets the following benefits, in particular: lower resource consumption, with the associated cost savings; brand differentiation and greater customer loyalty, potentially boosting our commercial benefits; and enhanced employee loyalty and motivation.

For fiscal 2010, Transat has set the following targets:

- Expand our leadership market position on both sides of the Atlantic via a broader offering of products and destination-based services by stepping up multichannel distribution and controlling costs, while providing enhanced customer experience.

- Complete the integration of new management teams, foster teaming and promote a strong sense of cohesion among the new subsidiary entities and head office so as to meet our business objectives sooner.

- Pursue development and implementation of new information systems to step up operating efficiency and provide us with greater flexibility in developing our offering.

- Maintain our initiatives to position Transat as an industry leader in corporate responsibility and sustainable tourism to play a key role in shaping our future market, secure employee buy-in and generate a competitive edge for Transat.

REVIEW OF 2009 OBJECTIVES AND ACHIEVEMENTS

The main goals and achievements for fiscal 2009 are detailed as follows:

1. **Increase efficiency, productivity, competitiveness and flexibility within the organization through stringent management of costs and targeted investments that will maximize resources; this should be achieved by strategically combining short-term results with a long-term vision, without compromising the quality of customer service.**

- Maintain our cost control and reduction programs, particularly through process reviews, seek greater synergies between departments or business entities, reengineer administrative, operating or organizational structures, as well as risk management.
- Actively pursue our employee retention, training and motivation programs; emphasize the process of indentifying, managing and developing talent and the next generation of leaders.
- Invest in technological solutions to support highly effective revenue stream management, distribution and financial planning.

As a result of acting very early in the year to implement margin safeguards, the Corporation successfully met its income before income tax and interest target, despite only modest revenue growth. The main cutbacks consisted of a hiring freeze, the streamlining of certain processes, and reduced airline seat and marketing costs.

In Canada, we have fully integrated the Finance and Administration, Human Resources and Information Systems Management functions, and streamlined certain processes. We have set up Transat France, a structure with a single management team overseeing the Finance, Legal, Information Systems and Human Resources functions. In so doing, we have enhanced our effectiveness, reduced our cost structure and facilitated the implementation and pursuit of a shared vision.

We entered into an agreement with carrier CanJet Airlines to charter narrow-bodied aircraft to serve our sun destinations, replacing a similar contract dating back to 2003. The new agreement made a favourable contribution as of summer 2009, which will grow in the winter season. We also entered into an agreement with French carrier XL Airways, which will charter one of Air Transat's aircraft for the 2010 winter season to serve our French tour operators, which will generate significant savings.

We have adopted a transition plan for Air Transat's fleet, with implementation now underway. Consisting of 18 wide-body jets (Airbus A330s and A310s), the fleet should solely be made up of Airbus A330s within approximately four years, giving rise to reduced operating costs.

The structure of the Human Resources function has been optimized to better suit our organizational needs. The reorganization focused on three areas of excellence: hiring, organizational development and labour relations. We implemented an entry-level management development program and are continuing our accelerated training program with key employees. The review of our incentive and group insurance programs will provide us with an opportunity to enhance our employment package and foster employee loyalty.

We have actively pursued upgrades to our information systems, including the implementation of a sales platform for custom-tailored products.

2. **Strengthen our leadership position as an outgoing tour operator, maintaining or increasing our market share by differentiating our offering, maximizing exclusive products, launching new products and broadening our reach by building on the bilateral distribution approach we have developed.**

- In Canada, for destinations in the South, remain competitive with a value-added offering, actively seek synergies in the distribution network and maximize profitability of destination-based services.
- For the transatlantic market, further expand our offering with new destinations in Europe, increase route frequencies and maximize cooperation between business entities.
- For routes departing from France, step up business activity on the long-haul routes of Vacances Transat; for Look Voyages, continue growing the Clubs Lookéa, further develop seaside resort products for major destinations; develop regional coverage for both tour operators.

To better serve the South market in winter, we added seven new routes departing from Canada, recording a 17.7% rise in the volume of travellers. In the European market, we added four new routes and a new destination (Venice). We revamped and adjusted the product offering of Rêvatours, departing from Canada, and entered into an original agreement with GAP Adventures.

In airline developments, we launched Kiloflex (discount on luggage overages on advance purchase) and Option Plus (a range of additional services at check-in and onboard).

While Vacances Transat (France) reported a decline in revenues in 2009 due to a lull in long-haul passenger traffic, it was almost completely offset by a rise in the volume of travellers at Look Voyages, which operates short- and medium-haul routes.

As regards destination-based services in Mexico and the Dominican Republic, the significant decline in the volume of travellers to Mexico in the second quarter (due to the flu pandemic) was offset by the contribution of new customers, such that profitability improved from 2008.

3. **Continue developing and implementing our multi-channel distribution strategy and increase sales for each channel.**

- In France, integrate the Look Voyages agencies more closely the tour operator and develop integrated business strategies that maximize synergies.
- In Canada, increase the number of traditional agencies, their productivity and their sales of Transat products; achieve closer ties with national chains.
- Speed up development of the online direct sales platform.

We developed a plan calling for the integration of 35 of our French travel agencies into Look Voyages in 2010; the remaining 28 agencies will be sold or closed.

Transat expanded the footprint of Canada's largest distribution network, consisting of 453 travel agencies, 431 of which are part of Transat Distribution Canada, including 354 franchisees. Our online travel agency, exitnow.ca, now falls under tripcentral.ca for greater efficiency. "Controlled" sales across the Transat network were up in both Canada and France.

We developed and have begun implementing a new technological platform in Canada and France to considerably expand our custom-tailored product offering.

4. Develop and implement a sustainable tourism plan that will position Transat at the forefront of the industry, increase its influence over the future of our market and inspire buy-in by employees, suppliers and customers.

- Maintain initiatives to revamp internal processes and adopt responsible management best practices.
- Step up awareness and internal and external communications programs, while playing a more active role in industry developments.

We continued developing an internal environmental responsibility report and an action plan that hinges on a series of indicators selected by us. Our initiatives are based on driving down resource consumption and promoting a reuse, recycle and reclaim model, and a project to secure LEED-EB certification continued at Air Transat. We developed a sustainable tourism promotion program targeting hotel operators for implementation in 2010.

In connection with our support program for destination-based sustainable tourism projects, we green-lighted assistance for projects in Turkey, Mexico, Morocco and Peru. Since 2007, we have supported 12 local initiatives in 8 countries, representing financial commitments totalling nearly $500,000. Moreover, we renewed our community outreach program, in particular by entering into a partnership with SOS Children's Villages, an NGO serving orphaned and abandoned children in 132 countries.

With respect to involvement in industry organizations, we participate in the deliberations of the Tourism Industry Association of Canada (TIAC), the Tour Operators' Initiative (TOI) for Sustainable Tourism Development and actively supported other awareness initiatives, such as the Responsible Travel and Tourism Forum and the International Symposium on Sustainable Tourism Development.

We stepped up awareness initiatives targeting employees and customers through our Social Responsibility Report, issued in 2009, as well as through tour operator brochures, travel literature, our in-flight magazine, websites, etc.

KEY PERFORMANCE DRIVERS

The following key performance drivers are essential to the successful implementation of our strategy and to the achievement of our objectives:

MARKET SHARE
Remain the leader in Canada in all provinces and increase market share in Ontario, across the rest of the country and in Europe.

REVENUE GROWTH
Grow revenues by more than 5%, excluding acquisitions.

MARGIN
Generate margins higher than 5%.

ABILITY TO DELIVER ON OUR OBJECTIVES

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives.

Our financial resources are as follows:

Cash
Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $180.6 million as at October 31, 2009. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels. In addition, we hold investments in ABCP with a fair value and a notional value of $71.4 million and $128.8 million, respectively, as at October 31, 2009.

Credit facilities
We have revolving term credit facilities currently totalling $255.2 million, up for renewal in 2013, of which $78.0 million was drawn down as at October 31, 2009.

Our non-financial resources include:

Brand
The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach.

Structure
Our vertically integrated structure enables us to ensure better quality control of our products and services.

Employees
In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.

Supply relationships
We have exclusive access to certain hotels at sunshine destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2010 objectives and continue building on its long-term strategies.

CONSOLIDATED OPERATIONS

REVENUES

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

Our overall revenue growth of 0.9% was driven by increases in Europe and the Americas of 1.7% and 0.6%, respectively. Our volume of travellers was up 1.6%, compared with the previous year, owing to growth in the Americas and Europe of 0.2% and 5.9%, respectively. In the Americas, selling prices trended generally lower in 2009 due to intense competition arising from excess supply. In Europe, the rise stemmed primarily from U.K. revenue growth, whereas revenues from our other European subsidiaries, primarily in France, were generally flat or lower.

Our 2010 revenues and total volume of travellers are expected to outpace 2009 levels. In light of economic conditions and excess market capacity, we expect the environment to remain highly competitive throughout fiscal 2010.

OPERATING EXPENSES

Our operating expenses consist mainly of direct costs (primarily third-party seat and hotel room costs), salaries and employee benefits, aircraft fuel, commissions, aircraft maintenance, airport and navigation fees, and aircraft rent. Approximately 30% of our operating expenses are payable in U.S. dollars.

The 2.0% growth in operating expenses stemmed from increases in operating expenses in the Americas and Europe of 1.5% and 3.2%, respectively, owing primarily to greater business activity and the euro's strength against the dollar. As a percentage of revenues, operating expenses rose slightly to 97.4% from 96.4% in 2008.

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. In 2009, these costs represented 58.2% of revenues, up from 55.0% in 2008. Direct costs were up 6.7% compared with the fiscal year ended October 31, 2008. This increase was mainly driven by our winter season results, which reflected greater business activity and a weaker Canadian dollar relative to the euro and the U.S. dollar, and to a lesser degree, greater business activity in Europe, particularly in the U.K.

During the year, we entered into a five-year agreement with Canadian air carrier CanJet Airlines for the chartering of its next-generation narrow-bodied Boeing 737-800s for sun destinations served from Canada. The agreement with CanJet was negotiated under more beneficial terms than the prior arrangement with WestJet Airlines dating back to 2003, which it replaced. The agreement considerably strengthens our market positioning for routes to the South. Its positive impact, already apparent in summer 2009, is expected to grow in the winter season.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits rose $14.9 million or 4.3% to $364.6 million. The increase was mainly due to a higher bonus expense under short-term variable compensation programs than in 2008 and annual salary increases, as well as the addition of two aircraft to our fleet during fiscal 2008 and greater business activities during the winter season.

AIRCRAFT FUEL

Aircraft fuel costs fell $46.2 million or 12.7% during the year, owing primarily to lower fuel prices than in 2008. As a result of its fuel risk management policy, the Corporation was unable to fully capitalize on the decline in fuel prices.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense totalled $177.2 million, up 1.4% from fiscal 2008. As a percentage of revenues, commissions held steady at 5.0%.

REVENUES BY GEOGRAPHIC AREAS

(In thousands of dollars)	2009	2008	2007	Variance 2009	Variance 2008
	$	$	$	%	%
Americas	**2,552,348**	2,536,831	2,278,116	**0.6**	11.4
Europe	**992,993**	976,020	767,801	**1.7**	27.1
	3,545,341	3,512,851	3,045,917	**0.9**	15.3

OPERATING EXPENSES

				% of revenues			Variance	
(In thousands of dollars)	2009	2008 Restated	2007 Restated	2009	2008	2007	2009	2008
	$	$	$	%	%	%	%	%
Direct costs	**2,062,626**	1,933,706	1,601,652	**58.2**	55.0	52.6	**6.7**	20.7
Salaries and employee benefits	**364,642**	349,746	334,973	**10.3**	10.0	11.0	**4.3**	4.4
Aircraft fuel	**319,224**	365,457	273,614	**9.0**	10.4	9.0	**(12.7)**	33.6
Commissions	**177,166**	174,740	186,686	**5.0**	5.0	6.1	**1.4**	(6.4)
Aircraft maintenance	**89,896**	97,842	76,099	**2.5**	2.8	2.5	**(8.1)**	28.6
Airport and navigation fees	**90,611**	90,624	86,594	**2.6**	2.6	2.8	**0.0**	4.7
Aircraft rent	**54,287**	48,628	48,883	**1.5**	1.4	1.6	**11.6**	(0.5)
Other	**293,494**	324,340	301,069	**8.3**	9.2	9.9	**(9.5)**	7.7
Total	**3,451,946**	3,385,083	2,909,570	**97.4**	96.4	95.5	**2.0**	16.3

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. These costs fell $7.9 million or 8.1% during the year compared with 2008. This decrease resulted in part from the extension of certain aircraft leases, resulting in the amortization of certain maintenance costs over longer periods than initially planned and from the Canadian dollar's appreciation against its U.S. counterpart.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports. These fees remained unchanged from 2008.

AIRCRAFT RENT

Aircraft rent rose $5.7 million or 11.6% during the year, owing primarily to the two aircraft added to the fleet in fiscal 2008 and the strength of the U.S. dollar against the Canadian unit compared to the previous year.

OTHER

Other operating expenses fell $30.8 million or 9.5% during the year, compared with 2008, resulting mainly from lower marketing costs and professional fees. As a percentage of revenues, other expenses dropped to 8.3% in 2009 from 9.2% in 2008.

MARGIN

In light of the foregoing, the Corporation recorded a margin of $93.4 million compared with $127.8 million in the previous year. As a percentage of revenues, our margins narrowed to 2.6% in 2009 from 3.6% in 2008. Our lower margin resulted mainly from our winter season results, which reflected greater downward pressure on selling prices.

GEOGRAPHIC AREAS

AMERICAS

In the Americas, revenues were up $93.5 million or 6.0% in the winter season compared with 2008. This growth was driven by a 6.0% overall increase in the volume of travellers. During the 2009 winter season, we offered more seats to sun destinations and fewer seats to Florida. These changes translated into a 17.7% increase in the volume of winter season travellers for sun destinations compared with the same season of 2008. Our winter season margin stood at 2.4%, compared with 5.8% in 2008. This slimmer margin stemmed primarily from lower selling prices, mainly for destinations in the Caribbean and Mexico, due to excess supply in the marketplace and what continues to be a highly competitive environment.

For the summer season, revenues were down 8.0%, owing primarily to a 7.5% decline in the volume of travellers and lower average selling prices than in 2008, prompted by the drop in fuel prices. This decrease also resulted from Canadian Affair having carried out a portion of the sales on our Canada-U.K. routes departing from Canada. These sales were practically entirely derived from Air Transat and therefore recorded in the Americas. Owing in part to a higher passenger load factor in summer 2009, our margin grew to 3.3% from a negative margin of 1.5% in the same season in 2008.

EUROPE

In Europe, revenues were up $50.3 million or 16.6% in the winter season compared with 2008. This growth, as well as higher operating expenses, stemmed in particular from the euro's strength against the Canadian dollar. The volume of travellers rose 6.6% during the winter season compared with 2008. Our European operations reported a negative margin of $9.5 million or 2.7% compared with a negative margin of $1.3 million or 0.4% in 2008. Slimmer margins in Europe resulted in particular from higher seat costs, owing primarily to our fuel hedging positions, compared with 2008.

AMERICAS

(In thousands of dollars)		2009	2008 Restated	2007 Restated	Variance 2009	Variance 2008
		$	$	$	%	%
Winter season	Revenues	1,653,636	1,560,186	1,375,092	6.0	13.5
	Operating expenses	1,613,468	1,468,934	1,276,402	9.8	15.1
	Margin	40,168	91,252	98,690	(56.0)	(7.5)
	Margin (%)	2.4	5.8	7.2	(58.5)	(18.5)
Summer season	Revenues	898,712	976,645	903,024	(8.0)	8.2
	Operating expenses	869,276	991,767	881,918	(12.3)	12.5
	Margin	29,436	(15,122)	21,106	294.7	(171.6)
	Margin (%)	3.3	(1.5)	2.3	320.0	(166.3)

EUROPE

(In thousands of dollars)		2009	2008 Restated	2007 Restated	Variance 2009	Variance 2008
		$	$	$	%	%
Winter season	Revenues	352,695	302,361	248,645	16.6	21.6
	Operating expenses	362,231	303,624	250,059	19.3	21.4
	Margin	(9,536)	(1,263)	(1,414)	(655.0)	10.7
	Margin (%)	(2.7)	(0.4)	(0.6)	(575.0)	(33.3)
Summer season	Revenues	640,298	673,659	519,156	(5.0)	29.8
	Operating expenses	606,971	620,758	501,191	(2.2)	23.9
	Margin	33,327	52,901	17,965	(37.0)	194.5
	Margin (%)	5.2	7.9	3.5	(34.2)	126.9

Revenues for the summer season were down $33.4 million or 5.0% despite a 5.6% rise in the volume of travellers. This decrease resulted mainly from lower demand and selling prices on long-haul routes, particularly in France, due to economic conditions and influenza A (H1N1). In the United Kingdom, we reported higher volumes of travellers and revenues compared with 2008 due to a portion of sales having been carried out by Canadian Affair on routes departing from Canada to the U.K. Our European operations reported a margin of $33.3 million or 5.2% for the summer season compared with $52.9 million or 7.9% in 2008.

