TRANSAT A.T. INC.

CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (Unaudited)

	As at October 31, 2008	As at October 31, 2007 [restated – note 2]
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	**145,767**	166,768
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	**256,697**	168,196
Investments in ABCP *[note 4]*	—	142,346
Accounts receivable	**119,852**	109,128
Income taxes receivable	**4,095**	13,037
Future income tax assets	**11,382**	25,250
Inventories	**11,412**	8,931
Prepaid expenses	**53,259**	45,981
Derivative financial instruments *[note 5]*	**112,259**	26,997
Current portion of deposits	**32,094**	31,077
Total current assets	**746,817**	737,711
Investments in ABCP *[note 4]*	**86,595**	—
Deposits	**18,526**	17,191
Future income tax assets	**16,097**	9,341
Property, plant and equipment *[note 2]*	**171,294**	163,018
Goodwill and other intangible assets *[note 6]*	**151,803**	148,515
Derivative financial instruments *[note 5]*	**11,002**	316
Investments and other assets *[note 7]*	**63,297**	4,431
	1,265,431	1,080,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**282,440**	281,985
Current portion of provision for aircraft overhaul	**23,231**	20,493
Income taxes payable	**6,942**	8,757
Future income tax liabilities *[note 2]*	**16,770**	298
Customer deposits and deferred income	**293,537**	237,898
Derivative financial instruments *[note 5]*	**79,831**	88,469
Debenture	**3,156**	—
Payments on current portion of long-term debt	**16,745**	48,794
Total current liabilities	**722,652**	686,694
Long-term debt *[notes 8]*	**133,340**	39,887
Debenture	—	3,156
Provision for aircraft overhaul *[note 2]*	**13,011**	11,208
Other liabilities	**34,517**	32,189
Derivative financial instruments *[note 5]*	**10,227**	6,135
Future income tax liabilities *[note 2]*	**9,692**	17,802
	923,439	797,071
Shareholders' equity		
Share capital *[note 9]*	**154,198**	156,964
Retained earnings *[note 2]*	**109,302**	191,118
Contributed surplus	**4,619**	1,871
Accumulated other comprehensive income *[note 10]*	**73,873**	(66,501)
	341,992	283,452
	1,265,431	1,080,523

See accompanying notes to consolidated interim financial statements.

TRANSAT A.T. INC

CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars except per share amounts) (Unaudited)

	Three (3) months ended October 31		Years ended October 31	
	2008	2007 [restated – note 2]	**2008**	2007 [restated – note 2]
	$	$	**$**	$
Revenues	**790,424**	680,418	**3,512,851**	3,045,917
Operating expenses				
Direct costs	**391,424**	325,965	**1,933,706**	1,601,652
Salaries and employee benefits	**87,737**	93,374	**349,746**	334,973
Aircraft fuel	**104,914**	77,055	**365,457**	273,614
Commissions	**32,849**	31,903	**174,740**	186,686
Aircraft maintenance *[note 2]*	**25,652**	13,356	**97,842**	76,099
Airport and navigation fees	**24,173**	24,461	**90,624**	86,594
Aircraft rent	**12,303**	12,316	**48,628**	48,883
Other	**82,101**	80,819	**324,781**	299,299
	761,153	659,249	**3,385,524**	2,907,800
	29,271	21,169	**127,327**	138,117
Amortization *[note 2]*	**14,233**	13,270	**56,649**	50,990
Interest on long-term debt and debenture	**1,065**	1,118	**7,538**	6,229
Other interest and financial expenses	**924**	710	**1,758**	1,929
Interest income	**(3,378)**	(4,390)	**(16,172)**	(19,745)
Change in the fair value of derivative financial instruments related to aircraft fuel purchases	**120,749**	(13,633)	**106,435**	(26,577)
Foreign exchange loss (gain) on long-term monetary items	**2,297**	(785)	**2,295**	(3,023)
Write-off of goodwill	**—**	3,900	**—**	3,900
Writedown of investments in ABCP *[note 4]*	**13,790**	11,200	**45,927**	11,200
Gain on repurchase of redeemable preferred shares of a subsidiary *[note 6]*	**—**	—	**(1,605)**	—
Share of net loss (income) of companies subject to significant influence	**1,029**	(8)	**427**	(651)
	150,709	11,382	**203,252**	24,252
Income (loss) before the following items	**(121,438)**	9,787	**(75,925)**	113,865
Income taxes (recovery)				
Current	**939**	(213)	**19,565**	28,222
Future	**(44,508)**	3,325	**(48,766)**	6,403
	(43,569)	3,112	**(29,201)**	34,625
Income (loss) before non-controlling interest in subsidiaries' results	**(77,869)**	6,675	**(46,724)**	79,240
Non-controlling interest in subsidiaries' results	**(277)**	(50)	**(3,287)**	(737)
Net income (loss) for the period	**(78,146)**	6,625	**(50,011)**	78,503
Earnings (loss) per share *[note 9]*				
Basic	**(2.41)**	0.20	**(1.51)**	2.33
Diluted	**(2.41)**	0.20	**(1.51)**	2.30

