Annual Report 2007 Transat A.T. Inc.

Integrated international tour operator specializing in holiday travel

Revenues up by 17% to $3.0 billion and net earnings of $80.5 million, compared with $2.6 billion and $65.8 million respectively in 2006.

Solid growth in the market for winter packages to sun destinations departing from Canada despite a fiercely competitive environment.

Strong performance in the summer transatlantic market, in particular continental European destinations, despite the fact that overcapacity eroded margins on Canada-United Kingdom routes.

Excellent results posted by Look Voyages, with a 28% increase in revenues and pre-tax earnings of about 6% of revenues.

Acquisition of Amplitude Internationale, an outgoing French tour operator specializing in travel to Tunisia, a major destination from France.

Integration of agencies acquired in 2006 and consolidation of our distribution network in Canada and Europe.

Addition of a 16th aircraft to the Air Transat fleet, signing of a seat pooling agreement with MyTravel and renewal of an agreement with WestJet.

Early in fiscal 2008, creation of a 1,600-room joint venture with Barcelona's H10 Hotels in Mexico and the Dominican Republic, representing an investment of US$55 million for Transat.

More than 60 destination countries

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 accomodation and destination services and operates an extensive distribution network. The Company has a dedicated team of thorough and efficient people who deliver quality vacation travel services at affordable prices to a broad customer base.

In thousands of dollars (except amounts per share)	2007	2006
Revenues	3,045,917	2,603,746
Margin	133,070	126,944
Net income	80,480	65,770
Diluted earnings per share	2.36	1.85
Dividend per share	0.34	0.14
Cash and cash equivalents	166,768	214,887
Cash flows relating to operating activities	121,828	116,160

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

Staying the course for growth

Building on vertical integration

Fiscal 2007 proved to be a very good year for Transat, at a time when the international tourism industry was particularly vibrant. We stayed the course on our objectives while continuing to combine growth with profitability, in spite of a rapidly changing tourism market, fierce competition, increases in certain costs and significant fluctuations in exchange rates. We also made progress in implementing our 2006-2008 three-year plan, notably by successfully increasing our market share, completing the integration of acquisitions made in 2006 and establishing a foothold in the hotel industry.

The international tourism market remains buoyant. According to the World Tourism Organization (WTO), there were approximately 846 million international arrivals in 2006, and all indications point to its forecasts (a billion international tourists in 2010 and 1.6 billion in 2020) materializing. Transat is in an excellent position to benefit from this promising situation, with products in more than 60 countries, outgoing tour operators and distribution networks solidly established in Canada and Europe, as well as a first-rate air carrier.

However, there remains no shortage of challenges to overcome. Although we have already made significant adjustments to our organization over the past six years, change will likely remain on the agenda as our environment demands considerable ability to adapt. With travellers — our ultimate customers — becoming increasingly sophisticated, we have to pull out all the stops to offer them products that cater to their every need.

The tourism market

The growth in international tourism is being fuelled by most areas of the world. Asia and Africa are currently posting the highest growth rates in terms of arrivals, while Latin America, Eastern Europe and Asia are reinforcing their positions as the emerging outbound markets. Following two recent major German-British mergers, Transat has climbed to fifth position among the world's fully integrated international tour operators and, in this capacity, has all the tools it needs to capitalize on the new trends in tourism.

Competition is very intense in all our markets and we are relying on several measures to deal with it: a very comprehensive offering, ever-greater efficiency, economies of scale and consistent investments in marketing and advertising. In addition, we are continuing our efforts to increase customer loyalty and to set our products and services apart by ensuring that our customers enjoy an experience with us that they will want to repeat. Lastly, with regard to the very important issue of distribution, we are implementing solutions that are innovative and meet the expectations of our customers — both travellers and travel agents. We intensified our efforts on all these fronts in 2007 and will continue to do so in 2008.

The cost structure of any international tour operator depends partly on the conditions prevailing in the airline industry. Transat is therefore closely monitoring ongoing discussions on the "open skies" agreements, which the Canadian government has made a priority, as well as the debate on controlling greenhouse-gas emissions attributed to the aviation industry. The outcome of these complex discussions may provide some companies with a competitive edge. For this reason, we have taken many actions (some publicly), notably since late 2006, to make our positions known in the hope that our concerns will be taken into consideration.

Generally speaking, we have indicated our support for the principle of a reciprocal, orderly opening of aviation markets as well as the related lifting of entry barriers, to the extent that the current economic and tax policy framework imposed on Canada's airports and airlines is overhauled by the federal government. The system currently in place imposes a very heavy burden on companies like Transat, considerably reducing their ability to compete against foreign companies which, in contrast, often receive support from their governments.

Transat stands apart from other companies in Canada's travel industry in that it is also a player in the European market. As a result, from a tourism perspective we are better positioned than others to leverage an "open skies" agreement between Canada and Europe. It is our view that any such agreement should take into account all the companies involved and their individual business models, allowing them to pursue the specific commercial opportunities they envisage.

In 2007, Transat began systemizing the adoption of sustainable-tourism practices. Air Transat continued to rigorously implement its fuel-management program, which has helped reduce consumption and greenhouse-gas emissions by more than 5%. In 2008, we will intensify our actions to diminish the impact that our operations have on the environment and climate change in keeping with the Davos Declaration drafted by the WTO in October 2007. On the issue of greenhouse-gas emissions, we favour adopting multilateral solutions — under the auspices of the International Civil Aviation Organization (ICAO) and International Air Transport Association (IATA) for instance — that would pave the way for market conditions that are as uniform and as fair as possible.

Outgoing Canadian market

The outgoing Canadian market is posting solid growth, but competition remains intense. At the beginning of each season, tour operators set the tone with increases in capacity which, taken globally, inevitably translate into a surplus of supply over demand, even though the latter increases regularly. The "perishable" nature of tourism products entails fierce price competition, which benefits travellers but severely tests the profit margins and nerves of tour operators.

Transat Tours Canada (TTC), our main Canadian business unit in the outgoing market, orchestrates all operations conducted under the Transat Holidays, Nolitours and Air Transat brands. In Canada, TTC grew its customer base across the board — 866,000 travellers in the winter season, 527,000 in the summer; 1,042,000 sun packages sold, 351,000 travellers (including Canadian sales of Canadian Affair) to European destinations — for a total of approximately 1,393,000 travellers. Some 72% of these customers flew with Air Transat while the rest travelled on airlines with which we have partnership agreements.

Our business model is based on the combination of our own capacity, provided by Air Transat, with those of many other Canadian and European carriers. In line with this model, Transat and British tour operator MyTravel (now Thomas Cook Group), which operates in Canada under the Sunquest Vacations brand, signed a three-year agreement under which both parties can sell each other approximately 120,000 seats for sun destinations, effective November 1, 2007. In addition, our agreement with Canadian carrier WestJet has been extended to October 31, 2010. It allows TTC to charter WestJet aircraft flying out of more than 20 Canadian cities to approximately 20 sun destinations.

In 2007, Transat became the leading tour operator in Ontario for winter sun packages. According to our evaluation, we are now the leader in every Canadian region in the very targeted segment of all-inclusive packages to sun destinations in the Caribbean, Mexico and Central America.

We are working on many elements to help maintain or grow our market share: selection of destinations and exclusive hotels, pricing, marketing, quality of service and customer satisfaction.

We had an excellent summer season in the Continental Europe market. However, as expected, routes into and out of the United Kingdom have been a real battlefield, with supply clearly outstripping demand. Our margins have suffered as we have fought fiercely to protect our market share. The British government compounded the problem when it doubled the duties payable by international air travellers, limiting fare increases that would have been necessary to offset higher fuel costs, for example. In other words, tour operators had to absorb part of these taxes to avoid losing customers. The United Kingdom is the number one transatlantic market for Canada and for Transat.

Given the results achieved with our new Madrid program, launched in 2006, we went further in 2007 with Barcelona and Malaga, and Spain is proving a resounding success for TTC. We also introduced Vienna, and we obtained slots at Heathrow Airport departing from Toronto. We will be adding Switzerland to our list of destinations with flights to Basel-Mulhouse, as well as Vancouver-Paris and Calgary-Paris routes in 2008.

In 2006, Transat acquired 191 travel agencies, thus creating the leading network of agencies in Canada. In 2007, the integration of these agencies continued smoothly and they made an important contribution to the increase in our sales and market shares. At fiscal year-end, all brands combined, the Transat network consisted of 409 agencies across the territory, 304 of them franchises. Sales by this network, combined with those generated through our B2C websites, accounted for more than 25% of sales made in Canada in 2007. In addition, although they remain modest, online sales of mass tourism products are growing strongly, particularly on some of our websites. We remain solidly engaged in the era of multi-channel distribution, which ensures that many distribution strategies blend smoothly.

Outgoing European market

Transat, which has been operating in France ever since the company's creation, has entered other European markets over the years. Consequently, we now have a promising platform in Europe, where some countries are worldwide leaders in both outbound and inbound tourism, with more than 400 million international trips.

In spite of the gloomy conditions in France's tourism industry, Look Voyages had a stellar year, thanks in part to an increase in the number of its Lookéa resort clubs to 25 (plus a Lookéa cruise in Egypt) from 17 the previous year. The Lookéa formula is clearly well-adapted to its market segment, as is clearly confirmed by customer satisfaction levels. As a result, Look Voyages saw its sales soar by 28% and it posted pre-tax earnings of 6% of revenues, both remarkable figures.

In 2007, we acquired outgoing French tour operator Amplitude Internationale. This specialist in travel to Tunisia combined its efforts with those of Look Voyages, which was already operating four Lookéa resort clubs in the North African country. Founded in 1992, Amplitude Internationale sells 80,000 travel packages to Tunisia every year through traditional and online travel agencies, as well as through large retail stores. For its part, Look Voyages sells approximately 50,000 packages to Tunisia, the second-largest destination market out of France (after Morocco) for packages.

Vacances Transat (France) remains the leading French tour operator to Canada and the U.S. It is a major player in France for tours, with a diverse range of destinations, including South America, Africa and Asia. Destinations include Vietnam, launched in 2007, and Kenya, where the number of passengers has increased significantly since we introduced the destination in 2006. In the last year, its business grew in terms of number of travellers, sales (including group sales) and profit margin. For travel to Canada, Vacances Transat (France) naturally works closely with TTC, particularly to market our air capacity, and with Jonview Canada for the distribution of packages.

We have successfully completed the integration of British tour operator The Airline Seat Company — better known as Canadian Affair — which we acquired in August 2006. Working with close to 120 suppliers and two airlines (including Air Transat), Canadian Affair is the foremost tour operator in the United Kingdom for travel to Canada and works daily with TTC.

TTC has partners in all the European countries we serve with Air Transat. For example, Air Consultants Europe (ACE), now a wholly owned Transat business unit, sells our air capacity as a wholesaler for travel to Canada from the Netherlands, Germany, Belgium, Austria and Luxembourg. We brought some 366,000 travellers to Canada from approximately 10 European countries (Air Transat, TTC) and from the UK (Canadian Affair), mainly during the summer.

We have 69 travel agencies in France, 31 of which are under the Look Voyages banner and 38 under that of Club Voyages. In 2008, we plan to further strengthen the strategic ties between our tour operators and our distribu-

tion network in order to fully capitalize on the fact that, combined, we are one of the largest outgoing tour operators in France.

Air transportation

The fact that Transat owns a fleet of aircraft and has formal charter agreements with many other carriers remains a core element in our business model. Our craft, as a tour operator, consists largely of managing inventories of products — airline seats and hotel stays — that have a limited lifespan. Being vertically integrated gives us enhanced control over this aspect of our operations.

Air Transat, which celebrated its 20th anniversary at the same time as Transat in 2007, remains our primary carrier out of Canada to all our destinations, as well as for travel to Canada from Europe. It turned in a remarkable performance in 2007, as a significant increase in business resulted in the carrier making close to 13,000 flights.

Many factors contribute to making Air Transat a leader in its category: highly qualified crews (a determining condition for the quality of service), an exceptional program for young families and young travellers, its Club class, some of the best on-time performance and reliability rates in the industry, etc. In November 2007, Air Transat obtained Phase 2 accreditation from Transport Canada for its Safety Management System (SMS), confirming the carrier's leading edge in this area; it is also about to complete IATA's International Operational Safety Audit (IOSA) certification process. In 2007, Air Transat implemented an online seat preselection system and posted record incidental revenues.

Air transportation represents a significant cost centre, and Air Transat is currently reaping the rewards of the many years of work put in by its personnel. In spite of the increase in fuel prices, our cost per available seat mile (CASM) dropped from 2006. In fact, excluding fuel, we posted the lowest CASM in our history; our fixed costs per CASM also decreased.

Air Transat was operating 16 Airbus aircraft (4 A330s and 12 A310s) at the end of 2007 and will add a 17th in 2008. In order to improve comfort for passengers, Air Transat will be increasing legroom in all its aircraft, beginning in the summer of 2008. This involves removing 10 seats from our Airbus A310s (down to 249 seats), and 20 from our Airbus A330s (342 seats).

Handlex and its approximately 1,200 employees provide airport ground-handling services (passenger check-in, baggage-handling, cargo, aircraft cleaning and ramp services) to some 20 airlines, including Air Transat, at airports in Montreal, Toronto and Vancouver. In 2007, Handlex signed

or renewed several contracts, overhauled its structures, enhanced its staff training efforts and improved its financial performance.

Hotel industry

Shortly after the close of the fiscal year, we announced the creation of a hotel joint venture with one of our longstanding partners, H10 Hotels of Barcelona. The newly-created company will own and operate five hotels in Mexico and the Dominican Republic with a total of approximately 1,600 rooms. This partnership with a first-rate hotel chain is a major step in our effort to develop a dynamic presence in the hotel industry at our key destinations. As planned, we ensure our access to a certain number of top-quality rooms and we maximize the benefits of our vertical structure.

Transat has invested US$55 million for a 35% interest in the new company. The Dominican Republic and Mexico are important markets for us: we sell more than a million packages a year to Mexico, the Caribbean and Central America, from Canada and France. This transaction is fully in keeping with our three-year strategic plan and meets all the investment criteria we had set forth.

Our incoming markets

Our Jonview Canada business unit remains the largest incoming tour operator in Canada with nearly 249,000 customers in 2007 — a 5% increase that is all the more remarkable since international tourism to Canada (especially out of the U.S.) has been on the decline since 2005. Jonview Canada offers its products in approximately 50 countries, not only in Europe – which is its main stronghold — but also in a growing number of increasingly popular emerging markets.

In 2007, we restructured Jonview Canada in order to improve its efficiency and margins. Changes included the sharing of certain management and back-office functions with TTC, in order to benefit from synergies starting in 2008.

We are also active in the incoming Greek market with tour operator Tourgreece, whose products are distributed internationally, including in the U.S., through Transat and other tour operators. In 2007, Tourgreece penetrated new markets (Japan, South Korea, Mexico and Venezuela) and succeeded in increasing both its sales and its margin. Greece attracts more than 14 million international tourists every year.

Our financial position

We posted revenues of $3.0 billion for fiscal 2007, compared to $2.6 billion in 2006. Our margin reached $133.1 million, compared with $126.9 million in 2006. Transat posted record net income of $80.5 million or $2.36 per share on a diluted basis ($74.5 million or $2.18 per share on a diluted basis after a provision on ABCP securities, a write-down of goodwill and the favorable impact of new hedge accounting standards, as explained in the MD&A), compared to $65.8 million ($1.85 per share, fully diluted) in 2006.

Once again, the year was marked by very high fuel prices, driven of course by the increase in oil prices. Our bill for this essential commodity rose 114% to approximately $274 million in 2007 from $128 million in 2004. Our revenues grew by 38% during the same period. We offset part of the rise by actively using hedging strategies and by implementing fuel surcharges (duly approved by the appropriate authorities). The effects of the latter are limited, however, due to pressures on selling prices.

Transat remains in a sound financial position. As at October 31, 2007, our debt had decreased and our cash position reached $166.8 million. This figure excludes funds currently locked-up in asset-backed commercial paper (ABCP) trusts. The MD&A provides details on this subject.

Staying the course

Fiscal 2007 marked the second phase of the three-year strategic plan adopted in 2005. Already, several major milestones of this plan have been reached, namely our entry into the outgoing U.K. market, Look Voyages' decisive return to profitability, substantial gains in market share in Ontario, the development of our multi-channel distribution network, the acquisition of a tour operator specializing in travel from France to Tunisia and, shortly after the end of the year, the creation of a joint hotel venture with a seasoned partner.

As for the U.S. market, we have conducted a thorough review of all major tour operators that could potentially offer a strategic fit with us. We have held discussions with many of these tour operators, without a transaction in the interest of the company and its shareholders materializing. We still intend to break into that market as a tour operator and in 2008 we will relaunch our efforts on a new basis.

Our motto for 2008 will be to stay the course. In addition to initiating the preparation of the next three-year plan (2009-2011), which will take into account the renewal of the Air Transat fleet as of 2012, we will be putting a

significant amount of effort into consolidating our position in Canada and in Europe. For the transatlantic market, TTC will implement a five-year development plan that will include new destinations and the establishment of closer links between our European subsidiaries and Jonview Canada. We will also continue to stimulate the growth of our French tour operators and study the possibility of breaking into new outgoing European markets through acquisitions.

I would like to take this opportunity to thank all of Transat's employees, its management team and the members of its Board of Directors. Ours is a demanding industry and each of us plays a vitally important role in Transat's success.

