Transat A.T. Inc.

2008 Annual Report

Transat A.T. Inc. is an integrated international tour operator that specializes in holiday travel. It offers more than 60 destination countries and distributes products in approximately 50 countries. Transat owns an air carrier, offers accommodation

International tour operator

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.

Revenues up by 15%, from $3.0 billion in 2007 to $3.5 billion in 2008.

Margin of $127.3 million, compared with $138.1 million in 2007.

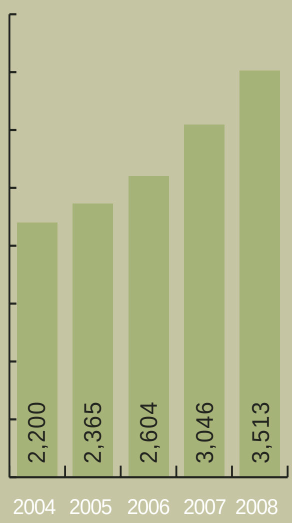
Solid growth in all outgoing markets.

Record year for Jonview Canada, with 263,000 travellers.

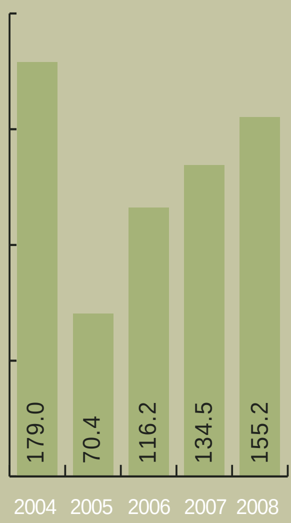
Creation of a hotel venture in Mexico and the Dominican Republic.

Intensification of efforts in the area of sustainable tourism and publication of a social responsibility report.

Revenues
(In millions of dollars)



Cash flows relating to operating activities
(In millions of dollars)



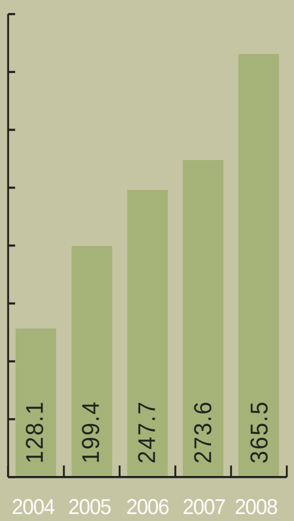
Highlights

In thousands of Canadian dollars
except per share amounts and ratio

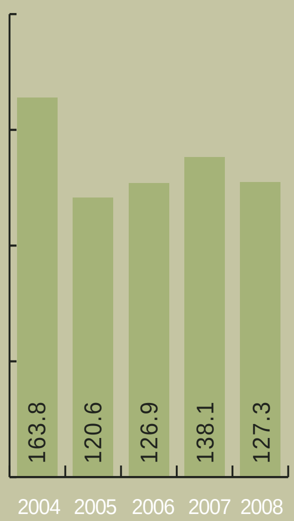
	2008	2007 Restated	Variance $	Variance %
Revenues	3,512,851	3,045,917	466,934	15.3
Margin[1]	127,327	138,117	(10,790)	(7.8)
Net income (loss)	(50,011)	78,503	(128,514)	(163.7)
Diluted earnings (loss) per share ($)	(1.51)	2.30	(3.81)	(165.7)
Cash flows relating to operating activities	155,225	134,457	20,768	15.4
Cash and cash equivalents	145,767	166,768	(21,001)	(12.6)
Total assets	1,265,431	1,080,523	184,908	17.1
Long-term debt (including the short-term portion)	153,241	91,837	61,404	66.9
Debt ratio[2]	0.73	0.74	(0.01)	(1.4)
Return on average shareholders'capital[3] (%)	(15.99)	26.98	(42.97)	(159.3)
Book value per share[4] ($)	10.47	8.43	2.04	24.2
Stock price as at October 31 (TRZ.B) ($)	11.36	39.88	(28.52)	(71.5)
Dividend per share ($)	0.36	0.34	0.02	5.9
Outstanding shares, end of year (in thousands)	32,678	33,628	(950)	(2.8)

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

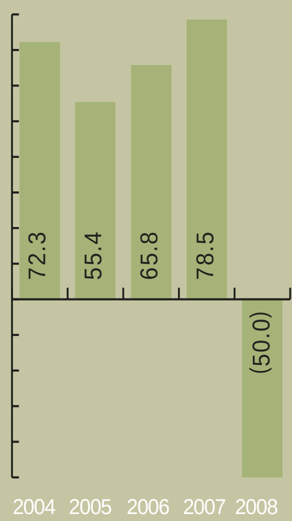
Aircraft fuel
(In millions of dollars)



Margin
(In millions of dollars)



Net income (loss)
(In millions of dollars)



An international tour operator

More than 60 destination countries
6,466 employees in eight countries and at destination
2.5 million travellers

Serving travellers

504 travel agencies
2,000 travel advisers

Leader in the Europe-Canada market

64 routes between 9 Canadian and 34 European cities
Number one tour operator to Canada from the UK and France
765,000 travellers crossing the Atlantic
Offering of 543 hotels in 12 European countries

In three years, our revenues have grown by more than $1 billion, or more than 48%. This stems in part from the vitality of international tourism during this period, but it reflects above all the efforts we have made to move closer to consumers,

adjust our product offerings, stimulate demand and gain market shares through organic growth and acquisitions. And Transat, given its market power and its resources, is fully equipped to weather economic turbulence.

A company and a team capable of weathering economic turbulence

As fiscal 2008 came to a close, we turned the page on the 2006–2008 strategic plan and a period marked by growth, several strategic advancements and a strengthening of Transat's positioning in all of our markets. In three years, our revenues have grown by more than $1 billion, or more than 48%. This stems in part from the vitality of international tourism during this period, but it reflects above all the efforts we have made to move closer to consumers, adjust our product offerings, stimulate demand and gain market shares through organic growth and acquisitions.