See accompanying notes to consolidated interim financial statements.

TRANSAT A.T. INC

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(in thousands of dollars) (Unaudited)

	Years ended October 31	
	2008	2007 [restated – note 2]
	$	$
Retained earnings, beginning of year, as previously reported	**190,534**	142,116
Changes in accounting policies *[note 2]*	**584**	2,561
Retained earnings, beginning of year	**191,118**	144,677
Net income (loss) for the year	**(50,011)**	78,503
Premium paid on share repurchase *[note 9]*	**(19,864)**	(20,561)
Dividends	**(11,941)**	(11,501)
Retained earnings, end of year	**109,302**	191,118

TRANSAT A.T. INC.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(in thousands of dollars) (Unaudited)

	Three (3) months ended October 31		Years ended October 31	
	2008	2007 [restated – note 2]	**2008**	2007 [restated – note 2]
	$	$	**$**	$
Net income (loss) for the period	**(78,146)**	6,625	**(50,011)**	78,503
Other comprehensive income				
Change in the fair value of derivatives designated as cash flow hedges	**101,163**	(65,217)	**134,592**	(85,423)
Reclassification to income	**2,966**	3,049	**61,560**	(2,159)
Future income taxes	**(33,984)**	19,970	**(63,852)**	28,546
	70,145	(42,198)	**132,300**	(59,036)
Losses on derivatives designated as cash flow hedges before November 1, 2006, reclassified in income during the period	**—**	2,652	**522**	18,030
Future income taxes	**—**	(875)	**(172)**	(5,950)
	—	1,777	**350**	12,080
Foreign exchange gain (loss) on the conversion of financial statements of self-sustaining foreign subsidiaries due to the (appreciation) depreciation of the Canadian dollar compared to the euro, the pound sterling and the U.S. dollar	**(2,211)**	(7,006)	**7,724**	(7,132)
	67,934	(47,427)	**140,374**	(54,088)
Net comprehensive income (loss) for the period	**(10,212)**	(40,802)	**90,363**	24,415

See accompanying notes to consolidated interim financial statements.

TRANSAT A.T. INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of dollars) (Unaudited)