Jean-Marc Eustache

Chairman of the Board
President and Chief Executive Officer
January 16, 2008

Outgoing tour operators

Transat Tours Canada (TTC)

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

Nolitours
Caribbean, Latin America, Mexico and Florida from Canada

Look Voyages
Mediterranean Basin, Africa, Asia, Caribbean, Mexico, etc. from France, and Lookéa clubs

Amplitude Internationale
Tunisia from France

Vacances Transat (France)
Americas, Caribbean, Asia, Africa from France.
Tours in Eastern Europe, Scandinavia, Scotland, Ireland under the Bennett brand

Brokair
Group tours from France

Canadian Affair
British tour operator specializing in travel to Canada

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

Merika Tours
North American destinations from Canada

Air Consultants Europe (ACE)
TTC's representative in Germany, the Netherlands, Belgium, Luxembourg and Austria

Incoming tour operators Destination services

Jonview Canada
Tours and packages to Canada

Tourgreece
Tours and packages to Greece

Trafic Tours
Excursions and destination services in Mexico

Turissimo
Excursions and destination services in the Dominican Republic

Transat Holidays USA
Destination services and travel agency in Florida

Retail distribution

Transat Distribution Canada
More than 400 travel agencies in Canada (Marlin Travel, TravelPlus, tripcentral.ca, Club Voyages, Voyages en Liberté) and exitnow.ca

Club Voyages (France)
Network of 69 travel agencies in France (Club Voyages, Look Voyages)

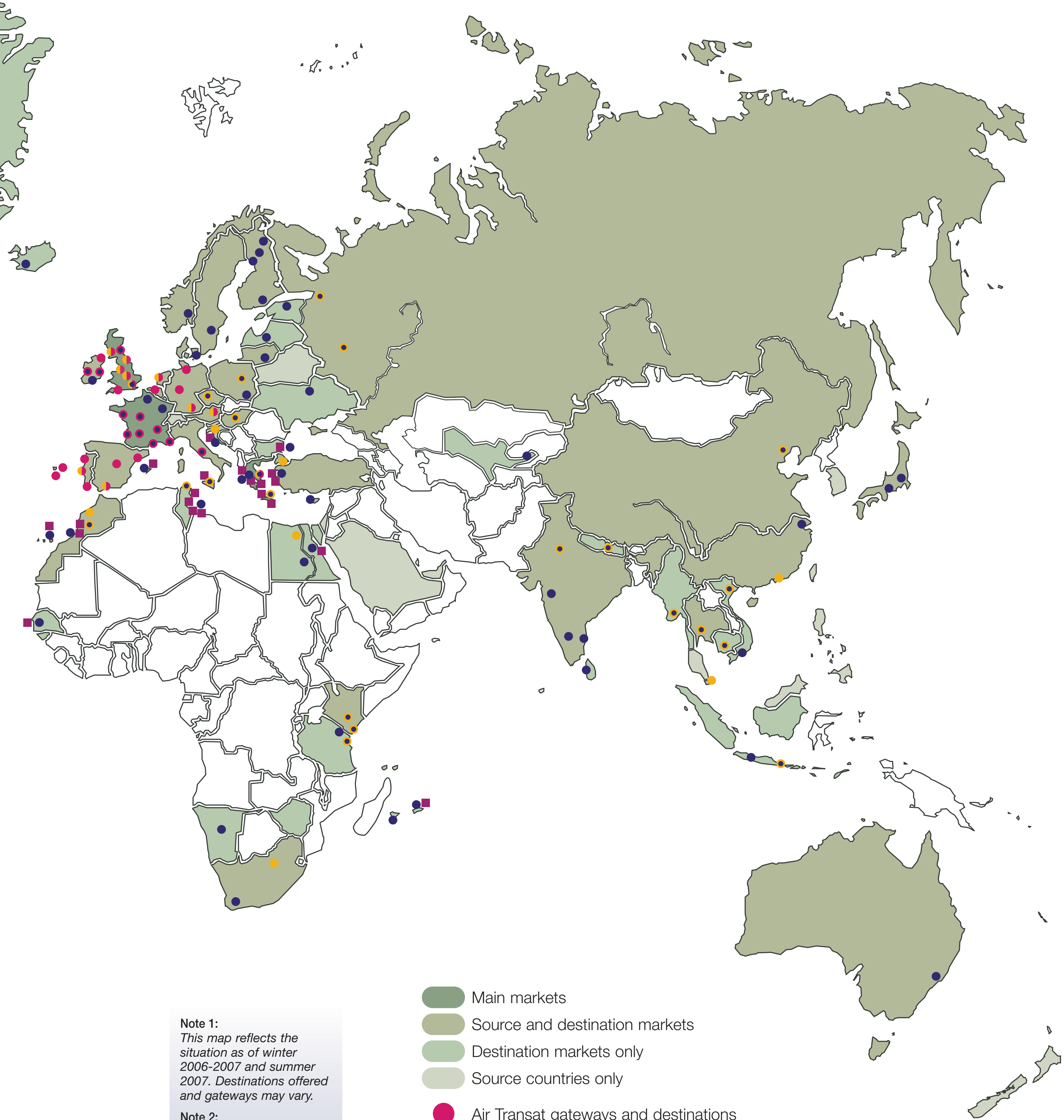
Air transportation

Air Transat
Charter air carrier specializing in holiday travel

Handlex
Airport ground services in Montréal, Toronto and Vancouver

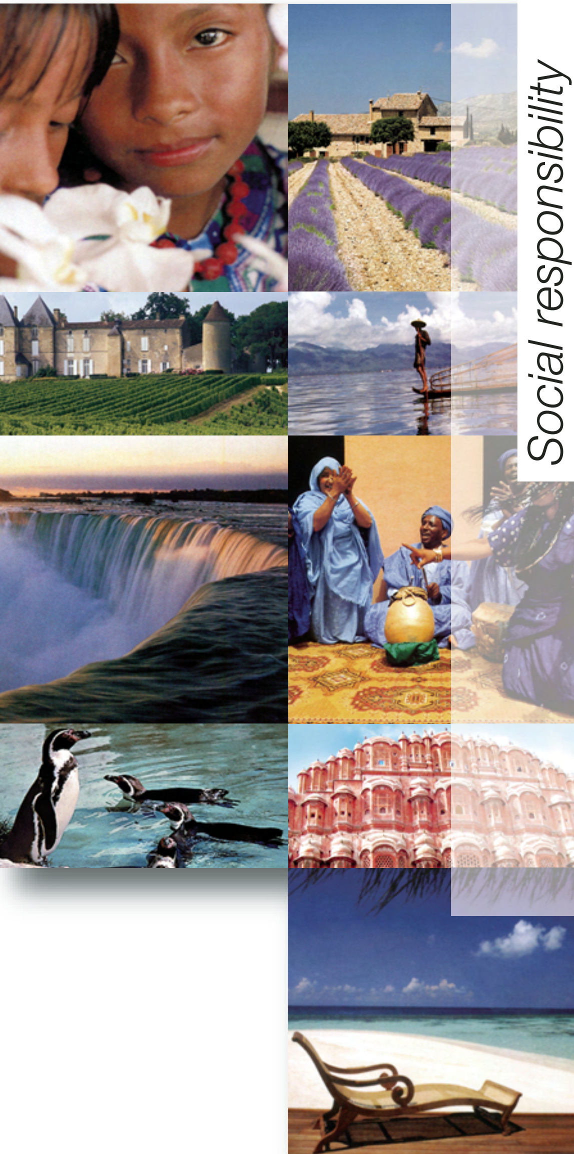
www...
transat.com
transatholidays.com
vacancestransat.com
nolitours.com
look-voyages.fr
amplitudevacances.com
vacancestransat.fr
canadavision.fr
bennett.fr
canadianaffair.com
revatours.com
merikatours.com
airtransat.com
airtransat.fr
airtransat.de
airtransat.nl
airtransat.co.uk
air-transat.be
jonview.com
outbyview.com
tourgreecedmc.com
clubvoyages.com
marlintravel.ca
travelplus.ca
tripcentral.ca
exitnow.ca

CRUISES
Transat Holidays and Look Voyages offer an extensive selection of cruises: in the Atlantic Ocean, Mediterranean and Baltic seas, South Pacific and Indian oceans; on the Nile and on Europe's major rivers; in Alaska, the Bahamas, Bermuda, Canada, the Caribbean, Hawaii, Mexico, to the Panama Canal and in South America.



Note 1:
This map reflects the situation as of winter 2006-2007 and summer 2007. Destinations offered and gateways may vary.

Note 2:
"Source only" countries are those where we market Jonview Canada and/or Tourgreece products and to which we offer neither air service, packages or tours.
We offer no products out of "destination only" countries.



Social responsibility

Over the years, Transat and its 6,000 employees have remained committed to making a constant and significant contribution to society. This starts with creating jobs and making a positive direct and indirect economic impact, but goes much further with philanthropic deeds in the areas of sustainable tourism, environmental protection, tourism research, humanitarian aid and healthcare. In addition, with the support of Transat, a considerable number of our employees volunteer their time and money to causes they believe in; they collect clothing and other humanitarian aid items we ship, clean up shorelines, participate in sporting events or challenges to raise funds for research into healthcare, the environment, etc.

In 2007, as in previous years, we helped populations in need by airlifting humanitarian aid consisting of clothing, books and computers on behalf of organizations working in the field. Vacances Transat (France) has lent its support to the Enfants du Mékong association – which strives to protect, educate and improve the lives of children in Southeast Asia – to build a school in Vietnam in 2008. Air Transat's partnership with the Children's Wish Foundation of Canada, which dates back to 2004, has helped provide dream trips to more than 200 children suffering from a serious illness. The "Change for Kids" program, which encourages our passengers to donate any change in foreign or local currency left over after their trip, has helped raise more than $2.3 million since its creation. We have continued to support the Université du Québec à Montréal (UQÀM) Chair in Tourism, which fosters the growth and prestige of the tourism industry through research, information and training.

In 2007, we contributed more than $750,000 directly to philanthropic causes, our employees donated more than $100,000 to Centraide/United Way as well as other organizations, and we raised approximately $895,000 through our "Change for Kids" program.

Sustainable tourism

Worldwide, tourism generates significant economic activity and has a very positive effect socially. It can, however, also have less desirable impacts, in particular on the resources, ecosystems, well-being and cultures of communities. “Sustainable” tourism entails respect for nature, as well as for host communities and their values; it combines positive socio-economic benefits for local populations with an enriching experience for travellers. In that spirit, we are striving to maximize the positive impacts of our operations and reducing their negative impacts.

Transat now has a Sustainable Tourism Committee, chaired by Lina De Cesare, whose mandate is to develop and execute a long-term action plan that covers the environmental, socio-cultural and economic aspects of tourism. The implementation of the resulting sustainable tourism strategy is a considerable undertaking that will continue over several years. In 2007, we attained some important milestones with the creation of environmental committees at all our locations, the launch of a community support program and the preparation of a pilot project that will focus on the performance of our suppliers in terms of sustainable development.

SUPPORTING COMMUNITIES

In the spring of 2007, we launched a program to support tourism projects that are based on the principles of sustainable development. The program consists of funding organizations or communities that are taking initiatives aimed at protecting and enhancing their natural and cultural heritage or maximizing the positive impacts of tourism. Both within and outside our organization, this grant program is also proving to be a powerful conveyer of Transat’s values. In 2007, out of approximately 100 applications, we selected four projects in Canada and Cuba.

World Wildlife Fund Canada

Transat is proud to be associated with the World Wildlife Fund Canada (WWF-Canada), a world leader in environmental protection, for a three-year project in Cuba. Working with local authorities, WWF-Canada will lay the groundwork for a sustainable tourism policy to help protect the country’s ecosystems, considered to be among the richest in the Caribbean region.

The Frontenac Arch Biosphere Reserve

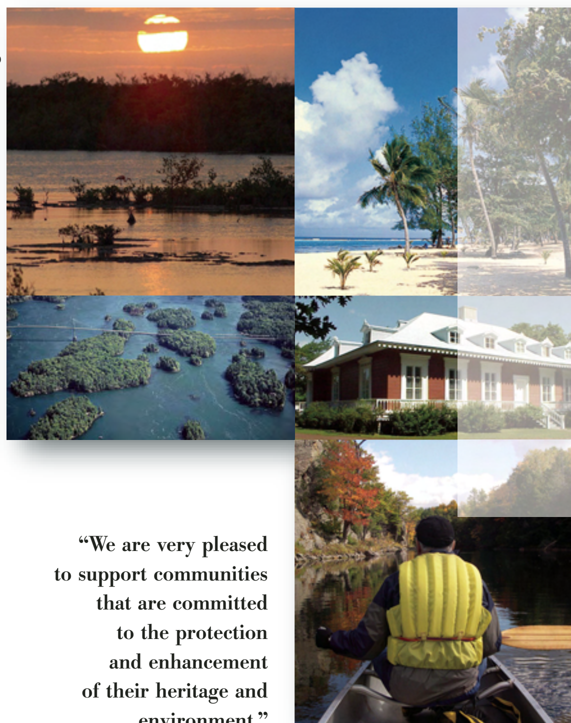
Transat has joined forces with the Frontenac Arch Biosphere Reserve (a UNESCO biosphere reserve located in Ontario) network, which is undertaking an important green-accreditation project targeting the area's businesses and organizations. The project is part of an extensive three-year program aimed at developing a national sustainable tourism model for biosphere reserves.

The Seigneurie des Aulnaies

Considered to be the most complete interpretation centre of the seigniorial system in Quebec, the Seigneurie des Aulnaies received funding to implement a five-year plan to protect and develop its historic buildings as well as to modernize its reception structures, enhance its activities and permanent exhibition.

The Amis du marais de Saint-Antoine-de-Tilly

The Amis du marais not-for-profit organization, founded by committed citizens, is developing the recreational-tourism potential of a marsh area and 10-kilometre trail along the banks of the St. Lawrence River at Saint-Antoine-de-Tilly, near Quebec City.



© WWF-Canada/Greg Stott

“We are very pleased to support communities that are committed to the protection and enhancement of their heritage and environment.”

FUEL MANAGEMENT

Given the rise in oil prices and the increasingly pressing issue of greenhouse-gas emissions, the strict management of aircraft fuel remains a constant priority. As early as 2003, Air Transat introduced an ambitious fuel-management program with a twofold objective: to decrease fuel costs and to cut down on greenhouse-gas emissions.

The introduction and systematic tracking of new procedures have enabled our carrier to decrease annual fuel consumption. All things being equal, fuel consumption has dropped 5.5% since 2003, an exceptional performance that has generated savings of several million dollars, not to mention avoidance of tens of thousands of tonnes of emissions. Fuel-saving initiatives relate to flight operations, flight planning, ground services as well as the engineering and the catering services. Below are a few examples of the measures, most of which have been implemented over the past four years:

"Our fuel-management program is one of the most important steps we have taken in the past four years."

Several measures were aimed at reducing aircraft weight, because of its direct impact on fuel consumption. This includes reducing the amount of potable water carried in aircraft water tanks, decreasing the weight of entertainment systems, replacing cargo containers and tires with light-weight equivalents, etc.

The implementation of a new flight planning system was one of the key components of the program. The system takes into account a number of variables — including altitude, speed, wind and cost of fuel — to optimize navigation, which translates into substantial savings. The pilots have also adopted new fuel-saving takeoff and landing procedures.

On the ground, single-engine taxiing has become the norm at Air Transat, resulting in a decrease in both greenhouse-gas emissions and noise. Other gains have been achieved by using the power supply services provided by airports rather than the airplane auxiliary power unit for the cooling of stationary aircraft, where possible.

The company has also reviewed its maintenance program. We now do internal engine washes on a regular basis in order to increase energy efficiency. We also remove chipped paint as well as scratches on the fuselage of the aircraft in order to reduce drag.

Air Transat estimates that since 2003 its fuel-management program has prevented the release of some 129,000 tonnes of CO_2 into the atmosphere, an amount equivalent to the yearly emissions of 21,000 automobiles. In absolute values, however, total annual CO_2 emissions rose to 1,013,970 tonnes in 2007 as a result of the fleet expansion and the increase in the number of flights. Our fuel consumption is 3.17 litres per passenger/100 kilometres, representing CO_2 emissions of 8.02 kilograms per passenger/100 kilometres.

Air Transat is among the carriers that have adopted best industry practices in terms of fuel management. Our employees' commitment plays a pivotal part in enabling us to succeed. In a quest for ongoing improvement, we are currently evaluating additional initiatives.

North America

(Revenues in thousands of dollars)

Outgoing tour operators and air transportation

Transat Tours Canada
(Transat Holidays, Nolitours and Air Transat)

	2007	2006	2005
Revenues	**2,117,000**	1,912,000	1,777,000
Employees	**2,881**	2,667	2,616
Passengers[1]	**2,918,000**	2,625,000	2,504,000
Travellers[2]	**1,348,000**	1,200,000	1,140,000

Rêvatours

	2007	2006	2005
Revenues	**13,300**	18,400	19,600
Employees	**27**	26	27
Travellers	**4,300**	6,000	7,000

Incoming tour operators and destination services

Jonview Canada

	2007	2006	2005
Revenues	**121,000**	118,000	117,300
Employees	**170**	183	169
Travellers	**249,000**	237,000	223,000

Other

	2007	2006	2005
Revenues	**32,000**	32,000	12,000
Employees	**107**	105	19

Retail distribution

Transat Distribution Canada
(Club Voyages, Marlin Travel, TravelPlus, Voyages en Liberté and exitnow.ca)

	2007	2006	2005
Revenues (commissions and franchise)	**61,400**	36,000	19,500
Outlets owned	**83**	88	21
Employees	**577**	597	210
Outlets franchised	**304**	315	190

Tripcentral.ca

	2007	2006	2005
Revenues (commissions)	**7,400**	7,700	2,800
Employees	**100**	99	103
Outlets	**22**	23	16

Other airline services

Handlex

	2007	2006	2005
Revenues	**49,500**	41,000	37,000
Employees	**1,203**	1,108	1,024

Europe

(Revenues in thousands)

Outgoing tour operators

Vacances Transat (France)
(Vacances Transat (France), Bennett Voyages and Brokair)

	2007	2006	2005
Revenues (€)	**211,000**	194,000	163,000
Employees	**220**	214	213
Travellers	**155,000**	141,000	97,000

Look Voyages

	2007	2006	2005
Revenues (€)	**189,000**	148,000	132,000
Employees	**309**	305	275
Passengers	**9,000**	3,000	65,000
Travellers	**204,000**	164,000	129,000
Club Lookéa/summer[3]	**26**	18	13
Club Lookéa/winter[3]	**12**	7	6

Amplitude Internationale

	2007	2006	2005
Revenues (€)	**19,000**	—	—
Employees	**19**	—	—
Travellers	**46,000**	—	—

ACE

	2007	2006	2005
Revenues (commissions) (€)	**3,300**	3,200	2,600
Employees	**23**	19	21
Travellers	**46,000**	45,000	43,000

Canadian Affair

	2007	2006	2005
Revenues (£)	**71,000**	30,500	—
Employees	**75**	63	—
Travellers	**161,500**	69,700	—

Incoming tour operators and destination services

Tourgreece

	2007	2006	2005
Revenues (€)	**20,700**	19,700	19,000
Employees	**30**	35	27
Travellers	**72,000**	71,000	65,000

Retail distribution

Club Voyages (France)

	2007	2006	2005
Revenues (commissions) (€)	**10,300**	9,900	8,800
Employees	**191**	201	170
Outlets	**69**	72	52

All subsidiaries wholly owned, except: Jonview Canada (80.07%), Tourgreece (90.0%) and Travel Superstore Inc. (Tripcentral.ca) (50.1%).