Over the short term, the current climate promises challenges that we are well prepared to meet. The economic downturn and outright recessionary conditions affecting certain markets, together with the credit crisis, will probably deter some travellers, and will no doubt result in some casualties among travel industry players. However, as we have seen during other challenging times in the past, tourism will continue to grow. And Transat, given its market power and its resources, is fully equipped to weather this latest economic turbulence.

A look back at the 2006–2008 strategic plan

By 2005, Transat was already the leading outgoing tour operator in Canada, but that ranking was largely attributable to the Company's position in Quebec. Consequently, the main objective of our strategic plan for the Canadian market was to consolidate our position in the Western provinces and, more important, become the number one player in Ontario. Today, Transat ranks first in all regions of the country, and can proudly state that it has facilities, employees and customers all across Canada. This success stems from a host of initiatives, skilfully orchestrated by the Transat Tours Canada and Transat Distribution Canada management teams. We continued to make improvements to our product offerings, adding exclusive hotels along with new services, destinations and tours, while ensuring the superior quality of hotel services by means of an inspection program that is one of the most rigorous in the industry. Meanwhile, Air Transat continued to post excellent results in terms of on-time performance and fleet reliability. In 2008, our air carrier also made passenger comfort improvements by increasing legroom in its aircraft. And of course, our cabin crews' professional attitudes continued to make a huge difference in our favour. Our marketing efforts also played a vital role, with new mass communication campaigns strengthening awareness of our brands throughout the country.

Our 2006 acquisition of close to 200 travel agencies, combined with accelerated development of our Web platforms, allowed Transat to become Canada's largest travel distribution network, with 437 agencies, including 337 franchisees, at year-end 2008. This increased presence in the field, along with our multi-channel distribution strategy, played a paramount role in our sales and market-share growth, particularly in Ontario. Sales by our cross-Canada distribution network, all brands combined, totalled some $1.2 billion in 2008, and sales of Transat products increased. Sales by our agencies, combined with those generated through our B2C websites, accounted for more than 30% of sales made in Canada in 2008.

In Europe, the 2006–2008 period was one of growth for Transat. We made huge strides in terms of integration, destination diversification and financial performance—so much so that we now have a solid platform in the world's largest tourism market. In the United Kingdom, still the main European market for travel to and from Canada, we had relied until 2006 on an exclusive commercial agreement with a third party, and our acquisition that year of British tour operator Canadian Affair has put us in a far better position. In France, another key market, Vacances Transat (France) consolidated its leadership position in the outbound-to-Canada market while considerably diversifying its long-haul and tour product offerings. Look Voyages, which was in a precarious position in 2005, enjoyed renewed growth and profitability. The 2007 acquisition of L'Européenne de tourisme (Amplitude Internationale) strengthened our position in packaged travel from France to Tunisia.

Transat has become Canada's largest travel distribution network.

Also in Europe, we actively pursued our bilateral strategy, which calls for the development of overseas markets served by Air Transat. In 2007, for instance, we completed our acquisition of Air Consultants Europe (ACE), our general sales agent for the Netherlands, Germany, Belgium, Luxembourg and Austria. ACE handles commercialization of our air capacity toward Canada.

Eventually, Transat aims to penetrate other outgoing markets. To this end, we have paid close attention to the United States market, conducting a thorough review of all major tour operators likely to offer a strategic fit with Transat. We have held discussions with several potential candidates, without a transaction that would truly be in the interest of Transat and its shareholders materializing.

One of the objectives stated as part of the 2006–2008 plan was Transat's intention to gain a foothold in the hotel industry, mainly in its principal sun destination markets, where supply of quality rooms could become a potential issue over the long term. This objective was reached in 2008 with the creation of a hotel venture with Spain-based H10 Hotels. The new company, in which we hold a 35% interest, owns and operates three hotels in Mexico and another two in the Dominican Republic. It is expected to grow and we have acquired land to build a new resort in the Dominican Republic.

Vertical integration—particularly at destination (destination services, accommodation, incoming tour operating)—remains the backbone of Transat's development. In view of the current economic and financial climate, however, we have decided to ease up on prospecting of acquisitions and increase our focus on mutually advantageous synergies with our partners. We will nonetheless remain on the lookout for attractive opportunities of the type than can crop up during difficult periods.

Transat operates in an industry in which development of human potential is a fundamental success factor. For this reason, in recent years we have focused on training initiatives, including the rollout of new tools and programs designed to assist succession planning and ensure the organization's future. Significant milestones were reached in this regard in 2008, with 500 managers and executives receiving training in coaching and another 150 employees targeted for an accelerated talent development project. A virtual platform has been created for the project, allowing employees and their immediate supervisors to measure progress. Of course, we are pursuing our efforts in this area, and also plan to proceed with organizational changes to facilitate information flow and decision- making from an overall perspective, improve efficiency, optimize our the workforce

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

and reduce costs. This evolution of our human resources programs has been amply communicated to the entire organization in keeping with a philosophy of increased transparency.

Information systems play a key role in our industry. At year-end 2005, Transat lagged behind to a certain extent when it came to technology renewal, and we moved to close the gap rapidly. The growing importance of the Web for the travel industry, the shift in operational models to multi-channel distribution and changing consumer behaviours demand that Transat make technology choices, which in turn require major investments. Our current priorities include, among other things, migrating to a new system for management of airline seat inventory, distribution and customer relations.

Our future depends on that of our industry, which generates colossal economic activity as well as more than 200 million jobs worldwide. For this reason, we intend to play an increasingly active role in the management of tourism-related issues. This explains our intention to internalize the concept of sustainable tourism. We are convinced that the future of tourism is closely linked to a number of sustainability issues, including marked concern for the environment, heritage and destination communities. In this spirit, since 2007 we have intensified our efforts in this regard, implementing multiple initiatives and projects with the aim of becoming a North American leader in sustainable tourism.