	Three (3) months ended October 31		Years ended October 31	
	2008	2007 [restated – note 2]	**2008**	2007 [restated – note 2]
	$	$	**$**	$
OPERATING ACTIVITIES				
Net income (loss) for the period	**(78,146)**	6,625	**(50,011)**	78,503
Operating items not involving an outlay (receipt) of cash:				
Amortization	**14,233**	13,270	**56,649**	50,990
Change in the fair value of derivative financial instruments related to the purchase of aircraft fuel	**120,749**	(13,633)	**106,435**	(26,577)
Foreign exchange loss (gain) on long term monetary items	**2,297**	(785)	**2,295**	(3,023)
Write-off of goodwill	**—**	3,900	**—**	3,900
Changes in the fair value of investments in ABCP	**13,790**	11,200	**45,705**	11,200
Loss on disposal of investments in ABCP	**—**	—	**222**	—
Gain on repurchase of redeemable preferred shares of a subsidiary	**—**	—	**(1,605)**	—
Share of net (income) loss of companies subject to significant influence	**1,029**	(8)	**427**	(651)
Non-controlling interest in subsidiaries' results	**277**	50	**3,287**	737
Future income taxes	**(44,508)**	3,325	**(48,766)**	6,403
Pension expense	**765**	934	**3,075**	2,809
Compensation expense related to stock option plan	**1,044**	644	**3,012**	1,577
	31,530	25,522	**120,725**	125,868
Net change in non-cash working capital balances related to operations	**(91,744)**	(64,557)	**29,284**	17,324
Net change in other assets and liabilities related to operations	**(817)**	(2,930)	**675**	(883)
Net change in provision for aircraft overhaul	**(28)**	(12,776)	**4,541**	(7,852)
Cash flows relating to operating activities	**(61,059)**	(54,741)	**155,225**	134,457
INVESTING ACTIVITIES				
Additions to property, plant and equipment	**(22,637)**	(17,957)	**(64,901)**	(52,702)
Cash and cash equivalents from acquired businesses	**—**	2,180	**—**	5,607
Consideration paid for acquired companies	**—**	(751)	**(59,559)**	(8,162)
Net change in investments in ABCP	**—**	(114,745)	**10,778**	(153,546)
Net change in cash and cash equivalents in trust or otherwise reserved	**(43,852)**	16,751	**(88,501)**	35,417
Cash flows relating to investing activities	**(66,489)**	(114,522)	**(202,183)**	(173,386)
FINANCING ACTIVITIES				
Increase in long-term debt	**(8,928)**	39,887	**60,491**	39,887
Repayment of long-term debt	**27,847**	(6)	**(10,565)**	(26,088)
Proceeds from issuance of shares	**375**	731	**1,970**	6,816
Share repurchase	**—**	(2,369)	**(24,864)**	(23,944)
Dividends	**(2,945)**	(3,022)	**(11,941)**	(11,501)
Cash flows relating to financing activities	**16,349**	35,221	**15,091**	(14,830)
Effect of exchange rate changes on cash and cash equivalents	**(2,675)**	3,130	**10,866**	5,640
Net change in cash and cash equivalents for the period	**(113,874)**	(130,912)	**(21,001)**	(48,119)
Cash and cash equivalents, beginning of period	**259,641**	297,680	**166,768**	214,887
Cash and cash equivalents, end of period	**145,767**	166,768	**145,767**	166,768
Supplementary information				
Income taxes paid	**1,586**	3,437	**11,865**	43,391
Interest paid	**121**	48	**6,821**	6,774

See accompanying notes to consolidated interim financial statements

Notes to Consolidated Interim Financial Statements
[The amounts are expressed in thousands, except for share capital, stock options and amounts per option or per share]
[Unaudited]

***Note* 1: Basis of Presentation**

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles (GAAP) applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements, except for the new accounting policies described in note 2. In the opinion of Management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2007 Annual Report. Certain comparative figures were reclassified to conform to the presentation adopted in the current year.

***Note* 2: New accounting policies**

Aircraft overhaul expenses

On November 1, 2007, the Corporation changed its method for accounting for aircraft overhaul expenses. Until October 31, 2007, the Corporation accounted for its expenses using the accrue-in-advance method, as set out in note 2 in the 2007 audited consolidated financial statements, in accordance with the accounting methods suggested in the U.S. *Audits of Airlines* guide issued by the *American Institute of Certified Public Accountants*.

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 entities in all industries for fiscal years beginning after December 15, 2006.

As a result, effective November 1, 2007, the Corporation discontinued use of the accrue-in-advance method and began accounting for aircraft overhaul expenses as follows:

<u>Leased aircraft</u>

Under the terms of the leases, the Corporation is required to maintain the aircraft in sound working order and follow the maintenance plan. The Corporation accounts for its leased aircraft 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."

Owned aircraft

When aircraft are acquired, a portion of the cost is allocated to "major maintenance activities," which is related to airframe, engine and landing gear overhaul costs. The aircraft and major maintenance activities are amortized taking into account their expected estimated residual value. The aircraft are amortized on a straight-line basis over seven to ten year periods, while 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 was adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into the following changes: as at November 1, 2006, a $2,561 increase in retained earnings and, as at October 31, 2007, a $16,982 net decrease in property, plant and equipment, a $17,826 decrease in the provision for aircraft overhaul, a $260 increase in future income tax liabilities and a $584 increase in retained earnings. For the three-month period and the year ended October 31, 2007, the adoption of these new standards translated into the following changes: a $714 decrease in maintenance expenses ($5,047 for the year), an $2,260 increase in amortization of property, plant and equipment ($8,017 for the year) and a $516 decrease in future income tax expense ($993 for the year), for a $1,030 decrease in net income ($1,977 for the year) and a $0.03 decrease in diluted earnings per share $0.06 for the year ended October 31, 2007. For the three-month and the year ended October 31, 2007, the adoption of these new standards also translated into the following changes: a $5,169 increase in cash flows relating to operating activities and a decrease in cash flows related to investing activities of the same amount ($12,629 for the year).