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

In this table, passengers and travellers data have been compiled based on revenue accounting and may not reflect geography of source markets. In addition some travellers may be allocated to more than one tour operator.

This MD&A is comprised of the following sections:

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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", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", as well as 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, armed conflicts, terrorist attacks, energy prices, 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, labour negotiations and disputes, pension issues, exchange and interest rates, changes in laws, adverse regulatory developments or proceedings, 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 assumptions, market assumptions, 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:

- Transat has the resources it needs to meet its 2008 objectives and continue building on its long-term strategies.
- The Corporation will continue investing in the hotel industry in the Caribbean and in Mexico.
- The total number of travellers in 2008 is expected to be higher than in 2007.
- The Corporation's operating expenses are expected to increase due to the growth in business activities.
- The Corporation's expectation that travel reservations will continue to be higher than in the prior year.
- The Corporation expects to improve its margins in the winter 2008 season.
- The Corporation's expectation that cash flow from operations, existing funds and borrowings under its credit facilities will be sufficient to support ongoing working capital requirements.

In making these statements, the Corporation has assumed that the trends in reservations will continue throughout the remainder of the season, that the Corporation cannot predict the impact of future energy prices and foreign exchange rates on its financial results, that credit facilities will continue to be made available as in the past, that management will continue to manage cash flow variations to fund working capital requirements for the full year. 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 law.

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, 2007, compared with the year ended October 31, 2006, and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto beginning on page 39. This MD&A contains information as of January 16, 2008. You will find more information about us on Transat's Web site at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for fiscal 2007 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 provide additional information and should not be considered 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.

Financial Highlights

(In thousands of dollars, except per share data)

				Variance	
	2007 **$**	2006 $	2005 $	**2007** **%**	2006 %
Consolidated Statements of Income					
Revenues	**3,045,917**	2,603,746	2,364,481	**17.0**	10.1
Margin[1]	**133,070**	126,944	120,631	**4.8**	5.2
Net income	**80,480**	65,770	55,416	**22.4**	18.7
Basic earnings per share	**2.38**	1.88	1.43	**26.6**	31.5
Diluted earnings per share	**2.36**	1.85	1.33	**27.6**	39.1
Dividend – Class A and B shares	**0.34**	0.14	—	**142.9**	n/a
Consolidated Balance Sheets					
Cash and cash equivalents	**166,768**	214,887	293,495	**(22,4)**	(26,8)
Cash and cash equivalents in trust or otherwise reserved	**168,196**	203,613	182,268	**(17,4)**	11,7
Investments in ABCP	**142,346**	—	—	**n/a**	n/a
	477,310	418,500	475,763	**14.1**	(12.0)
Assets	**1,097,505**	959,195	949,537	**14.4**	1.0
Debt (short-term and long-term)	**91,837**	87,824	106,769	**4.6**	(17.7)
Total debt[1]	**371,146**	408,161	463,382	**(9.1)**	(11.9)
Net debt[1]	**62,032**	193,274	169,887	**(67.9)**	13.8
Consolidated Statements of Cash Flows					
Operating activities	**121,828**	116,160	74,156	**4.9**	56.6

[1] NON-GAAP FINANCIAL MEASURES

The terms "margin", "operating cash flows", "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 Transat's financial performance.

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

Operating cash flows is used by management to assess Transat's operating performance and its capacity to meet its financial obligations. Operating cash flows are defined as 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 operations, according to the Consolidated Statements of Cash Flows.

Total debt is used by management to assess Transat's future cash requirements. It represents the combination of balance sheet debt (long-term debt and debenture) and off-balance sheet arrangements, excluding arrangements with suppliers presented on p.29.

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

OVERVIEW

The holiday travel industry

The holiday travel industry is composed mainly of tour operators, travel agencies (traditional and online) and air carriers serving the holiday travel market through a combination of scheduled and charter air services. According to the World Tourism Organization, international tourist arrivals reached a record high of 846 million in 2006 and could reach one billion by 2010.

Tour operators specialized in outgoing services purchase the various components of a trip (including certain services purchased abroad) and sell them to consumers in their local markets, generally via travel agencies, either as travel packages or separately. '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. The companies providing destination services are based at destination and sell a range of products to travellers onsite for quick or immediate consumption.

Travel agencies are the intermediaries between tour operators and consumers. Travel agents meet with, advise and sell to consumers. Travel agencies sell holiday packages and plane tickets offered by tour operators, in addition to plane tickets sold directly by airline carriers and other travel products and services. Online travel agencies now offer a large range of travel products via transactional Internet Web sites. In both North America and Europe, online travel sales are now made up almost exclusively of air-only tickets, with only a small proportion consisting of packages (including airline tickets and hotels). Sales of online packages, however, are expected to grow.

Air carriers provide services to travel agencies and tour operators. These carriers are known as "scheduled" when they sell services directly to the public and travel agencies, and as "charter" when they sell seats in blocks to tour operators.

Core business, vision and strategy

Core business – Transat is one of the largest fully integrated world-class tour operators in North America. We do business in a single industry (holiday travel) and we mainly market our products in two geographic areas (North America and Europe). Transat's core business involves developing and marketing vacation travel services in air-only or package formats, including airline seats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and elsewhere, mainly through travel agencies, some of which we own. Transat is also a major retail distributor with a total of approximately 500 travel agencies and a multi-channel distribution system that incorporates Web-based sales. Transat leverages on its subsidiary Air Transat, Canada's largest international charter air carrier, to meet a substantial portion of its airline seat needs. We also offer destination, hotel management and airport services.

Vision – The international tourism market is growing, and international tourists have increasingly varied origin markets and travel destinations. Transat's vision is to maximize shareholder value by entering new markets, increasing our market share and maximizing the benefits of vertical integration. We maintain a leadership position in the Canadian market, where we operate as an outgoing and incoming tour operator and as the country's leading charter airline. We are also 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 want to expand our business into other countries where we believe there is high growth potential for an integrated player specializing in holiday travel, namely the United States and additional European countries.

Strategy – We have completed a three-year strategic plan (2006-2008) focusing on growth and profitability. We anticipate that increased international tourism will speed our growth in North America and Europe. To this end, we will be making new acquisitions while pursuing an aggressive pace of internal growth. Our key strategic focuses are as follows:

In Canada, Transat is the leader in all regions. We plan to bolster our presence in Ontario by adding new destinations and expanding our distribution network to remain the market leader in all regions of the country.

In Europe, Transat intends to grow its market share and continue its vertical integration in France and the U.K., building on its strong presence in these two high-potential markets. Transat will also continue its initiatives to expand into other European countries as a tour operator specializing in travel to Canada, among other destinations.

Elsewhere, Transat plans to target new markets, in particular, to become a tour operator in the U.S., a strategic market which has been analyzed for some time. In addition, Transat will continue considering the possibility of penetrating other markets in North America.

Transat wishes to step up development of destination services and to assume a portion of its accommodation needs in order to gain better control over capacity and product quality, while increasing its margins. In practical terms, this may mean greater investments in the hotel industry in the Caribbean and in Mexico.

In light of rapid change in the distribution industry and travellers' expectations, and given the importance of organizational responsiveness and productivity, our strategic plan includes our ongoing technology and training initiatives and investments. To this end, Transat will strive to introduce cutting-edge solutions via agencies and direct sales in order to adapt to new markets and to continue efficiency improvements.

Transat anticipates to implement its strategic plan with funding from existing cash resources, future cash flows and external sources, as needed.

Review of 2006-2007 objectives and achievements

(See table, pages 18 to 21)

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 – Be 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 to the success of our strategies and the achievement of our objectives in the past.

Our financial resources include:

Cash – Cash and cash equivalents not held in trust or otherwise reserved amount to a strong $166.8 million as at October 31, 2007. Moreover, our continued focus on expense control and margin increases should maintain our cash balances at healthy levels, taking into consideration the possible use of cash balances to acquire businesses. We also hold a $142.3 million investment in ABCP.

Credit facilities – Since November 2007, we can also count on a revolving credit facility of $150.0 million expiring in 2012.

Our non-financial resources include:

Brand – We have taken all necessary steps, including the use of a new corporate logo and an integrated branding platform, to create a unique, strong and visible identity across our main business units with a view to maximizing customer awareness in both the B2C and B2B markets, fully leveraging the contribution of all business units and creating value.

Structure – Our vertically integrated structure ensures a 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 improving the efficiency of the Corporation. In addition, we believe we reap the benefits and expertise of strong leadership, since our founders are still at the helm.

Relationships with suppliers – We have exclusive access to certain hotels at sunshine destinations as well as almost 20 years of preferred relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2008 objectives and to continue building on its long-term strategies.

(Cont'd p.22)

2007 Objectives	Achievements or progress as at October 31, 2007
Enhance our competitiveness in Canada. In Canada, where competition remains fierce, we intend to continue growing our Ontario market share, and maintain or increase our share elsewhere. We are stepping up capacity, adding new destinations, continuing to expand the scope of our distribution network, which is increasingly efficient at combining all the channels the market expects, and pursuing initiatives to reduce costs and maximize revenue streams, particularly between Canada and the U.K. In addition, we are preparing the next stage in the initiative to renew our fleet of aircraft, whose structure remains a key competitiveness factor.	We have: ◗ Expanded and protected our market share (in Québec) and improved it (in Ontario and the West) for vacation packages to Mexico and the Caribbean during the winter season. Added new destinations to Europe in the summer (Barcelona, Malaga, Vienna) and achieved one of our objectives: be the leader in all parts of the country. ◗ Completed the integration of travel agencies acquired in 2006 and the migration to the Marlin Travel banner; increased sales of Transat products by the group's agencies; introduced a compensation plan for travel agents that is aligned with the corporate strategy; set up the foundations for a CRM program by launching the initial phase of an outbound marketing effort.
Become more competitive and accelerate our growth in Europe. We will be developing a new European expansion plan based on growth in our tour operator and distribution operations, through internal growth and potentially acquisitions. We will focus on (i) expanding our multi-channel distribution system combining various distribution strategies, including direct sales; (ii) growing the Air Transat network; (iii) optimizing business processes to reduce costs at our European operations; and of course (iv) integrating Canadian Affair's operating and marketing functions and increasing our market share between Canada and the U.K.	We have: ◗ Substantially increased our volumes, sales (by 28%) and the EBT at Look Voyages (6% of revenues), confirming the shift completed in 2006. ◗ Increased sales at Vacances Transat (France) by 9% and strengthened its long-haul offering (increase in Africa, new destinations in Asia). ◗ Acquired Amplitude Internationale, an outgoing tour operator specializing on Tunisia, the second most popular foreign destination for purchasers of packages in France.
Tap into new outgoing markets. After breaking into the British market in 2006, we continue to actively study the U.S. market in search of acquisitions, in order to gain a foothold in this market as an outgoing tour operator. We will achieve this goal via acquisitions, provided the opportunity meets our parameters.	We have: ◗ Completed an in-depth analysis of the U.S. market, approached several potential targets and held talks (in the U.S and in Europe) that did not however lead to a transaction beneficial to our shareholders.

2008 Objectives

- Successfully continued the implementation of our multi-channel distribution system, which resulted in sales increases of more than 20% on our B2C Web sites (mainly under the Air Transat brand in summer) and of more than 15% compared with 2006 via global distribution systems (GDS). Implemented online seat pre-selection.
- Developed a new growth plan for Europe.
- Maintained Air Transat fleet's excellent on-time performance and reliability ratio, increased capacity, substantially reduced costs (total costs excluding fuel) in terms of available seat miles and increased incidental revenues.

Strengthen our leadership position in Canada and the relationships between Transat Tours Canada (TTC) and our European subsidiaries active in the Transatlantic market.

- Further increase our Ontario market share for Southern destinations in winter by leveraging our leadership position achieved in 2007 and maintain or increase market share in all other parts of Canada where we are the leader.
- Start implementing the five-year expansion plan for the Transatlantic market by adding new destinations and forging closer links between TTC and our European subsidiaries acting as sellers/resellers (Canadian Affair, Vacances Transat (France) and Air Consultants Europe (ACE) as well as with Air Transat and Jonview Canada, and capitalize on our presence on both sides of the Atlantic.
- Continue to strengthen our multi-channel distribution system by consolidating the travel agency network and developing web platforms that are well-adapted to market trends.
- Increase our margins, particularly by continuing our cost control efforts, e.g. seeking new synergies among subsidiaries.

- Successfully completed the integration of Canadian Affair.
- Completed the acquisition of Air Consultants Europe (70% interest already held) and forged closer links between our European subsidiaries working with TTC and Jonview Canada.

Become more competitive and strengthen our position as an outgoing European tour operator.

- Continue to diversify destinations offered from France, based on the current business models at Look Voyages and Vacances Transat (France).
- Continue to strengthen our multi-channel distribution system by strengthening links between our travel agencies and tour operators and by developing web platforms that are well-adapted to markets trends.
- Develop a strategic growth plan for our organization in France.

- Revised our entry strategy into the U.S., based on information gathered in 2007.

Tap into new outgoing markets.

- Seek growth opportunities for outgoing tour operations in new markets, mainly in southern Europe and North America, via acquisitions that match our business model.
- Continue to seek targets in the U.S. based on new criteria, namely smaller players that are very active on the Internet.

2007 Objectives	Achievements or progress as at October 31, 2007
Further capitalize on vertical integration at destination. This initiative will be threefold: (i) increase the non-Transat sales of our incoming tour operators and destination service providers; (ii) target acquisitions in the incoming market; (iii) target acquisitions or partnerships in the hotel industry in our primary Southern markets to supply a portion of our room needs and benefit from the economic performance of this industry segment.	We have: ◗ Increased our non-Transat sales at Tourgreece, which has developed new markets: Japan, Venezuela, North Korea and Mexico. ◗ Restructured our destination service providers in the Caribbean and Mexico to become the majority shareholder of each of them, have a shared management team and generate substantial savings.
Implement a knowledge management culture complete with the necessary processes to support our growth and continuity. Acknowledging the vital contribution of human capital to the achievement of our mission statement and the necessity of anticipating our needs to drive growth, we will (i) enhance our training and development programs; and (ii) ensure that all our subsidiaries develop or fine-tune their succession plans, such as through a high-potential employee development program.	We have: ◗ Developed a formal process for reviewing organizational design using a multidimensional approach (structure, culture, talent management, management styles). ◗ Developed guiding principles and set new succession-related objectives for 2008, based on some 60 meetings with managers.
Develop and implement an integrated information management infrastructure that supports development and actively contributes to profitable growth. Taking into account specific geographic considerations, we will continue developing our business-to-business (B2B) and business-to-consumer (B2C) platforms by adding new features to support greater product sales and tight price management, thereby enhancing the breadth and flexibility of our service offering. In addition, we will (i) actively continue the pooling of assets, investments and resources among our business units to either upgrade services, achieve greater harmonization or reduce costs; (ii) pursue our plan to adopt a more efficient centralized seat management system; (iii) and implement new analytical and decision-making support tools to lower our response time.	We have: ◗ Developed a three-year IT strategic plan (2008-2010)) aimed at renewing our portfolio of applications. ◗ Implemented online seat pre-selection on Air Transat and continued the development of our platforms (B2C). ◗ Considerably improved the strength of our systems and their capacity to handle increasing volumes (B2B). ◗ Installed a new telephone infrastructure (particularly for call centres) to enhance customer service; built a new external server room to serve all Canadian subsidiaries, thereby strengthening security and our recovery capacity.
In 2007, we made sustainable tourism a strategic priority.	We have: ◗ Set up a Sustainable Tourism Committee headed by Lina De Cesare, who is responsible for planning and implementing a plan that will be developed in 2008 to adapt our processes, products and culture, and make Transat a leader in sustainable tourism in North America.

2008 Objectives

- Held discussions with several incoming tour operators in Europe that did not however lead to a transaction beneficial to our shareholders.
- Set up a joint venture in the hotel industry in Mexico and the Dominican Republic with H10 Hotels, a Spanish chain: we paid US$55 million for a 35% interest in five top-grade hotels (1,600 rooms), thereby achieving an important objective of the 2006-2008 strategic plan.

Capitalize on vertical integration at destination.

- Successfully complete the integration of our joint venture in the hotel industry and develop a growth plan.
- Seek out acquisition targets in the incoming tourism business to increase the number of destinations with a complete offering.

- Provided tailor-made management training courses for almost 600 employees .
- Launched a management certificate program in cooperation with Ryerson University in Toronto, as part of Air Transat Academy.