OTHER EXPENSES (REVENUES)

AMORTIZATION

Amortization includes amortization on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. Amortization expense was down $5.0 million, or 8.9% in fiscal 2009, owing mainly to the amortization of the initial fair value of option-based mechanisms, amounting to $4.2 million, enabling the Corporation to use its ABCP to repay a portion of the drawdowns under certain credit facilities as they fall due and the decline in amortization of property, plant and equipment, compared with 2008.

INTEREST ON LONG-TERM DEBT AND DEBENTURE

Interest on long-term debt and the debenture was down $2.7 million in 2009 compared with 2008, resulting from more favourable interest rates despite higher average debt balances than in 2008.

OTHER INTEREST AND FINANCIAL EXPENSES

Other interest and financial expenses were up $0.9 million or 52.4% in 2009 compared with the previous year. These increases resulted primarily from interest charges related to prior year income tax assessments affecting a number of our subsidiaries.

INTEREST INCOME

Interest income was down $11.6 million or 71.6% for the year compared with 2008, owing primarily to lower interest rates in 2009 than in 2008, despite generally higher average balances of cash and cash equivalents.

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

The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the year of derivative financial instruments held and used by the Corporation to manage its exposure to fuel price volatility. Compared with the previous year, the change in fair value of derivative financial instruments used for aircraft fuel purchases reflected a $174.7 million increase.

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

The foreign exchange gain on long-term monetary items for the year amounted to $0.1 million, owing mainly to the favourable effect of foreign exchange rates on the long-term debt used in connection with aircraft financing.

LOSS (GAIN) ON INVESTMENTS IN ABCP

RESTRUCTURING

On January 21, 2009, the Pan-Canadian Committee of ABCP investors 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 that date, the Corporation held a portfolio of ABCP issued by several trusts with an overall notional value of $143.5 million.

On the plan implementation date, the Corporation remeasured 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 the January 21, 2009 measurement, the provision for impairment totalled $47.5 million, and the ABCP investment portfolio had a fair value of $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.

During fiscal 2009, the Corporation received $8.1 million in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). The Corporation received its share of $6.4 million of the cash accumulated in the conduits. In addition, the Corporation has been advised that several events impacting the credit of ABCP primarily backed by

OTHER EXPENSES (REVENUES)

(In thousands of dollars)	**2009**	2008 Restated	2007 Restated	**Variance 2009**	Variance 2008
	$	$	$	**%**	%
Amortization	**51,155**	56,147	50,176	**(8.9)**	11.9
Interest on long-term debt and debenture	**4,866**	7,538	6,229	**(35.4)**	21.0
Other interest and financial expenses	**2,679**	1,758	1,929	**52.4**	(8.9)
Interest income	**(4,588)**	(16,172)	(19,745)	**(71.6)**	(18.1)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(68,267)**	106,435	(26,577)	**(164.1)**	(500.5)
Foreign exchange loss (gain) on long-term monetary items	**(135)**	2,295	(3,023)	**(105.9)**	(175.9)
Loss (gain) on investments in ABCP	**(68)**	45,927	11,200	**(100.1)**	310.1
Restructuring charge and write-off of goodwill	**11,967**	—	3,900	**N/A**	(100.0)
Gain on repurchase of preferred shares of a subsidiary	**—**	(1,605)	—	**(100.0)**	N/A
Share of net loss (income) of a company subject to significant influence	**(24)**	427	(651)	**(105.6)**	(165.6)

U.S. subprime assets have occurred, resulting in losses in excess of the securities pledged as collateral. These events resulted in a $4.8 million decline in the notional value of the investments in ABCP, as well as a corresponding decline in the provision for impairment of investments in ABCP, since the amounts had been fully provisioned. The notional value of the new ABCP amounted to $128.8 million as at October 31, 2009 and is detailed as follows:

MAV2 Eligible
The Corporation holds $113.3 million in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through January 2017.

MAV2 Ineligible
The Corporation holds $7.6 million in ABCP supported mainly by U.S. subprime assets that have been restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through December 2035.

MAV3 Traditional
The Corporation holds $7.9 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2015.

VALUATION AS AT OCTOBER 31, 2009
On October 31, 2009, 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. The Corporation gave due consideration, in particular, to new information released by BlackRock Canada Ltd. ["BlackRock"], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. [MAV2 Ineligible] and ABCP supported exclusively by traditional securitized assets [MAV3 Traditional]. The Corporation's management measured the fair value of its assets from these two classes using these 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. Accordingly, the Corporation took into account the information released by Dominion Bond Rating Service ["DBRS"] on August 11, 2009. DBRS downgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] from Class A-2 to BBB–. Prior to this downgrading, this class of ABCP had an "A" rating.

CHANGE IN BALANCES OF INVESTMENTS IN ABCP

(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, 2007	**154,500**	**(11,200)**	**143,300**	**—**
Principal repayments	(11,000)	—	(11,000)	222
Writedown of investments in ABCP	—	(45,705)	(45,705)	45,705
Balance as at October 31, 2008; impact on results for 2008	**143,500**	**(56,905)**	**86,595**	**45,927**
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(5,993)	(5,993)	5,993
Principal repayments	(8,062)	—	(8,062)	—
Share of estimated cash receivable	—	620	620	(620)
Share of cash accumulated in conduits	—	—	—	(6,400)
Remeasurement of options	—	—	—	(800)
Balance as at October 31, 2009; impact on results for 2009	**128,835**	**(57,434)**	**71,401**	**(68)**

THE BALANCE OF INVESTMENTS IN ABCP AS AT OCTOBER 31, 2009

(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	34,436	(8,775)	25,661
Class A-2	63,894	(26,416)	37,478
Class B	11,598	(10,129)	1,469
Class C	3,403	(3,343)	60
	113,331	(48,663)	64,668
MAV2 Ineligible	7,630	(7,552)	78
MAV3 Traditional	7,874	(1,839)	6,035
Share of estimated cash receivable	—	620	620
	128,835	**(57,434)**	**71,401**

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 2.7% [weighted average rate of 2.1%], depending on the type of series. These future cash flows were discounted, according to the type of series, over 7.2 year periods using discount rates ranging from 7.3% to 60.0% [weighted average rate of 11.7%], which factor in liquidity.

As a result of this new valuation, on October 31, 2009, the Corporation recorded a $6.0 million impairment charge in respect of its investments in ABCP. This impairment charge excludes $0.6 million of the Corporation's share of the estimated cash accumulated in the conduits as at October 31, 2009, received on November 5, 2009. The ABCP investment portfolio had a fair value of $71.4 million and the provision for impairment totalled $57.4 million, representing 44.6% of the notional value of $128.8 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 $3.9 million in the estimated fair value of ABCP held by the Corporation.

The tables on page 24 detail the change in balances of investments in ABCP in the consolidated balance sheet and the composition of Loss (gain) on investments in ABCP in the consolidated statement of income (loss), and the balance of investments in ABCP as at October 31, 2009.

RESTRUCTURING CHARGE

On September 24, 2009, we announced a restructuring plan to make structural changes to our distribution network in France. Under these structural changes, an administrative centre and some agencies will close, while other agencies will be sold. Following this announcement, we recognized a $12.0 million restructuring charge. This charge includes $2.9 million in cash payments, consisting mainly of termination benefits, a $0.6 million asset impairment charge and an $8.5 million write-off of goodwill after the assets and goodwill of agencies involved in the restructuring were tested for impairment.

GAIN ON REPURCHASE OF PREFERRED SHARES OF A SUBSIDIARY

During the year ended October 31, 2008, the Corporation's subsidiary Travel Superstore Inc. repurchased redeemable preferred shares held by one of its minority shareholders for a cash consideration of $0.3 million. As these redeemable preferred shares were considered liabilities, $1.9 million was included in other liabilities in the balance sheet. In light of the classification of these redeemable preferred shares as liabilities, the $1.6 million gain was recorded in the consolidated statement of income (loss). A total of $0.6 million related to this transaction was also included under non-controlling interest in subsidiaries' results in the consolidated statement of income (loss).

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

Our share of net loss (income) of a company subject to significant influence represents our share of the net loss (income) of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of net income of a company subject to significant influence for the year amounted to $24 thousand compared with a share of net loss of $0.4 million for 2008. The improvement in our share resulted mainly from the fact that one of the hotels of our company subject to significant influence was in its start-up phase at the beginning of fiscal 2008. However, an outbreak of influenza A (H1N1) late in the winter season dampened profitability at our hotels in Mexico. Cost reduction initiatives and business from U.S. tourists, coupled with the fact that the outbreak occurred during low season, mitigated the decline in profitability.

INCOME TAXES

For the fiscal year ended October 31, 2009, income taxes totalled $30.9 million, compared with $28.9 million in income tax recovery for the previous fiscal year. Excluding the share in net income of companies subject to significant influence, the effective tax rates were 32.3% for the fiscal year ended October 31, 2009 and 38.7% for the preceding year.

The change in tax rates from fiscal 2009 to 2008 resulted primarily from the following 2008 items: the use of our French subsidiaries' tax loss carryforwards from prior fiscal years previously unrecognized in future income tax assets and from the tax treatment of the writedown of investments in ABCP. The effective tax

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION

(In thousands of dollars, except per share amounts)	Q1-2008 Restated	Q2-2008 Restated	Q3-2008 Restated	Q4-2008 Restated	Q1-2009	Q2-2009	Q3-2009	Q4-2009
	$	$	$	$	$	$	$	$
Revenues	787,389	1,075,158	859,880	790,424	**877,254**	**1,129,077**	**819,354**	**719,656**
Margin	19,274	70,715	14,587	23,192	**(8,498)**	**39,130**	**27,187**	**35,576**
Net income (loss)	(7,851)	41,721	(895)	(82,369)	**(29,436)**	**42,186**	**30,991**	**18,106**
Basic earnings (loss) per share	(0.23)	1.25	(0.03)	(2.54)	**(0.90)**	**1.29**	**0.95**	**0.53**
Diluted earnings (loss) per share	(0.23)	1.25	(0.03)	(2.54)	**(0.90)**	**1.27**	**0.94**	**0.52**

rates for the year also factor in unfavourable items related to prior year assessments affecting a number of our subsidiaries.

NET INCOME (LOSS)

In light of the items discussed in Consolidated Operations, net income for the year ended October 31, 2009 totalled $61.8 million, or $1.86 per share, compared with a net loss of $49.4 million, or $1.49 per share, for the previous year. The weighted average number of outstanding shares used to compute per share amounts was 33,168,000 for fiscal 2009 and 33,108,000 for fiscal 2008.

On a diluted per share basis, income per share was $1.85 for fiscal 2009, compared with a loss per share of $1.49 in 2008. The adjusted weighted average number of shares used to determine these amounts was 33,485,000 for the current year and 33,108,000 for fiscal 2008. See note 15 to the audited Consolidated Financial Statements.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are up compared with the corresponding quarters of previous years, mainly as a result of growth in volume of travellers. From a margin perspective, there have been fluctuations during each quarter, mainly due to competitive pressure on prices. In light of the foregoing, the following quarterly financial information can vary significantly from quarter to quarter.

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $719.7 million in revenues, down $70.8 million or 9.0% from $790.4 million for the corresponding period in 2008. This decrease resulted mainly from lower average selling prices and a 3.3% decline in the volume of travellers.

The Corporation reported a margin of $35.6 million or 4.9% for the quarter compared with $23.2 million or 2.9% for the corresponding period of 2008. This improved margin resulted in part from lower operating costs in the Americas and higher passenger load factors than in the corresponding period of 2008.

In the fourth quarter, we recorded a $14.9 million gain arising from the change in fair value of derivative financial instruments used for aircraft fuel purchases, compared with a $120.7 million loss in for the corresponding period of 2008. We also recorded a $2.0 million gain on investments in ABCP, whereas we recorded a $13.8 million loss for the same period in 2008. Quarterly results were also affected by the recognition of a $12.0 million restructuring charge.

The Corporation reported $18.1 million in net income for the fourth quarter or $0.52 per share on a diluted basis, compared a net loss of $82.4 million or $2.54 per share for the corresponding period of 2008.

CASH FLOWS

(In thousands of dollars)	**2009**	2008 Restated	2007 Restated	**Variance 2009**	Variance 2008
	$	$	$	**%**	%
Cash flows related to operating activities	**45,234**	95,069	156,728	**(52.4)**	(39.3)
Cash flows related to investing activities	**(26,662)**	(142,027)	(195,657)	**81.2**	27.4
Cash flows related to financing activities	**18,303**	15,091	(14,830)	**21.3**	201.8
Effect of exchange rate changes on cash	**(2,090)**	10,866	5,640	**(119.2)**	92.7
Net change in cash	**34,785**	(21,001)	(48,119)	**(265.6)**	(56.4)

LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2009, cash and cash equivalents totalled $180.6 million, compared with $145.8 million as at October 31, 2008. Cash and cash equivalents in trust or otherwise reserved amounted to $272.7 million as at the end of fiscal 2009, compared with $256.7 million in 2008. The Corporation's balance sheet reflects working capital of $35.0 million and a current ratio of 1.06 compared with a working capital deficiency of $8.5 million and a ratio of 0.99 as at October 31, 2008. The variance in working capital primarily resulted from $60.5 million in net proceeds from our public offering.

Total assets fell $137.7 million or 10.9% to $1,129.5 million as at October 31, 2009 from $1,267.2 million as at October 31, 2008. This decrease resulted mainly from a $107.0 million decrease in derivative financial instruments, a $31.5 million decrease in property, plant and equipment and a $15.2 million decrease in our investments in ABCP, offset by a $34.8 million increase in cash and cash equivalents and a $16.0 million increase in cash and cash equivalents in trust or otherwise reserved. Shareholders' equity rose $21.4 million to $367.4 million as at October 31, 2009 from $345.9 million as at October 31, 2008. This increase stemmed from share capital issues during the year totalling $62.0 million (consisting mainly of our public offering) and $61.8 million in net income, offset by a $89.5 million change in fair value of derivatives designated as cash flow hedges, coupled with a $13.2 million foreign exchange loss on translation of the financial statements of our self-sustaining operations; the last two items were reflected in accumulated other comprehensive income (loss).

CASH FLOWS

OPERATING ACTIVITIES

Operating activities generated $45.2 million in cash flows, compared with $95.1 million in 2008. This $49.8 million or 52.4% decrease during the year resulted mainly from lower profitability, a $25.5 million decrease reflected in the net change in non-cash working capital balances related to operations and a $11.2 million decrease stemming from the net change in our provision for overhaul of leased aircraft.

We expect to continue to generate positive cash flows from our operating activities in 2010.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $26.7 million for the year, down $115.4 million from 2008, owing primarily to the $53.7 million decrease in cash outflows for business acquisitions and a $36.0 million decline in cash outflows for additions to property, plant and equipment compared with 2008. During fiscal 2009, the Corporation made a $5.8 million capital contribution to CIBV for land acquisition in the Dominican Republic. In 2008, the Corporation acquired a 35% interest in CIBV and made a $57.9 million capital contribution. Also in fiscal 2008, the Corporation acquired, in particular, the business premises of Look Voyages, in addition to recognizing a $12.3 million increase in cash and cash equivalents reserved for purposes of issuing letters of credit.

In 2010, additions to property, plant and equipment are expected to range from $35.0 million to $45.0 million.

FINANCING ACTIVITIES

Cash flows generated by financing activities totalled $18.3 million, up $3.2 million from $15.1 million in 2008. This rise resulted mainly from a $60.5 million increase in proceeds from share issuance subsequent to our public offering, the absence in 2009 of share repurchases, offset by $37.9 million in repayments of credit facilities and other debt, whereas in 2008, credit facilities and other debt generated net cash flows of $49.9 million. In addition, the dividend paid to the Corporation's shareholders during the year was $9.0 million lower than in 2008, and $2.9 million was paid to a minority shareholder of one of the Corporation's subsidiaries.

FINANCING

As at October 31, 2009, the Corporation had several types of financing, consisting primarily of three revolving term credit facilities, loans secured by aircraft and lines of credit.