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

Other standards

The CICA has issued the following accounting standards that were effective on November 1, 2007 for the Corporation: Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, Section 1535, *Capital Disclosures*, and Section 1506, *Accounting Changes*.

Sections 3862 and 3863 replaced section 3861, *Financial Instruments – Disclosure and Presentation*, and increase emphasis on disclosure of the risks arising from financial instruments, including hedging instruments, and how the entity manages such exposure.

Section 1535 requires supplementary disclosure regarding the Corporation's capital management and compliance with any externally imposed capital requirements.

Section 1506 provides guidance, in particular, on the criteria for changing accounting policies, the appropriate accounting treatment in specific circumstances and the required disclosure.

Future changes in accounting policies

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which will supersede 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. The application of this new standard translated into the following changes: as at November 1, 2007, an approximately decrease of $4,200 in retained earnings and, as at October 31, 2008, an approximately decrease of $7,750 in prepaid expenses, a $800 decrease in other assets, a decrease of $2,700 in future income tax liabilities and a decrease of $1,600 in retained earnings with respect to certain marketing costs related to future seasons that were previously recorded in net income of seasons and related costs of operating aircraft that were previously deferred and amortized over a period not exceeding 5 years.

Also 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 is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

Note 3: Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2008, cash and cash equivalents in trust or otherwise reserved included $210,481 [$168,196 as at October 31, 2007] in funds received from customers for services not yet rendered and $46,216 [nil as at October 31, 2007] which was pledged as collateral security against letters of credit and foreign exchange contracts.

Note 4: Investments in ABCP

As at Octobre 31, 2008, the Corporation held a portfolio of asset backed commercial paper ("ABCP") issued by several trusts with an overall notional value of $143,500. In mid-August 2007, the Canadian third-party ABCP market was hit by a liquidity disruption. Since that time, no transactions involving the securities held by the Corporation have been traded in an active market.

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 March 17, 2008, the Pan-Canadian Committee received an order from the Ontario Superior Court of Justice pursuant to the provisions of the *Companies' Creditors Arrangement Act* (CCAA) setting forth an approval procedure for noteholders of the Restructuring Plan filed by the Committee. Under the CCAA, the Plan must be approved by a simple majority of noteholders as well as by noteholders representing at least 66 2/3% of the total aggregate amounts of affected ABCP capital.

On March 20, 2008, the Committee released its Restructuring Plan and other relevant documents. In light of the information so released, the Corporation allocated the notional value of its ABCP as follows:

- The Corporation holds $114,848 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which will be restructured into floating rate notes with maturities through December 31, 2016. The Corporation expects to receive replacement notes with par values as follows :
  - Class A-1 : $35,217
  - Class A-2 : $64,997
  - Class B : $11,188
  - Class C : $3,446
- The Corporation holds $12,652 in ABCP supported mainly by U.S. sub-prime assets and that will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.
- The Corporation holds $16,000 in ABCP supported solely by traditional securitized assets that will be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2016.

On April 25, 2008, the Restructuring Plan proposed by the Pan-Canadian Committee of ABCP investors was approved by the noteholders. On June 5, 2008, the Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 5, 2008, the Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 25, 2008, a number of ABCP holders appealed the Ontario Superior Court of Justice's decision to the Ontario Court of Appeal. On August 18, 2008, the Ontario Court of Appeal upheld the Ontario Superior Court of Justice's decision approving the Committee's Restructuring Plan. On August 29, 2008, a number of ABCP holders appealed the Ontario Court of Appeal's decision to the Supreme Court of Canada. On September 19, 2008, the Supreme Court of Canada denied leave to appeal by some holders of ABCP. As a result of this pronouncement, the Pan-Canadian Committee has announced that the process of tendering existing holdings of ABCP in exchange for new restructured notes has begun.

In light of the information available during the year ended October 31, 2008, changes in the credit market conditions and a review of the valuation assumptions taking into account new information, the Corporation remeasured the fair value of its investments in ABCP.

Since there is no active market for ABCP securities, the Corporation's management has estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates which are, as much as possible based on observable market data, such as of credit risk attributable to underlying assets, relevant market interest rates, amounts to be received, maturity dates and the assumption that the Accord restructuring process will be successfully completed in early 2009.

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 0.00% to 4.8% (weighted average rate of 2.6%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.2 years) and using discount rates ranging from 6.7% to

103.6% (weighted average rate of 17.4%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the Accord.