In the wake of the 2006–2008 strategic plan, Transat has enviable business positioning in two growing continental markets, and can draw on the strengths of an organization that has made considerable efficiency gains. In the years to come, we must not only expand into new markets to spur growth, but also pursue our efforts in talent development and succession planning, continue to improve our information systems and our structures, and accelerate adoption of practices to ensure Transat becomes a benchmark in sustainable tourism.

The outgoing Canadian market

Transat Tours Canada (TTC), which operates mainly under the Transat Holidays, Nolitours and Air Transat brands, grew its customer base across the board—939,000 travellers in the winter season, 553,000 in the summer, 1,137,000 sun packages sold, and 355,000 travellers to European destinations—for a total of approximately 1,492,000 travellers outbound from Canada. This represents a 12% increase over the 2007 total of 1,336,000. This most satisfactory progress was achieved in a highly competitive market, especially in the sun market, and in a context of extremely high fuel prices. For this reason, our margins suffered despite the fact that we reached our volume objectives (measured in numbers of travellers) and succeeded in protecting our market shares.

In 2008 we offered Canadian travellers an unparalleled choice of sun destinations, mainly emphasizing the most in-demand regions: Cuba, the Dominican Republic and Mexico. To counter pressures on our margins, we made considerable efforts to control costs. For example, we pursued an air strategy relying on several carriers and various aircraft types, leveraging agreements with third parties.

We also boosted capacity to Europe, introducing routes between Western Canada and Paris and adding Switzerland (Basel-Mulhouse) to our roster of destinations. In the summer of 2008, with the tourism season in Europe at its height, we offered more than 60 city-pairs, departing from nine Canadian airports to some 34 European cities in 12 countries. We also market a wide array of tours and accommodations on both sides of the Atlantic, including Transat as well as partner products. Indeed, our product offering in the Canada-Europe market is unmatched for flexibility and diversity, meeting holidayers' expectations better than any other.

Under the Rêvatours brand, TTC markets tours, stays and custom-tailored products in 30 countries in Europe, Asia, Africa and South America (including, as of 2008, Ecuador, Argentina and Chile). Challenges during fiscal 2008 included a tightening of conditions imposed by air carriers, rising fuel prices and fluctuating exchange rates.

TTC implemented measures to improve its product line, move closer to its distribution networks, develop its relationships with the other Transat business units, consolidate agreements with suppliers and optimize its information systems.

Vertical integration particularly at destination remains the backbone of Transat's development.

The outgoing European market

In France, Look Voyages continued to grow, thanks in part to an enriched, diversified offering perfectly in keeping with target customers' expectations, and a multi-channel distribution strategy that, year after year, has proven to be the most promising approach because of its appeal to all market segments. Look Voyages, now headed by General Manager Cédric Gobilliard, offered 28 Lookéa clubs and a wide range of products in 2008. It recorded a significant increase in the number of travellers, especially because of Transat's acquisition of Amplitude Internationale, now successfully integrated. Together, the two brands represented approximately 381,000 travellers in 2008.

Vacances Transat (France) remains the leading France-based tour operator to Canada and the U.S., flagship destinations for which it posted remarkable sales increases of 30% and 25% respectively. During 2008, Vacances Transat (France)'s client base grew by more than 17% to 182,000 travellers, despite continued anemic growth in the overall French market. Volume to China, the Dominican Republic and Kenya declined, but this was offset by other products. One example is Vietnam, a new destination for which the company achieved its targets thanks to a comprehensive array of tour offerings. On the French market, Vacances Transat (France) enjoys a growing reputation as a specialist in tour products to the four corners of the globe.

The United Kingdom is a major source market for travel to Canada, with some 900,000 visitors yearly. The year 2007 had been marked by significant pressure on tour operators' margins because of excess capacity, to the point that one of our competitors disappeared in 2008 and another was compelled to trim capacity considerably; the outcome was a return to a more balanced market. Despite many challenges, Canadian Affair increased passenger traffic and achieved excellent profitability during the fiscal year.

We recorded some 410,000 travellers to Canada in 2008 from the 12 European countries we serve—an improvement of 14% over 2007—along with approximately 500,000 travellers outbound to other destinations. Overall, our European business units posted very good performance in 2008.

Our incoming markets

In addition to destination services in the Caribbean zone, we offer incoming tour operator services in Canada and Greece. In these two countries, our challenge lies in achieving solid penetration of emerging markets that are the growth drivers of the future, such as Asia and Latin America, while battling for our market shares, for example in Europe, where competition is fierce.

Despite being buffeted by competition and losing ground on the global market, Canada remains a major international tourism destination. Countering the trend, Jonview Canada welcomed 263,000 foreign travellers in 2008 versus 249,000 in 2007—a substantial increase of 6% that propelled the incoming tour operator to a record year as measured by sales as well as number of travellers. This growth is partly explained by enhanced operational and organizational ties with TTC, Canadian Affair, Vacances Transat (France) and ACE. Sales were curbed in the U.K., Japan and Korea, but grew strongly in France and Germany. In addition, markets such as Mexico, Brazil and Australia are promising. Jonview Canada relies on a worldwide network of close to 1,000 resellers in approximately 50 countries, with the most important ones benefiting from host-to-host system connections.

Our objectives for 2009

Fiscal 2009 will be the first year in a new three-year plan that is currently being mapped out. The 2009–2011 plan will take into account the change in economic conditions that emerged at year-end 2008, but the objectives established for 2009 will be in line with the 2006–2008 plan.

We intend to:

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

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

- Continue developing and implementing our multi-channel distribution strategy and increase sales for each channel;

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

Financial position

In fiscal 2008, Transat posted $3.5 billion in revenues (compared with $3.0 billion in 2007), a margin of $127.3 million (compared with $138.1 million in 2007) and a net loss of $50.0 million ($1.51 per share on a diluted basis). The loss was mainly due to $152.8 million in non-cash and non-operating items ($107.6 million after income taxes), including a $106.4 million loss ($71.5 million after income taxes) arising from hedge accounting.