The Corporation has a revolving credit facility, which was increased to $157.0 million from $86.4 million on February 9, 2009 (subsequent to the implementation of the ABCP restructuring plan and pursuant to the terms of the agreement) maturing in 2012, or immediately payable in the event of a change in control, and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium

PAYMENTS DUE BY PERIOD

Year ending October 31	2010	2011	2012	2013	2014	2015 and later	Total
	$	$	$	$	$	$	$
Contractual obligations							
Debenture	3,156	—	—	—	—	—	3,156
Long-term debt	24,576	83,108	—	—	—	—	107,684
Leases (aircraft)	50,063	42,959	38,139	33,420	24,418	3,574	192,573
Leases (other)	31,771	25,866	20,311	16,467	16,549	81,672	192,636
Agreements with suppliers and other obligations	302,512	51,525	33,482	10,859	6,474	17,050	421,902
	412,078	203,458	91,932	60,746	47,441	102,296	917,951

based on certain financial ratios calculated on a consolidated basis. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at October 31, 2009, all financial criteria and ratios were met.

The Corporation has two revolving credit facilities of $9.4 million and $88.9 million, the first maturing in 2010 and the second in 2011, or immediately payable in the event of a change in control. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under these agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. These credit facilities include options, which are now effective following implementation of the ABCP restructuring plan and allow the Corporation, at its option, to use the restructured notes to repay up to $59.5 million in drawdowns as they fall due, under certain conditions. These options were initially reported at fair value, amounting to $8.4 million, and the corresponding initial gain was deferred and recognized in net income under amortization over the term of the credit agreements. The options are reported at fair value at each balance sheet date under derivative financial instruments, and any change in fair value of the options is recorded in net income under loss (gain) on the investments in ABCP. The Corporation measured the options as at October 31, 2009 and recorded a $0.8 million increase in fair value to $9.2 million as at that date. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at October 31, 2009, all financial criteria and ratios were met.

As at October 31, 2009, $78.0 million had been drawn down under these credit facilities.

The loans secured by aircraft of the Corporation amounted to $28.7 million [US$26.7 million] as at October 31, 2009. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments through 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.3 million [$17.9 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 audited Consolidated Financial Statements as at October 31, 2009. As at October 31, 2009 and October 31, 2008, these obligations reflected on the balance sheet amounted to $110.8 million and $153.2 million, respectively.

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

- Guarantees *(see notes 11 and 24 to the audited Consolidated Financial Statements)*
- Operating leases *(see note 23 to the audited Consolidated Financial Statements)*
- Agreements with suppliers *(see note 23 to the audited Consolidated Financial Statements)*

Off-balance sheet debt that can be estimated amounted to approximately $801.3 million as at October 31, 2009 compared with $583.0 million as at October 31, 2008, and is detailed as follows:

OFF-BALANCE SHEET DEBT	2009	2008
	$	$
Guarantees		
Irrevocable letters of credit	10,364	7,074
Collateral security contracts	860	790
Operating leases		
Obligations under operating leases	385,209	289,230
	396,433	297,094
Agreements with suppliers	404,852	285,873
	801,285	582,967

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

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

DEBT LEVELS

Debt levels as at October 31, 2009 were higher than as at October 31, 2008.

Balance sheet debt declined $42.4 million to $110.8 million from $153.2 million, and our off-balance sheet debt, excluding agreements with suppliers and other obligations, increased $99.3 million to $396.4 million from $297.1 million, collectively representing a $57.0 million increase in total debt compared with October 31, 2008. The decrease in balance sheet debt resulted from repayments during the year. The $99.3 million increase in off-balance sheet debt, resulting mainly from the extension of four aircraft leases expiring from December 2013 through November 2015 and an additional lease for one aircraft expiring in June 2015, was offset by repayments made during the year.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $255.3 million in net debt as at October 31, 2009, up 17.1% from $218.0 million as at October 31, 2008.

SHARES ISSUED AND OUTSTANDING
The Corporation has 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 December 31, 2009, there were 530,117 Class A Variable Voting Shares outstanding and 37,232,652 Class B Voting Shares outstanding.

On September 30, 2009 and October 6, 2009, the Corporation issued a total of 4,887,500 voting shares in connection with a public offering, consisting of Class A Shares and Class B Shares, at a price of $13.00, for gross proceeds of $63.5 million. Net proceeds from this offering, after covering agents' commissions and issuance costs, amounted to $60.5 million.

STOCK OPTIONS
As at December 31, 2009, there were a total of 1,101,140 stock options outstanding, 460,744 of which were exercisable.

DIVIDENDS
During the year ended October 31, 2009, the Corporation declared and paid dividends totalling $2.9 million. On March 11, 2009, Transat's Board of Directors suspended the quarterly dividend to holders of Class B Voting Shares and Class A Variable Voting Shares until further notice to keep cash on hand to contend with business challenges arising from the current economy.

AGREEMENTS WITH CREDIT CARD PROCESSOR
Under applicable consumer protection legislation in certain Canadian provinces, deposits received from customers in these provinces, whether by credit card or in cash, must be placed in trust until they leave on vacation. A portion of Transat's cash and cash equivalents consists of deposits that are not subject to the above-mentioned trust restrictions, such as deposits received from customers in provinces in which the applicable legislation provides for no such restrictions, as well as deposits held by Transat's foreign subsidiaries.

During the year, the Corporation and its primary credit card processor in Canada entered into an amended agreement for the processing of credit card transactions expiring in August 2012. Under the agreement, transaction proceeds will be segregated in a separate account, in Transat's name, for 30 days before being transferred to Transat's trust account in accordance with applicable provincial legislation in Canada. Under the amended agreement, the Corporation will not be required to comply with any other financial requirements. A substantial portion of Transat's Canadian sales are processed via credit card, with the remaining sales processed in cash transactions. The amended agreement will have no significant impact on Transat's operations.

OTHER

AIRCRAFT FLEET RENEWAL
During the year, we adopted and began implementing a transition plan to renew Air Transat's fleet. Consisting of 18 wide-body jets (Airbus A330s and A310s), the fleet should solely be made up of Airbus A330s within approximately four years. A fifth Airbus A330 was added to the fleet in fall 2009, and the first Airbus A310 was retired. Two additional Airbus A310 are expected to be retired in 2010. Operating a single type of aircraft will result, in particular, in lower operating costs and will require adjustments to our commercial approach.

APPOINTMENTS AND SENIOR MANAGEMENT CHANGES
On March 27, 2009, the Corporation announced the appointment of Patrice Caradec as President and General Manager of Transat France. Patrice will also head Vacances Transat (France) and Look Voyages.

On November 1, 2009, as planned, two of the Corporation's three co-founders, Lina De Cesare, President, Tour Operators, and Philippe Sureau, President, Distribution, left their positions and retired. They will both remain directors of Transat and serve as advisors to the President and Chief Executive Officer.

As announced on April 1, 2009, Nelson Gentiletti became Chief Operating Officer on November 1, 2009.

On November 2, 2009, the Corporation announced the following appointments: Denis Pétrin as Vice-President, Finance and Administration and Chief Financial Officer; Michel Bellefeuille as Vice-President and Chief Information Officer; Michael DiLollo as President of Transat Tours Canada; and Yves Lalumière as Vice-President and General Manager of Transat Distribution Canada.

AGREEMENT WITH CANJET
On February 13, 2009, we announced a five-year partnership agreement with CanJet. With this agreement, which includes two one-year renewal options, the Corporation can now charter narrow-bodied Boeing 737-800 aircraft for some 20 sun destinations from over 20 Canadian cities. This agreement should provide the necessary capacity and flexibility to continue offering superior service at affordable prices.

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make certain estimates. We periodically review these estimates, which are based on historical experience, changes in the business environment and other factors that management considers reasonable under the circumstances. The main estimates include the measurement of fair value of the financial instruments, including derivatives and investments in ABCP, the provision for overhaul of leased aircraft and the amortization and impairment of property, plant and equipment and intangible assets including goodwill as well as the accrued benefit liability. Our estimates involve judgments we make based on the information available to us. Actual results may differ materially from these estimates.

We discuss below the critical accounting estimates that required us to make assumptions about matters that were uncertain at the time the estimates were made. Our results, financial position and liquidity could be substantially different if we had used different estimates in the current period or were these estimates to change in the future.

This discussion addresses only those estimates that we consider important based on the degree of uncertainty and the likelihood of a material impact if we had used different estimates. There are many other areas in which we use estimates about uncertain matters.

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

FAIR VALUE OF INVESTMENTS IN ABCP

See Consolidated Operations: Loss (gain) on investments in ABCP.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under the aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by approximately 15%, to result in additional expenses that could have a material impact on our results, financial position and cash flows.

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

We record material balance sheet amounts under Goodwill and other intangible assets calculated using the historical cost method. Goodwill and other intangible assets stem primarily from business acquisitions. We are required to test goodwill and intangible assets with indefinite lives, such as trademarks, for impairment each year or more often if events or changes in circumstances indicate it is more likely than not that they might be impaired. A two-step impairment test is used to identify a potential impairment in goodwill and a trademark, provided that said trademark is used by the reporting unit in its day-to-day operations, and measure the amount of a goodwill and trademark impairment loss to be recognized, if any. The first step consists in comparing the fair value of a reporting unit with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit and/or trademark associated with the reporting unit is considered not to be impaired. When the carrying amount of a reporting unit exceeds its fair value, the second step, where necessary, consists in comparing the fair value of any goodwill and/or trademark associated with the reporting unit with the carrying amount of said goodwill and/or trademark to measure the amount of the impairment loss, if any. The Corporation uses the discounted cash flow method to assess the fair value of its reporting units. We carry out an analysis by estimating the discounted cash flows attributable to each asset or each reporting unit. This analysis requires us to make a variety of judgments concerning our future operations. The cash flow forecasts used to determine asset values may change in the future due to market conditions, competition and other risk factors (see Risks and uncertainties). During fiscal 2009 and 2008, we determined that the fair value of our reporting units exceeded their carrying amount; as a result, we did not carry out step 2 of the test for any of our reporting units. No impairment was recognized except for an $8.5 million charge in connection with our distribution network restructuring in France. Generally, we consider that our main assumptions regarding the cash flow forecasts would have to be reduced by 30% to 70%, depending on the reporting unit, before triggering a loss in fair value of a reporting unit such that its fair value would be less than its carrying amount, thereby requiring a writedown in goodwill and/or trademark subsequent to step 2 of the impairment test.

Property, plant and equipment in the balance sheet represent material amounts based on historical costs. Property, plant and equipment are amortized, taking into account their residual value, over their estimated useful life. Aircraft and aircraft components account for a major class of property, plant and equipment. The amortization period is determined based on the fleet renewal schedule, currently slated for completion by 2013. The estimate of the residual value of aircraft and aircraft compo-

nents at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on amortization expense. Generally speaking, the main assumptions would have to be reduced by 60% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No events or changes in circumstances of this nature have occurred in recent fiscal years.

ACCRUED BENEFIT LIABILITY

The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by employees is determined from actuarial calculations, performed annually, using the projected benefit method prorated on services and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Past service costs and amendments to the arrangements are amortized on a straight-line basis over the average remaining service period of active employees generally affected thereby. The excess of net actuarial gains and losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which was 7.2 years as at November 1, 2008. Plan obligations are discounted using current market interest rates.

NEW ACCOUNTING POLICIES AND OTHER CHANGES

NEW ACCOUNTING CHANGES – NOVEMBER 1, 2008

GOODWILL AND INTANGIBLE ASSETS

In February 2008, the Canadian Institute of Chartered Accountants ["CICA"] issued Handbook Section 3064, Goodwill and Intangible Assets, which superseded Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These new standards have been adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into a $5.7 million decrease in retained earnings on November 1, 2007 and the following changes as at October 31, 2008: a $6.5 million decrease in prepaid expenses, a $0.8 million decrease in other assets, a $2.2 million decrease in future income tax liabilities, a $5.1 million decrease in retained earnings and a $26 thousand decrease in accumulated other comprehensive income (loss). For the year ended October 31, 2008, the adoption of these new standards translated into the following changes: a $0.4 million decrease in other operating expenses, a $0.5 million decrease in amortization and a $0.3 million decrease in future income tax recovery, for a $0.6 million increase in net income (loss) (a $0.02 increase in diluted earnings (loss) per share) and a $66 thousand decrease in comprehensive income (loss). These adjustments arise from certain marketing expenses related to upcoming seasons. These expenses were previously recorded in net income for the related seasons and aircraft commissioning costs were previously deferred and amortized over a period not exceeding five years.

In addition, the application of these new standards resulted in the reclassification of software from property, plant and equipment to other intangible assets. As at October 31, 2008, the impact of the reclassification on net carrying amounts consisted of a $16.9 million increase in other intangible assets and a $16.9 million decrease in property, plant and equipment.

CREDIT RISK AND FAIR VALUE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

In January 2009, the Emerging Issues Committee ["EIC"] issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which provides further information on determining the fair value of financial assets and financial liabilities under Section 3855, Financial Instruments – Recognition and Measurement. This abstract states that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation applies retroactively without restatement of prior period financial statements to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009, the date of issuance of the abstract. The adoption of this new guidance as at November 1, 2008 resulted in a $1.4 million decrease in derivative financial instruments recorded in assets, a $3.2 million decrease in derivative financial instruments recorded in liabilities, a $0.6 million decrease in future income tax assets, a $2.0 million increase in retained earnings and a $0.8 million decrease in accumulated other comprehensive income (loss). The adoption of this EIC resulted in decreases in the Corporation's net income and earnings per share of $1.7 million and $0.05, respectively, and a $1.1 million increase in other comprehensive income for the year ended October 31, 2009.

CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

Cash and cash equivalents reserved pledged as collateral security against the Corporation's long-term obligations, mostly related to pension agreements, have been reclassified as non-current assets in the balance sheet. This reclassification resulted in a $28.3 million decrease in current assets as at October 31, 2008 and had no impact on total assets in the balance sheet. In connection with this change, net changes in cash and cash equivalents in trust or otherwise reserved included in current assets in the balance sheet have been reclassified from investing activities to operating activities in the statement of cash flows, as these temporarily restricted funds arise mainly from the sale of services to customers and will be used for the provision of services sold by the Corporation in the normal course of business. For the year ended October 31, 2008, this reclassification resulted in a $76.2 million decrease in cash flows provided by operating activities, with the corresponding changes in cash flows related to investing activities.

TRANSLATION OF AN INVESTMENT

The carrying amount of the investment in Caribbean Investments B.V. as at October 31, 2008 was increased by $9.1 million to reflect the translation of this U.S. dollar investment using the effective rate at that date. The consideration for this adjustment was recorded in accumulated other comprehensive income (loss) and included in shareholders' equity without any impact on net loss for the year ended October 31, 2008.

CHANGES IN ACCOUNTING POLICIES – NOVEMBER 1, 2007

AIRCRAFT OVERHAUL EXPENSES

On November 1, 2007, the Corporation changed its method for accounting for aircraft overhaul expenses. Up until October 31, 2007, the Corporation accounted for its expenses using the accrue-in-advance method, in accordance with the accounting methods suggested in the U.S. *Audits of Airlines* guide issued by the *American Institute of Certified Public Accountants*. Under this method, the Corporation provided for aircraft overhaul expenses based on an estimate of all future expenses until expiry of the leases for the aircraft leased under operating leases, or on their useful lives estimated by the Corporation while held, amortized over the total number of engine cycles and the total number of months anticipated for the airframe and other components over the same periods.

On September 8, 2006, the *Financial Accounting Standards Board* ["FASB"] issued *FASB Staff Position* ["FSP"] AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP amended the Audits of Airlines guide to preclude the use of accruals as an acceptable method. This FSP is applicable to all entities for fiscal years beginning on or after December 15, 2006. As a result, effective November 1, 2007, the Corporation discontinued the use of the accrue-in-advance method.

For the leased aircraft and engines, the Corporation accounts its maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls.

With respect to owned aircraft, a portion of the cost, on acquisition of an aircraft, is allocated to the major maintenance activities subclass of property, plant and equipment, which is related to airframe, engine and landing gear overhaul costs. Aircraft and major maintenance activities, included in Aircraft, are amortized taking into account their expected estimated residual value. Aircraft are amortized on a straight-line basis over seven- to ten-year periods, and major maintenance activities are amortized according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are amortized according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred.

This change in accounting policy has been adopted retroactively with restatement of prior fiscal years. In addition, the adoption of these new standards resulted in a $0.6 million increase in retained earnings on November 1, 2007.