As a result of this valuation, the Corporation recognized an additional $45,705 writedown for the year ended October 31, 2008 ($11,200 for the year ended October 31, 2007). As at October 31, 2008 the Corporation's provision for writedowns totalled $56,905. The writedown of the investments in ABCP also includes a $222 loss on the December 2007 disposal of an investment with a face value of $11,000 for which for a cash consideration of $10,778 was received.

An increase (decrease) in the estimate discount rates of 1% (100 b.p.) would reduce (increase) the estimated fair value of the Corporation's investment in ABCP by approximately $4,500.

The Corporation's estimate of the fair value of its ABCP investments as at October 31, 2008 is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities in the coming 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.

The liquidity crisis in the Canadian market for third party sponsored ABCP has had no significant impact on the Corporation's operations. The Corporation holds or has access to sufficient available cash to meet all of its financial, operational and regulatory obligations. Cash in trust, representing deposits from customers, as well as available cash, are held either as cash or invested in liquid instruments (mainly cash and term deposits) with a broad range of large financial institutions and have no exposure whatsoever to the current ABCP market disruption.

Note 5: Financial instruments

Classification of financial instruments

As at October 31, 2008, the classification of the financial instruments, other than financial derivative instruments designated as hedges, as well as their carrying amounts and fair values, are as follows:

	Carrying amount			Fair value
	Held-for-trading $	Loans and receivables $	Total $	$
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
Derivative financial instruments – Fuel forward contracts and other derivative financial instruments	8,498	—	8,498	8,498
	497,557	119,852	617,409	617,409

	Carrying amount			Fair value
	Held-for-trading $	Other financial liabilities $	Total $	$
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 forward contracts and other derivative financial instruments	88,215	—	88,215	88,215
	88,215	435,681	523,896	523,896

Fair value of financial instruments

As at October 31, 2008, the carrying amounts of the financial assets designated as loans and receivables, consisting primarily of receivables and short-term financial liabilities classified as other financial liabilities, approximate their fair value given that they are expected to be realized or settled in the short term. The carrying amounts of other long-term financial liabilities approximate their fair value given that they are subject to terms and conditions, such as variable interest rates, similar to those available to the Corporation for instruments with comparable terms.

The fair value of the derivative financial instruments represents the amount of the consideration that could be exchanged in an arm's length transaction between 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 the market for a derivative financial instrument is not active, the Corporation establishes fair value by applying valuation techniques, such as using information on recent 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 carrying amounts of the financial instruments as at October 31, 2008 are as follows:

	Assets $	Liabilities $
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 designated as held-for-trading		
Fuel forward contracts and others derivative financial instruments	8,498	88,215
	123,261	90,058

Management of risks arising from financial instruments

In the normal course of business, the Corporation has market exposure, primarily consisting of the risk of changes in certain foreign exchange rates, the risk of changes in fuel prices and interest rate risk. 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

Transat is exposed, due to its many arrangements with foreign-based suppliers, its aircraft and engines leases, its fuel purchases, its long-term debt and its revenues in foreign currencies, to fluctuations in exchange rates mainly concerning 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 functional currency of the reporting unit incurring the costs, whereas a negligible percentage of revenues are incurred in a currency other than the functional 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 generally in less than two years, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The net financial assets and net financial liabilities, in Canadian dollars, of the Corporation and its subsidiaries denominated in currencies other than the functional currency of the financial statements as at October 31, 2008, based on their financial statement functional currency, are summarized in the following table:

Net asset (Net liabilities)	U.S. dollar $	Euro $	Pound sterling $	 $	Other currencies $	Total $
Financial statement functional 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)	(32,411)

On October 31, 2008, a 5% increase or decrease in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $7,400 increase or decrease, respectively, in the Corporation's net income for the year ended October 31, 2008, whereas other comprehensive income would have increased or decreased by $32,800, respectively.

Risk of fluctuations in fuel prices

Transat 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 costs 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 it to enter into foreign exchange forward contracts, and other types of derivative financial instruments, expiring generally in less than two years.

On October 31, 2008, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $18,600 increase or decrease, respectively, in the Corporation's net income for the three-month period and for the year ended October 31, 2008.

As at October 31, 2008, 46% of estimated fuel requirements for fiscal 2009 and 10% of estimated requirements for fiscal 2010 were covered by fuel contracts of derivatives financials instruments (50% of estimated requirements for fiscal 2008 and 2% of estimated requirements for fiscal 2009 were covered as at October 31, 2007).

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 affect on the interest income the Corporation derives 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 permissible investment instruments, their concentration, acceptable credit rating and maximum maturity.