Provide additional resources to managers to actively ensure employee development from the perspective of long-term retention and knowledge management.

- Develop new tools to enhance managers' coaching skills.
- Make the process of identifying talent more transparent for employees.
- Improve succession management by setting up a new system for monitoring employee development plans.

- Carried out a tactical revamping of the current seat management system and undertook new actions to migrate to a new system that will be purchased in 2008.
- Implemented new analytical and decision-making tools to lower our response time as well as a new management system for aircraft maintenance, which will help better control costs. Successfully continued SAP deployment in our company.

Develop and implement an integrated information management infrastructure that supports development and actively contributes to profitable growth.

- Adapt our Internet strategy by further integrating it into our business model, with respect to both distribution channels and management processes.
- Test and select second-generation application solutions and initiate migration to such solutions while continuing to strengthen platforms, all of which contributing to profitable growth.

- Taken several initiatives, namely creating a new philanthropic program to support community-based projects, setting up environmental committees at all Transat sites, implementing an environmental certification initiative at Air Transat and continuing our aggressive fuel management program developed and implemented in 2003.
- Carefully studied the impact of potential European regulations on greenhouse gases emissions starting in 2011 on the renewal of our fleet slated for 2012.

Enhance our structures, processes and strategies to adapt to fast-changing trends in the tourism industry, particularly those resulting from expectations and challenges relating to social responsibility.

- Develop and adopt a policy and action plan to make Transat the leader in sustainable tourism, in Canada's mass tourism industry.
- Develop a medium-term development strategy that reconciles the fleet renewal plan with the potential additional costs resulting from regulations related to greenhouse gases emissions.

CONSOLIDATED OPERATIONS

Acquisitions

During the year ended October 31, 2007, 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.

On May 1, 2007, the Corporation acquired the balance of the shares (30%) of Air Consultants Europe (ACE) that it did not already own for a cash consideration of €1.3 million ($1.9 million). Since this date, ACE is a wholly owned subsidiary.

On July 11, 2007, the Corporation acquired 100% of the issued and outstanding shares of French outgoing tour operator L'Européenne de Tourisme (Amplitude Internationale) for a total consideration of €6.0 million ($8.6 million). A cash payment of €4.6 million ($6.2 million) was made on the acquisition date and the balance of €1.4 million ($1.9 million) is due by July 31, 2008. The final purchase price allocation is expected to be completed as soon as the Corporation's management has gathered all the significant information it deems necessary.

These transactions resulted in a $5.6 million increase in balance sheet goodwill. Note 18 to the audited Consolidated Financial Statements presents the purchase price allocation for the acquired businesses.

Geographic Areas

Revenues

We draw our revenues from outgoing tour operators, air transportation, travel agencies, distribution, incoming tour operators and services at travel destinations. The terms "travellers" and "passengers" will be used throughout the MD&A to explain certain changes. Basically, tour operators record round-trips in terms of travellers and airlines record flight segments in terms of passengers.

Revenues per geographic areas

Years ended October 31 (in thousands of dollars)

				Variance	
	2007 $	2006 $	2005 $	**2007 %**	2006 %
North America	**2,278,116**	2,059,611	1,896,487	**10.6**	8.6
Europe	**767,801**	544,135	467,994	**41.1**	16.3
Total	**3,045,917**	2,603,746	2,364,481	**17.0**	10.1

The overall increase is due to revenue growth of 10.6% in North America and 41.1% in Europe. The key factor driving higher revenues was the number of travellers, which increased by 18.3% over 2006. The growth in the number of travellers resulted from an increase of 6.7% in North America and 74.8% in Europe, due to the acquisition of Canadian Affair in 2006, among other factors. Higher revenues from European operations were also amplified by the weakness of the dollar against the euro and the pound sterling.

We expect that the total number of travellers in 2008 will be higher than in 2007. In light of this increased volume and our recent acquisitions, we also expect revenues to grow, compared with 2007.

Operating expenses

Our operating expenses consist mainly of direct costs, salaries and employee benefits, aircraft fuel, commissions, aircraft maintenance, airport and navigation fees, and aircraft rent.

The overall growth in operating expenses is due to a 11.4% increase in North America and a 40.1% increase in Europe. These increases resulted primarily from the higher pace of business activity, especially in Europe but also in North America, and the impact of acquisitions since 2006. As a percentage of revenues, operating expenses have marginally grown to 95.6% from 95.1% in 2006.

Approximately 30% of our operating expenses are payable in U.S. dollars. We did not however fully benefit from the rebounding Canadian dollar, due to our hedging program.

Direct costs include the cost of the various trip components sold to consumers via travel agencies and incurred by our tour operators. They also include hotel room costs and the costs of reserving blocks of seats or full flights with air carriers other than Air Transat. In 2007, these costs amounted to 52.6% of our revenues, up from 50.2% in 2006. The dollar-figure increases were mainly due to our acquisition of

Canadian Affair, which almost exclusively uses third party flights, an increased level of business operations, and higher per-seat and hotel room costs. The strength of the euro and the pound sterling against the Canadian dollar also contributed to increasing our direct costs compared to 2006.

Salaries and employee benefits rose 15.4% compared with fiscal 2006, due in part to our business acquisitions since November 1, 2005, increased business activity and the addition of two aircraft to our fleet since 2006 that required us to hire more employees.

Aircraft fuel costs rose 10.5%, or $25.9 million, during the year. This increase arose mainly from greater business activity, and the addition of one aircraft to the fleet in 2006 and another in the third quarter of 2007.

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. As a percentage of revenues, commissions decreased from 6.6% in 2006 to 6.1%, partly due to synergies resulting from the expansion of our travel agency network following acquisitions in fiscal 2006 and to the fact that most sales at Canadian Affair involve no intermediaries.

Aircraft maintenance costs relate mainly to the engine and airframe maintenance expenses incurred by Air Transat. Despite a higher pace of business activity, these expenses remained stable compared with 2006 due to, among other factors, the strength of our domestic currency against the U.S. dollar and the high reliability of our aircraft.

Airport and navigation fees mainly comprise fees charged by airports. The 20.5% increase in fees compared with the previous year resulted from greater business activity and higher airport landing fees imposed by several airports.

Aircraft rent remained stable in 2007 compared with 2006. The Canadian dollar strength against the U.S. dollar partially offset new lease payments for aircraft added to our fleet in 2006 and 2007. Aircraft rent will increase in the next fiscal year with the addition of another aircraft to our fleet at the end of the 2008 winter season.

Although they fell marginally as a percentage of revenues, other expenses were up 16.0% compared with 2006, primarily as a result of greater business activity.

Despite our continued efforts to reduce and control costs, we expect total operating expenses to increase due to growth in business activity in 2008.

North America

Winter season

In North America, revenues rose 16.7% during the 2007 winter season, compared with the corresponding season in 2006, mainly due to a 13.2% increase in the number of travellers over 2006. Throughout the winter season, competition continued to apply downward pressure on prices, particularly in Québec.

Our margin for the 2007 winter season declined to 6.5% from 7.2% in the same period in 2006. As expected, our efforts to increase market share in Ontario, which turned out to be successful, resulted in higher sales and lower margins.

Operating expenses

Years ended October 31 (in thousands of dollars)

	2007	2006	2005	% of revenues			Variance	
	2007 $	2006 $	2005 $	**2007**	2006	2005	**2007 %**	2006 %
Direct costs	**1,601,652**	1,307,732	1,168,612	**52.6**	50.2	49.4	**22.5**	11.9
Salaries and employee benefits	**334,973**	290,385	241,776	**11.0**	11.1	10.2	**15.4**	20.1
Aircraft fuel	**273,614**	247,697	199,376	**9.0**	9.5	8.4	**10.5**	24.2
Commissions	**186,686**	171,116	181,587	**6.1**	6.6	7.7	**9.1**	(5.8)
Aircraft maintenance	**81,146**	81,150	91,778	**2.7**	3.1	3.9	**—**	(11.6)
Airport and navigation fees	**86,594**	71,833	67,937	**2.8**	2.8	2.9	**20.5**	5.7
Aircraft rent	**48,883**	48,870	52,064	**1.6**	1.9	2.2	**—**	(6.1)
Other	**299,299**	258,019	240,720	**9.8**	9.9	10.2	**16.0**	7.2
Total	**2,912,847**	2,476,802	2,243,850	**95.6**	95.1	94.9	**17.6**	10.4

During the 2007 winter season, Air Transat served some 40 destinations in 18 countries, primarily southern or other sunshine destinations. During the summer months, Air Transat shifts most of its capacity to Europe, while maintaining some flights to southern destinations. In 2007, Air Transat offered direct flights to some 30 cities in 11 European countries.

Summer season

During the summer season, moderate price increases boosted revenues by 2.5%. The volume of travellers held steady over the season, compared with the same period in 2006.

Competition remained fierce, particularly between Canada and the U.K., contributing to a decline in the margin from 3.8% in 2006 to 3.0% in 2007.

Europe

Winter season

In Europe, revenues were up from the year ended October 31, 2006. In particular, package sales grew at Look Voyages, mainly as a result of heightened business activity, but also due to the euro's strength against the dollar. The volume of travellers rose 17.0% during the winter season, compared with the corresponding period of 2006.

We reported a negative margin of $1.4 million compared with a negative margin of $2.7 million in 2006. As expected, Canadian Affair generated a negative margin, which is entirely attributable to the seasonal nature of its operations, i.e. mainly in summer. Meanwhile, the margin in France improved over that in 2006.

Summer season

For the summer season, revenues were up 48.5%, mainly due to the acquisitions of Canadian Affair (in 2006) and Amplitude Internationale in July 2007. The number of travellers surged 66.5%, compared with the 2006 season. Excluding the impact of acquisitions, the number of travellers rose 21.0%, mainly due to growth at Look Voyages in France.

Our European operations generated a 3.6% margin for the summer season, up from 3.1% in 2006, helped by solid results at Look Voyages and Amplitude Internationale. These results were however partly offset by the loss incurred by Canadian Affair.

North America — Winter and summer results

Years ended October 31 (in thousands of dollars)

	Winter			Variance		**Summer**			Variance	
	2007 $	2006 $	2005 $	**2007 %**	2006 %	**2007 $**	2006 $	2005 $	**2007 %**	2006 %
Revenues	**1,375,092**	1,178,532	1,111,924	**16.7**	6.0	**903,024**	881,079	784,563	**2.5**	12.3
Operating expenses	**1,285,771**	1,093,342	1,026,033	**17.6**	6.6	**876,314**	847,474	750,778	**3.4**	12.9
Margin	**89,321**	85,190	85,891	**4.8**	(0.8)	**26,710**	33,605	33,785	**(20.5)**	(0.5)
Margin (%)	**6.5**	7.2	7.7	**(9.7)**	(6.5)	**3.0**	3.8	4.3	**(21.1)**	(11.6)

Europe — Winter and summer results

Years ended October 31 (in thousands of dollars)

	Winter			Variance		**Summer**			Variance	
	2007 $	2006 $	2005 $	**2007 %**	2006 %	**2007 $**	2006 $	2005 $	**2007 %**	2006 %
Revenues	**248,645**	194,613	205,760	**27.8**	(5.4)	**519,156**	349,522	262,234	**48.5**	33.3
Operating expenses	**250,073**	197,286	211,614	**26.8**	(6.8)	**500,689**	338,700	255,425	**47.8**	32.6
Margin	**(1,428)**	(2,673)	(5,854)	**46.6**	54.3	**18,467**	10,822	6,809	**70.6**	58.9
Margin (%)	**(0.6)**	(1.4)	(2.8)	**57.1**	50.0	**3.6**	3.1	2.6	**16.1**	19.2

Other expenses and revenues

Amortization

Amortization is calculated on property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and other assets, consisting mainly of development costs.

Amortization expense was up 9.2%, mainly as a result of additions to property, plant and equipment during the year and previous years.

Interest on long-term debt and debenture

The 14.2% decrease in interest on long-term debt and debenture compared with 2006 is mainly due to a principal repayment on a long-term debt made in the third quarter of the year ended October 31, 2007, and the strength of the dollar against the U.S. dollar since a significant portion of our long-term debt is denominated in this currency.

Other interest and financial expenses

Other interest and financial expenses remained relatively unchanged during the year, compared with the previous year.

Interest income

Growth in interest income resulted primarily from higher interest rates and higher average cash balances than in 2006.

Unrealized gain on derivative financial instruments used for aircraft fuel purchases

Subsequent to the adoption on November 1, 2006 of new accounting standards and the discontinuation of hedge accounting for its derivative financial instruments used for aircraft fuel purchases, the Corporation recognized an unrealized gain on derivative financial instruments used for aircraft fuel purchases amounting to $26.6 million for the year ended October 31, 2007. This gain corresponds to the change, during the fiscal year, in the fair value of derivative financial instruments outstanding as at October 31, 2007, used by the Corporation for managing risks related to fluctuations in fuel prices *(see Accounting section for more details)*.

Foreign exchange gain on long-term monetary items

The Corporation recorded a foreign exchange gain on long-term monetary items for the fiscal year as the Canadian dollar continued to strengthen against the U.S. dollar during the year. A stronger Canadian dollar reduces the value of our long-term monetary assets and liabilities. The foreign exchange gain on long-term monetary items was primarily due to the positive impact of exchange rates on our debt levels.

Other expenses and revenues

Years ended October 31 (in thousands of dollars)

	2007	2006	2005	Variance **2007**	Variance 2006
	$	$	$	**%**	%
Amortization	**42,973**	39,360	37,558	**9.2**	4.8
Interest on long-term debt and debenture	**6,229**	7,264	10,815	**(14.2)**	(32.8)
Other interest and financial expenses	**1,929**	1,484	1,708	**30.0**	(13.1)
Interest income	**(19,745)**	(15,706)	(12,963)	**25.7**	21.2
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	**(26,577)**	—	—	**n/a**	—
Foreign exchange gain on long-term monetary items	**(3,023)**	(4,162)	(2,309)	**(27.4)**	80.3
Writeoff of goodwill	**3,900**	—	—	**n/a**	—
Writedown of investments in ABCP	**11,200**	—	—	**n/a**	—
Gain on disposal of investment	**—**	—	(5,747)	**—**	n/a
Share of net income of companies subject to significant influence	**(651)**	(375)	(461)	**73.6**	(18.7)
Restructuring charge	**—**	—	(934)	**—**	n/a

Writeoff of goodwill

During the quarter ended October 31, 2007, the Corporation performed its annual test for impairment of goodwill and trademarks by discounting future cash flows based on the most recent financial forecasts. The fair value of a reporting unit, Travel Superstore Inc., was less than its net book value, which translated into a $3.9 million impairment of goodwill related to this reporting unit.

Writedown of investments in ABCP

On August 22, 2007, pursuant to the disruption of credit markets, the Corporation announced that a portion totalling $154.5 million of cash on hand was invested in non-bank ABCP with ten different ABCP trusts. Our results for the year include a writedown of $11.2 million in respect of our ABCP holdings.

The Canadian market for third party sponsored ABCP suffered a liquidity disruption in mid-August 2007 following which 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. Participants to the Accord also agreed in principle to the conversion of the ABCP investments into longer-term financial instruments with maturities corresponding to the underlying assets. A Pan-Canadian Investors Committee was subsequently set up to successfully restructure the Canadian ABCP market, bring back liquidity, create transparency and optimize value for holders of notes and to achieve all the foregoing as quickly as possible. The signatories to the Accord, which do not include the Corporation, agreed in principle on December 23, 2007, to restructure all of the conduits except one. The solution would segregate the conduits into three different categories based on the underlying assets. Information about valuation and specifics of the restructuring is not yet available to investors and wil be sent to investors in the coming week in order to complete the restructuring by the end of March 2008.

Since there is no active market for ABCP securities, the Corporation's management has estimated the fair value of these assets using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, the relevant market interest rate, amounts to be received, maturity dates and assumptions regarding the likelihood that the restructuring process will proceed as planned by the Investors Committee. As a result of the valuation, the Corporation has recognized an $11.2 million writedown reflecting the estimated decline in fair value of these investments as at October 31, 2007, including a provision for its estimated share of restructuring costs associated with the Accord.

The Corporation's estimate of the fair value of its ABCP investments as at October 31, 2007 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 quarters. 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 or financial position. The Corporation holds or has access to sufficient cash to meet all its financial, operational and regulatory obligations. Cash in trust, representing deposits from customers, as well as cash on hand, are held either as cash or invested in liquid instruments (mainly cash and term deposits) with a broad range of major financial institutions and have no exposure whatsoever to the current ABCP market disruption.

Subsequent to year-end, the Corporation was repaid $10.8 million in ABCP securities, following the successful restructuring and distribution of the assets of one of the trusts. The nominal value of these securities was $11.0 million.

Gain on disposal of investment

In June 2005, we signed an agreement that led to the sale of our 44.27% stake in Star Airlines S.A. for a total consideration of €4.5 million. This transaction resulted in a $5.7 million gain on disposal.

Income taxes

Our income tax expense for the fiscal year ended October 31, 2007 amounted to $35.6 million, compared with $32.0 million for fiscal 2006. Excluding the share in net income of companies subject to significant influence, the effective tax rate was 30.7% for the fiscal year ended October 31, 2007 and 32.5%, for the preceding year.

The lower tax rate results mainly from the use by our French companies of a portion of their tax loss

carryforwards for which no income tax assets have been recognized. However, our effective tax rate for fiscal 2007 would have been 37.0% compared with 35.1% in 2006, had we recorded income tax assets related to these loss carryforwards.

Net income

As a result of the items discussed in "Consolidated operations" of this MD&A, our net income totalled $80.5 million, or $2.38 per share, for fiscal 2007, compared with a net income of $65.8 million, or $1.88 per share, for fiscal 2006. For fiscal 2007, the average number of outstanding shares used to determine the per share amounts was 33,763,000, and for fiscal 2006, 34,907,000.