Although it could have chosen to account for maintenance expenses in net income for owned aircraft as incurred, the Corporation believes that the policies adopted provide better information to users of financial statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS

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

CONSOLIDATED FINANCIAL STATEMENTS AND NON-CONTROLLING INTERESTS

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

I*NTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)*

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

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

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

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

FINANCIAL INSTRUMENTS

In the normal course of business, the Corporation is exposed to credit and counterparty risk, liquidity risk, and market risk arising from changes in certain foreign exchange rates, changes in fuel prices and changes in interest rates. The Corporation manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates, fuel prices and interest rates on its revenues, expenses and cash flows, the Corporation can avail itself of various derivative financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

FOREIGN EXCHANGE RISK MANAGEMENT

The Corporation is exposed, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. Approximately 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas an insignificant percentage of revenues is incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than two years, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The Corporation documents its derivative financial instruments related to foreign currencies as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These derivative financial instruments are designated as cash flow hedges except for the contracts related to U.S. dollar loans payable secured by aircraft, which are designated as fair value hedges.

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

MANAGEMENT OF FUEL PRICE RISK

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To hedge against sharp increases in fuel prices, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than two years.

These derivative financial instruments used for fuel purchases are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under Change in fair value of derivative financial instruments used for aircraft fuel purchases in the consolidated statement of income (loss). When realized at maturity of these derivative financial instruments, any gains or losses are reclassified to Aircraft fuel.

CREDIT AND COUNTERPARTY RISK

Credit risk stems primarily from the potential inability of clients, service providers, aircraft and engine lessors and financial institutions, including the other counterparties to cash equivalents, derivative financial instruments and investments in ABCP, to discharge their obligations.

Trade accounts receivable included in accounts receivable in the balance sheet totalled $59.4 million as at October 31, 2009. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2009, approximately 8% of accounts receivable were over 90 days past due, whereas approximately 73% were up to date, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to the agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2009, these deposits totalled $31.8 million and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $10.8 million as at October 31, 2009 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2009, the cash security deposits with lessors that have been claimed totalled $14.7 million and have been included in accounts receivable. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2009 relates to cash and cash equivalents, including cash and cash equivalents reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

Except for the investments in ABCP, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2009.

LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

INTEREST RATE RISK

The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate long-term debt. The Corporation manages its interest rate exposure and could potentially enter into swap agreements consisting in exchanging variable rates for fixed rates.

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. During the year, the Corporation recorded $18.1 million in person-nights purchased at hotels belonging to CIBV, a company subject to significant influence.

CONTROLS AND PROCEDURES

The implementation of the Canadian Securities Administrators National Instrument 52-109 represents a continuous improvement process, which has prompted the Corporation to formalize existing processes and control measures and introduce new ones. Transat has chosen to make this a corporate-wide project, which will result in operational improvements and better management.

In accordance with this instrument, 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, report on the design and effectiveness of disclosure controls and procedures and the design and effectiveness of internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have evaluated disclosure controls and procedures or caused them to be evaluated under their supervision to provide reasonable assurance that:

- Material information relating to the Corporation has been made known to them; and
- Information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

An evaluation of the effectiveness of our disclosure controls and procedures was carried out as at October 31, 2009, under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. Based on this evaluation, these two certifying officers concluded that the disclosure controls and procedures were adequate and effective. Among other things, this evaluation took into consideration the Corporate Disclosure Policy, the sub-certification process and the operation of the Corporation's Disclosure Committee.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have also designed internal controls over financial reporting, or have caused them to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for financial reporting purposes in accordance with Canadian GAAP.

An evaluation of the design and effectiveness of our internal controls over financial reporting was carried out as at October 31, 2009, under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. Based on this evaluation, these two certifying officers concluded that the internal controls over financial reporting are effective, using the criteria set forth by the *Committee of Sponsoring Organizations ["COSO"] of the Treadway Commission* on Internal Control – Integrated Framework.

Lastly, no changes in our internal control over financial reporting occurred during the year ended October 31, 2009 that materially affected, or are likely to materially affect, our internal controls over financial reporting.

RISKS AND UNCERTAINTIES

ECONOMIC AND GENERAL FACTORS

Economic factors such as a significant downturn in the economy, a recession or a decline in the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. Our operating results could also be adversely affected by more general factors, including the following: extreme weather conditions; war, political instability or terrorism, or any threat thereof; epidemics or disease outbreaks; consumer preferences and spending patterns; consumer perceptions of airline safety; demographic trends; disruptions to air traffic control systems; and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

COMPETITION

We face many competitors in the holiday travel industry. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. These competitive pressures could adversely impact our revenues and margins since we would likely have to match competitors' prices.

FLUCTUATIONS IN FOREIGN EXCHANGE AND INTEREST RATES

Transat is exposed, due to its many arrangements with foreign-based suppliers, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. These fluctuations could increase our operating costs. Changes in interest rates could also impact our interest income from our cash and cash equivalents as well as the interest expense on variable rate debt instruments, which in turn could affect our income. We currently purchase derivative financial instruments to hedge against exchange rate fluctuations affecting our long-term debt in U.S. dollars, our off-balance sheet financing obtained for aircraft and the revenues and operating expenses that the Corporation settles in foreign currencies.

FUEL COSTS AND SUPPLY

Transat is particularly exposed to fluctuations in fuel costs. Due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results. We purchase forward contracts, and other type of derivatives financial instruments, to hedge against fuel cost fluctuations. Furthermore, if there were a reduction in the supply of fuel, our operations could be adversely impacted.

CHANGING INDUSTRY DYNAMICS: NEW DISTRIBUTION METHODS

The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thereby bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. For the time being, direct Internet sales remain limited in the vacation travel segment, but shifts in industry dynamics in the distribution business occur rapidly and, in this respect, give rise to risks. In order to address this issue, Transat is in the process of develop-

ing and implementing a multichannel distribution system to strike a harmonious balance between a variety of distribution strategies such as travel agencies, direct sales (including via Internet), third-party sales and the use of electronic booking systems.

In addition, the phenomenon of the gradual erosion in commissions paid by travel suppliers, particularly airlines, has weakened the financial position of many travel agents. Because we rely to some extent on retail travel agencies for access to travellers and revenues, any consumer shift away from travel agencies and toward direct purchases from travel suppliers could have an impact on our Corporation.

RELIANCE ON CONTRACTING TRAVEL SUPPLIERS
Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. We are dependent, for example, on non-group airlines and a large number of hotels. In general, these suppliers can terminate or modify existing agreements with us on relatively short notice. The potential inability to replace these agreements, to find similar suppliers, or to renegotiate agreements at reduced rates could have an adverse effect on our results. Furthermore, any decline in the quality of travel products or services provided by these suppliers, or any perception by travellers of such a decline, could adversely affect our reputation. Any loss of contracts, changes to our pricing agreements, access restrictions to travel suppliers' products and services or negative shifts in public opinion regarding certain travel suppliers resulting in lower demand for their products and services could have a significant effect on our results.

DEPENDENCE ON TECHNOLOGY
Our business depends on our ability to access information, manage reservation systems, including handling high telephone call volumes on a daily basis, protect such information, and distribute our products to retail travel agents and other travel intermediaries. To this end, we rely on a variety of information and telecommunications technologies. Rapid changes in these technologies could require higher-than-anticipated capital expenditures to improve customer service; this could impact our operating results. In addition, any systems failures or outages could adversely affect our business, customer relationships and operating results.

DEPENDENCE ON CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
Transat derives significant interest income from customer deposits and advance payments. In accordance with our investment policy, we are required to invest these deposits and advance payments exclusively in investment-grade securities. Any failure of these investment securities to perform at historical levels could reduce our interest income.

NEGATIVE WORKING CAPITAL
In the normal course of business, we receive customer deposits and advance payments. In the event that the flow of advance payments diminished and we were required to find alternative sources of capital, there can be no assurance that such sources would be available at terms and conditions acceptable to us. This could have a significant impact on our business.

FLUCTUATIONS IN FINANCIAL RESULTS
The travel industry in general and our operations in particular are seasonal. As a result, our quarterly operating results are subject to fluctuations. In our view, quarter-to-quarter comparisons of our operating results are not necessarily meaningful and should not be relied on as indicators of future performance. Furthermore, due to the economic and general factors described above, our operating results in future periods could fall short of the expectations of securities analysts and investors, thus affecting the market price of our shares.

GOVERNMENT REGULATION AND TAXATION
Transat's future results may vary depending on the actions of government authorities with jurisdiction over our operations. These actions include the granting and timing of certain government approvals or licenses; the adoption of regulations impacting customer service standards (such as new passenger security standards); the adoption of more stringent noise restrictions or curfews; and the adoption of provincial regulations impacting the operations of retail and wholesale travel agencies. In addition, the adoption of new regulatory frameworks or amendments to existing ones, or tax policy changes could affect our operations, particularly as regards hotel room taxes, car rental taxes, airline excise taxes and airport taxes and fees.

FUTURE CAPITAL REQUIREMENTS
Transat may need to raise additional funds in the future to capitalize on growth opportunities or in response to competitive pressures. There can be no assurance that additional financing will be available on terms and conditions acceptable to us. This could adversely affect our business.

INTERRUPTION OF OPERATIONS
If our operations are interrupted for any reason, including aircraft unavailability due to mechanical troubles, the loss of associated revenues could have an impact on our business, financial position and operating results.

INSURANCE COVERAGE
In the wake of the terrorist attacks of September 11, 2001, the airline insurance market for risks associated with war and terrorist acts has undergone several changes. The limit on third-party civil liability coverage for bodily injury and property damage has been set at US$150 million per claim.

Until insurance companies provide coverage above this US$150 million limit to air carriers, governments have to step in and do so. The Canadian government covers domestic air carriers accordingly. In addition, some insurers are not licensed to transact business in Canada.

The Canadian government continues to cover its air carriers, prompted by the licensing situation and by the U.S. government's decision to continue covering its own carriers against such risks. However, there can be no assurance that the Canadian government will not withdraw its coverage, particularly if the U.S. government were to change its position.

CASUALTY LOSSES

We feel that we and our suppliers have adequate liability insurance to cover risks arising in the normal course of business, including claims for serious injury or death arising from accidents involving aircraft or other vehicles carrying our customers. Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

SLOT AND GATE AVAILABILITY

Access to landing and departure runway slots, airport gates and facilities is critical to our operations and growth strategy. Future availability or cost of these facilities could have an adverse effect on our operations.

AIRCRAFT LEASE OBLIGATIONS

Transat has significant non-cancellable lease obligations relating to its aircraft fleet. If revenues from aircraft operations were to decrease, the payments to be made under our existing lease agreements could have a substantial impact on our operations.

AIRCRAFT AVAILABILITY AT THE END OF LEASES

If, at the expiry of existing aircraft leases, we are unable to renew them or to obtain leases with satisfactory conditions for the type of aircraft required, our business and operating results may be adversely affected.

ENVIRONMENT

As an airline industry company, Transat is exposed to any future regulations concerning greenhouse gas emissions by its aircraft. If Transat finds it difficult to meet any new regulatory requirements with its existing fleet, it could be faced with additional costs, which in turn could adversely affect its financial results.

KEY PERSONNEL

Our future success depends on our ability to attract and retain qualified personnel. The loss of key employees could adversely affect our business and operating results.

UNCERTAINTY REGARDING UPCOMING COLLECTIVE AGREEMENTS

Our operations could be adversely affected in the event of an inability to reach an agreement with a labour union representing our employees, including pilots.

OUTLOOK

With respect to sun destination routes departing from Canada, bookings for winter 2010 are currently tracking lower than last winter's record volumes. Transat reduced its capacity in the first quarter to bolster its passenger load factor. For the second quarter, capacity is currently in line with the volumes recorded last winter, given the entrenched trend of last-minute reservations, which complicates the task of medium-term forecasting. In France, winter reservations are tracking lower than in the previous year.

Selling prices are generally lower than last year. However, the Corporation expects to capitalize on lower input costs, as fuel prices, and hotel and other destination-based costs are down, and the Corporation's seat sales are also trending lower than last year.

Management's report and Auditor's report

The consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. Management's responsibility in this respect includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with Canadian generally accepted accounting principles which are adequate in the circumstances. The financial information presented throughout this annual report is consistent with that appearing in the financial statements.

The Corporation and its affiliated companies have set up accounting and internal control systems designed to provide reasonable assurance that the Corporation's assets are safeguarded against loss or unauthorized use and that its books of account may be relied upon for the preparation of financial statements.

The Board of Directors is responsible for the consolidated financial statements through its Audit Committee. The Audit Committee reviews the annual consolidated financial statements and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors of the accounting methods and policies used as well as of the internal control systems set up by the Corporation. These financial statements have been audited by Ernst & Young LLP, the external auditors. Their report on the consolidated financial statements appears opposite.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer

Denis Pétrin
Vice-President, Finance and Administration
and Chief Financial Officer

To the Shareholders of Transat A.T. Inc.

We have audited the consolidated balance sheets of Transat A.T. Inc. as at October 31, 2009 and 2008 and the consolidated statements of income (loss), comprehensive income (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Montréal, Canada
December 4, 2009

Ernst & Young LLP [1]
Chartered Accountants

[1] *CA auditor permit no.13764*

As at October 31 [In thousands of dollars]	2009	2008 [restated — *note 3*]
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**180,552**	145,767
Cash and cash equivalents in trust or otherwise reserved *[notes 3 and 4]*	**244,250**	228,352
Accounts receivable	**105,349**	119,852
Income taxes receivable	**25,083**	4,095
Future income tax assets *[notes 3 and 20]*	**12,860**	11,382
Inventories	**9,823**	11,412
Prepaid expenses *[note 3]*	**30,447**	46,747
Derivative financial instruments *[notes 3 and 6]*	**6,770**	112,259
Current portion of deposits	**30,578**	32,094
Total current assets	**645,712**	711,960
Cash and cash equivalents reserved *[notes 3 and 4]*	**28,476**	28,345
Investments in ABCP *[note 5]*	**71,401**	86,595
Deposits *[note 7]*	**12,014**	18,526
Future income taxes *[note 20]*	**10,454**	16,097
Property, plant and equipment *[notes 3, 8, 13 and 18]*	**122,911**	154,379
Goodwill and other intangible assets *[notes 3, 9 and 18]*	**160,156**	168,718
Derivative financial instruments *[notes 3 and 6]*	**9,488**	11,002
Investments and other assets *[notes 3 and 10]*	**68,891**	71,592
	1,129,503	1,267,214
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**266,445**	282,440
Current portion of provision for overhaul of leased aircraft	**21,029**	23,231
Income taxes payable	**4,021**	6,942
Future income tax liabilities *[notes 3 and 20]*	**266**	14,615
Customer deposits and deferred income	**251,018**	293,537
Derivative financial instruments *[notes 3 and 6]*	**40,243**	79,831
Debenture *[note 12]*	**3,156**	3,156
Payments on current portion of long-term debt	**24,576**	16,745
Total current liabilities	**610,754**	720,497
Long-term debt *[note 13]*	**83,108**	133,340
Provision for overhaul of leased aircraft	**8,550**	13,011
Other liabilities *[note 14]*	**41,743**	34,517
Derivative financial instruments *[notes 3 and 6]*	**50**	10,227
Future income tax liabilities *[note 20]*	**17,937**	9,692
	762,142	921,284
Shareholders' equity		
Share capital *[note 15]*	**216,236**	154,198
Retained earnings *[note 3]*	**165,096**	104,211
Contributed surplus	**6,642**	4,619
Accumulated other comprehensive income (loss) *[notes 3, 6 and 16]*	**(20,613)**	82,902
	367,361	345,930
	1,129,503	1,267,214

Commitments and contingencies *[note 23]*
See accompanying notes to consolidated financial statements.

On behalf of the Board:

Jean-Marc Eustache, Director   André Bisson, Director

Consolidated statements of income

Years ended October 31 [In thousands of dollars, except per share amounts]	**2009**	2008 [restated — *note 3*]
	$	$
Revenues	**3,545,341**	3,512,851
Operating expenses		
Direct costs	**2,062,626**	1,933,706
Salaries and employee benefits	**364,642**	349,746
Aircraft fuel	**319,224**	365,457
Commissions	**177,166**	174,740
Aircraft maintenance	**89,896**	97,842
Airport and navigation fees	**90,611**	90,624
Aircraft rent	**54,287**	48,628
Other *[note 3]*	**293,494**	324,340
	3,451,946	3,385,083
	93,395	127,768
Amortization *[notes 3 and 17]*	**51,155**	56,147
Interest on long-term debt and debenture	**4,866**	7,538
Other interest and financial expenses	**2,679**	1,758
Interest income	**(4,588)**	(16,172)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(68,267)**	106,435
Foreign exchange loss (gain) on long-term monetary items	**(135)**	2,295
Loss (gain) on investments in ABCP *[note 5]*	**(68)**	45,927
Restructuring charge *[note 18]*	**11,967**	—
Gain on repurchase of preferred shares of a subsidiary *[note 19]*	**—**	(1,605)
Share of net loss (income) of a company subject to significant influence	**(24)**	427
	(2,415)	202,750
Income (loss) before the undernoted items	**95,810**	(74,982)
Income taxes (recovery) *[note 20]*		
Current	**(9,531)**	19,565
Future *[note 3]*	**40,447**	(48,440)
	30,916	(28,875)
Income (loss) before non-controlling interest in subsidiaries' resultss	**64,894**	(46,107)
Non-controlling interest in subsidiaries' results	**(3,047)**	(3,287)
Net income (loss) for the year	**61,847**	(49,394)
Basic earnings (loss) per share *[notes 3 and 15]*	**1.86**	(1.49)
Diluted earnings (loss) per share *[notes 3 and 15]*	**1.85**	(1.49)

See accompanying notes to consolidated financial statements.