On October 31, 2008, a 25 b.p. increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $160 and $600 increase or decrease in the Corporation's net income for the three-month period and for the year ended October 31, 2008, respectively.

Credit risk

Credit risk stems primarily from the potential inability of clients to discharge their obligations. Accounts receivable generally arise from the sale of vacation packages to individuals through retail travel agencies and the sale of seats to tour operators, which are dispersed over a wide geographic area. As at 31 October 2008, about 6% of accounts receivable was outstanding for more than 90 days after the due date, while around 80% was less than 30 days outstanding. No account represented more than 10% of total accounts receivable. Historically, the Corporation has never made any significant write-off of its accounts receivables. Except for the investments in ABCP, the Corporation does not believe it is exposed to a significant concentration of credit risk. The maximum credit risk to which the Corporation is exposed as at October 31, 2008 represents the fair value of cash equivalents, investments in ABCP and accounts receivable.

Counterparty risk

The Corporation is exposed to the risk that the parties with which it enters into agreements could be unable to fulfill their commitments. Counterparty risks include the risk related to the securities issuer, the settlement risk on derivative financial instruments and the credit risk related to cash and cash equivalents. The Corporation minimizes its exposure to issuer risk by investing solely in products that are rated R1-Mid or better by Dominion Bond Rating Service (DBRS), A1 by Standard & Poor's or P1 by Moody's and that are rated by at least two rating firms. In addition, the Corporation strives to minimize risk by entering into agreements solely with large financial institutions with suitable credit ratings. 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.

Management believes the credit risk related to financial instruments to be adequately controlled, as the Corporation enters into agreements solely with large financial institutions with suitable credit ratings. The risk to which the Corporation is exposed in respect of financial instruments is limited to the replacement cost of contracts at market prices in the event of a counterparty default. Cash and cash equivalents are invested on a diversified basis in investment-grade corporations.

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 consolidated perimeter. With senior management oversight, the treasury department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows.

The maturities of the Corporation's financial liabilities as at October 31, 2008 are summarized in the following table:

	Current maturity $	Maturing in 1 to 2 years $	Maturing in 2 to 5 years $	Total $
Accounts payable and accrued liabilities	282,440	—	—	282,440
Derivative financial instruments	79,831	10,227	—	90,058
Long-term debt	16,745	17,280	116,060	150,085
Debenture	3,156	—	—	3,156
Total	382 172	27,507	116,060	525 739

Capital risk management

The Corporation’s capital management objectives are first to ensure the longevity of its capital so as to support continued operations and shareholder returns, generate benefits for its other stakeholders, and maintain the most optimal capital structure possible with a view to keeping capital costs to a minimum.

The Corporation manages its capital structure in accordance with changes in economic conditions. In order to maintain or adjust its capital structure, the Corporation may elect to adjust the amount of the dividends paid to shareholders, return capital to its shareholders and repurchase its shares in the marketplace or issues new shares.

The Corporation monitors its capital structure using the 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 off-balance sheet arrangements, excluding agreements with suppliers 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, 2008 is summarized as follows:

	$
Net debt	
Long-term debt	150,085
Debenture	3,156
Off-balance sheet arrangements	297,094
Cash and cash equivalents	(145,767)
Investments in ABCP	(86,595)
	217,973
Shareholders’ equity	341,992
Debt/ equity ratio	**63.7%**

The credit facilities of the Corporation are subject to certain covenants including a Leverage ratio and a Fixed Charge Coverage ratio. These ratios are monitors by management and then submitted on a quarterly basis to the Corporation's Board of Directors. As at October 31, 2008, the Corporation is in compliance with the ratios. Other than covenants related to its credit facilities, the Corporation is not subject to any other externally imposed capital requirements.

Note 6: Business acquisitions

During the years ended October 31 2007 and 2008, the Corporation acquired several businesses. These acquisitions were recorded using the purchase method. The results of these businesses were included in the Corporation's results as of their respective dates of acquisition, unless otherwise indicated.

2008

During the year, a gain of $1,605 was recorded as a result of the repurchase, by the subsidiary, Travel Superstore, shares classified as Other Liabilities for a consideration of $330 while the value of these shares was $ 1,935. As a result of this transaction, the percentage holding of the Corporation in this subsidiary increased from 50.1% to 64.6%.

In 2008, the Corporation made contingent payments totalling 2 502 € [$ 3 994] in connection with the acquisition, in 2007, of L'Européenne de Tourisme (Amplitude Internationale). As a result of this, additionnal goodwill additional $ 1 756 was recorded.