On a diluted per share basis, earnings per share for fiscal 2007 amounted to $2.36, compared with $1.85 for fiscal 2006. The adjusted weighted average number of shares used to determine diluted earnings per share was 34,212,000 for the current year and 35,660,000 for 2006 *(see note 15 to the audited Consolidated Financial Statements)*.

Excluding the unrealized gain on derivative financial instruments used for aircraft fuel purchases, the writeoff of goodwill and the writedown of investments in ABCP, income in 2007 would total $74.5 million or $2.18 per fully diluted share.

Selected unaudited quarterly financial information

Overall, revenues in 2007 were up compared with 2006, primarily due to an increase in the number of travellers and to the acquisitions made since fiscal 2006.

Our margins fluctuated over the different quarters in 2007, compared with 2006, generally shrinking as a result of fierce competition throught the fiscal year.

Fourth-quarter highlights

For the fourth quarter, the Corporation generated revenues of $680.4 million, up $60.9 million or 9.8%, from $619.5 million for the corresponding period in 2006. This increase is primarily attributable to the growth in revenues generated by Canadian tour operators, and higher rev-enues in France resulting from internal growth at Look Voyages and the acquisition of Amplitude Internationale in July 2007.

The margin for the fourth quarter was $20.5 million, or 3.0%, compared with $28.8 million, or 4.7%, in 2006. Although operations in France generated solid returns, price pressure was extremely strong on Canada-U.K. flights due to greater capacity deployed by other players and higher taxes imposed by the U.K., all of which having a negative impact on the quarter's margins.

The quarterly results were affected by several non-cash items including an $11.2 million writedown ($8.0 million after-tax) in respect of ABCP investments, a $3.9 million writedown of goodwill from the Corporation' investment in Travel Superstore Inc., a group of travel agencies based in Ontario, and a gain of $13.6 million ($9.1 million after tax) resulting from the changes in the fair value of financial instruments used for fuel purchases.

Net income for the fourth quarter amounted to $7.7 million, or $0.23 per share on a diluted basis, compared with $13.6 million, or $0.39 per share in 2006. Excluding the above-mentioned non-cash items not related to operations, net income would total $10.4 million ($0.31 per share on a diluted basis) compared with $13.6 million ($0.39 per share on a diluted basis).

Selected unaudited quarterly financial information

(In thousands of dollars, except per share data)

	Q1		Q2		Q3		Q4	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Revenues	**712,337**	581,576	**911,400**	791,569	**741,762**	611,107	**680,418**	619,494
Margin	**24,674**	14,030	**63,219**	68,487	**24,722**	15,606	**20,455**	28,821
Net income	**2,132**	5,168	**53,944**	42,845	**16,749**	4,205	**7,655**	13,552
Basic earnings per share	**0.06**	0.14	**1.59**	1.27	**0.50**	0.12	**0.23**	0.40
Diluted earnings per share	**0.06**	0.13	**1.58**	1.24	**0.49**	0.12	**0.23**	0.39

LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2007, cash and cash equivalents totalled $166.8 million, compared with $214.9 million in 2006. Cash and cash equivalents in trust or otherwise reserved amounted to $168.2 million at the end of fiscal 2007, compared with $203.6 million in 2006. Our balance sheet shows a working capital of $71.5 million with a ratio of 1.1, compared with $97.6 million and a ratio of 1.2 in 2006.

On November 16, 2007, the Corporation entered into an agreement with a financial institution for an unsecured revolving credit facility of $150.0 million as well as a revolving credit facility of $60.0 million for the purposes of issuing letters of credit, in respect of which the Corporation must pledge cash as security for 105% of letters of credit issued. This agreement expires on November 16, 2012. 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, plus a premium based on certain financial ratios calculated on a consolidated basis.

With regard to our French operations, we also have access to unused lines of credit totalling €11.3 million ($15.5 million).

Total assets increased by $137.9 million, or 14.4 %, to $1,097.5 million from $959.6 million as at October 31, 2006. Shareholders' equity fell by $13.1 million, from $296.0 million as at October 31, 2006 to $282.9 million as at October 31, 2007. The increase in assets and liabilities and the decrease in shareholders' equity result primarily from the application of new accounting standards on financial instruments leading to the recognition of the fair value of derivative financial instruments in the balance sheet and, for derivative financial instruments designated as hedges for the purposes of hedge accounting, to a decrease in accumulated other comprehensive income reported under shareholders' equity *(see "Accounting" for more details)*.

Operating activities

Cash flows totalling $121.8 million were generated from operating activities, up $5.7 million from 2006, mainly as a result of heightened business activities.

We expect to continue to generate positive cash flows from our operating activities in 2008.

Investing activities

Cash flows used in investing activities during the fiscal year increased by $115.7 million to $160.8 million from $45.1 million in 2006. Besides the reporting of our investments in ABCP as an investing activity, the increase results primarily from the $17.7 million addition to property, plant and equipment, mainly made up of investments in computer hardware and software as well as improvements made to our aircraft fleet, offset by the positive net change in cash and cash equivalents in trust or otherwise reserved.

In 2008, we expect that additions to property, plant and equipment will total between $40.0 million and $50.0 million.

Summary of Cash Flows

Years ended October 31 (in thousands of dollars)

				Variance	
	2007 **$**	2006 $	2005 $	**2007** **%**	2006 %
Cash flows from operating activities	**121,828**	116,160	70,434	4.9	64.9
Cash flows from investing activities	**(160,757)**	(45,054)	(39,468)	(256.8)	(14.2)
Cash flows from financing activities	**(14,830)**	(152,046)	(44,091)	90.2	(244.8)
Effect of exchange rate changes on cash and cash equivalents	**5,640**	2,332	(4,255)	141.9	154.8
Net change in cash and cash equivalents	**(48,119)**	(78,608)	(17,380)	38.8	(352.3)

The above table summarizes the cash flow activity and should be read in conjunction with the audited Consolidated Statements of Cash Flows

Financing activities

During the year, cash flows used from financing activities totalled $14.8 million for the fiscal year, down $137.2 million compared with 2006, mainly because share repurchases in fiscal 2007 fell by $108.5 million. During the fiscal year, we repaid $26.1 million of our long-term debt, mainly relating to certain aircraft, and in the fourth quarter, we drew an amount of $39.9 million from our new long-term credit facility. Last, we issued $6.8 million in shares during the fiscal year and paid out $11.5 million in dividends, compared with $1.9 million and $4.7 million respectively in 2006.

Off-balance sheet arrangements and contractual obligations

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact its future operations and cash flows. Some of these obligations are reported as liabilities in the Corporation's Consolidated Financial Statements for the year. These obligations totalled $91.8 million as at October 31, 2007 ($87.8 million in 2006). Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and are made up of:

- Guarantees *(see notes 11 and 23 to the audited Consolidated Financial Statements)*
- Operating leases *(see note 22 to the audited Consolidated Financial Statements)*
- Agreements with suppliers *(see note 22 to the audited Consolidated Financial Statements)*

The estimated off-balance sheet debt totalled $504.9 million as at October 31, 2007 ($550.8 million in 2006).

Off-balance sheet debt

(In thousands of dollars)

	2007 $	2006 $
Guarantees		
Irrevocable letters of credit	**10,751**	5,751
Security contracts	**848**	780
Operating leases		
Commitments under operating leases	**267,710**	313,806
Agreements with suppliers	**225,603**	230,418
Total	**504,912**	550,755

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 security contracts. Historically, Transat has not made any significant payments under such guarantees. With operating leases, the Corporation can lease certain items rather than acquire them. Agreements with suppliers are negotiated to reserve hotel rooms, blocks of seats and flights.

We believe that the Corporation will be able to meet its obligations with existing funds, operating cash flows and borrowings under existing credit facilities.

Payments due by period

Years ending October 31 (in thousands of dollars)

Contractual obligations	2008	2009	2010	2011	2012	2013 and later	Total
Debenture	—	3,156	—	—	—	—	3,156
Long-term debt	48,794	—	—	—	39,887	—	88,681
Operating leases (aircraft)	44,933	39,446	23,253	12,548	3,138	379	123,697
Operating leases (other)	20,492	17,276	15,165	13,440	12,839	64,801	144,013
Agreements with suppliers	162,145	37,991	14,634	7,063	3,770	—	225,603
Total	**276,364**	**97,869**	**53,052**	**33,051**	**59,634**	**65,180**	**585,150**

The above table summarizes the Corporation's obligations and commitments to make future payments under contracts, including long-term debt, operating leases, debentures and agreements with suppliers. Additional information is contained in notes 11, 12, 13 and 22 to the audited Consolidated Financial Statements

OTHER

Normal course issuer bid

On June 15, 2007, the Corporation renewed, for a 12-month period, the normal course issuer bid that expired on June 14, 2007, with the intention to repurchase for cancellation up to a maximum of 3,288,003 of its Class A Variable Voting Shares and Class B Voting Shares, representing less than 10% of the publicly held Class A Variable Voting Shares and Class B Voting Shares at the date the renewal bid was filed.

This program allows the Corporation to purchase Class A Variable Voting Shares and Class B Voting Shares in the normal course of business, i.e., when the Corporation believes that the Class A Variable Voting Shares and Class B Voting Shares are undervalued by the market.

These purchases are to be made via the Toronto Stock Exchange in accordance with its policy on normal course issuer bids. The price the Corporation will pay for any Class A Variable Voting Shares and Class B Voting Shares will be the market price at the time of acquisition, plus brokerage fees. Purchases began on June 15, 2004, and will terminate no later than June 14, 2008.

During the year, 736,100 voting shares, made up of Class A Variable Voting Shares and Class B Voting Shares, were purchased for cancellation for a cash consideration of $23.9 million.

Dividends

During the year, the Corporation declared and paid dividends totalling $11.5 million. During the 2007 second quarter, the Corporation increased its quarterly dividend by $0.02 per share to $0.09 per share.

Shares issued and outstanding

As at October 31, 2007, the number of Class A Shares and Class B Shares totalled 1,978,743 and 31,649,643, respectively.

Stock options

As at October 31, 2007, the number of outstanding options totalled 506,083, of which 250,993 were exercisable.

Subsequent event

On December 10, 2007, the Corporation acquired a 35% interest in Caribbean Investments B.V., a company that operates five hotels in Mexico and in the Dominican Republic, for a cash consideration of US$55.0 million.

ACCOUNTING

Financial instruments

Management of fuel price and foreign exchange risks

In the normal course of business, the Corporation is exposed to risks related to changes in certain foreign exchange rates and in fuel prices. The Corporation manages these risks through various derivative financial instruments. Management is responsible for determining the acceptable level of risk and only uses derivative financial instruments to hedge existing commitments or obligations and not to realize a profit on trading activities notwithstanding wether or not hedge accounting is used to account for these financial instruments.

The Corporation has entered into fuel purchasing forward contracts maturing in less than two years to manage exposure to fuel price fluctuations. To manage foreign exchange risks, it has also entered into foreign exchange forward contracts, expiring in less than two years, for the purchase and sale of foreign currencies.

Note 6 to the audited Consolidated Financial Statements for the year ended October 31, 2007 (included in this Annual Report) contains additional information on derivative financial instruments.

Credit risk

Except for its investments in ABCP, the Corporation believes it is not exposed to a significant concentration of credit risk. The risk to which the Corporation is exposed in relation to derivative financial instruments is limited to the replacement cost of contracts at market prices in the event of default by one of the parties. Management is of the opinion that the credit risk related to financial instruments is well controlled because the Corporation only enters into agreements with large financial institutions with suitable credit ratings. Cash and cash equivalents are invested on a diversified basis in investment-grade corporations. More than 90% of the Corporation's investments in ABCP are invested in funds whose assets are ranked

AAA according to the most recent ranking by Dominion Bond Rating Service (DBRS) dated November 6, 2007. Accounts receivable generally arise from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, which are dispersed over a wide geographic area.

Fair value of financial instruments reported in the balance sheets

Following the adoption, on November 1, 2006, of the new recommendations of the Canadian Institute of Chartered Accountants ["CICA"], including Section 3855, "Financial Instruments – Recognition and Measurement," all the Corporation's derivative financial instruments are presented at their fair value in the balance sheet. Cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, and investments in ABCP are also presented at their fair value in the balance sheet.

The carrying amounts of the financial assets designated as loans and receivables consisting primarily of accounts receivable 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 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.

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. Related party transactions and balances are not material.

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. Our estimates involve judgements we make based on the information available to us. Actual results may differ materially from these estimates.

In the discussion below, we have identified a number of 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 cash flows might be substantially different if we had used different estimates in the current period or if these estimates were likely 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 investments in ABCP

(See "Consolidated Operations: Writedown of investments in ABCP" section.)

Provision for aircraft overhaul

The Corporation provides for aircraft overhaul expenses, mainly for engines and airframes, for its aircraft based on an estimate of all such future expenses until the expiry of the leases for these aircraft, or on their estimated useful lives when owned by the Corporation. These expenses are amortized over the total number of engine cycles and the total number of estimated airframe hours over the same periods. These expenses are charged to income according to

the number of cycles used or over the completed fiscal months, by a provision for future costs or the amortization of the capitalized overhaul costs, as the case may be. Any changes in demand for air travel or in the economy as a whole, or any additional actions by management, could alter the factors used to estimate this provision. This may result in charges that could materially affect our results, financial position and cash flows. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by approximately 15%, to produce additional charges that could have a material impact on our results, financial position and cash flows.

Goodwill and intangible assets

We record material balance sheet amounts under goodwill and other intangible assets calculated using the historical cost method. We are required to measure goodwill and intangible assets that have indefinite lives, such as trademarks, each year, or more often if events or changes in circumstances indicate it is more likely than not that they might be impaired. Our review is based on an asset's or operating unit's ability to generate future cash flows. We carry out an analysis by estimating the discounted cash flows attributable to each asset. This analysis requires us to make a variety of judgements 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 factors. Any changes may result in non-cash charges that could materially affect our results and financial position. Generally speaking, the main assumptions would have to be reduced by 30%-70% (depending on the operating unit), to produce a significant loss in value for the operating unit and have a material impact on our results and financial position. However, reducing these assumptions would only result in a non-cash charge and would not affect our cash flows.

Property, plant and equipment

Property, plant and equipment in the balance sheet includes material amounts based on historical costs. These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Our review is based on an asset's ability to generate future cash flows. We carry out an analysis by estimating the net undiscounted cash flows attributable to each asset. This analysis requires us to make a variety of judgements concerning our future operations. The cash flow forecasts used to determine asset values may change in the future due to market conditions or other factors. Any changes may result in non-cash charges that could materially affect our results and financial position. 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.

Accounting changes

On November 1, 2006, the Corporation adopted retroactively, without restatement of prior periods, the recommendations of the following sections of the *Canadian Institute of Chartered Accountants Handbook*: Section 1530, “Comprehensive Income,” Section 3855, “Financial Instruments – Recognition and Measurement,” and Section 3865, “Hedges.”

Section 1530 requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income represents the change in an enterprise's net assets resulting from transactions, events and circumstances from non-shareholder sources.

Section 3855 prescribes the recognition and measurement standards for financial assets, financial liabilities and derivatives. These standards prescribe when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. These standards also specify how financial instrument gains and losses are to be presented. Based on their classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

The Corporation has used the following classifications:

- Cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, short-term investments and derivative financial instruments used to manage exposure to fuel price fluctuations are classified as “Assets held-for-trading.” These assets are measured at fair value and the gains or losses arising from subsequent measurements at the end of each period are recorded in net income.

- Accounts receivable are classified under "Loans and receivables." They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Bank loans, accounts payable and accrued liabilities, the debenture and long-term debt are classified under "Other financial liabilities." They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Section 3865 prescribes the standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is discretionary. It offers entities the possibility of applying different reporting options than those set out in Section 3855 to qualifying transactions that they elect to designate as being part of a hedging relationship for accounting purposes. The Corporation elected to continue applying hedge accounting for its foreign exchange forward contracts, recorded as cash flow hedges, and its U.S. dollar loans secured by aircraft, recorded as fair value hedges. The Corporation also enters into fuel purchasing forward contracts to manage exposure to fuel price fluctuations. For these derivative instruments, the Corporation decided to cease using hedge accounting. Unrealized gains or losses were recognized in other comprehensive income at the transition date, namely November 1, 2006, and are recognized in net income under "Aircraft fuel" when contracts expire and the related fuel purchases occur.

The adoption of these new standards translated, as at November 1, 2006, into a $12.4 million decrease in accumulated other comprehensive income, a $3.5 million increase in derivative financial instruments reported under assets, a $6.1 million increase in future income tax assets, a $21.6 million increase in derivative financial instruments reported under liabilities and a $0.4 million increase in long-term debt.

For the year ended October 31, 2007, the Corporation recognized an unrealized loss of $59.0 million (net of $28.5 million in related income taxes) under other comprehensive income representing the effective portion of the change in fair value of the derivatives designated as cash flow hedges. The amount thus recognized was reclassified under "Operating expenses" for the periods during which the operating expenses were affected by the variability in the hedged item's cash flows. A $2.2 million gain was recognized in net income during the year ended October 31, 2007. A loss estimated at $81.4 million, included in "Accumulated other comprehensive income" as at October 31, 2007, should be reclassified under net income during the next fiscal year.

For the year ended October 31, 2007, the Corporation recognized a loss of $12.1 million (net of $6.0 million in related income taxes) under other comprehensive income representing the portion of unrealized losses on fuel purchasing contracts realized at the transition date. Unrealized losses amounting to $0.5 million, included in "Accumulated other comprehensive income" as at October 31, 2007, should be reclassified under net income during the next fiscal year.

The adoption of these new standards has no impact on the Corporation's cash flows. However, it increased net income and diluted earnings per share for the year ended October 31, 2007 by $17.8 million and $0.52 respectively.