The relative decrease in margin in 2008 is attributable mainly to fuel prices and the intensity of the competition, especially for outbound travel from Canada. Air Transat's fuel costs rose by 33.6%, from $273.6 million in 2007 to $365.5 million in 2008. Besides fuel surcharges, we employed hedging instruments on fuel and currency to cushion the impact on our bottom line of the rise in fuel prices. These mechanisms brought results, although of course they could not entirely offset the effects of the brutal fluctuations in oil prices.

What 2009 has in store

Historically, tourism has demonstrated its strong capacity to withstand economic downturns. While there is no doubt as to the potential of the tourism market over the medium and long terms, it is clear that fiscal 2009, and possibly the following year, will be characterized by tough economic conditions. We have entered a recession; only its intensity and duration remain in doubt. At any rate, we will certainly have to wait until 2010 before we see a reversal of trends. The tightening of credit conditions will pose a serious challenge for undercapitalized companies, which are abundant in the travel and tourism industry. In spite of the drop in crude oil prices noted at year-end, operating costs for travel companies like Transat are on the rise, and will increase even more if the U.S. dollar continues to regain strength. This analysis of the situation, which is all the more bleak given that competition remains unrelenting, merits qualification in the case of Transat, however: our capital structure is sound because we have successfully countered the effects of the freeze in the asset-backed commercial paper market, we have sufficient cash reserves available, all of our business units are operationally profitable, we are the leader in Canada, and we are currently outperforming several of our competitors in France.

In advance of the implementation of a liberalized air transport agreement between Canada and the European Union, and considering our support of reciprocal, orderly liberalization of air markets, including raising foreign-ownership caps, we reaffirm that the Canadian government must implement sweeping reforms to the system of fees and taxes charged to airports and airlines across the country. This system is a true burden for companies like Transat and considerably hinders their ability to compete with foreign companies. The current environment is harmful to the competitiveness of Canada and Canadian companies. According to a study by the World Economic Forum, Canada ranks 114th in the world when it comes to price competitiveness in the travel market, and 122nd for airport taxes and fees. There is an increasingly pressing need for a policy change.

As of 2012, Canadian travel companies' ability to compete is also likely to be affected by the European Union's decision to unilaterally impose greenhouse gas emissions quotas on the air transport industry. It is difficult to assess the cost to a company like Transat resulting from this measure, because too many parameters (e.g., the price per tonne of CO_2 and exchange rate considerations) remain unknown. Theoretically, the extra cost would be passed on to travellers. In any event, Transat does not approve of the European approach, because of its unilateral nature. Rather, we are in favour of multilateral solutions developed under the aegis of the International Civil Aviation Organization (ICAO) and the International Air Transport Association (IATA), which would pave the way for the most uniform, fair market conditions possible.

A team effort

I wish to extend my warm thanks to all Transat personnel, as well as to the members of the management team and the Board of Directors for their vital contributions to the success of the company. I also wish to pay tribute to Jean Guertin, who passed away in November 2008. Mr. Guertin had served Transat with extraordinary professionalism as a member of the Board of Directors since 1995.

The 2009 fiscal year will pose many challenges, but our shareholders, who do us honour by placing their trust in us, can rest assured of the continued determination and passion of the entire Transat team.

Jean-Marc Eustache

Chairman of the Board
President and Chief Executive Officer

January 16, 2009

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Transat Overview

OUTGOING TOUR OPERATORS

Transat Tours Canada (TTC)
Vacances Transat, Nolitours, Air Transat
Caribbean, Latin America and Mexico from Canada, Canada-Europe market and cruises

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

Merika Tours
North American destinations from Canada

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

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

Amplitude Internationale
Tunisia from France

Vacances Transat (France)
Americas, Caribbean, Asia and Africa from France

Bennett
Tours in Eastern Europe, Scandinavia, Scotland and Ireland

Brokair
Group tours from France

Canadian Affair
Canada-UK market

INCOMING TOUR OPERATORS DESTINATION SERVICES

Jonview Canada (80.07%)
Tours and packages to Canada

Tourgreece (90.0%)
Tours and packages to Greece

Trafic Tours (70.0%)
Excursions and destination services in Mexico

Turissimo (70.0%)
Excursions and destination services in the Dominican Republic

Transat Holidays USA
Destination services and travel agency in Florida

HOTEL MANAGEMENT

Ocean Hotels (35.0%)
Five hotels in Mexico and the Dominican Republic

RETAIL DISTRIBUTION

Transat Distribution Canada (TDC)
Network of 415 travel agencies in Canada (Marlin Travel, TravelPlus, Club Voyages, Voyages en Liberté) and exitnow.ca

tripcentral.ca (64.6%)
Network of 22 travel agencies in Canada: tripcentral.ca

Club Voyages
Network of 67 Club Voyages and Look Voyages travel agencies in France

AIR TRANSPORTATION

Air Transat
Charter air carrier specializing in holiday travel

Handlex
Airport ground services in Montreal, Toronto and Vancouver

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

Transat Tours Canada (TTC)

Transat Tours Canada (TTC), which operates mainly under the Transat Holidays, Nolitours and Air Transat brands, grew its customer base across the board in 2008, posting overall growth of 11% in the number of travellers. This most satisfactory progress was achieved in a highly competitive market, especially for sun destinations, and in a context of very high fuel prices.

The leading tour operator for holiday travel between Canada and Europe, TTC also offers Canadians year-round travel to Mexico and the Caribbean. Lastly, TTC markets cruise travel on all of the world's oceans to Canadian customers through agreements with the best cruise operators. In 2008, this market segment accounted for some 61,000 travellers. TTC also offers a wide array of tours and accommodations on both sides of the Atlantic, including Transat as well as partner products.

Under the Rêvatours brand, TTC markets tours and custom-tailored products in 30 countries in Europe, Asia, Africa and South America, including, as of 2008, Ecuador, Argentina and Chile; under the Merika Tours brand, it offers Canadians a range of North American destinations.

Air Consultants Europe (ACE)

A major European partner of TTC, ACE strongly intensified its collaboration with Jonview Canada during 2008. It also pursued efforts to strengthen its multi-channel distribution platform; the result was a substantial increase in sales.