Consolidated statements of comprehensive income (loss)

Years ended October 31
[In thousands of dollars]

	2009	2008 [restated — *note 3*]
	$	$
Net income (loss) for the year	**61,847**	(49,394)
Other comprehensive income (loss)		
Change in fair value of derivatives designated as cash flow hedges	**(39,829)**	134,592
Reclassification in income	**(92,111)**	61,560
Future income taxes	**42,418**	(63,852)
	(89,522)	132,300
Losses on derivatives designated as fuel hedges before November 1, 2006 recognized in net income for the period	**—**	522
Future income taxes	**—**	(172)
	—	350
Foreign exchange gains (losses) on the translation of financial statements of self-sustaining foreign subsidiaries due to the (appreciation) depreciation of the Canadian dollar vs. the euro, pound sterling and U.S. dollar at the balance sheet date	**(13,214)**	16,713
	(102,736)	149,363
Comprehensive income (loss) for the year	**(40,889)**	99,969

Consolidated statements of shareholder's equity

Years ended October 31
[In thousands of dollars]

	Share capital	Retained earnings	Contributed surplus	Accumulated other comprenhensive income (loss)	Shareholders' equity
	$	$	$	$	$
2009					
Balance, beginning of year, as previously reported	**154,198**	**109,302**	**4,619**	**73,873**	**341,992**
Change in accounting policy and other change *[note 3]*	**—**	**(3,114)**	**—**	**8,250**	**5,136**
As restated, beginning of year	**154,198**	**106,188**	**4,619**	**82,123**	**347,128**
Net income (loss) for the year	**—**	**61,847**	**—**	**—**	**61,847**
Other comprehensive income (loss)	**—**	**—**	**—**	**(102,736)**	**(102,736)**
Issued from treasury *[note 15]*	**61,949**	**—**	**—**	**—**	**61,949**
Options exercised *[note 15]*	**89**	**—**	**—**	**—**	**89**
Compensation expense for stock option plan *[note 15]*	**—**	**—**	**2,023**	**—**	**2,023**
Dividends	**—**	**(2,939)**	**—**	**—**	**(2,939)**
Balance, end of year	**216,236**	**165,096**	**6,642**	**(20,613)**	**367,361**
2008					
Balance, beginning of year, as previously reported	156,964	190,534	1,871	(66,501)	282,868
Change in accounting policy *[note 3]*	—	(5,124)	—	40	(5,084)
As restated, beginning of year	156,964	185,410	1,871	(66,461)	277,784
Net income (loss) for the year	—	(49,394)	—	—	(49,394)
Other comprehensive income	—	—	—	149,363	149,363
Issued from treasury *[note 15]*	1,331	—	—	—	1,331
Premium paid on share repurchase *[note 15]*	(5,000)	(19,864)	—	—	(24,864)
Options exercised *[note 15]*	903	—	(264)	—	639
Compensation expense for stock option plan *[note 15]*	—	—	3,012	—	3,012
Dividends	—	(11,941)	—	—	(11,941)
Balance, end of year	154,198	104,211	4,619	82,902	345,930

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

Years ended October 31 [In thousands of dollars]	**2009**	2008 [restated — *note 3*]
	$	$
OPERATING ACTIVITIES		
Net income (loss) for the year	**61,847**	(49,394)
Operating items not involving an outlay (receipt) of cash		
Amortization	**51,155**	56,147
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(68,267)**	106,435
Foreign exchange loss (gain) on long-term monetary items	**(135)**	2,295
Loss (gain) on investments in ABCP	**6,332**	45,705
Loss on disposal of investments in ABCP	**—**	222
Write-off of goodwill and assets	**9,067**	—
Gain on repurchase of preferred shares of a subsidiary	**—**	(1,605)
Share of net loss (income) of a company subject to significant influence	**(24)**	427
Non-controlling interest in subsidiaries' results	**3,047**	3,287
Future income taxes	**40,447**	(48,440)
Pension expense	**2,888**	3,075
Compensation expense for stock option plan	**2,023**	3,012
	108,380	121,166
Net change in non-cash working capital balances related to operations	**(56,833)**	(31,313)
Net change in provision for overhaul of leased aircraft	**(6,663)**	4,541
Net change in other assets and liabilities related to operations	**350**	675
Cash flows relating to operating activities	**45,234**	95,069
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	**(28,900)**	(64,901)
Consideration paid for acquired companies	**(5,824)**	(59,559)
Proceeds from investments in ABCP *[note 5]*	**8,062**	10,778
Increase in cash and cash equivalents reserved	**—**	(28,345)
Cash flows related to investing activities	**(26,662)**	(142,027)
FINANCING ACTIVITIES		
Net change in credit facilities and other debt	**(22,951)**	60,491
Repayment of long-term debt	**(14,972)**	(10,565)
Proceeds from issuance of shares	**62,038**	1,970
Share repurchase	**—**	(24,864)
Dividends paid to a non-controlling shareholder	**(2,873)**	—
Dividends	**(2,939)**	(11,941)
Cash flows related to financing activities	**18,303**	15,091
Effect of exchange rate changes on cash and cash equivalents	**(2,090)**	10,866
Net change in cash and cash equivalents	**34,785**	(21,001)
Cash and cash equivalents, beginning of year	**145,767**	166,768
Cash and cash equivalents, end of year	**180,552**	145,767
Supplementary information		
Income taxes paid	**13,518**	11,865
Interest paid	**4,492**	6,821

See accompanying notes to consolidated financial statements.

1
INCORPORATION AND NATURE OF BUSINESS

Transat A.T. Inc. [the "Corporation"], incorporated under the *Canada Business Corporations Act*, is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of tour operators based in Canada and Europe. The Corporation is also involved in air transportation, value-added services at travel destinations and accommodations. Finally, the Corporation has secured a dynamic presence in distribution through travel agency networks.

2
SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Corporation have been prepared by management in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The main estimates include the measurement of the fair value of the financial instruments, including derivatives and investments in asset-backed commercial paper ["ABCP"], the provision for overhaul of leased aircraft, the amortization and impairment of property, plant and equipment and intangible assets, including goodwill, allocations in respect of acquired interests and future income tax balances. Actual results could differ from those estimates and differences could be significant. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Basis of consolidation

The consolidated financial statements include the accounts of the Corporation, its subsidiaries and its variable interest entities where the Corporation is the primary beneficiary.

The Corporation consolidates variable interest entities in accordance with Accounting Guideline 15, Consolidation of Variable Interest Entities ["AcG-15"]. This Guideline presents clarification on the application of consolidation principles to certain entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for determining when an enterprise includes the assets, liabilities and results of activities of a variable interest entity in its consolidated financial statements. Under AcG-15, an enterprise should consolidate a variable interest entity when that enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both [the "primary beneficiary"].

Assets recognized as a result of consolidating certain variable interest entities do not represent additional assets that could be used to satisfy claims against the Corporation's general assets.

Cash equivalents

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

Inventories

Inventories are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost and are amortized, taking into account their residual value, on a straight-line basis over their estimated useful life as follows:

Improvements to aircraft under operating leases	Lease term
Aircraft equipment	5 to 10 years
Computer equipment	3 to 7 years
Aircraft engines	Cycles used
Office furniture and equipment	4 to 10 years
Leasehold improvements	Lease term
Rotable aircraft spare parts	Use
Administrative building	10 to 45 years

When aircraft are acquired, a portion of the cost is allocated to the "major maintenance activities" subclass, which is related to airframe, engine and landing gear overhaul costs. Aircraft and major maintenance activities, included in Aircraft, are amortized taking into account their expected estimated residual value. Aircraft are amortized on a straight-line basis over seven- to ten-year periods, and major maintenance activities are amortized according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are amortized according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred.

Goodwill and other intangible assets
Goodwill and trademarks with an indefinite life are recorded at cost and are not amortized. Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired.

Goodwill and trademarks are tested for impairment annually or more often if events or changes in circumstances indicate that it is more likely than not that it is impaired. A two-step impairment test is used to identify a potential impairment in goodwill and a trademark, provided that said trademark is used by the reporting unit in its day-to-day operations, and measure the amount of a goodwill and trademark impairment loss to be recognized, if any. The first step consists in comparing the fair value of a reporting unit with its carrying amount, including goodwill, in order to identify a potential impairment. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit and/or trademark associated with the reporting unit is considered not to be impaired. When the carrying amount of a reporting unit exceeds its fair value, the second step, where necessary, consists in comparing the fair value of any goodwill and/or trademark associated with the reporting unit with the carrying amount of said goodwill and/or trademark to measure the amount of the impairment loss, if any. When the carrying amount of any goodwill and/or trademark associated with a reporting unit exceeds the fair value of said goodwill and/or trademark, an impairment loss is recognized in an amount equal to the excess in income for the period in which the impairment occurred. The Corporation uses the discounted cash flow method to assess the fair value of its reporting units.

Intangible assets with definite useful lives are recorded at cost and amortized on a straight-line basis over their estimated useful lives, as follows:

Software	3 to 7 years
Customer lists	7 to 10 years

Impairment of long-lived assets
Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with its expected future net undiscounted cash flows from use together with its residual value [net recoverable value]. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value.

Investments and other assets
Investments in companies subject to significant influence but not control or joint control are accounted for using the equity method. Other investments are recorded at cost. When there is an other-than-temporary impairment in an investment, its carrying amount must be written down to reflect this loss in value. The write-down in value is taken into account in determining net income.

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

Foreign currency translation
Self-sustaining foreign operations
The Corporation translates the accounts of its self-sustaining foreign subsidiaries, including the investment in a foreign company subject to significant influence, into Canadian dollars using the current rate method. Assets and liabilities are translated at the exchange rates in effect at the end of the period. Revenues and expenses are translated at average rates of exchange during the period. Foreign exchange gains or losses resulting from the translation are recorded in a separate line item under other comprehensive income (loss).

Accounts and transactions in foreign currencies
The accounts and transactions of the Corporation denominated in foreign currencies including the accounts of integrated foreign operations are translated using the temporal method. At the transaction date, each asset, liability, revenue or expense arising from a foreign currency transaction is translated into Canadian dollars by using the exchange rate in effect at that date. At each balance sheet date, monetary items denominated in a foreign currency are adjusted to reflect the exchange rate in effect at the balance sheet date. Any exchange gain or loss that arises on translation is included in the determination of net income for the period.

Stock-based compensation and other compensation plans
A description of the stock-based compensation plans offered by the Corporation is included in note 15.

The Corporation accounts for its stock option plan for executives and employees in respect of stock options granted after October 31, 2003 using the fair value method. The fair value of stock options at the grant date is determined using an option pricing model. The fair value of the options at the grant date is charged to net income over the period from the grant date to the date that the award is vested. Any consideration paid by employees on exercising stock options and the corresponding portion previously credited to contributed surplus are credited to share capital.

The Corporation's contributions to the stock ownership incentive and capital accumulation plan and the permanent stock ownership incentive plan are the shares acquired in the marketplace by the Corporation for the benefit of plan participants when participants purchase shares under the stock plan. These contributions are charged to income over the period from the grant date to the date that the award is vested to the participant. Any consideration paid by the participant to purchase shares under the stock plan is credited to share capital.

The Corporation records a deferred share unit plan expense when the units are granted based on the fair value of the shares at the grant date. Fluctuations in the share price subsequent to the grant date are recorded in net income for the period. For the restricted share unit plan, the fair value of the shares at the units' grant date is charged to net income over the period from the grant date to the date that the award is vested. Fluctuations in the share price subsequent to the grant date are recorded in net income over the unit vesting period.

Revenue recognition

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

Financial instruments

Financial instruments

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held-for-trading, loans and receivables or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as held-for-trading unless they are designated within an effective hedging relationship.

Held-for-trading

Financial assets, financial liabilities and derivative financial instruments classified as held-for-trading are measured at fair value at the balance sheet date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of income (loss) as they occur.

Loans and receivables and other financial liabilities

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

Transaction costs

Transaction costs related to held-for-trading financial assets and financial liabilities are expensed as incurred. Transactions costs related to financial assets classified as loans and receivables or other financial liabilities or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

Fair value hierarchy

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

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

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

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

Hedge accounting and derivative financial instruments

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

The Corporation documents its derivative financial instruments related to foreign currencies as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These derivative financial instruments are designated as cash flow hedges except for the contracts related to U.S. dollar loans payable secured by aircraft, which are designated as fair value hedges.

All derivative financial instruments are recorded at fair value in the balance sheet. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss). Any ineffectiveness within a cash flow hedge is recognized in net income as it

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

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

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

Income taxes

The Corporation provides for income taxes using the liability method. Under this method, future income tax assets and liabilities are calculated based on differences between the carrying value and tax basis of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse. A valuation allowance has been recorded to the extent that it is more likely than not that future income tax assets will not be realized.

Deferred lease inducements

Deferred lease inducements recognized through other liabilities are amortized on a straight-line basis over the term of the leases and are recognized as a reduction of amortization.

Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by these employees is determined from actuarial calculations using the projected benefit method prorated on services and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Past service costs and amendments to the arrangements are amortized on a straight-line basis over the average remaining service period of active employees generally affected thereby. The excess of net actuarial gains and losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which was 7.2 years as at November 1, 2008. Plan obligations are discounted using current market interest rates and are included in Other liabilities.

Earnings per share

Earnings per share are calculated based on the weighted average number of Class A Variable Voting Shares and Class B Voting Shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

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CHANGES TO ACCOUNTING POLICIES

Standards in effect on November 1, 2008

Goodwill and intangible assets

In February 2008, the Canadian Institute of Chartered Accountants ["CICA"] issued Handbook Section 3064, Goodwill and Intangible Assets, which superseded Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These new standards have been adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into a $5,708 decrease in retained earnings on November 1, 2007 and the following changes as at October 31, 2008: a $6,512 decrease in prepaid expenses, a $760 decrease in other assets, a $2,155 decrease in future income tax liabilities, a $5,091 decrease in retained earnings and a $26 decrease in accumulated other comprehensive income (loss). For the year ended October 31, 2008, the adoption of these new standards translated into the following changes: a $441 decrease in other operating expenses, a $502 decrease in amortization and a $326 decrease in future income tax recovery, for a $617 increase in net income (a $0.02 increase in diluted earnings per share) and a $66 decrease in comprehensive income (loss). These adjustments arise from certain marketing expenses related to upcoming seasons. These expenses were previously recorded in net income for the related seasons and aircraft commissioning costs were previously deferred and amortized over a period not exceeding five years.

In addition, the application of these new standards resulted in the reclassification of software from property, plant and equipment to other intangible assets. As at October 31, 2008, the impact of the reclassification on net carrying amounts consisted of a $16,915 increase in other intangible assets and a corresponding decrease in property, plant and equipment.

Credit risk and fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee ["EIC"] issued EIC-173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities, which provides further information on determining the fair value of financial assets and financial liabilities under Section 3855, Financial Instruments – Recognition and Measurement. This Abstract states that an entity's own credit risk and the

credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. This recommendation applies retroactively without restatement of prior period financial statements to all financial assets and financial liabilities measured at fair value in interim and annual financial statements for periods ending on or after January 20, 2009, the date of issuance of the Abstract. The adoption of this new guidance as at November 1, 2008 resulted in a $1,379 decrease in derivative financial instruments recorded in assets, a $3,152 decrease in derivative financial instruments recorded in liabilities, a $575 decrease in future income tax assets, a $1,977 increase in retained earnings and a $779 decrease in accumulated other comprehensive income (loss). The adoption of this EIC resulted in decreases in the Corporation's net income and earnings per share of $1,715 and $0.05, respectively, and a $1,076 increase in other comprehensive income for the year ended October 31, 2009.