2007

On May 1, 2007, the Corporation made a €1,264 ($1,921) cash payment to acquire the balance of the shares (30%) of Air Consultants B.V. (ACE). Goodwill amounting to $2,108 was recognized subsequent to this transaction. Following this transaction, ACE became a wholly owned subsidiary.

On July 11, 2007, the Corporation acquired 100% of the issued and outstanding shares of French outgoing tour operator Amplitude Internationale for a total consideration of €6,044 [$8,631]. A cash payment of €4,644 [$6,241] was paid on the acquisition date and the balance originally estimated of €1,400 [$1,923] was paid on July 31, 2008. A temporary goodwill amount of $3,516 was originally recognized subsequent to this transaction.

Note 7: Other assets

	2008 **$**	2007 $
Investments in companies subject to significant influence and other investments	**59,662**	628
Deferred costs, unamortized balance	**2,788**	2,701
Other	**847**	1,102
	63,297	4,431

On December 10, 2007, the Corporation acquired a 35% interest in Caribbean Investments B.V. ("CIBV "), a company that operates five hotels in Mexico and in the Dominican Republic, for a cash consideration of $51,605 [US$51,100] and an additional contingent payment of US$4,000, subject to specific conditions until 2009. The acquisition costs related to this transaction amounted to $2,099.This acquisition was recorded using the equity method and Transat's share of the results of the acquired company was included in the Corporation's results as of December 10, 2007. The difference between the cost of participation of Corporation in CIBV and its share of net assets at the acquisition date amounted to $16,000 and was allocated to theoritical goodwill.

Moreover, on April 9, 2008, the Corporation carried out an additional contribution of $4,150 [US $4,113] in CIBV. The Corporation is also committed to make an additional capital contribution of US$4,200 before November 30, 2008.

The majority shareholder of CIBV could require the Corporation to advance the funds needed to repay a long-term debt of CIBV should CIBV not to be in a position to repay the scheduled repayments. The maximum amount that the Corporation might have to pay cannot be higher than its 35% share of this long-term debt. On October 31, 2008, the Corporation's share of the long-term amounts to $13,234 [€8,579].

Note **8: Long-term debt**

On August 1, 2008, the Corporation has extended its borrowings secured by aircraft. As at October 31, 2008, the amount of borrowings amounted to $48,180 [US$40,000]. The borrowings bear interest at the London Interbank Offered Rate (LIBOR) plus 2.15% and 3.25% and are repayable in six equal biannual instalments until August 2011.

On October 31, 2008, the Corporation has a revolving credit facility amounting to $86,350 and a revolving credit facility of $60,000 for the purposes of issuing letter of credit, in respect of which the Corporation must pledge cash as collateral security against 105%. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances and bank loans in Canadian dollars, US dollars, euros or pound sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR (London Interbank Offered Rate), plus a premium based on certain financial ratios calculated on a consolidated basis. As at October 31, 2008 the balance of the drawn revolving credit facility amounted to $80,000.

On October 31, 2008, the Corporation had two revolving credit facilities in the amount of $9,485 and $98,140 for a total of $107,625, the first maturing in 2010 and the second maturing in 2011. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances and bank loans in Canadian dollars, US dollars, euros or pound sterling. Under these agreements, interest are charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR (London Interbank Offered Rate) plus a premium determined by the forms of financing. As at October 31, 2008, an amount of $20 000 was drawn from the credit facility maturing in 2011. The credit facility had an average interest rate of 3.12% during the year ended October 31, 2008.

Note **9: Share Capital**

a) Share capital

Authorized

Class A variable voting shares

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

25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

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

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

Class B voting shares

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

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

Preferred shares

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

Issued and outstanding

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

	Year ended October 31, 2008	
	Number of shares	Amount ($)
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 of shares	(1,064,200)	(5,000)
Balance as at October 31, 2008	32,678,241	154,198

As at October 31, 2008, the number of Class A Shares and Class B Shares amounted to 1,383,159 and 31,295,082 respectively [1,978,743 and 31,649,643 as at October 31,2007].