Look Voyages

During 2008, Look Voyages maintained its strong performance, leveraging the winning formula of its Lookéa clubs network (28 resort clubs in 16 countries as of summer 2008) while diversifying its offering to include a range of summer travel and tour products. A champion of the multi-channel approach, Look Voyages controls a significant proportion of its distribution. Look Voyages recorded 257,000 travellers in 2008, and the company's customer satisfaction level held firm at 97%. Amplitude Internationale, which specializes in Tunisia, also recorded an excellent year, with nearly 124,000 travellers.

Vacances Transat (France)

In 2008, Vacances Transat (France) posted strong growth, with 182,000 travellers and sales up 16% to 231 million euros. Some 95,000 travellers chose organized tours (a Vacances Transat specialty), another 40,000 opted for resort products, while 80,000 flew to Canada via Air Transat. The leading tour operator in the French market offering travel to Canada, Vacances Transat (France) also enjoys a growing reputation as a specialist in tour products to the four corners of the globe. Also operating under the Bennett (destinations in Northern Europe) and Brokair (specializing in group travel) brands, the tour operator offered 34 destination countries and partnered with some 30 carriers outbound from France in 2008.

Canadian Affair

As the United Kingdom's leading tour operator specializing in travel to Canada, Canadian Affair works hand-in-hand with Transat Tours Canada, Jonview Canada and two carriers: Air Transat and Thomas Cook Airlines. In 2008, Canadian Affair had a very high passenger load factor and posted increased incidental revenues, resulting in substantial growth in both revenues and margins. Canadian Affair earned the distinction "Consumer Favourite Tour Operator" for the fourth year in a row.

Jonview Canada

Jonview Canada, the leading incoming tour operator in Canada, markets its products in approximately 50 countries, not only in Europe but also in a growing number of emerging markets. Jonview Canada also offers products through an innovative partnership with Via Rail. Fiscal 2008 was a record year for the company, with sales of approximately $128 million and 263,000 travellers.

Tourgreece

Close to 15 million tourists visit Greece each year, and Tourgreece handled approximately 69,000 of them, ranking it among the largest incoming tour operators in the country. In 2008, Tourgreece broadened its distribution network to include Argentina, Brazil, Singapore and Malaysia.

Transat Distribution Canada

At year-end 2008, Transat Distribution Canada (TDC) included 415 agencies (including 337 franchises) and approximately 1,800 travel advisors. Sales by this cross-Canada distribution network, all brands combined, totalled some $1.2 billion, with sales of Transat products increasing. In 2009, TDC intends to focus efforts on increasing productivity by, among other things, improving its systems and developing a customer relationship management (CRM) program.

Club Voyages

With Club Voyages, we have 67 travel agencies in France, including 33 under the Look Voyages banner and 34 Club Voyages–branded agencies. In 2009, we will be strengthening the strategic links among our tour operators and distribution structures so as to derive the maximum possible benefits from the group's positioning on the French outgoing market.

Air Transat

Air Transat operates a fleet of 18 aircraft (14 Airbus A310s and four Airbus A330s). Its on-time, fleet-reliability and fuel-management performances remain among the best in the industry. With an eye to improving passenger comfort, Air Transat has increased legroom in all of its aircraft. Our air carrier was granted Phase 2 certification from Transport Canada for its safety management system in 2007, and received IOSA (*IATA Operational Safety Audit*) registration from the International Air Transport Association in 2008, joining the ranks of the most advanced airline companies in safety management. Several factors combine to make Air Transat a first-rate airline in its category: its qualified, friendly cabin crews, an outstanding program for young families and its Club Class.

Handlex

Handlex and its approximately 1,100 employees provide airport ground services (passenger check-in, baggage and cargo handling, aircraft cleaning and ramp services, as well as ground-services equipment maintenance) to 26 carriers—including Air Transat—at Montreal, Toronto and Vancouver international airports. In 2008, Handlex posted very good financial and operational results. It implemented improvements to its management systems, upgraded certain equipment and continued to offer safe, high-quality service. The Handlex team provided service for 15,433 departures in 2008.

Throughout its history, Transat and its employees have nurtured close ties with the community. Over the past two years, however, we have decided to seek the next level in terms of

Social responsibility

responsible management, striving to become a first-class employer and a leader in the area of sustainable tourism.

Here is a summary of our 2008 Corporate Social Responsibility Report. The complete version is available on our website at www.transat.com.

Throughout our Company's history, together with our employees, we have nurtured close ties with the community. Over the past two years, however, we have decided to seek the next level in terms of responsible management, striving to become a first-class employer and a leader in the area of sustainable tourism. Sustainable tourism is defined as tourism that entails respect for nature as well as for host communities and their values, and that combines positive socio-economic benefits for local populations with an enriching experience for travellers.

Transat: A talented team

At Transat, we believe that our people grow along with our organization and represent the very foundations of our industry. As such, we consider it our responsibility to help our team members develop their talents, to raise awareness of our industry among coming generations, and to work with the community and partners ready to assist us in the pursuit of this mission. As at October 31, 2008, Transat had 6,466 employees.

Our current talent-development philosophy follows from a broad-based consensus, developed via consultation with more than 70 executives at different levels and in different countries. Indeed, this responsibility, so vital to the development of our organization, depends above all on our managers. Training in employee coaching has been provided to nearly all of them (more than 500) at all levels.

Personnel development from a perspective of continuity

- A responsibility shared between manager and employee
- Ongoing, regular discussions between manager and employee
- An open, transparent process
- Emphasis on internal promotions and mobility across business units
- Approach based on work experience accompanied by effective coaching

A structured approach to evaluating employee potential has been implemented with input from an international network of experts in organizational psychology. Close to 50 employees have undergone assessments aimed at establishing personalized career development plans for them. A virtual platform allows employees and their immediate supervisors to measure progress as well as benefits.