Cash and cash equivalents in trust or otherwise reserved
Cash and cash equivalents reserved pledged as collateral security against the Corporation's long-term obligations, mostly related to pension agreements, have been reclassified as non-current assets in the balance sheet. This reclassification resulted in a $28,345 decrease in current assets as at October 31, 2008 and had no impact on total assets in the balance sheet. In connection with this change, net changes in cash and cash equivalents in trust or otherwise reserved included in current assets in the balance sheet have been reclassified from investing activities to operating activities in the statement of cash flows, as these temporarily restricted funds arise mainly from the sale of services to customers and will be used for the provision of services sold by the Corporation in the normal course of business. For the year ended October 31, 2008, this reclassification resulted in a $60,156 decrease in cash flows provided by operating activities, with corresponding changes in cash flows related to investing activities.

Translation of an investment
The carrying amount of the investment in Caribbean Investments B.V. ["CIBV"] as at October 31, 2008 *[see note 10]* was increased by $9,055 to reflect the translation of this U.S. dollar investment using the effective rate on that date. The consideration for this adjustment was recorded in accumulated other comprehensive income (loss) and included in shareholders' equity without any impact on net loss for the year ended October 31, 2008.

Other standard
In June 2009, the CICA issued amendments to Section 3862, Financial Instruments – Disclosures, that are effective for the Corporation's financial statements for the year ended October 31, 2009. The amendments are intended to enhance disclosure regarding fair value measurement and liquidity risk exposures.

Standards in effect on November 1, 2007
Aircraft overhaul expenses
On November 1, 2007, the Corporation changed its method for accounting for aircraft overhaul expenses. Up until October 31, 2007, the Corporation accounted for its expenses using the accrue-in-advance method, in accordance with the accounting methods suggested in the U.S. Audits of Airlines guide issued by the American Institute of Certified Public Accountants. Under this method, the Corporation provided for aircraft overhaul expenses based on an estimate of all future expenses until expiry of the leases for the aircraft leased under operating leases, or on their useful lives estimated by the Corporation while held, amortized over the total number of engine cycles and the total number of months anticipated for the airframe and other components over the same periods.

On September 8, 2006, the *Financial Accounting Standards Board* ["FASB"] issued FASB Staff Position ["FSP"] AUG AIR-1, *Accounting for Planned Major Maintenance Activities*. This FSP amended the Audits of Airlines guide to preclude the use of accruals as an acceptable method. This FSP is applicable to all entities for fiscal years beginning on or after December 15, 2006. As a result, effective November 1, 2007, the Corporation discontinued the use of the accrue-in-advance method and began accounting for aircraft overhaul expenses if the aircraft are leased under operating leases or are capitalized with property, plant and equipment *[see note 2]*.

This change in accounting policy has been adopted retroactively with restatement of prior fiscal years. In addition, the adoption of these new standards resulted in a $584 increase in retained earnings on November 1, 2007.

Although it could have chosen to account for maintenance expenses in net income for owned aircraft as incurred, the Corporation believes that the policies adopted provide better information to users of financial statements.

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

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

Consolidated financial statements and non-controlling interests

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

IFRS

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

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

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

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

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CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2009, cash and cash equivalents in trust or otherwise reserved included $200,396 [$210,481 as at October 31, 2008] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulatory bodies and the Corporation's business agreement with its credit card processor. Cash and cash equivalents in trust or otherwise reserved also include $72,330, of which $28,476 was recorded as non-current assets [$46,216 as at October 31, 2008, of which $28,345 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

5
INVESTMENTS IN ABCP

Restructuring

In mid-August 2007, the Canadian third-party asset backed commercial paper ["ABCP"] market was hit by a liquidity disruption. Since then, there have been no material transactions in an active market involving the Corporation's ABCP.

On August 16, 2007, subsequent to the liquidity 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.

On January 21, 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 contained in the underlying conduits. As of that date, the Corporation held a portfolio of ABCP issued by several trusts with an overall notional value of $143,500.

On the plan implementation date, the Corporation remeasured 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 January 21, 2009 measurement, the provision for impairment totalled $47,450, and the ABCP investment portfolio had a fair value of $96,050. The ABCP held by the Corporation at that date was exchanged for new securities. The new ABCP now has a notional value of $141,741.

During fiscal 2009, the Corporation received $8,062 in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). The Corporation received its share of $6,400 of the cash accumulated in the conduits. In addition, the Corporation has been advised that several events impacting the credit of ABCP primarily backed by U.S. subprime assets have occurred, resulting in losses in excess of the securities pledged as collateral. These events resulted in a $4,844 decline in the notional value of the investments in ABCP, as well as a corresponding decline in the provision for impairment of investments in ABCP, since the amounts had been fully provisioned. The notional value of the new ABCP amounted to $128,835 as at October 31, 2009 and is detailed as follows:

MAV2 Eligible
The Corporation holds $113,331 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through January 2017.

MAV2 Ineligible
The Corporation holds $7,630 in ABCP supported mainly by U.S. sub-prime assets that were restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets, maturing through December 2035.

MAV3 Traditional
The Corporation holds $7,874 in ABCP supported solely by traditional securitized assets that were restructured on a series-by-series basis, with each series or trust maintaining its own assets, maturing through September 2015.

Valuation as at October 31, 2009
On October 31, 2009, 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. The Corporation gave due consideration, in particular, to new information released by BlackRock Canada Ltd. ("BlackRock"), which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) and ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation's management measured the fair value of its assets from these two classes using these 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. Accordingly, the Corporation took into account the information released by Dominion Bond Rating Service ["DBRS"] on August 11, 2009. DBRS downgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (MAV2 Eligible) from Class A-2 to BBB–. Prior to this downgrading, this class of ABCP had an "A" rating.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 2.7% [weighted average rate of 2.1%], depending on the type of series. These future cash flows were discounted, according to the type of series, over 7.2 year periods using discount rates ranging from 7.3% to 60.0% [weighted average rate of 11.7%], which factor in liquidity.

As a result of this new valuation, on October 31, 2009, the Corporation recorded a $5,993 impairment charge in respect of its investments in ABCP. This impairment charge excludes $620 of the Corporation's share of the estimated cash accumulated in the conduits as at October 31, 2009, received on November 5, 2009. The ABCP investment portfolio had a fair value of $71,401 and the provision for impairment totalled $57,434, representing 44.6% of the notional value of $128,835.

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

A 1% increase (decrease) [100 basis points], in the estimated discount rates would result in a decrease (increase) of approximately $3,900 in the estimated fair value of ABCP held by the Corporation.

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

	National 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, 2007	154,500	(11,200)	143,300	—
Principal repayments	(11,000)	—	(11,000)	222
Writedown of investments in ABCP	—	(45,705)	(45,705)	45,705
Balance as at October 31, 2008; impact on results for 2008	143,500	(56,905)	86,595	45,927
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(5,993)	(5,993)	5,993
Principal repayments	(8,062)	—	(8,062)	—
Share of estimated cash receivable	—	620	620	(620)
Share of cash accumulated in conduits	—	—	—	(6,400)
Remeasurement of options related to repayment of revolving credit facilities *[note 13]*	—	—	—	(800)
Balance as at October 31, 2009; impact on results for 2009	**128,835**	**(57,434)**	**71,401**	**(68)**

The balance of investments in ABCP as at October 31, 2009 is detailed as follows:

	Notional value of investments in ABCP	Provision for impairment of investments in ABCP	Investments in ABCP
	$	$	$
MAV2 Eligible			
Class A-1	34,436	(8,775)	25,661
Class A-2	63,894	(26,416)	37,478
Class B	11,598	(10,129)	1,469
Class C	3,403	(3,343)	60
	113,331	(48,663)	64,668
MAV2 Ineligible	7,630	(7,552)	78
MAV3 Traditional	7,874	(1,839)	6,035
Share of estimated cash receivable	—	620	620
	128,835	(57,434)	71,401

6
FINANCIAL INSTRUMENTS
Classification of financial instruments

As at October 31, the classification of financial instruments, other than financial derivative instruments designated as hedges, as well as their carrying amounts, are as follows:

	Carrying amount				Fair value
	Held-for-trading	Loans and receivables	Other financial liabilities	Total	
	$	$	$	$	$
2009					
Financial assets					
Cash and cash equivalents	180,552	—	—	180,552	180,552
Cash and cash equivalents in trust or otherwise reserved	272,726	—	—	272,726	272,726
Accounts receivable	—	105,349	—	105,349	105,349
Investments in ABCP	71,401	—	—	71,401	71,401
Deposits	—	42,592	—	42,592	42,592
Derivative financial instruments					
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,141	—	—	4,141	4,141
Options related to repayment of revolving credit facilities *[note 13]*	9,200	—	—	9,200	9,200
	538,020	147,941	—	685,961	685,961
Financial liabilities					
Accounts payable and accrued liabilities	—	—	266,445	266,445	266,445
Long-term debt	—	—	107,684	107,684	107,684
Debenture	—	—	3,156	3,156	3,156
Derivative financial instruments					
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	12,949	—	—	12,949	12,949
	12,949	—	377,285	390,234	390,234

	Carrying amount				Fair value
	Held-for-trading	Loans and receivables	Other financial liabilities	Total	
	$	$	$	$	$
2008					
Financial assets					
Cash and cash equivalents	145,767	—	—	145,767	145,767
Cash and cash equivalents in trust or otherwise reserved	256,697	—	—	256,697	256,697
Accounts receivable	—	119,852	—	119,852	119,852
Investments in ABCP	86,595	—	—	86,595	86,595
Deposits	—	50,620	—	50,620	50,620
Derivative financial instruments					
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,498	—	—	8,498	8,498
	497,557	170,472	—	668,029	668,029
Financial liabilities					
Accounts payable and accrued liabilities	—	—	282,440	282,440	282,440
Long-term debt	—	—	150,085	150,085	150,085
Debenture	—	—	3,156	3,156	3,156
Derivative financial instruments					
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	88,215	—	—	88,215	88,215
	88,215	—	435,681	523,896	523,896

Fair value of financial instruments

The following methods and assumptions were used to measure fair value:

The fair value of cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, accounts receivable, accounts payable and accrued liabilities and the debenture approximate their carrying amount due to the short-term maturity of these financial instruments.

A detailed analysis of the methods and assumptions used in measuring the fair value of investments in ABCP is included in note 5.

The fair value of deposits approximate their carrying amount value given that they are subject to terms and conditions similar to those available to the Corporation for instruments with comparable terms.

The fair value of long-term debt approximate their carrying amount value given that it is subject to terms and conditions, including variable interest rates, similar to those available to the Corporation for instruments with comparable terms.

Derivative financial instruments consist primarily of foreign exchange forward contracts, fuel purchasing forward contracts and other fuel-related derivative financial instruments. The fair value of derivative financial instruments represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. When there is no active market for a derivative financial instrument, the Corporation determines the fair value by applying valuation techniques, using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments. The fair value of options related to repayment of revolving credit facilities was determined using the Black & Scholes option pricing model and the fair value of the underlying ABCP as at October 31, 2009.

The carrying amounts of derivative financial instruments as at October 31 are as follows:

	Assets	Liabilities
	$	$
2009		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	2,413	27,144
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	504	200
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,141	12,949
Options related to repayment of revolving credit facilities *[note 13]*	9,200	—
	13,341	12,949
	16,258	40,293
2008		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	111,448	1,843
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	3,315	—
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,498	88,215
	123,261	90,058

The following table details the fair value hierarchy of financial instruments by level as at October 31, 2009:

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
	$	$	$	$
Financial assets				
Investments in ABCP	—	—	71,401	71,401
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	4,141	—	4,141
- Foreign exchange forward contracts	—	2,917	—	2,917
- Options related to repayment of revolving credit facilities *[note 13]*	—	—	9,200	9,200
	—	7,058	80,601	87,659
Financial liabilities				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	12,949	—	12,949
- Foreign exchange forward contracts	—	27,344	—	27,344
	—	40,293	—	40,293

Management of risks arising from financial instruments
In the normal course of business, the Corporation is exposed to credit and counterparty risk, liquidity risk, and market risk arising from changes in certain foreign exchange rates, changes in fuel prices and changes in interest rates. The Corporation manages these risk exposures on an ongoing basis. In order to limit the effects of changes in foreign exchange rates, fuel prices and interest rates on its revenues, expenses and cash flows, the Corporation can avail itself of various derivative financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to manage existing or anticipated risks, commitments or obligations based on its past experience.

Credit and counterparty risk
Credit risk stems primarily from the potential inability of clients, service providers, aircraft and engine lessors and financial institutions, including the other counterparties to cash equivalents, derivative financial instruments and investments in ABCP, to discharge their obligations.

Trade accounts receivable included in accounts receivable in the balance sheet totalled $59,380 as at October 31, 2009 [$76,482 as at October 31, 2008]. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2009, approximately 8% [approximately 6% as at October 31, 2008] of accounts receivable were over 90 days past due, whereas approximately 73% [approximately 80% as at October 31, 2008] were up to date, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to the agreements entered into with its service providers, consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2009, these deposits totalled $31,808 [$38,492 as at October 31, 2008] and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $10,784 as at October 31, 2009 [$12,128 as at October 31, 2008] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2009, the cash security deposits with lessors that have been claimed totalled $14,723 [$8,576 as at October 31, 2008] and are included in accounts receivable. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2009 relates to cash and cash equivalents, including cash and cash equivalents in trust and otherwise reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

Except for the investments in ABCP *[see note 5]*, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2009.

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

The contractual maturities and carrying amounts of the Corporation's financial liabilities as at October 31, 2009 are summarized in the following table:

	Maturing in under 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Total
	$	$	$	$
Accounts payable and accrued liabilities	266,445	—	—	**266,445**
Derivative financial instruments	40,243	50	—	**40,293**
Long-term debt	24,576	83,108	—	**107,684**
Debenture	3,156	—	—	**3,156**
Total	334,420	83,158	—	**417,578**

Market risk

Foreign exchange risk

The Corporation is exposed, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas an insignificant percentage of revenues is incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than two years, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

Expressed in Canadian dollar terms, the net financial assets and net financial liabilities of the Corporation and its subsidiaries denominated in currencies other than the measurement currency of the financial statements as at October 31, based on their financial statement measurement currency, are summarized in the following table:

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
2009	$	$	$	$	$	$
Financial statement measurement currency of the group's companies						
Euro	(4,168)	—	16	(1,837)	(579)	(6,568)
Pound sterling	648	7,192	—	7,326	—	15,166
Canadian dollar	(63,117)	2,628	9,199	—	361	(50,929)
Other currencies	153	213	—	(60)	(343)	(37)
Total	(66,484)	10,033	9,215	5,429	(561)	(42,368)

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
2008	$	$	$	$	$	$
Financial statement measurement currency of the group's companies						
Euro	4,499	—	(161)	51	(4,169)	220
Pound sterling	1,345	1,935	—	12,154	—	15,434
Canadian dollar	(45,153)	(1,629)	(288)	—	(1,471)	(48,541)
Other currencies	(884)	1,546	—	(18)	(167)	477
Total	(40,193)	1,852	(449)	12,187	(5,807)	(32,410)

On October 31, 2009, a 5% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $3,950 increase or decrease [$7,400 as at October 31, 2008], respectively, in the Corporation's net income (loss) for the year ended October 31, 2009, whereas other comprehensive income (loss) would have increased or decreased by $19,700 [$32,800 as at October 31, 2008], respectively.

Risk of fluctuations in fuel prices

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To hedge against sharp increases in fuel prices, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than two years.

On October 31, 2009, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $7,500 increase or decrease [$18,600 as at October 31, 2008], respectively, in the Corporation's net income for the year ended October 31, 2009.

As at October 31, 2009, 21% of estimated fuel requirements for fiscal 2010 and 2% of estimated requirements for fiscal 2011 were covered by fuel-related derivative financial instruments [46% of estimated requirements for fiscal 2009 and 10% of estimated requirements for fiscal 2010 were covered as at October 31, 2008].

Interest rate risk
The Corporation is exposed to interest rate fluctuations, primarily due to its variable-rate long-term debt. The Corporation manages its interest rate exposure and could potentially enter into swap agreements consisting in exchanging variable rates for fixed rates.

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

On October 31, 2009, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $800 increase or decrease [$600 as at October 31, 2008], respectively, in the Corporation's net income for the year ended October 31, 2009.

Capital risk management
The Corporation's capital management objectives are first to ensure the longevity of its capital so as to support continued operations, provide its shareholders with a return, generate benefits for its other stakeholders and maintain the most optimal capitalization possible with a view to keeping capital costs to a minimum.

The Corporation manages its capitalization in accordance with changes in economic conditions. In order to maintain or adjust its capitalization, the Corporation may elect to declare dividends to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issue new shares.