Future accounting changes

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, as set out in note 2 to the Consolidated Financial Statements for the year ended October 31, 2007, 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 all entities for fiscal years beginning on or 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:

Leased aircraft

Under the terms of the leases, the Corporation is required to maintain the aircraft in serviceable condition and follow the maintenance plan. This commitment creates an implicit obligation for the lessor whose past events arise from the use of leased aircraft. 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 will be adopted retroactively with restatement of prior fiscal years. The adoption of these new standards will translate into the following changes: as at November 1, 2006, a $2.6 million increase in retained earnings and, as at October 31, 2007, a $17.0 million net decrease in property, plant and equipment, a $17.8 million decrease in the provision for aircraft overhaul, a $0.3 million increase in future income tax liabilities and a $0.6 million increase in retained earnings. For the year ended October 31, 2007, the adoption of these new standards will translate into the following changes: a $5.0 million decrease in maintenance expenses, an $8.0 million increase in amortization of property, plant and equipment and a $1.0 million decrease in future income tax expense, for a $2.0 million decrease in net income and a $0.06 decrease in diluted earnings per share. For the year ended October 31, 2007, the adoption of these new standards will also translate into the following changes: a $12.6 million increase in cash flows relating to operating activities and a decrease in cash flows related to investing activities of the same amount.

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

Other standards

The CICA has issued the following accounting standards to take effect on November 1, 2007 for the Corporation: Section 3862, "Financial Instruments – Disclosures," Section 3863, "Financial Instruments – Presentation," Section 1535, "Capital Disclosures," Section 3031, "Inventories," and Section 1506, "Accounting Changes."

Sections 3862 and 3863 will replace 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 will require supplementary disclosure regarding the Corporation's capital management and compliance with any externally imposed capital requirements.

Section 3031 will provide guidance on the method for determining the cost of inventories. The new accounting standard recommends that inventories be valued at the lower of cost and net realizable value. The standard further requires the reversal of previously recorded writedowns to net realizable value when there is clear evidence that net realizable value has increased. Additional disclosure will also be required under this standard. The adoption of Section 3031 is not expected to have a material effect on the Corporation's financial statements.

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

CONTROLS AND PROCEDURES

The implementation of the Canadian Securities Administrators Multilateral 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 of internal control over financial reporting.

Management has designed disclosure controls and procedures to provide reasonable assurance that material information relating to the Corporation is made known to the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer, particularly during the period in which the annual filings are being prepared.

These two certifying officers evaluated the effectiveness of the Corporation's disclosure controls and procedures as of October 31, 2007, and based on their evaluation, they have concluded that these controls and procedures are effective. This evaluation, among other things, took into consideration the Corporate Disclosure Policy, the sub-certification process, and the operation of its Disclosure Committee.

Management has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have evaluated the design of the Corporation's internal controls over financial reporting as of the end of the period covered by the annual filings, and believe the design to be sufficient to provide such reasonable assurance.

Finally, there has been no change in the Corporation's internal control over financial reporting that occurred during the fourth quarter of fiscal 2007 that materially affected, or is likely to materially affect, the Corporation's internal control 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.

Investments in ABCP

(See "Consolidated Operations: Writedown of investments in ABCP" section.)

Competition

Competition is fierce in the holiday travel industry. Some competitors are large, 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 might 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 earnings. 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 prices, or that any price increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results. We purchase forward contracts 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 to purchase such products and services directly from suppliers, thereby bypassing not only tour operators such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. Although direct Internet sales in the vacation travel segment remain limited for now, risks can arise since shifts in industry dynamics in the distribution business occur rapidly. In order to address this issue, Transat is in the process of developing 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 gradual erosion of 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. Generally speaking, these suppliers can terminate or modify existing agreements with us at 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. In the event rapid changes in these technologies require higher-than-anticipated capital expenditures to improve customer service, our operating results could be affected. 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. If the flow of advance payments diminishes and if Transat is 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 adversely 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 to respond 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. Moreover, 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 protecting its own carriers against such risks. However, there can be no assurance that the Canadian government will not amend its coverage, particularly should the U.S. government 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 large 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 concerning upcoming bargaining agreements

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

OUTLOOK

Winter reservations in North America are slightly ahead of those last year at the same date. Excess supply and late reservations are applying greater downward pressure than last year on selling prices and first quarter margins. It is too early to comment on volumes and margins for the season as a whole.

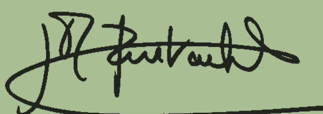
Reservations for the winter season in Europe are up compared with the previous year and the Corporation expects to improve its margins slightly.

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

François Laurin
Vice-President, Finance and Administration
and Chief Financial Officer

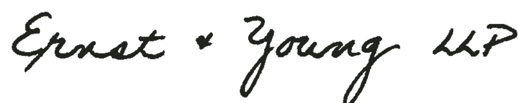
To the Shareholders of Transat A.T. Inc.

We have audited the consolidated balance sheets of Transat A.T. Inc. as at October 31, 2007 and 2006 and the consolidated statements of income, comprehensive income, retained earnings 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, 2007 and 2006 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 6, 2007



Ernst & Young LLP
Chartered Accountants

Consolidated balance sheets

As at October 31
(In thousands of dollars)

	2007 $	2006 $
ASSETS		
Current assets		
Cash and cash equivalents	166,768	214,887
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	168,196	203,613
Investments in ABCP *[note 5]*	142,346	—
Accounts receivables	109,128	87,996
Income tax receivable	13,037	—
Future income tax assets *[note 19]*	25,250	1,357
Inventories	8,931	8,312
Prepaid expenses	45,981	43,706
Derivative financial instruments *[notes 3 and 6]*	26,997	420
Current portion of deposits	31,077	29,849
Total current assets	737,711	590,140
Deposits *[note 7]*	17,191	19,350
Future income tax assets *[note 19]*	9,341	7,120
Property, plant and equipment *[notes 8 and 12]*	180,000	181,349
Goodwill and other intangible assets *[note 9]*	148,515	153,681
Derivative financial instruments *[notes 3 and 6]*	316	—
Other assets *[note 10]*	4,431	7,975
	1,097,505	959,615
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	281,985	236,282
Income taxes payable	8,757	10,122
Future income tax liabilities *[note 19]*	298	—
Customer deposits and deferred income	237,898	218,875
Derivative financial instruments *[notes 3 and 6]*	88,469	—
Payments on current portion of long-term debt	48,794	27,305
Total current liabilities	666,201	492,584
Long-term debt *[notes 11, 12 and 25]*	39,887	57,363
Debenture *[note 13]*	3,156	3,156
Provision for aircraft overhaul	49,527	64,961
Other liabilities *[note 14]*	32,189	31,934
Derivative financial instruments *[notes 3 and 6]*	6,135	—
Future income tax liabilities *[note 19]*	17,542	13,654
	814,637	663,652
Shareholders' equity		
Share capital *[note 15]*	156,964	151,430
Retained earnings	190,534	142,116
Contributed surplus	1,871	1,379
Warrants *[note 15]*	—	1,016
Accumulated other comprehensive income *[notes 3, 6 and 16]*	(66,501)	22
	282,868	295,963
	1,097,505	959,615

Commitments and contingencies *[note 22]* and Subsequent events *[note 25]*

See accompanying notes to consolidated financial statements.

On behalf of the Board:
Jean-Marc Eustache, Director
André Bisson, O.C., Director

Consolidated statements of income

Years ended October 31
[In thousands of dollars, except per share amounts]

	2007 $	2006 $
Revenues	3,045,917	2,603,746
Operating expenses		
Direct costs	1,601,652	1,307,732
Salaries and employee benefits	334,973	290,385
Aircraft fuel	273,614	247,697
Commissions	186,686	171,116
Aircraft maintenance	81,146	81,150
Airport and navigation fees	86,594	71,833
Aircraft rent	48,883	48,870
Other	299,299	258,019
	2,912,847	2,476,802
	133,070	126,944
Amortization *[note 17]*	42,973	39,360
Interest on long-term debt and debenture	6,229	7,264
Other interest and financial expenses	1,929	1,484
Interest income	(19,745)	(15,706)
Unrealized gain on derivative financial instruments related to aircraft fuel purchases	(26,577)	—
Foreign exchange gain on long-term monetary items	(3,023)	(4,162)
Write-off of goodwill *[note 9]*	3,900	—
Writedown of investments in ABCP *[note 5]*	11,200	—
Share of net income of companies subject to significant influence	(651)	(375)
	16,235	27,865
Income before the following items	116,835	99,079
Income taxes (recovery) *[note 19]*		
Current	28,222	32,558
Future	7,396	(512)
	35,618	32,046
Income before non-controlling interest in subsidiaries' results	81,217	67,033
Non-controlling interest in subsidiaries' results	(737)	(1,263)
Net income for the year	80,480	65,770
Basic earnings per share *[note 15]*	2.38	1.88
Diluted earnings per share *[note 15]*	2.36	1.85

See accompanying notes to consolidated financial statements.

Consolidated statements of comprehensive income

Years ended October 31
(In thousands of dollars)

	2007 $	2006 $
Net income for the year	80,480	65,770
Other comprehensive income		
Changes in the fair value of derivatives designated as cash flow hedges (net of income taxes of $28,546)	(59,036)	—
Losses on derivatives designated as cash flow hedges before November 1, 2006 included in net income during the period (net of income taxes of $5,950)	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 and the pound sterling	(7,132)	2,613
	(54,088)	2,613
Net comprehensive income for the year	26,392	68,383

See accompanying notes to consolidated financial statements.

Consolidated statements of retained earnings

Years ended October 31
(In thousands of dollars)

	2007 $	2006 $
Retained earnings, beginning of year	142,116	183,718
Net income for the year	80,480	65,770
Premium paid on share repurchase *[note 15]*	(20,561)	(102,327)
Share repurchase costs, net of related income taxes of $145	—	(308)
Dividends	(11,501)	(4,737)
Retained earnings, end of year	190,534	142,116

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

Years ended October 31
(In thousands of dollars)

	2007 $	2006 $
OPERATING ACTIVITIES		
Net income	80,480	65,770
Operating items not involving an outlay (receipt) of cash:		
Amortization	42,973	39,360
Unrealized gain on derivative financial instruments related to the purchase of aircraft fuel	(26,577)	—
Foreign exchange gain on long-term monetary items	(3,023)	(4,162)
Write-off of goodwill	3,900	—
Changes in the fair value of investments in ABCP	11,200	—
Share of net income of companies subject to significant influence	(651)	(375)
Non-controlling interest in subsidiaries' results	737	1,263
Future income taxes	7,396	(512)
Pension expense	2,809	2,572
Compensation expense related to stock option plan	1,577	886
	120,821	104,802
Net change in non-cash working capital balances related to operations	17,324	8,749
Net change in the provision for aircraft overhaul	(15,434)	1,152
Net change in other assets and liabilities related to operations	(883)	1,457
Cash flows relating to operating activities	121,828	116,160
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(40,073)	(22,366)
Cash and cash equivalents of acquired companies	5,607	49,797
Consideration paid for acquired companies	(8,162)	(56,780)
Acquisition of investments in ABCP	(153,546)	—
Net change in cash and cash equivalents in trust or otherwise reserved	35,417	(15,705)
Cash flows relating to investing activities	(160,757)	(45,054)
FINANCING ACTIVITIES		
Increase in long-term debt	39,887	—
Repayment of long-term debt	(26,088)	(6,312)
Repayment of debentures	—	(10,000)
Proceeds from issuance of shares	6,816	1,878
Share repurchase	(23,944)	(132,422)
Share repurchase costs	—	(453)
Dividends	(11,501)	(4,737)
Cash flows relating to financing activities	(14,830)	(152,046)
Effect of exchange rate changes on cash and cash equivalents	5,640	2,332
Net change in cash and cash equivalents	(48,119)	(78,608)
Cash and cash equivalents, beginning of year	214,887	293,495
Cash and cash equivalents, end of year	166,768	214,887
Supplementary information		
Income taxes paid	43,391	26,348
Interest paid	6,774	6,895

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

October 31, 2007 and 2006

[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

1

INCORPORATION AND NATURE OF BUSINESS

Transat A.T. Inc. [the "Corporation"], incorporated under the Canada Business Corporations Act, is an integrated company operating in the tourism industry, specializing in the organization, marketing and distribution of holiday travel. The core of its business consists of tour operators based in Canada and Europe. The Corporation is also involved in air transportation and value-added services at travel destinations. 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 aircraft overhaul, 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 the 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, bankers' acceptances and commercial paper 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 according to the first-in, first-out method, and replacement cost.

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:

Aircraft *[note 3]*	7 to 10 years
Improvements to aircraft under operating leases	Lease term
Aircraft equipment	5 to 10 years
Computer hardware and software	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
Hangar and administrative buildings	35 years

Goodwill and other intangible assets

Goodwill and other intangible assets with an indefinite life have not been amortized.

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired. Goodwill is 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. The impairment test consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to income in the period in which the loss is recognized. The Corporation uses the discounted cash flow method to assess the fair value of its reporting units.

Intangible assets acquired that have an indefinite life, such as trademarks, are also tested for impairment annually or more often if events or changes in circumstances indicate that it is more likely than not that they are impaired. The impairment test consists of a comparison of the fair value of intangible assets with their carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to income in the period in which the loss is recognized. The Corporation uses the discounted cash flow method to assess the fair value of its intangible assets.

Intangible assets with definite useful lives, such as customer lists, are amortized on a straight-line basis over terms ranging from seven to ten 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.

Other assets

Other assets consist in particular of development costs and investments in companies subject to significant influence.

Development costs are amortized over periods not exceeding five years. Investments in companies subject to significant influence are accounted for using the equity method.

Provision for aircraft overhaul for aircraft overhaul *[note 3]*

The Corporation provides for aircraft overhaul expenses, primarily for engines and airframes, using the accrue-in-advance method based on an estimate of all future expenses until the expiry of the leases for these aircraft leased under operating leases, or for their estimated useful lives anticipated for the Corporation while held, allocated over the total number of engine cycles and the total number of months anticipated for the airframe and other components over the same periods.

These expenses are charged to income according to the number of cycles used or over the completed fiscal months, by a provision for future costs or the amortization of the capitalized overhaul costs, as the case may be.

The Corporation makes deposits representing a portion of expected engine and airframe overhaul expenses to certain aircraft lessors. These deposits are usually recoverable upon presentation of claims for eligible overhaul expenses. Amounts so claimed are included in assets as “Accounts receivable.” The excess of the provision for future overhaul expenses over deposits made and unclaimed is included in liabilities as “Provision for aircraft overhaul.”

Foreign currency translations

(a) Self-sustaining foreign operations

The Corporation translates the accounts of its self-sustaining foreign subsidiaries into Canadian dollars using the current rate method. Assets and liabilities are translated at the exchange rates in effect at period-end. 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.

(b) 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 current period.

2

SIGNIFICANT ACCOUNTING POLICIES

[Cont'd]

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 option awards 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 net 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 awarded based on the fair value of the shares at the award date. Fluctuations in the share price subsequent to the award 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 award 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 on passengers' departure. Commission revenues of travel agencies are recognized at the reservation date. Amounts received from customers for services not yet rendered are included in current liabilities as "Customer deposits and deferred income."

Financial instruments *[note 3]*

Classification of financial instruments

The Corporation made the following classifications on November 1, 2006:

Cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, investments in asset-backed commercial paper [ABCP] and derivative financial instruments used to manage exposure to fuel price instability are classified as "Held-for-trading assets." These assets are measured at fair value and the gains or losses arising from the remeasurement at the end of each period are recorded in net income. The portion of the change in fair value attributable to implied interest is presented in the interest income.

Accounts receivable are classified under "Loans and receivables." They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Bank loans, accounts payable and accrued liabilities, the debenture and long-term debt are classified under "Other financial liabilities." They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Hedge accounting and derivative financial instruments

The Corporation uses foreign exchange forward contracts to hedge against future currency exchange rate variations related to its long-term debt obligations, operating lease payments, receipts of revenue from certain tour operators and disbursements pertaining to certain operating expenses in other currencies. For hedge accounting purposes, the Corporation designates foreign exchange forward contracts as hedging instruments. The Corporation documents its foreign exchange forward contracts as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These foreign exchange forward contracts are designated as cash flow hedges except for the contracts related to U.S. dollar loans secured by aircraft, which are designated as fair value hedges.

Since November 2006, all foreign exchange forward contracts have been recorded at fair value in the balance sheet. For cash flow hedges, the change in value of the effective portion is recognized in "Other comprehensive income" in the consolidated statement of comprehensive income. Any ineffectiveness within an effective cash flow hedge is recognized in income as it arises in the same income 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" until the hedged item is settled and, prospectively, future changes in value of the

derivative are recognized in income. The change in value of the effective portion of a cash flow hedge remains in "Accumulated other comprehensive income" until the related hedged item settles, at which time amounts recognized in "Accumulated other comprehensive income" are reclassified to the same income account that records the hedged item. For fair value hedges, the periodic change in value is recognized in net income and the change in value of U.S. dollar loans secured by aircraft is also recorded in the same line items in net income. Prior to November 1, 2006, the fair value of foreign exchange forward contracts related to future transactions was not recognized but was disclosed in the notes to financial statements.

The Corporation also enters into fuel purchasing forward contracts in the normal course of business to manage exposure to fuel pricing instability that have not been designated for hedge accounting. Since November 1, 2006, these derivatives have been measured at fair value at the end of each period and the unrealized gains or losses arising from remeasurement are recorded and presented under "Unrealized gain on derivative financial instruments related to aircraft fuel purchases" in the consolidated statement of income. When realized at contract maturity, these gains or losses are recorded under "Aircraft fuel." Prior to November 1, 2006, the Corporation used hedge accounting for fuel derivates and the fair value of these derivatives related to future transactions was not recognized but rather was disclosed in the notes to financial statements.