In addition, a reference guide of 12 management competencies has been developed to provide a roadmap for the organization's training activities. These competencies were rigorously selected based on the organization's strategic objectives. A competencies curriculum for managers has also been developed; it is modular, allowing executives with different experience levels to take training that corresponds to their needs.

To make it easier for interested employees to pursue and have access to university studies, we have developed a certificate program in organization management in partnership with Université de Sherbrooke, Ryerson University in Toronto and Simon Fraser University in Vancouver. This initiative, first implemented at Air Transat, was widened and made available to all Canadian employees in 2008.

New programs have been introduced to reward our employees' efforts and successes. The Vega program, for example, allows anyone in the Transat family to nominate a deserving colleague, be they an immediate co-worker or someone in another business unit.

At Transat, we believe that our people grow along with our organization and represent the very foundations of our industry.

Significant internal communications efforts are made, using multiple channels. We encourage our managers to meet with their personnel regularly to get feedback and share information, and we provide them with support to facilitate this task. These meetings, regardless of their scale, are echoed via our intranet, called "Mundo," which has been completely redesigned as of January 2009. The intranet is an ideal tool for maintaining communication between management and employees.

Transat maintains excellent labour relations with all personnel. This is particularly evident in the relationships between management and all of its union partners at Air Transat and Handlex. Over the past two years, Air Transat has completed negotiations for all of its collective agreements, and in each case bargaining has proceeded without conflict. Most of them are long-term agreements; i.e., for five years.

The environment

In terms of sustainability, one of our first tasks has been to work on the management of resources. In 2008, we implemented new reduction, reuse and recycling initiatives. At the same time, we began the complex task of drawing up a comprehensive environmental baseline, with an eye to quantifying objectives and facilitating long-term planning. Several employee awareness activities have been implemented and were greeted with an eagerness to embrace best practices.

As early as 2003, Air Transat, a wholly owned subsidiary of Transat, developed and began applying a stringent fuel management program, which has enabled the carrier to substantially reduce greenhouse gases (GHGs) per passenger. In 2008, Air Transat's fuel consumption was 3.26 litres (8.25 kg of CO_2) per passenger / 100 kilometres, versus 3.17 litres (8.02 kg of CO_2) the previous year. These fuel consumption statistics compare favourably to those of the majority of air carriers. The relative increase in 2008 is attributable to the reduction in the number of seats on our aircraft, a measure taken to increase legroom to enhance passenger comfort. In 2008, Air Transat made a total of approximately 14,400 flights, with corresponding CO_2 emissions of 1,137,629 tonnes, compared with about 13,000 flights and 1,013,970 tonnes in 2007.

We have undertaken three other major projects with Air Transat and Handlex, our air operations business units: we are seeking LEED-EB (Leadership in Energy and Environmental Design for Existing Buildings) certification for Air Transat's head office and maintenance centre in Montreal, implementing an environmental management system with a view to obtaining ISO 14001 certification, and integrating 3RV (reduce, reuse, recycle, valorize) principles into our supply strategy.

Supporting communities

As part of a program that it has developed, Transat supports projects that aim to preserve or present cultural heritage, protect natural sites with tourism potential, help communities reap the economic benefits of tourism, or reduce the environmental impacts of tourism. These projects, assessed on a merit basis, are submitted by non-profit organizations or communities.

To date, Transat has supported eight projects in four countries, all inspired by a similar vision: to develop tourism, create jobs and generate economic benefits through initiatives based on conservation and community buy-in. Together, these projects represent investments in excess of $300,000. This program seeks to encourage and promote a specific vision of tourism development, by raising awareness on the part of promoters, decision-makers, travellers and all those who have the power to influence the future direction of tourism.

Our sustainable tourism performance depends in part on that of our suppliers; hence our concern for choosing responsible partners and instituting a collaborative culture

grounded in a common vision of sustainable tourism. We can influence working methods and can also draw inspiration from avant-garde practices already put in place by some of our partners, in turn helping disseminate them to as many others as possible.

We have created an international working group that is tasked with laying the foundations for a sustainable supply-chain policy for travel services, along with an awareness and continuous-improvement program aimed at suppliers. The program will be rolled out in stages, beginning with efforts focused on the hotel industry: in the summer of 2008, we initiated a pilot project aimed at documenting current practices with respect to environmental stewardship, local purchasing, labour relations and community relations. This initiative will allow us to establish measurable objectives based on a statistical portrait of the situation, and pave the way for development of an action plan built on awareness-raising and dialogue. In the future, the program will be extended to all our hotel suppliers, and then to suppliers in other service categories. This initiative complements our hotel inspection program which focuses on 163 safety criteria.

Transat began initiatives to raise travellers' awareness of sustainable tourism issues, via its website, in its commercial brochures and in Air Transat's in-flight magazine. To date, the main objective has been to foster understanding of the founding concepts of sustainable tourism, including the three pillars of environmental stewardship, heritage conservation and respect for cultures, and of responsible development of the economic potential of tourism.

In 2008, Transat, its business units, employees and customers donated approximately $1.8 million, in cash or in kind, to charitable, humanitarian and non-profit organizations.

Transat began initiatives to raise travellers' awareness of sustainable tourism issues, via its website, in its commercial brochures and in Air Transat's in-flight magazine.