The Corporation monitors its capitalization using the adjusted debt/equity ratio. This ratio is calculated as follows: net debt/shareholders' equity. Net debt is equal to the aggregate of long-term debt, the debenture and obligations under operating leases, excluding supplier agreements, less cash and cash equivalents [not held in trust or otherwise reserved] and investments in ABCP.

The Corporation's strategy is to maintain its debt/equity ratio below 1. The calculation of the debt/equity ratio as at October 31, is summarized as follows:

	2009	2008 [restated– *note 3*]
	$	$
Net debt		
Long-term debt	107,784	150,085
Debenture	3,156	3,156
Obligations under operating leases *[note 23]*	385,209	297,094
Cash and cash equivalents	(180,552)	(145,767)
Investments in ABCP	(71,401)	(86,595)
	244,196	217,973
Shareholders' equity	367,361	345,930
Debt/equity ratio	66.5%	63.0%

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2009, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

7 DEPOSITS

	2009	2008
	$	$
Deposits on leased aircraft and engines	10,784	12,128
Deposits with suppliers	31,808	38,492
	42,592	50,620
Less current portion	30,578	32,094
	12,014	18,526

8
PROPERTY, PLANT AND EQUIPMENT

	2009		2008 [restated – *note 3*]	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	$	$	$	$
Aircraft	143,936	102,055	150,304	95,490
Improvements to aircraft under operating leases	45,456	34,803	42,209	28,261
Aircraft equipment	44,081	36,833	42,522	34,891
Computer equipment	62,507	47,868	64,823	42,771
Aircraft engines	20,172	11,891	20,172	10,419
Office furniture and equipment	30,765	22,937	30,901	22,356
Leasehold improvements	35,178	21,586	34,540	18,231
Rotable aircraft spare parts	28,095	17,896	27,039	14,561
Administrative buildings	9,700	1,110	9,585	736
	419,890	296,979	422,095	267,716
Less: accumulated amortization	296,979		267,716	
Net book value	122,911		154,379	

9
GOODWILL AND OTHER INTANGIBLE ASSETS

	2009	2008 [restated – *note 3*]
	$	$
Goodwill	113,993	124,444
Trademarks not subject to amortization	15,738	17,144
Software, net of $37,111 in accumulated amortization [$50,784 in 2008]	22,432	16,915
Customer lists, net of $1,876 in accumulated amortization [$1,496 in 2008]	7,993	10,215
	160,156	168,718

The change in goodwill is as follows:

	2009	2008
	$	$
Balance, beginning of year	124,444	119,614
Acquisitions *[note 19]*	—	1,756
Write-off of goodwill *[note 18]*	(8,468)	—
Translation adjustment	(1,983)	3,074
	113,993	124,444

During the quarter ended October 31, 2009, the Corporation performed its annual test for impairment of goodwill and trademarks by discounting future cash flows based on the most recent financial forecasts of its reporting units, and no impairment was identified [no impairment in 2008], except for the $8,468 write-off in connection with the restructuring of its distribution network in France *[see note 18]*.

10
INVESTMENTS AND OTHER ASSETS

	2009	2008 [restated – *note 3*]
	$	$
Investment in Caribbean Investments B.V.	66,347	68,114
Deferred costs, unamortized balance *[note 3]*	2,234	2,028
Other investments	118	603
Sundry	192	847
	68,891	71,592

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

	2009	2008 [restated – *note 3*]
	$	$
Balance, beginning of year	68,114	—
Acquisition and capital contribution	5,824	57,854
Share of net loss	24	(427)
Translation adjustment	(7,615)	10,687
	66,347	68,114

On December 10, 2007, the Corporation acquired a 35% interest in CIBV, a company operating five hotels in Mexico and the Dominican Republic, for $51,605 [US$51,100] in cash and additional payments potentially totalling US$4,000 contingent on meeting certain specific terms and conditions by the end of calendar 2009. In addition, on April 9, 2008, the Corporation made a $4,150 capital contribution [US$4,113] to CIBV. The acquisition costs for this transaction amounted to $2,099. This acquisition was recorded using the equity method, and the share of net income of the acquired company has been accounted for as of December 10, 2007. The difference between the Corporation's ownership interest in CIBV and its share of the net assets at the acquisition date amounted to $16,000 and was allocated to imputed goodwill.

CIBV's majority shareholder may demand that the Corporation provide the necessary funds to repay one of CIBV's long-term debts should CIBV be unable to cover the scheduled repayments. However, the maximum amount that the Corporation could be required to provide may not exceed its 35% share of said long-term debt. As at October 31, 2009, the Corporation's share of long-term debt amounted to $11,473 [€7,218].

11
BANK LOANS

Operating lines of credit totalling €11,287 [$17,942] [€11,287 [$17,411] in 2008] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2009 and 2008.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €13,050 [$20,744] [€14,118 [$21,778] in 2008]. As at October 31, 2009, letters of guarantee had been issued totalling €6,220 [$9,888] [€4,586 [$7,074] in 2008].

12
DEBENTURE

On April 6, 2004, a subsidiary of the Corporation issued a $3,156 debenture bearing interest at a rate of 6%. The debenture was repaid in cash on November 6, 2009 subsequent to the amendment of the initial agreement providing for repayment on that date.

13
LONG-TERM DEBT

	2009	2008
	$	$
Loans secured by aircraft amounting to US$26,667 [US$40,000 as at October 31, 2008], bearing interest at the London Interbank Offered Rate [LIBOR] plus 2.15% and 3.25% and payable in four equal semi-annual payments through August 2011	28,730	48,180
Drawdowns under the revolving term credit facilities maturing from 2010 to 2012	77,963	100,000
Other	991	1,905
	107,684	150,085
Less: current portion	24,576	16,745
	83,108	133,340

Payments on long-term debt due in the next two years are as follows:

	$
2010	24,576
2011	83,108
	107,684

As at October 31, 2009, the Corporation has a revolving term credit facility, which was increased to $157,000 from $86,350 on February 9, 2009 [subsequent to the implementation of the ABCP restructuring plan and pursuant to the terms of the agreement] maturing in 2012, or payable immediately on change in control, and a $60,000 revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the LIBOR, plus a premium based on certain financial ratios calculated on a consolidated basis. The revolving term credit facilities bore interest at an average rate of 3.2% for the year ended October 31, 2009.

As at October 31, 2009, the Corporation had two revolving credit facilities of $9,355 and $88,888, for a total of $98,243, the first maturing in 2010 and the second in 2011 or payable immediately on change in control. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under these agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. The two revolving term credit facilities bore interest at an average rate of 1.3% for the year ended October 31, 2009. The credit facilities also include options, now in effect following implementation of the ABCP restructuring plan *[see note 5]*, allowing the Corporation, at its option, to repay amounts drawn down as they fall due under certain conditions up to a maximum of $59,463 using the restructured notes. The options were initially reported at a fair value, amounting to $8,400, with the corresponding initial gain deferred and recognized in net income under amortization over the term of the credit agreements *[see notes 14 and 17]*. The options are reported at fair value at each balance sheet date under deriva-

tive financial instruments in assets with any change in fair value of the options recorded in net income under Loss (gain) in fair value of the investments in ABCP *[see note 5]*. The Corporation measured the options as at October 31, 2009 and recorded an $800 increase in fair value to $9,200 as at that date.

14
OTHER LIABILITIES

	2009	2008
	$	$
Accrued benefit liability *[note 22]*	17,050	14,262
Deferred lease inducements	12,739	11,813
Non-controlling interest	7,754	8,442
Deferred gains on options related to repayment of revolving credit facilities	4,200	—
	41,743	34,517

15
SHAREHOLDERS' EQUITY
Authorized share capital
Class A Variable Voting Shares

An unlimited number of participating Class A Variable Voting Shares ["Class A Shares"] which may be owned or controlled only 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 action. 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 may be cast at said meeting.

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

Preferred shares

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

Issued and outstanding share capital
The changes affecting the Class A Shares and the Class B Shares were as follows:

	Number of shares	$
Balance as at October 31, 2007	33,628,386	156,964
Issued from treasury	65,635	1,331
Exercise of options	48,420	903
Repurchase and cancellation of shares	(1,064,200)	(5,000)
Balance as at October 31, 2008	32,678,241	154,198
Issued from treasury	5,037,547	61,949
Exercise of options	13,011	89
Balance as at October 31, 2009	37,728,799	216,236

As at October 31, 2009, the number of Class A Shares and Class B Shares stood at 869,249 and 36,859,550 respectively [1,383,159 and 31,295,085 as at October 31, 2008].

Public offering
On September 30, 2009 and October 6, 2009, the Corporation issued a total of 4,887,500 voting shares in connection with a public offering, consisting of Class A Shares and Class B Shares, at a price of $13.00, for gross proceeds of $63,538. Net proceeds from this offering, after covering agents' commissions and issuance costs, amounted to $60,530.

Normal course issuer bid
On June 15, 2008, the Corporation renewed its normal course issuer bid, which began on June 15, 2007, for a 12-month period. With this renewal, the Corporation intended to purchase for cancellation up to a maximum of 3,175,506 Class A Shares and Class B Shares, representing less than 10% of the publicly held Class A Shares and Class B Shares at the offer renewal date [3,288,003 Class A Shares and Class B Shares, representing less than 10% of the issued and outstanding Class A Shares and Class B Shares as at June 15, 2007]. The shares were redeemable at market prices plus brokerage fees.

In accordance with its normal course issuer bids, the Corporation repurchased, during the year ended October 31, 2008, a total of 1,064,200 voting shares, consisting of Class A Shares and Class B Shares, for $24,864 in cash.

The excess of the shares' repurchase value over their carrying amount was charged to retained earnings as share repurchase premiums.

Subscription rights plan
At the Annual General Meeting (AGM) held on March 12, 2008, the shareholders ratified the shareholders' subscription rights plan amended and updated on January 16, 2008 [the "rights plan"]. The rights plan entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider offers, thus allowing shareholders to receive full and fair value for their shares. The rights plan will terminate at the 2011 shareholders' AGM, unless terminated prior to said AGM.

Stock option plan
At the AGM held on March 11, 2009, the shareholders ratified the new stock option plan for executives and employees adopted by the Board of Directors on January 14, 2009. Under the plan, the Corporation may grant 1,945,000 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted are exercisable over a ten-year period, provided the terms and conditions to be determined at their granting are met. Options granted under the former plan but not yet exercised will remain governed by the former plan. No options were granted under the plan during the year.

The balance of options that may be granted under the former plant involves 212,633 additional Class A Shares or Class B Shares at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted are exercisable over a ten-year period; a maximum of one-third of options is exercisable in the first two years after the grant date for grants subsequent to November 1, 2006, and a maximum of one-third of options in the second year subsequent to the grant, for grants subsequent to November 1, 2006, a maximum of two-thirds of options in the third year with all options exercisable at the outset of the fourth year.

The following tables summarize all outstanding options:

	2009		2008	
	Number of options	Weighted average price	Number of options	Weighted average price
		$		$
Beginning of year	**716,173**	**22.85**	506,083	22.70
Granted	**441,084**	**11.18**	259,181	21.35
Exercised	**(13,011)**	**6.84**	(48,420)	13.21
Cancelled	**(43,106)**	**24.32**	(671)	22.34
End of year	**1,101,140**	**18.31**	716,173	22.85
Options exercisable, end of year	**460,744**	**22.35**	322,884	19.90

2009

	Outstanding options			Options exercisable	
Range of exercise prices	Number of options outstanding as at October 31, 2009	Weighted average remaining life	Weighted average price	Number of options exercisable as at October 31, 2009	Weighted average price
$			$		$
3.00 — 4.50	25,526	3.5	3.80	25,526	3.80
6.01 — 7.50	17,813	2.4	6.99	17,813	6.99
7.51 — 9.00	8,160	0.4	7.86	8,160	7.86
9.01 — 11.50	454,585	9.3	11.14	13,501	9.90
15.01 — 17.00	32,957	4.6	15.68	32,957	15.68
21.00 — 23.00	427,597	7.4	21.87	271,116	22.17
24.50 — 28.50	6,137	6.7	25.96	5,470	25.66
37.00 — 37.50	128,365	7.6	37.24	86,201	37.24
	1,101,140		18.31	460,744	22.35

Compensation expense for stock option plan

During the year ended October 31, 2009, the Corporation granted 441,084 stock options [259,181 in 2008] to certain key executives and employees. The average fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

	2009	2008
Risk-free interest rate	3.07%	3.66%
Expected life	6 years	6 years
Expected volatility	45.4%	37.6%
Dividend yield	—	1.70%
Weighted average fair value at date of grant	$6.10	$7.42

During the year ended October 31, 2009, the Corporation recorded a compensation expense of $2,023 [$3,012 in 2008] for its stock option plan. No expense was recognized in share capital for the exercise of options during the year [$264 in 2008].

Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2009, the Corporation was authorized to issue up to 360,494 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 150,047 Class B Shares [65,635 Class B Shares in 2008] for a total of $1,419 [$1,331 in 2008] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of Class B Shares, the aggregate purchase price of which is equal to an amount ranging from 20% to 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest gradually to the eligible officer, subject to the eligible officer's retaining, during the first six months of the vesting period, all the shares purchased under the Corporation's share purchase plan.

The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' accounts as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2009, the Corporation recorded a compensation expense of $186 [$182 in 2008] for its stock ownership incentive and capital accumulation plan.

Permanent stock ownership incentive plan

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible senior executive a number of Class B Shares, the aggregate purchase price of which is equal to the maximum percentage of salary contributed, which may not exceed 10%. Shares so awarded by the Corporation will vest gradually to the eligible senior executive, subject to the senior executive's retaining, during the vesting period, all the shares purchased under the Corporation's share purchase plan. The shares awarded under this plan are bought in the market by the Corporation and deposited in the participants' account as and when they purchase shares under the share purchase plan.

During the year ended October 31, 2009, the Corporation recorded a compensation expense of $247 [$232 in 2008] for its permanent stock ownership incentive plan.

Deferred share unit plan

Deferred share units ["DSUs"] are awarded in connection with the senior executive deferred share unit plan and the independent director deferred share unit plan. Under these plans, each eligible senior executive or independent director receives a portion of his or her compensation in the form of DSUs. The value of a DSU is determined based on the average closing price of the Class B Shares for the five trading days prior to the award of the DSUs. The DSUs are repurchased by the Corporation when a senior executive or a director ceases to be a plan participant. For the purpose of repurchasing DSUs, the value of a DSU is determined based on the average closing price of the Class B Shares for the five trading days prior to the repurchase of the DSUs.

As at October 31, 2009, the number of DSUs awarded amounted to 55,455 [42,003 as at October 31, 2008]. During the year ended October 31, 2009, the Corporation recorded a compensation expense of $307 [reversal of a $952 charge in 2008] under its deferred share unit plan.

Restricted share unit plan

Restricted share units ["RSUs"] are awarded annually to eligible employees under the new restricted share unit plan. Under this plan, each eligible employee receives a portion of his or her compensation in the form of RSUs. The value of an RSU is determined based on the weighted average closing price of the Class B Shares for the five trading days prior to the award of the RSUs. The rights related to RSUs are acquired over a period of three years. When acquired, the RSUs are immediately repurchased by the Corporation, subject to certain conditions and certain provisions relating to the Corporation's financial performance. For the purpose of repurchasing RSUs, the value of an RSU is determined based on the weighted average closing price of the Class B Shares for the five trading days prior to the repurchase of the RSUs.

As at October 31, 2009, the number of RSUs awarded amounted to 373,678 [126,892 as at October 31, 2008]. During the year ended October 31, 2009, the Corporation recorded a compensation expense of $90 [reversal of a $615 charge in 2008] for its restricted share unit plan.

Earnings per share

Basic earnings per share and diluted earnings per share were computed as follows:

	2009	2008 [restated –*note 3*]
	$	$
NUMERATOR		
Income (loss) attributable to voting shareholders	61,847	(49,394)
Interest on the debenture that may be settled in voting shares	131	—
Income (loss) used to calculate diluted earnings (loss) per share	61,978	(49,394)
DENOMINATOR		
Weighted average number of outstanding shares	33,168	33,108
Effect of dilutive securities		
Debenture that may be settled in voting shares	288	—
Stock options	29	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	33,485	33,108
Basic earnings (loss) per share	1.86	(1.49)
Diluted earnings (loss) per share	1.85	(1.49)

In calculating diluted earnings per share for the year ended October 31, 2009, 1,008,140 stock options were not included since the exercise price of these options was higher than the average price of the Corporation's shares.