It is the Corporation's policy not to speculate on derivative 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 bases 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 are amortized on a straight-line basis over the term of the leases and are recognized as a reduction of the amortization expense.

Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by employees is determined from actuarial calculations using the projected benefit method prorated on services and management's most likely estimate of the increase in eligible earnings and the retirement age of employees. The past service costs and amendments to the agreements are amortized on a straight-line basis over the average remaining service period of the 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 7.7 years as at November 1, 2006. 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.

3
CHANGES TO ACCOUNTING POLICIES

Standards in effect on November 1, 2006

Financial instruments, hedges and comprehensive income

On November 1, 2006, the Corporation retroactively adopted, without restatement of prior periods, the recommendations included in the following Sections of the Canadian Institute of Chartered Accountants ["CICA"] Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges.

Section 1530 requires the presentation of comprehensive income and its components in a new financial statement. Comprehensive income represents the change in an enterprise's net assets resulting from transactions, events and circumstances from non-shareholder sources.

Section 3855 prescribes the recognition and measurement standards for financial assets, financial liabilities and derivatives. These standards prescribe when to recognize a financial instrument in the balance sheet and at what amount. Depending on their balance sheet classification, fair value or cost-based measures are used. These standards also specify how financial instrument gains and losses are to be presented. Based on their classification, gains and losses on financial instruments are recognized in net income or other comprehensive income.

3
CHANGES TO ACCOUNTING POLICIES

[Cont'd]

Section 3865 prescribes the standards specifying when and how an entity can use hedge accounting. The adoption of this new standard is discretionary. It offers entities the possibility of applying different reporting options than those set out in Section 3855 to qualifying transactions that they elect to designate as being part of a hedging relationship for accounting purposes. The Corporation elected to continue applying hedge accounting for its foreign exchange forward contracts, recorded as cash flow hedges, and its U.S. dollar loans secured by aircraft, recorded as fair value hedges. The Corporation also enters into fuel purchasing forward contracts to manage exposure to fuel price instability. For these derivative instruments, the Corporation decided to cease using hedge accounting. Unrealized gains or losses were recognized in other comprehensive income at the transition date, namely November 1, 2006, and are recognized in net income under "Aircraft fuel" when contracts expire and the related fuel purchases occur.

The adoption of these new standards translated into the following changes as at November 1, 2006: a $12,435 decrease in accumulated other comprehensive income, a $3,492 increase in derivative financial instruments under assets, a $6,125 increase in future income tax assets, a $21,632 increase in derivative financial instruments under liabilities and a $420 increase in long-term debt.

For the year ended October 31, 2007, the Corporation recognized an unrealized loss of $59,036 (net of $28,546 in related income taxes) under other comprehensive income representing the effective portion of the change in fair value of the derivatives designated as cash flow hedges. This amount thus recognized was reclassified under "Operating expenses" for the periods during which the operating expenses were affected by the variability in the hedged item's cash flows. A $2,159 gain was recognized in net income during the year ended October 31, 2007. A loss estimated at $81,423, included in "Accumulated other comprehensive income" as at October 31, 2007, should be reclassified under net income during the next fiscal year.

For the year ended October 31, 2007, the Corporation recognized a loss of $12,080 (net of $5,950 in related income taxes) under other comprehensive income representing the portion of unrealized losses on fuel purchasing contracts at the transition date that were realized. Unrealized losses amounting to $522, included in "Accumulated other comprehensive income" as at October 31, 2007, should be reclassified into net income during the next fiscal year.

The adoption of this new standard has no impact on the Corporation's cash flows. However, it increased net income and diluted earnings per share for the year ended October 31, 2007 by $17,807 and $0.52, respectively.

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, as set out in note 2, 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:

Leased aircraft

Under the terms of the leases, the Corporation is required to maintain the aircraft in sound working order and follow the maintenance plan. This commitment creates an implicit obligation for the lessor whose past events arise from the use of leased aircraft. 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 will be adopted retroactively with restatement of prior fiscal years. The adoption of these new standards will translate 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 year ended October 31, 2007, the adoption of these new standards will translate into the following changes: a $5,048 decrease in maintenance expenses, an $8,017 increase in amortization of property, plant and equipment and a $992 decrease in future income tax expense, for a $1,977 decrease in net income and a $0.06 decrease in diluted earnings per share. For the year ended October 31, 2007, the adoption of these new standards will also translate into the following changes: a $12,629 increase in cash flows relating to operating activities and a decrease in cash flows related to investing activities of the same amount.

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

Other standards

The CICA has issued the following accounting standards that will be effective on November 1, 2007 for the Corporation: Section 3862, Financial Instruments – Disclosures, Section 3863, Financial Instruments – Presentation, Section 1535, Capital Disclosures, Section 3031, Inventories, and Section 1506, Accounting Changes.

Sections 3862 and 3863 will replace 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 will require supplementary disclosure regarding the Corporation's capital management and compliance with any externally imposed capital requirements.

Section 3031 will provide guidance on the method for determining the cost of inventories. The new accounting standard specifies that inventories are to be valued at the lower of cost and net realizable value. The standard further requires the reversal of previously recorded write-downs to net realizable value when there is clear evidence that net realizable value has increased. Additional disclosure will also be required under this standard. The adoption of Section 3031 is not expected to have a material effect on the Corporation's financial statements.

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

4

CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2007, cash and cash equivalents in trust or otherwise reserved included $168,196 [$168,164 as at October 31, 2006] in funds received from customers for services not yet rendered and no amount [$35,449 as at October 31, 2006] which was pledged as collateral security against letters of credit and foreign exchange contracts *[note 23]*.

5

INVESTMENTS IN ABCP

On August 22, 2007, pursuant to the disruption of credit markets, the Corporation announced that a portion totalling $154,500 of its cash available was invested in non-bank ABCP with ten different ABCP trusts. Our results for the year include a provision for losses and restructuring costs amounting to $11,200 in respect of our ABCP holdings.

The Canadian market for third party sponsored ABCP suffered a liquidity disruption in mid-August 2007 following which 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. Participants to the Accord also agreed in principle to the conversion of the ABCP investments into longer-term financial instruments with maturities corresponding to the underlying assets. A Pan-Canadian Investors Committee was subsequently established to restructure with success the Canadian market of ABCP, bring liquidity and create transparency as well as optimize the value for notes' holders and realize all this the fastest way possible. The signatories to the Accord recently agreed to extend the standstill period to December 14, 2007. The Corporation is not a signatory to the Accord.

Since there is no active market for ABCP securities, the Corporation's management has estimated the fair value of these assets using a valuation model that incorporates management's best estimates of credit risk attributable to underlying assets, the relevant market interest rate, amounts to be received, maturity dates and assumptions regarding the likelihood that the restructuring process will proceed as planned by the Investors Committee. As a result of the valuation, the Corporation has recognized an $11,200 write-down reflecting the estimated decline in fair value of these investments as at October 31, 2007, including a provision for its estimated share of restructuring costs associated with the Accord.

5
INVESTMENTS IN ABCP

[Cont'd]

The Corporation's estimate of the fair value of its ABCP investments as at October 31, 2007 is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could significantly affect the value of ABCP securities in the coming quarters. The resolution of these uncertainties could result in the ultimate fair value of these investments varying significantly from management's current best estimates and the extent of that difference could have a substantial 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 or financial position. 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 major financial institutions and have no exposure whatsoever to the current ABCP market disruption.

6
FINANCIAL INSTRUMENTS

Fair value

As at October 31, 2007, 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 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 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 is consistent with accepted economic methods for pricing financial instruments.

The classification and carrying amounts of the derivative financial instruments as at October 31, 2007 are as follows:

	Assets	Liabilities
	$	$
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	1,258	90,969
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	—	3,629
Derivative financial instruments designated as held-for-trading		
Fuel purchasing forward contracts	26,055	6
	27,313	**94,604**

Management of foreign exchange risk and fuel price risk

In the normal course of business, the Corporation is exposed to risks related to changes in certain foreign exchange rates and in fuel prices. The Corporation manages these risks through various financial instruments. The Corporation's management is responsible for determining the acceptable level of risk and only uses financial instruments to manage risks in respect of existing or anticipated commitments or obligations.

The Corporation has entered into foreign exchange forward contracts, expiring in less than two years, for the purchase and sale of foreign currencies to manage its foreign exchange risk. As at October 31, 2007, the face value of these foreign exchange forward contracts amounted to $799,615 [$645,878 as at October 31, 2006].

The Corporation has entered into fuel purchasing contracts to manage its exposure to fuel price instability. As at October 31, 2007, 50% of estimated fuel requirements for fiscal 2008 and 2% of estimated requirements for fiscal 2009 were covered by fuel purchasing contracts [53% of estimated requirements for fiscal 2007 and 12% of estimated requirements for fiscal 2008 were covered as at October 31, 2006].

Credit risk

Except for its investments in ABCP, the Corporation believes it is not exposed to a significant concentration of credit risk. The risk to which the Corporation is exposed in relation to derivative financial instruments is limited to the replacement cost of contracts at market prices in the event of default by one of the parties. Management is of the opinion that the credit risk related to financial instruments is well controlled because the Corporation only enters into agreements with large financial institutions with suitable credit ratings. Cash and cash equivalents are invested on a diversified basis in investment-grade corporations. More than 90% of the Corporation's investments in ABCP are invested in funds whose assets are ranked AAA according to the most recent ranking by Dominion Bond Rating Service (DBRS) dated November 6, 2007. Accounts receivable generally arise from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, which are dispersed over a wide geographic area.

7
DEPOSITS

	2007	2006
	$	$
Deposits on leased aircraft and engines	8,946	10,036
Deposits with suppliers	39,322	39,163
	48,268	49,199
Less current portion	31,077	29,849
	17,191	19,350

8
PROPERTY, PLANT AND EQUIPMENT

	2007		2006	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	$	$	$	$
Aircraft	150,937	72,879	150,937	60,230
Improvements to aircraft under operating leases	33,698	21,155	26,525	15,054
Aircraft equipment	38,172	32,986	36,603	31,133
Computer hardware and software	115,444	82,897	98,789	73,161
Aircraft engines	20,358	9,094	20,358	7,768
Office furniture and equipment	31,900	20,667	28,853	21,681
Leasehold improvements	31,008	16,909	27,328	15,295
Rotable aircraft spare parts	26,301	11,657	25,234	9,426
Hangar and administrative buildings	832	406	850	380
	448,650	268,650	415,477	234,128
Accumulated amortization	268,650		234,128	
Net book value	180,000		181,349	

9

GOODWILL AND OTHER INTANGIBLE ASSETS

	2007 $	2006 $
Goodwill	**119,614**	121,138
Trademarks not subject to amortization	**17,203**	18,454
Customer lists, net of $1,139 in accumulated amortization [$590 in 2006]	**11,698**	14,089
	148,515	153,681

The change in goodwill is as follows:

	2007 $	2006 $
Balance, beginning of year	**121,138**	93,741
Acquisitions *[note 18]*	**5,624**	26,866
Writedown of goodwill	**(3,900)**	—
Translation adjustment	**(3,248)**	531
	119,614	121,138

During the quarter ended October 31, 2007, the Corporation performed its annual test for impairment of goodwill and trademarks by discounting the future cash flows based on the most recent financial forecasts. The fair value of reporting unit Travel Superstore Inc. is less than the net book value, which translated into an impairment of the goodwill related to this reporting unit amounting to $3,900, which was recorded in income for the year ended October 31, 2007.

10

OTHER ASSETS

	2007 $	2006 $
Deferred costs, unamortized balance	**2,701**	3,387
Investments in companies subject to significant influence and other investments	**628**	874
Other	**1,102**	3,714
	4,431	7,975

11

BANK LOANS

For its Canadian operations, the Corporation has a revolving credit facility renewable annually amounting to $60,000. Under the terms and conditions of the agreement, funds may be drawn down by issuing letters of credit. As at October 31, 2007, letters of credit had been issued for a total of $30,008 [$33,166 as at October 31, 2006], thereby reducing the undrawn balance of the revolving term credit facility by the same amount. This agreement expired on November 16, 2007, due to the negotiation of a new banking agreement *[note 25]*.

As at October 31, 2007, the Corporation has a revolving credit facility amounting to $40,000. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances and bank loans in Canadian dollars bearing interest at bankers' acceptance rates or the prime rate of the financial institution. The revolving credit facility bore interest at an average rate of 4.7% for the year ended October 31, 2007. As at October 31, 2007, $39,887 had been drawn down. On November 16, 2007, the Corporation refinanced its revolving credit facility in full following negotiation of its new banking agreement *[note 25]*.

Operating lines of credit totalling €11,300 [$15,529] [€11,800 [$16,921] in 2006] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2007 and 2006.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €13,100 [$18,002] [€17,893 [$25,660] in 2006]. As at October 31, 2007, letters of guarantee had been issued totalling €7,525 [$10,341] [€3,747 [$5,373] in 2006].

12
LONG-TERM DEBT

	2007 $	2006 $
Loans secured by aircraft amounting to US$49,500 [US$54,000 as at October 31, 2006], bearing interest at the London Interbank Offered Rate [LIBOR] rate plus 2.15% and 3.25% and maturing in 2008.	46,763	60,626
Revolving credit facility maturing in November 2012 *[notes 11 and 25]*	39,887	—
Loans secured by an aircraft amounting to US$18,905 as at October 31, 2006, bearing interest at LIBOR plus 2.95% and 3.64%. The loans were repaid during the year	—	21,224
Other	2,031	2,818
	88,681	84,668
Less current portion	48,794	27,305
	39,887	57,363

13
DEBENTURE

On April 6, 2004, a subsidiary of the Corporation issued a $3,156 debenture, bearing interest at 6%. The debenture is repayable in one instalment in September 2009 in cash or shares of the Corporation at the Corporation's option.

14
OTHER ASSETS

	2007 $	2006 $
Deferred lease inducements	13,832	15,260
Non-controlling interest	7,148	8,264
Accrued benefit liability *[note 21]*	11,209	8,410
	32,189	31,934

15
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 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 act or formality. In the scenario 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 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 only by Canadians as defined by the CTA 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.

15
SHARE CAPITAL

[Cont'd]

Preferred shares

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

Issued and outstanding

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

	Number of shares	$
Balance as at October 31, 2005	40,156,450	179,438
Issued from treasury	38,392	768
Exercise of options	123,904	748
Conversion of warrants	59,150	571
Repurchase and cancellation of shares	(6,730,299)	(30,095)
Balance as at October 31, 2006	33,647,597	151,430
Issued from treasury	35,307	1,042
Exercise of options	331,257	4,494
Conversion of warrants	350,325	3,381
Repurchase and cancellation of shares	(736,100)	(3,383)
Balance as at October 31, 2007	**33,628,386**	**156,964**

As at October 31, 2007, the number of Class A Shares and Class B Shares stood at 1,978,743 and 31,649,643 respectively [2,794,011 and 30,853,586 as at October 31, 2006].

Normal course issuer bid

In accordance with its issuer bid, the Corporation repurchased, on January 3, 2006, a total of 6,443,299 voting shares, consisting of 1,780,797 Class A Shares and 4,662,502 Class B Shares, for a cash consideration of $125,000.

On June 15, 2007, the Corporation renewed its normal course issuer bid, which began on June 13, 2006, for a 12-month period. With this renewal, the Corporation intends to repurchase for cancellation up to a maximum of 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 at the offer renewal date [3,270,939 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 13, 2006]. The shares can be repurchased at market prices plus brokerage fees.

In accordance with its normal course issuer bids, the Corporation repurchased, during the year ended October 31, 2007, a total of 736,100 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $23,944 [287,000 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $7,422 in 2006].

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 meeting held on April 27, 2005, the shareholders ratified the renewal, by the Corporation, of a shareholders' subscription rights plan ["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 annual shareholders' meeting in 2008, unless it is terminated earlier by the Corporation's Board of Directors.

Stock option plan

Options are granted under a stock option plan for executives and employees. Under the plan, as at October 31, 2007, the Corporation may grant 869,121 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 granting of the options. 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. An additional third is exercisable in the third year and the final third, after the start of the fourth year. For awards subsequent to November 1, 2006, a maximum of two-thirds of options is exercisable in the third year with all options becoming exercisable when the fourth year begins. The tables below summarize all outstanding options:

	2007		2006	
	Number of options	**Weighted average price $**	Number of options	Weighted average price $
Beginning of year	**710 462**	**14,07**	796 069	10,69
Granted	**145 099**	**37,12**	129 927	22,84
Exercised	**(331 257)**	**10,29**	(123 904)	5,73
Cancelled	**(18 221)**	**26,80**	(91 630)	8,42
End of year	**506 083**	**22,70**	710 462	14,07
Options exercisable, end of year	**250 993**	**14,73**	480 027	10,89

2007

Range of exercise prices $	Outstanding options: Number of options outstanding as at October 31, 2007	Outstanding options: Weighted average remaining life	Outstanding options: Weighted average price $	Exercisable options: Exercisable options as at October 31, 2007	Exercisable options: Weighted average price $
3.00 – 4.50	30,228	5.5 years	3.80	30,228	3.80
6.01 – 7.50	39,589	3.7 years	6.85	39,589	6.85
7.51 – 9.00	8,160	2.4 years	7.86	8,160	7.86
9.01 – 11.50	18,122	3.4 years	9.90	18,122	9.90
15.01 – 17.00	62,239	6.6 years	15.68	62,239	15.68
21.01 – 29.00	210,523	8.1 years	22.67	92,655	22.57
37.00 – 37.50	137,222	9.6 years	37.24	—	—
	506,083		22.70	250,993	14.73

Compensation expense related to stock option plan

During the year ended October 31, 2007, the Corporation granted 145,099 stock options [129,927 in 2006] to certain key 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:

	2007	2006
Risk-free interest rate	4.18%	4.48%
Expected life	6 years	6 years
Expected volatility	40.0%	55.6%
Dividend yield	0.97%	—
Weighted average grant-date fair value	$15.05	$12.70

During the year ended October 31, 2007, the Corporation recorded a compensation expense of $1,577 [$886 in 2006] related to its stock option plan. An amount of $1,085 [$38 in 2006] was recognized in share capital subsequent to the exercise of options.