America

	2008	2007	2006

Outgoing tour operators and air transportation

Transat Tours Canada (TTC)
(Vacances Transat,
Nolitours and Air Transat)

	2008	2007	2006
Revenues	2,371,000	2,117,000	1,912,000
Employees	3,051	2,881	2,667
Passengers[1]	3,181,000	2,918,000	2,625,000
Travellers [2]	1,492,000	1,348,000	1,200,000

Rêvatours

	2008	2007	2006
Revenues	13,800	13,000	18,400
Employees	25	27	26
Travellers	4,700	4,300	6,000

Incoming tour operators and destination services

Jonview Canada

	2008	2007	2006
Revenues	127,500	121,000	118,000
Employees	288	238	183
Travellers	263,000	249,000	237,000

Transat Holidays USA,
Turissimo and Trafic Tours

	2008	2007	2006
Revenues	43,200	32,000	32,000
Employees	263	107	105

Retail distribution

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

	2008	2007	2006
Revenues (commissions and franchise)	67,100	61,400	36,000
Outlets owned	78	83	88
Employees	581	577	597
Outlets	337	304	315

Tripcentral.ca

	2008	2007	2006
Revenues	8,700	7,400	7,700
Employees	110	100	99
Outlets owned	22	22	23

Other airline services

Handlex

	2008	2007	2006
Revenues	54,200	49,500	41,000
Employees	1,147	1,203	1,108

Europe

	2008	2007	2006

Outgoing tour operators

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

	2008	2007	2006
Revenues (€)	231,000	211,000	194,000
Employees	240	220	214
Travellers	182,000	155,000	141,000

Look Voyages

	2008	2007	2006
Revenues (€)	235,000	189,000	148,000
Employees	342	309	305
Travellers	257,000	213,000	167,000
Club Lookéa / summer[3]	28	26	18
Club Lookéa / winter[3]	13	12	7

Amplitude Internationale

	2008	2007	2006
Revenues (€)	44,000	19,000	—
Employees	18	19	—
Travellers	124,000	46,000	—

Air Consultants Europe (ACE)

	2008	2007	2006
Revenues (commissions) (€)	3,400	3,300	3,200
Employees	26	23	19
Travellers	58,000	46,000	45,000

Canadian Affair

	2008	2007	2006
Revenues (£)	89,700	71,000	30,500
Employees	67	75	63
Travellers	176,000	161,500	69,700

Incoming tour operators and destination services

Tourgreece

	2008	2007	2006
Revenues (€)	19,600	20,700	19,700
Employees	34	30	35
Travellers	69,000	72,000	71,000

Retail distribution

Club Voyages (France)

	2008	2007	2006
Revenues (commissions) (€)	10,300	10,300	9,900
Employees	198	191	201
Outlets owned	67	69	72

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

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

Transat is one of the largest fully integrated world-class tour operators in North America. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe.

As a tour operator, Transat's core business involves developing and marketing holiday travel services in package and air-only formats.

Financial Highlights

(In thousands of dollars, except per share amounts)

	2008	2007	2006	Variance	
		Restated		2008	2007
	$	$	$	%	%
Consolidated Statements of Income (loss)					
Revenues	3,512,851	3,045,917	2,603,746	15.3	17.0
Margin[1]	127,327	138,117	126,944	(7.8)	8.8
Net income (loss)	(50,011)	78,503	65,770	(163.7)	19.4
Basic earnings (loss) per share	(1.51)	2.33	1.88	(164.8)	23.9
Diluted earnings (loss) per share	(1.51)	2.30	1.85	(165.7)	24.3
Dividend – Class A and B shares	0.36	0.34	0.14	5.9	142.9
Consolidated Balance Sheets					
Cash and cash equivalents	145,767	166,768	214,887	(12.6)	(22.4)
Cash and cash equivalents in trust or otherwise reserved	256,697	168,196	203,613	52.6	(17.4)
Investments in ABCP	86,595	142,346	—	(39.2)	N/A
	489,059	477,310	418,500	2.5	14.1
Assets	1,265,431	1,080,523	959,195	17.1	12.6
Debt (short-term and long-term)	153,241	91,837	87,824	66.9	4.6
Total debt[1]	450,335	371,146	408,161	21.3	(9.1)
Net debt[1]	217,973	62,032	193,274	251.4	(67.9)
Consolidated Statements of Cash Flows					
Operating activities	155,225	134,457	116,160	15.4	15.8

[1] NON-GAAP FINANCIAL MEASURES

The terms “margin,” “total debt” and “net debt” have no standard definition prescribed by Canadian GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers. However, these terms are presented on a consistent basis from year to year, as management uses them to measure the Corporation’s financial performance.

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

Total debt is used by management to assess the Corporation’s future cash requirements. It represents the combination of balance sheet debt (long-term debt and debenture) and off-balance sheet arrangements, excluding the arrangements with suppliers discussed on p. 28.

Net debt is used by management to assess Transat’s cash position. It is defined as 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

Holiday travel industry

The holiday travel industry consists mainly of tour operators, traditional and online travel agencies, destination service providers or hotel operators, and air carriers serving travellers with scheduled or charter flights.

“Outgoing” tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, generally through travel agencies. “Incoming” tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies.

The destination service providers 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. 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 operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat’s core business involves developing and marketing holiday travel services in package and air-only formats. We operate as both outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in 10 other countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with a total of approximately 500 travel agencies (including 337 franchisees) and a multi-channel distribution system incorporating Web-based sales. Since 2008, Transat has held an interest in a hotel business owning and operating properties in Mexico and the Dominican Republic. Transat relies on 60 air carriers, but primarily on its subsidiary Air Transat for a large portion of its needs. Transat also offers destination and airport services.

Vision – According to the World Tourism Organization, there were some 900 million international tourists in 2007, and this market is growing. Travellers' origins and destinations are increasingly diverse. Transat's vision is to optimize shareholder value by entering new markets, increasing its 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. We are a well-established outgoing tour operator in France and the U.K. and an incoming tour operator in Greece. We offer our customers a broad range of international destinations spanning some 60 countries. Over time, we intend to expand our business to other countries where we believe there is high growth potential for an integrated tour operator specializing in holiday travel.

Strategy – From 2006 to 2008, Transat executed a three-year strategic growth plan. During that period, revenues grew approximately $1 billion, or 48%, driven by acquisitions and strong organic growth. The Corporation strengthened its leadership position in all regions of Canada, as well as in France, where it ranks among the country's largest tour operators, and in the U.K., where Transat acquired a tour operator, further boosting outbound sales to Canada. As anticipated, Transat successfully entered the hotel industry. During the three-year period, Transat also acquired travel agencies, bolstered its online presence and developed a high-performance multichannel distribution platform.