Debentures that may be settled in voting shares were not taken into account in calculating the loss per share for the year ended October 31, 2008 because of their anti-dilutive effect. The potential impact of these securities on the denominator is 130,000 shares. In light of the loss recognized for fiscal 2008, the 716,173 outstanding stock options were not included in the calculation because of their anti-dilutive effect.

16
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

	Cash flow hedges	Deferred translation adjustments	Accumulated other comprehensive income (loss)
	$	$	$
Accumulated other comprehensive income (loss)			
Balance as at October 31, 2007, as previously reported	(59,392)	(7,109)	(66,501)
Change in accounting policy *[note 3]*	—	40	40
As restated as at October 31, 2007	(59,392)	(7,069)	(66,461)
Change during the year	132,650	16,713	149,363
Balance as at October 31, 2008	73,258	9,644	82,902
Accumulated other comprehensive income (loss)			
Balance as at October 31, 2008, as previously reported	73,258	615	73,873
Change in accounting policy and other change *[note 3]*	(779)	9,029	8,250
As restated as at November 1, 2008	72,479	9,644	82,123
Change during the year	(89,522)	(13,214)	(102,736)
Balance as at October 31, 2009	(17,043)	(3,570)	(20,613)

17
AMORTIZATION

	2009	2008
	$	$
Property, plant and equipment	45,008	45,847
Intangible assets subject to amortization	10,822	10,991
Other assets	974	969
Deferred lease inducements	(1,449)	(1,660)
Options related to repayment of revolving credit facilities *[note 13]*	(4,200)	—
	51,155	56,147

18
RESTRUCTURING CHARGE

On September 24, 2009, the Corporation announced a restructuring plan to make structural changes to its distribution network in France. Under these structural changes, an administrative centre and some agencies will close, while other agencies will be sold. The $11,967 restructuring charge taken includes $2,900 in cash payments, consisting mainly of termination benefits, a $599 asset impairment charge and an $8,468 write-off of goodwill after the assets and goodwill of agencies involved in the restructuring were tested for impairment.

Property, plant and equipment *[see note 8]* reflect held-for-sale assets included the restructuring plan with a net carrying amount of $1,050.

19
BUSINESS ACQUISITIONS

During the year ended October 31, 2008, a $1,605 gain was recognized subsequent to the repurchase of shares classified as other liabilities by the Corporation's subsidiary Travel Superstore for a consideration of $330, whereas these shares had a carrying amount of $1,935. Subsequent to this transaction, the percentage of the Corporation's interest in this subsidiary increased to 64.6% from 50.1%.

During the year ended October 31, 2008, the Corporation paid €2,502 [$3,994] in additional consideration in connection with the 2007 acquisition of L'Européenne de Tourisme (Amplitude Internationale), and $1,756 in additional goodwill was recognized.

20
INCOME TAXES

Income taxes as reported differ from the amount calculated by applying the statutory income tax rates to income before income taxes and non-controlling interest in subsidiaries' results.

The factors explaining this difference and the effect on income taxes are detailed as follows:

	2009		2008 [restated – *note 3*]	
	$	%	$	%
Income taxes at the statutory rate	29,605	30.9	(23,319)	31.1
Change in income taxes arising from the undernoted items:				
Effect of differences in Canadian and foreign tax rates	(3,101)	(3.2)	(2,984)	4.0
Non-deductible (non-taxable) items	4,499	4.7	(555)	0.7
Recognition of previously unrecorded tax benefits	(2,366)	(2.5)	(7,827)	10.4
Adjustment for prior years	1,201	1.2	(317)	0.4
Effect of tax rate changes	—	—	1,572	(2.1)
Effect of differences in tax rates on temporary items	(1,368)	(1.4)	2,073	(2.8)
Valuation allowance	1,690	1.8	1,767	(2.3)
Other	756	0.8	715	(0.9)
	30,916	32.3	(28,875)	38.5

Significant components of the Corporation's future income tax assets and liabilities are as follows:

	2009	2008 [restated –*note 3*]
	$	$
Future income taxes		
Loss carryforwards and other tax deductions	8,139	12,263
Carrying value of capital assets in excess of tax basis	(19,799)	(25,338)
Non-deductible reserves and provisions	21,391	39,021
Taxes related to accumulated other comprehensive income (loss) and derivative financial instruments	8,580	(10,437)
Other	(860)	932
Total future income taxes	17,451	16,441
Valuation allowance	(12,340)	(13,269)
Net future income tax assets	5,111	3,172
Current future income tax assets	12,860	11,382
Long-term future income tax assets	10,454	16,097
Current future income tax liabilities	(266)	(14,615)
Long-term future income tax liabilities	(17,937)	(9,692)
Net future income tax assets	5,111	3,172

Non-capital losses carried forward and other temporary differences for which a writedown was recorded, available to reduce future taxable income of certain subsidiaries in Canada and Europe, respectively, totalled $2,401 and €17,102 [$27,186] as at October 31, 2009 [$2,388 and €17,102 [$26,382] as at October 31, 2008]. Of these loss carryforwards and deductions, €17,102 [$27,186] will expire in one year, and the remainder will expire in 2015 and thereafter.

Retained earnings of the Corporation's foreign subsidiaries are considered to be indefinitely reinvested. Accordingly, no provision for income taxes has been provided thereon. Upon distribution of this income in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

21
RELATED PARTY TRANSACTIONS AND BALANCES

The Corporation enters into transactions in the normal course of business with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. Significant transactions between related parties are as follows:

	2009	2008
	$	$
Operating expenses incurred with company subject to significant influence	18,055	13,530

22
EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. These arrangements provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations, the Corporation has issued a $24,370 letter of credit to the trustee *[see note 13]*. The Corporation uses an actuarial estimate to measure the accrued benefit obligation as at October 31 each year.

The following table provides a reconciliation of changes in the accrued benefit obligation:

	2009	2008
	$	$
Accrued benefit obligation, beginning of year	15,414	16,695
Current service cost	768	867
Cost of changes	320	—
Interest cost	1,219	971
Benefits paid	(100)	(22)
Actuarial loss (gain) on obligation	3,053	(3,097)
Accrued benefit obligation, end of year	20,674	15,414

The funded status of the pension plan and the amounts recorded in the balance sheet under other liabilities were as follows:

	2009	2008
	$	$
Plan assets at fair value	—	—
Accrued benefit obligation	20,674	15,414
Plan deficit	20,674	15,414
Unamortized past service costs	980	1,561
Unamortized net actuarial loss (gain)	2,644	(409)
Accrued benefit liability	17,050	14,262

Pension plan expense is allocated as follows:

	2009	2008
	$	$
Current service cost	768	867
Interest cost	1,219	971
Amortization of past service costs	901	1,060
Amortization of net actuarial loss	—	177
Pension expense	2,888	3,075

The significant actuarial assumptions adopted to determine the Corporation's accrued benefit obligation and pension expense were as follows:

	2009	2008
	$	$
Accrued benefit obligation		
Discount rate	5.75	7.25
Rate of increase in eligible earnings	3.00	3.00
Pension expense		
Discount rate	7.25	5.50
Rate of increase in eligible earnings	3.00	3.00

23
COMMITMENTS AND CONTINGENCIES

[a] The Corporation's commitments under agreements with suppliers amounted to $404,852, whereas its obligations under operating leases for aircraft, buildings, automotive equipment, telephone systems, maintenance contracts and office premises amounted to $385,209. These commitments totalling $790,061 are allocated as follows: $209,769, US$197,573, €126,068 and £94,084.

The annual payments to be made under these commitments during the next five years are as follows:

	$
2010	384,346
2011	120,350
2012	91,932
2013	60,746
2014	47,441

[b] In 2012, the minority shareholder in the subsidiary Jonview Canada Inc., which is also a shareholder of the Corporation, may require the Corporation to buy his Jonview Canada Inc. shares at a price equal to the fair market value. The price paid may be settled, at the Corporation's option, in cash or by a share issue.

[c] Between 2011 and 2015, the minority shareholders of the subsidiary Travel Superstore Inc. could require that the Corporation purchase their Travel Superstore Inc. shares at a price equal to their fair market value, payable in cash.

[d] In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position.

[e] The minority shareholder of the subsidiary Trafictours Canada Inc. could require, in certain circumstances, that the Corporation purchase his Trafictours Canada Inc. shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash.

24
GUARANTEES

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

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

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

Operating leases

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

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit with some of its suppliers. Under these letters of credit, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These letters of credit are generally issued for one year and are renewable.

The Corporation has also issued letters of credit to regulatory bodies guaranteeing, among other things, certain amounts to its customers for the performance of its obligations. As at October 31, 2009, the total guarantees provided by the Corporation under the letters of credit amounted to $477. Historically, the Corporation has not made any significant payments under such letters of credit.

Collateral security contracts

The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers at the request of regulatory agencies for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2009, these guarantees totalled $860. Historically, the Corporation has not made any significant payments under such agreements.

As at October 31, 2009, no amounts have been accrued with respect to the above-mentioned agreements.

25
SEGMENT DISCLOSURE

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

	Americas	Europe	Total
	$	$	$
2009			
Revenues from third parties	**2,552,348**	**992,993**	**3,545,341**
Operating expenses	**2,497,525**	**954,421**	**3,451,946**
	54,823	**38,572**	**93,395**
2008 [restated – *note 3*]			
Revenues from third parties	2,536,831	976,020	3,512,851
Operating expenses	2,460,701	924,382	3,385,083
	76,130	51,638	127,768

	Revenues [(1)]		Property, plant and equipment, goodwill and other intangible assets	
	2009	2008	**2009**	2008 [restated – *note 3*]
	$	$	$	$
Canada	**2,513,216**	2,503,227	**173,167**	199,635
France	**776,742**	779,701	**59,129**	67,507
United Kingdom	**199,159**	176,739	**38,079**	43,133
Other	**56,224**	53,184	**12,692**	12,822
	3,545,341	3,512,851	**283,067**	323,097

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

(In thousands of dollars, except per share amounts)

	2009	2008 Restated [6]	2007 Restated [6]	2006	2005
Consolidated Statements of Income					
Revenues	**3,545,341**	3,512,851	3,045,917	2,603,746	2,364,481
Operating expenses	**3,451,946**	3,385,083	2,907,570	2,476,802	2,243,850
	93,395	127,768	136,347	126,944	120,631
Expenses and other revenues					
Amortization	**51,155**	56,147	50,176	39,360	37,558
Interest on long-term debt and debentures	**4,866**	7,538	6,229	7,264	10,815
Other interest and financial expenses	**2,679**	1,758	1,929	1,484	1,708
Interest income	**(4,588)**	(16,172)	(19,745)	(15,706)	(12,963)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**(68,267)**	106,435	(26,577)	—	—
Foreign exchange (gain) loss on long-term monetary items	**(135)**	2,295	(3,023)	(4,162)	(2,309)
Restructuring charge and write-off of goodwill	**11 967**	—	3,900	—	(934)
Writedown of investments in ABCP	**(68)**	45,927	11,200	—	—
Gain on disposal of investment	**—**	—	—	—	(5,747)
Gain on repurchase of preferred shares of a subsidiary	**—**	(1,605)	—	—	—
Share of net (income) loss of companies subject to significant influence	**(24)**	427	(651)	(375)	(461)
	(2,415)	202,750	23,438	27,865	27,667
Income (loss) before the undernoted items	**95,810**	(74,982)	112,909	99,079	92,964
Income taxes (recovery)	**30,916**	(28,875)	34,350	32,046	36,302
Non-controlling interest in subsidiaries' results	**(3,047)**	(3,287)	(737)	(1,263)	(1,246)
Net income (loss) for the year	**61,847**	(49,394)	77,822	65,770	55,416
Basic earnings (loss) per share	**1.86**	(1.49)	2.30	1.88	1.43
Diluted earnings (loss) per share	**1.85**	(1.49)	2.27	1.85	1.33
Cash flows related to:					
Operating activities	**45,234**	95,069	156,728	102,511	52,299
Investing activities	**(26,662)**	(142,027)	(195,657)	(31,405)	(21,333)
Financing activities	**18,303**	15,091	(14,830)	(152,046)	(44,091)
Effect of exchange rate changes on cash and cash equivalents	**(2,090)**	10,866	5,640	2,332	(4,255)
Net change in cash and cash equivalents	**34,785**	(21,001)	(48,119)	(78,608)	(17,380)
Cash and cash equivalents, end of year	**180,552**	145,767	166,768	214,887	293,495
Cash provided by operations[1]	**108,380**	121,166	125,868	104,802	78,014
Total assets	**1,129,503**	1,267,214	1,072,377	959,195	949,537
Long-term debt (including current portion)	**107,684**	150,085	88,681	84,248	93,613
Debentures	**3,156**	3,156	3,156	3,156	13,156
Shareholders' equity	**367,361**	345,930	283,452	295,963	362,383
Debt/equity ratio[2]	**0.67**	0.73	0.74	0.69	0.62
Book value per share[3]	**9.74**	10.59	8.43	8.80	9.02
Return on average shareholders' equity[4]	**17.3%**	(16.0%)	27.0%	20.0%	16.0%
Shareholding statistics (in thousands)					
Outstanding shares, end of year	**37,729**	32,678	33,628	33,648	40,156
Weighted average number of outstanding shares (undiluted)[5]	**33,168**	33,108	33,763	34,907	37,863
Weighted average number of outstanding shares (diluted)[5]	**33,485**	33,108	34,212	35,660	41,684

[1] Represents cash flows from operating activities excluding the net change in non-cash working capital balances related to operations, the net change in the provision for aircraft overhaul and the net change in other assets and liabilities related to operationsl

[2] Total liabilities divided by the total assets.

[3] Total shareholders' equity divided by the number of outstanding shares

[4] Net income (loss) divided by the average shareholders' equity

[5] See note 15 to the audited Consolidated Financial Statements.

[6] See note 3 to the audited Consolidated Financial Statements.

Board of Directors

Jean-Marc Eustache[1a]
Chairman of the Board
President and Chief Executive Officer
Transat A.T. Inc.

André Bisson, O.C.[1, 3a, 4]
Chairman of the Board,
CIRANO
Chancellor Emeritus, Université de Montréal

John P. Cashman [4]
President, Humphrey Management Limited
Mr. Cashman announced that he does not intend to seek renewal of his mandate as director at the shareholders' meeting.

Lina De Cesare
Advisor to the President,
Transat A.T. Inc.

Jean Pierre Delisle [3]
Corporate Director and Executor of estates

H. Clifford Hatch Jr.[1, 2, 4a]
President and Chief Executive Officer
of Cliffco Investments Limited

Jean-Yves Leblanc
Corporate Director

Jacques Simoneau [4]
Executive Vice President, Investment,
Business Development Bank of Canada

Philippe Sureau
Advisor to the President,
Transat A.T. Inc.

John D. Thompson[1, 2a, 3]
Corporate Director

Dennis Wood, O.C. [2]
President and Chief Executive Officer,
DWH Inc.

1 Executive Committee
2 Human Resources and Compensation Committee
3 Audit Committee
4 Corporate Governance and Nominating Committee
a President of the Committee

Management

Jean-Marc Eustache
President and Chief Executive Officer

Nelson Gentiletti
Chief Operating Officer

Michel Bellefeuille
Vice-President
and Chief Information Officer

Bernard Bussières
Vice-President, General Counsel
and Corporate Secretary

André De Montigny
Vice-President,
Corporate Development

Michel Lemay
Vice-President,
Communications and Corporate Affairs

Jean-Luk Pellerin
Vice-President,
Human Resources and Chief Talent Officer

Denis Pétrin
Vice-President,
Finance and Administration and Chief
Financial Officer

Air Consultants Europe
Marc Koenis
General Manager

Air Transat
Allen B. Graham
President and Chief Executive Officer

Canadian Affair
Anette Rayner
President and General Manager

Handlex
Jean-Luc Paiement
President and General Manager

Jonview Canada
Annick Guérard
Vice-President and General Manager

Tourgreece
Vassilis P. Sakellaris
President

Transat Distribution Canada
Yves Lalumière
Vice-President and General Manager

Transat France
Patrice Caradec
President and General Manager

Transat Tours Canada
Michael DiLollo
President

Trip Central
Richard Vanderlubbe
President

Head Office

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Information

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For additional information, contact in writing the Vice-President, Finance and Administration and Chief Financial Officer.

Ce rapport annuel est disponible en français

Stock Exchange

Toronto Stock Exchange (TSX)
TRZ.B; TRZ.A.

Transfer Agent and Registrar

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www.cibcmellon.com

Auditors

Ernst & Young LLP
Montréal, Québec

Annual General Meeting of Shareholders

March 11, 2010
10:00 a.m.
Centre Mont-Royal
Salon Cartier
2200 Mansfield
Montréal QC H3A 3R8

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