Normal course issuer bid

On June 15, 2008, the Corporation renewed its normal course issuer bid in the normal course of business for a 12-month period. With this renewal, the Corporation intends to purchase for cancellation up to a maximum of 3,175,506 Class A Variable Voting Shares and Class B Voting Shares, representing less than 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares at the offer date. Shares are purchased at market price 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 a cash consideration of $24,864.

b) Options

	Number of options	Weighted average price ($)
Balance as at October 31, 2007	506,083	22.70
Granted	259,181	21.35
Exercised	(48,420)	13.21
Cancelled	(671)	22.34
Balance as at October 31, 2008	716,173	22.85
Exercisable options as at October 31, 2008	322,884	19.90

c) Earnings (loss) per share

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

	Three (3) months ended October 31		Years ended October 31	
	2008	2007 [Restated – note 2]	**2008**	2007 [Restated – note 2]
[In thousands, except amounts per share]	**$**	$	**$**	$
Numerator				
Income (loss) attributable to voting shareholders	**(78,146)**	6,625	**(50,011)**	78,503
Interest on debentures that may be settled in voting shares	**—**	—	**—**	129
Income attributable to voting shareholders and used to calculate diluted earnings per share	**(78,146)**	6,625	**(50,011)**	78,632
Denominator				
Weighted average number of outstanding shares	**32,476**	33,618	**33,108**	33,763
Debenture that may be settled in voting shares	**—**	—	**—**	94
Stock options	**—**	191	**—**	304
Warrants	**—**	—	**—**	51
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**32,476**	33,809	**33,108**	34,212
Earnings (loss) per share				
Basic	**(2.41)**	0.20	**(1.51)**	2.33
Diluted	**(2.41)**	0.20	**(1.51)**	2.30

For purposes of calculating the diluted loss per share for the three months and year ended October 31, 2008, the debentures that can be settled in voting shares have not been reflected in the calculation of diluted loss per share because of their antidilutive effect. These securities' potential impact on the denominator is 195,000 shares for the three-month period ended October 31, 2008 and of 130,000 actions for the three-month period ended October 31, 2007. Given the loss recorded for the three-month period ended October 31, 2008, the 716,173 stock options outstanding were excluded from the computation of diluted earnings per share because of their antidilutive effect.

The debentures were excluded from the computation of diluted earnings per share for the three months ended October 31, 2007 as a result of their antidilutive effect. The potential impact on the denominator of these securities is 92,000 shares. In computing diluted earnings per share for the three-month period and ended October 31, 2008, a total of 137,222 stock options were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's shares for the respective periods.

Note 10: Accumulated other comprehensive income

	Years ended October 31	
	2008	2007
	$	$
Accumulated other comprehensive income		
Balance beginning of year	**(66,501)**	(12,413)
Other comprehensive income for the year	**140,374**	(54,088)
Balance end of year	**73,873**	(66,501)

Note 11: Segmented Information

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

	Three (3) months ended October 31, 2008			Year ended October 31, 2008		
	America $	Europe $	Total $	America $	Europe $	Total $
Revenues	**467,168**	**323,256**	**790,424**	**2,536,831**	**976,020**	**3,512,851**
Operating expenses	**466,736**	**294,417**	**761,153**	**2,461,307**	**924,217**	**3,385,524**
	432	**28,839**	**29,271**	**75,524**	**51,803**	**127,327**
Property, plant and equipment, goodwill and other intangible assets[1]				**192,231**	**130,866**	**323,097**

	Three (3) months ended October 31, 2007		[Restated – note 2]	Year ended October 31, 2007		[Restated – note 2]
	America $	Europe $	Total $	America $	Europe $	Total $
Revenues	427,990	252,428	680,418	2,278,116	767,801	3,045,917
Operating expenses	410,235	249,014	659,249	2,157,038	750,762	2,907,800
	17,755	3,414	21,169	121,078	17,039	138,117
Property, plant and equipment, goodwill and other intangible assets[2]				194,236	117,297	311,533

[1] As at October 31, 2008
[2] As at October 31, 2007

Note 12*:* Guarantees

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

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

Notes 4, 11, 12, 13 and 21 to the 2007 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

Operating leases

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

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain tourist services such as hotel rooms that it has undertaken to pay for whether it sells the services or not. These agreements, which are entered into for significant blocks of tourist services, typically cover a one year period and are renewed annually. The corporation has also issued letters of credit to provincial regulatory agencies in Ontario and British Columbia guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totals $504 as at October 31, 2008. Historically, the Corporation has not made any significant payments under such letters of credit.

Security contracts

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Quebec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totals $790 as at October 31, 2008. Historically, the Corporation has not made any significant payments under such agreements.

As at October 31, 2008, no amounts have been accrued with respect to the above-mentioned agreements.