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, 2007, the Corporation was authorized to issue a maximum of 576,176 Class B shares. The plan allows each eligible employee to purchase shares for a total subscription limit up to 10% of his or her annual salary in effect at the time of the subscription. 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 35,307 Class B Shares [38,392 Class B Shares in 2006] for a total of $1,042 [$768 in 2006] 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 subscription 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 subscribed for 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 participant's account as and when he/she purchases shares under the share purchase plan.

During the year ended October 31, 2007, the Corporation accounted for a compensation expense of $117 [$79 in 2006] related to its stock ownership incentive and capital accumulation plan.

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SHARE CAPITAL

[Cont'd]

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 subscription 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 subscribed for 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 participant's account as and when he/she purchases shares under the share purchase plan.

During the year ended October 31, 2007, the Corporation accounted for a compensation expense of $208 [$207 in 2006] related to 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, 2007, the number of DSUs awarded amounted to 35,732 [31,653 as at October 31, 2006]. For the year ended October 31, 2007, the Corporation accounted for a compensation expense of $595 [$501 in 2006] related to 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, 2007, the number of RSUs awarded amounted to 66,784 [nil as at October 31, 2006]. For the year ended October 31, 2007, the Corporation accounted for a compensation expense of $887 [nil in 2006] related to its restricted share unit plan.

Warrants

On January 10, 2002, the Corporation issued 1,421,225 warrants entitling the holders to subscribe the same number of Class B Voting Shares of the Corporation at an exercise price of $6.75 each. These warrants expired on January 10, 2007. As at October 31, 2006, the balance of the warrants amounted to 350,325, and these warrants were exercised during the year ended October 31, 2007.

Earnings per share

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

	2007 $	2006 $
NUMERATOR		
Income attributable to voting shareholders	80,480	65,770
Interest on the debenture that may be settled in voting shares	129	129
Income used to calculate diluted earnings per share	80,609	65,899
DENOMINATOR		
Weighted average number of outstanding shares	33,763	34,907
Effect of dilutive securities		
Debenture that may be settled in voting shares	94	141
Stock options	304	330
Warrants	51	282
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	34,212	35,660
Basic earnings per share	2.38	1.88
Diluted earnings per share	2.36	1.85

For the purposes of calculating diluted earnings per share for the year ended October 31, 2007, 137,222 stock options [129,927 stock options as at October 31, 2006] were excluded since the exercise price of these options was higher than the average price of the Corporation's shares.

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ACCUMULATED OTHER COMPREHENSIVE INCOME

	2007 $	2006 $
Accumulated Other comprehensive income		
Balance, beginning of year	22	(2,591)
Accumulated effect of accounting changes relating to financial instruments *[note 3]*	(12,435)	—
Restated balance, beginning of year	(12,413)	(2,591)
Other comprehensive income	(54,088)	2,613
Balance, end of year	(66,501)	22

The 2006 balance represents the reclassification of deferred translation adjustment to accumulated other comprehensive income.

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AMORTIZATION

	2007 $	2006 $
Property, plant and equipment	41,218	38,301
Intangible assets subject to amortization	1,600	590
Other assets	1,815	2,226
Deferred lease inducements	(1,660)	(1,757)
	42,973	39,360

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BUSINESS ACQUISITIONS

During the years ended October 31, 2007 and 2006, 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.

2007 Acquisitions

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) that it did not already own. Goodwill amounting to $2,108 was recognized subsequent to this transaction. Since this date, ACE is a wholly owned subsidiary.

On July 11, 2007, the Corporation acquired 100% of the issued and outstanding shares of French outgoing tour operator L'Européenne de Tourisme (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 of €1,400 [$1,923] is due by July 31, 2008. The final purchase price allocation is expected to be completed as soon as the Corporation's management has gathered all the significant information it deems necessary. A temporary goodwill amount of $3,516 was recognized subsequent to this transaction.

2006 Acquisitions

On December 1, 2005, the Corporation acquired the assets of 20 travel agencies operating in France and belonging to the Carlson Wagonlit Travel network for a total cash consideration of €3,102 [$4,314]. Goodwill amounting to $3,920 was recorded subsequent to this transaction. The results of these agencies have been consolidated as of January 1, 2006.

During the year ended October 31, 2006, the Corporation acquired the assets, via Travel Superstore Inc., of six travel agencies for a total consideration of $1,096. Of that amount, $338 was paid in cash on the acquisition dates, with the $619 balance payable in instalments over periods ranging from three to five years. Goodwill amounting to $925 was recognized subsequent to these transactions. The results of these agencies have been consolidated as of their respective acquisition dates.

On May 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of the Thomas Cook Travel Limited ["TCT"] travel agency network, located in Canada, for a cash consideration of $8,297. TCT operates a network of 67 wholly owned agencies and 124 franchised agencies under the Thomas Cook and Marlin Travel banners. TCT also operates 22 foreign exchange offices. Subsequent to this transaction, the Corporation undertook a restructuring program that it completed prior to the end of the fiscal year ended October 31, 2006. An amount of $1,651, mainly comprising employee termination benefits, was reflected in the purchase price allocation with regard to this restructuring. The Corporation does not foresee any further disbursements in respect of this integration. Goodwill amounting to $732 was recognized subsequent to this transaction.

On August 1, 2006, the Corporation acquired 100% of the issued and outstanding shares of British tour operator The Airline Seat Company, which operates under the Canadian Affair brand, for £20,670 [$43,692] in cash. Goodwill amounting to $21,289 was recognized subsequent to this transaction.

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BUSINESS ACQUISITIONS

[Cont'd]

Business acquisitions are summarized as follows:

	2007			2006			
	Air Consultants B.V.	L'Européenne de Tourisme	Total	Thomas Cook Travel Ltd.	The Airline Seat Company Ltd.	Other	Total
	$	$	$	$	$	$	$
Assets acquired							
Cash and cash equivalents	2,363	5,607	7,970	3,478	46,319	—	49,797
Cash and cash equivalents in trust or otherwise reserved	—	—	—	779	4,861	—	5,640
Other current assets	381	12,117	12,498	3,710	7,229	156	11,095
Property, plant and equipment	46	79	125	1,284	420	409	2,113
Intangible assets							
Trademarks	—	—	—	2,600	15,642	—	18,242
Customer lists	—	—	—	2,900	11,626	—	14,526
Future income tax assets	—	—	—	1,736	—	—	1,736
Goodwill	2,108	3,516	5,624	732	21,289	4,845	26,866
	4,898	21,319	26,217	17,219	107,386	5,410	130,015
Liabilities assumed							
Current liabilities	2,977	12,688	15,665	7,907	56,712	—	64,619
Future income tax liabilities	—	—	—	—	6,982	—	6,982
Long-term debt	—	—	—	1,015	—	—	1,015
	2,977	12,688	15,665	8,922	63,694	—	72,616
Net assets acquired at fair value	1,921	8,631	10,552	8,297	43,692	5,410	57,399

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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 reasons for this difference and the effect on income taxes are detailed as follows:

	2007		2006	
	$	%	$	%
Income taxes at the statutory rate	37,411	32.0	32,662	33.0
Change in income taxes arising from the following:				
Effect of differences in Canadian and foreign tax rates	(1,781)	(1.5)	(390)	(0.4)
Non-deductible items	4,858	4.2	2,701	2.7
Recognition of previously unrecorded tax benefits	(7,350)	(6.3)	(2,545)	(2.6)
Effect of tax rate changes	(397)	(0.3)	516	0.5
Valuation allowance	2,557	2.1	—	—
Other	320	0.3	(898)	(0.9)
	35,618	30.5	32,046	32.3

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

	2007 $	2006 $
Future income taxes		
Net operating loss carry-forwards and other tax deductions	20,628	24,937
Carrying value of capital assets in excess of tax basis	(33,765)	(35,935)
Non-deductible reserves and provisions	28,802	27,910
Taxes related to accumulated other comprehensive income	21,115	—
Other	52	354
Total future income taxes	36,832	17,266
Valuation allowance	(20,081)	(22,443)
Net future income tax assets (liabilities)	16,751	(5,177)
Current future income tax liabilities	25,250	1,357
Long-term future income tax assets	9,341	7,120
Current future income tax liabilities	(298)	—
Long-term future income tax liabilities	(17,542)	(13,654)
Net future income tax assets (liabilities)	16,751	(5,177)

Non-capital losses carried forward and other temporary differences, which are available to reduce future taxable income of certain subsidiaries in Europe, for which no related income tax benefits have been recognized, amounted to €31,266 [$42,966] as at October 31, 2007 [€43,836 [$62,862] as at October 31, 2006]. Of these losses and deductions, an amount of €19,056 [$27,326] will expire in three years; the balance has no specific expiry date.

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 these earnings in the form of dividends or otherwise, the Corporation may be subject to withholding taxes.

20 RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of its operations, 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.

Significant transactions between related parties are as follows:

	2007 $	2006 $
Revenues from companies subject to significant influence	262	220
Operating expenses incurred with companies subject to significant influence	1,365	1,340

The balances receivable from and payable to related parties included in accounts receivable and accounts payable and accrued liabilities are as follows:

	2007 $	2006 $
Accounts receivable from companies subject to significant influence	239	32
Accounts payable and accrued liabilities due to companies subject to significant influence	69	54

21 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 letter of credit to the trustee amounting to $15,284 *[note 11]*. 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 the changes in the accrued benefit obligation:

	2007 $	2006 $
Accrued benefit obligation, beginning of year	14,349	11,739
Current service cost	786	682
Interest cost	840	756
Benefits paid	(9)	—
Actuarial loss	729	1,172
Accrued benefit obligation, end of year	16,695	14,349

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EMPLOYEE FUTURE BENEFITS

[Cont'd]

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

	2007 $	2006 $
Plan assets at fair value	—	—
Accrued benefit obligation	16,695	14,349
Plan deficit	16,695	14,349
Unamortized past service costs	2,620	3,680
Unamortized net actuarial loss	2,866	2,259
Accrued benefit liability	11,209	8,410

Pension plan expense is allocated as follows:

	2007 $	2006 $
Current service cost	786	682
Interest cost	840	756
Amortization of past service costs	1,060	1,060
Amortization of net actuarial loss	123	74
Pension expense	2,809	2,572

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

	2007 $	2006 $
Accrued benefit obligation		
Discount rate	5.50	5.50
Rate of increase in eligible earnings	3.00	3.00
Pension expense		
Discount rate	5.50	5.75
Rate of increase in eligible earnings	3.00	3.00

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COMMITMENTS AND CONTINGENCIES

(a) The Corporation's commitments under agreements with suppliers and operating leases relating to aircraft, buildings, automotive equipment, telephone systems, maintenance contracts and office premises amounted to $493,313 and are broken down as follows: $130,356, US$151,659, €104,531 and £38,312.

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

	$
2008	227,570
2009	94,713
2010	53,052
2011	33,051
2012	19,747

(b) In 2009, the minority shareholder in Jonview Canada Inc.'s parent company may require the Corporation to buy the shares of Jonview Canada Inc.'s parent company which it holds, 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) The minority shareholders of Travel Superstore Inc. could require, between 2011 and 2015, that the Corporation acquires the shares of Travel Superstore Inc. that they hold at a price equal to their fair market value and payable in cash.

(d) In the normal course of its operations, 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.

23
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 compensation 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 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 expire at various date up to 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 tourist services such as hotel rooms 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 renewable. 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. In addition to the letters of credit and security contracts mentioned in notes 4, 11 and 21, the other guarantees provided by the Corporation under letters of credit totalled $410 as at October 31, 2007. Historically, the Corporation has never 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 included in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2007, the secured amount totalled $848. Historically, the Corporation has not made any significant payments under such agreements.

As at October 31, 2007, no amounts have been accrued with respect to the above-mentioned agreements.

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SEGMENT DISCLOSURE

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

	North America $	Europe $	Total $
2007			
Revenues from third parties	2,278,116	767,801	3,045,917
Operating expenses	2,162,085	750,762	2,912,847
	116,031	17,039	133,070

	North America $	Europe $	Total $
2006			
Revenues from third parties	2,059,611	544,135	2,603,746
Operating expenses	1,940,816	535,986	2,476,802
	118,795	8,149	126,944

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SEGMENT DISCLOSURE

[Cont'd]

	Revenues (1)		Property, plant and equipment, goodwill and other intangible assets	
	2007	2006	2007	2006
	$	$	$	$
Canada	**2,257,040**	2,038,594	**209,618**	215,899
France	**602,058**	465,728	**63,413**	60,374
United Kingdom	**146,108**	62,055	**44,384**	49,266
Other	**40,711**	37,369	**11,100**	9,491
	3,045,917	2,603,746	**328,515**	335,030

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

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SUBSEQUENT EVENTS

On November 16, 2007, the Corporation entered into an agreement with a financial institution for an unsecured revolving credit facility of $150,000 as well as a revolving credit facility of $60,000 for the purposes of issuing letters of credit, in respect of which the Corporation must pledge cash as collateral security against 105% of letters of credit issued. This agreement expires on November 16, 2012. 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, plus a premium based on certain financial ratios calculated on a consolidated basis. A portion of the credit available under this agreement has been used to repay the balance under the existing agreement prior to this date *[note 11]*.

On December 10, 2007, the Corporation acquired a 35% interest in Caribbean Investments B.V., a company that operates five hotels in Mexico and in the Dominican Republic, for a cash consideration of US$55,000.

Supplementary financial data

(In thousands of dollars, except per share data)

	2007	2006	2005	2004	2003
Consolidated Statements of Income					
Revenues	3,045,917	2,603,746	2,364,481	2,199,822	2,096,649
Operating expenses	2,912,847	2,476,802	2,243,850	2,036,067	2,021,687
	133,070	126,944	120,631	163,755	74,962
Other expenses and revenues					
Amortization	42,973	39,360	37,558	33,027	42,138
Restructuring charge	—	—	(934)	11,350	47,972
Interest on long-term debt and debenture	6,229	7,264	10,815	7,712	9,839
Other interest and financial expenses	1,929	1,484	1,708	1,907	3,071
Interest income	(19,745)	(15,706)	(12,963)	(11,307)	(9,530)
Unrealized gain on derivative financial instruments used for aircraft fuel purchases	(26,577)	—	—	—	—
Foreign exchange loss (gain) on long-term monetary items	(3,023)	(4,162)	(2,309)	1,474	(3,873)
Writeoff of goodwill	3,900	—	—	—	—
Writedown of investments in ABCP	11,200	—	—	—	—
Gain on disposal of investment	—	—	(5,747)	—	—
Share of (net income) net loss of companies subject to significant influence	(651)	(375)	(461)	1,509	(673)
	16,235	27,865	27,667	45,672	88,944
Income (loss) from continuing operations for the year	116,835	99,079	92,964	118,083	(13,982)
Income taxes (recovery)	35,618	32,046	36,302	45,010	(5,533)
Non-controlling interest in subsidiaries results	(737)	(1,263)	(1,246)	(753)	(766)
Income (loss) from continuing operations for the year	80,480	65,770	55,416	72,320	(9,215)
Income (loss) from discontinued operations for the year	—	—	—	—	54,083
Net income (net loss) for the year	80,480	65,770	55,416	72,320	44,868
Basic earnings (loss) per share					
Continuing operations	2.38	1.88	1.43	2.07	(0.38)
Discontinued operations	—	—	—	—	1.65
	2.38	1.88	1.43	2.07	1.27
Diluted earnings (loss) per share [2]					
Continuing operations	2.36	1.85	1.33	1.76	(0.38)
Discontinued operations	—	—	—	—	1.65
	2.36	1.85	1.33	1.76	1.27
Cash flows relating to:					
Operating activities (continuing operations)	121,828	116,160	70,434	179,787	85,495
Investing activities (continuing operations)	(160,757)	(45,054)	(39,468)	(79,162)	(17,388)
Financing activities (continuing operations)	(14,830)	(152,046)	(44,091)	(35,359)	(61,368)
Effect of exchange rate changes on cash and cash equivalents	5,640	2,332	(4,255)	3,436	(470)
Net change in cash and cash equivalents from continuing operations	(48,119)	(78,608)	(17,380)	67,923	6,269
Net change in cash and cash equivalents from discontinued operations	—	—	—	—	77,858
Net change in cash and cash equivalents	(48,119)	(78,608)	(17,380)	67,923	84,127
Cash and cash equivalents, end of year	166,768	214,887	293,495	310,875	242,952
Cash provided by operations	120,821	104,802	78,014	124,039	52,795
Total assets	1,097,505	959,195	949,537	838,389	714,757
Long-term debt (including the short-term portion)	88,681	84,668	93,613	—	35,350
Debenture	3,156	3,156	13,156	33,214	31,731
Shareholders' equity	282,868	295,963	362,383	311,106	239,596
Debt ratio [1]	0.74	0.69	0.62	0.63	0.66
Book value per share	8.41	8.80	9.02	9.16	7.29
Return on weighted average shareholders' capital	27.81	19.98 %	16.03 %	25.11 %	19.32 %
Shareholding statistics (in thousands)					
Outstanding shares, end of year	33,628	33,648	40,156	33,955	32,864
Weighted average number of outstanding shares (undiluted)	33,763	34,907	37,863	33,374	32,796
Weighted average number of outstanding shares (diluted) [2]	34,212	35,660	41,684	41,156	32,796

[1] Total liabilities divided by the sum of liabilities and shareholders' equity.
[2] See note 15 to the audited Consolidated Financial Statements.

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Trip Central
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Ce rapport annuel est disponible en français : Pour l'obtenir, écrire au vice-président, finances et administration et chef de la direction financière

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