In 2009, Transat will begin implementing its 2009-2011 three-year plan, focused primarily on making the Corporation more competitive in its key markets; adapting its offering to tap into high-growth market segments; pursuing vertical integration; renewing its bilateral market development approach; and developing expertise to maintain and strengthen its competitive positioning, while underpinning the Corporation's long-term viability. Implementation of this three-year plan factors in the worrisome economic conditions looming on the horizon at the end of the 2008 calendar year. For fiscal 2009, Transat has set the following targets:

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

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

- Continue developing and implementing our multichannel distribution strategy and increase sales for each channel;

- Develop and implement a sustainable tourism plan that will keep Transat in the front ranks of the industry, increase its influence over the future of our market and inspire buy-in by employees, suppliers and customers alike.

Review of 2008 objectives and achievements

(See table on page 20 and 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
Remain the leader in Canada in all provinces and increase market share in Ontario, across the rest of the country and in Europe.
Revenue growth
Grow revenues by more than 5%, excluding acquisitions.
Margin
Generate margins higher than 5%.

Ability to deliver on our objectives

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

Our financial resources are as follows:
Cash
Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $145.8 million as at October 31, 2008. Our continued focus on expense reductions and margin improvements should maintain these balances at healthy levels. In addition, we also hold investments in ABCP with a fair market value and a face value of $86.5 million and $143.5 million respectively on this date.
Credit facilities
We have revolving term credit facilities currently totalling $194.0 million ($264.6 million once the ABCP restructuring plan is finalized) and expiring up to 2013.

Our non-financial resources include:
Brand
The Corporation has taken the necessary steps to foster a distinctive brand image and bolster its reputation, including its sustainable tourism approach.
Structure
Our vertically integrated structure enables us to ensure better quality control of our products and services.
Employees
In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe that the Corporation benefits from a seasoned leadership team.
Relationships with suppliers
We have exclusive access to certain hotels at sunshine destinations as well as over 20 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the necessary resources to meet its 2009 objectives and continue building on its long-term strategies.

Review of 2008 objectives and achievements

OBJECTIVE 1

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, by fully capitalizing on our presence on both sides of the Atlantic.
- Continue to strengthen our multichannel distribution system by consolidating the travel agency network and developing Web-based platforms that can adapt to market changes.
- Increase our margins, particularly by continuing our cost control efforts, such as by seeking new synergies among subsidiaries.

ACCOMPLISHMENTS

For outbound travel from Canada to southern destinations in winter Transat's market share in Ontario held steady, slipped slightly in Québec and declined in Western Canada, against a backdrop of fierce competition. However, we remain the top tour operator in all regions of Canada, and sold more seats than in 2007.

We have begun implementing a plan to ramp up transatlantic operations, while targeting greater efficiency. This plan includes much closer teaming between TTC and Jonview Canada, Canadian Affair, Vacances Transat (France) and ACE. We launched a new destination (Basel-Mulhouse) and new routes (Vancouver-Calgary-Paris), such that we marketed 64 routes between Canada and Europe in summer 2008, readily setting us apart from any other carrier and further strengthening our position in the tourism industry. With this platform, the Corporation expanded its transatlantic holiday market share in 2008.

We further developed our multichannel distribution platform, which was key to achieving a 10% increase in volume in 2008 compared with 2007, while approximately 30% of Canadian sales were attributed to Transat-network travel agencies, call centres or Web sites. We now have 437 agencies in Canada, including 33 new franchisees. We also implemented a customer relationship management platform.

Maintaining our margins was a significant challenge in 2008 due to sharp increases in fuel costs—only partially offset by our fuel hedging strategies—and to excess market capacity. Incidental revenues were up at Air Transat, and other measures helped bolster margins. With a view to combining our subsidiaries' dealings, several administrative functions were pooled between Jonview Canada and TTC, which generated compelling results.

OBJECTIVE 2

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

- Continue to diversify departures from France, based on the current business models at Look Voyages and Vacances Transat (France).
- Continue to improve our multichannel distribution system by strengthening links between our travel agencies and tour operators and by developing Web platforms that can adapt to market changes.
- Develop a strategic growth plan for our organization in France.

ACCOMPLISHMENTS

Vacances Transat remains a touring and long-haul leader in France and developed new destinations such as Vietnam, which helped offset a slowdown in other destinations in 2008, including the Dominican Republic. Look Voyages operated 28 Clubs Lookéa in summer 2008 and maintained excellent performance in terms of customer satisfaction. Fiscal 2008 ushered in the successful integration of Européenne de tourisme (Amplitiude Internationale) and the appointment of a new general manager at Look Voyages. In 2008, our tour operators in France outperformed their counterparts, growing faster than the French market average.

Transat's multichannel platform in France posted strong results in 2008. Across the English Channel, where direct distribution plays a central role, our U.K. operations saw the volume of travellers grow approximately 14%, significantly improving on their 2007 margin.

The French strategic plan is under development in step with Transat's 2009-2011 three-year strategic plan.

OBJECTIVE 3

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 in 2008, namely smaller players that are very active on the Internet.

ACCOMPLISHMENTS

A number of acquisition projects were identified and examined over the duration of the three-year plan in the U.S. and Southern Europe. No transactions occurred, nor were they practicable under conditions meeting our criteria and our shareholders' best interests, particularly given the looming market conditions for 2009. Tapping into new markets remains a goal however, especially in places where we already provide air service and could quickly set up distribution operations, such as Europe and certain Latin American countries.

OBJECTIVE 4

Capitalize on vertical integration at destination.

- Successfully complete the integration of our 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 comprehensive product offering.

ACCOMPLISHMENTS

We successfully integrated our hotel venture, launched in early fiscal 2008. Transat set up a team to monitor operations, key management positions at the venture were filled, and the "Ocean" brand was implemented across the five properties. Growth projects were reviewed in the Caribbean, and we finalized a land purchase in the Dominican Republic to build a hotel.

Numerous initiatives targeted acquisition opportunities among incoming tour operators or destination service providers in certain key markets, such as Southern Europe and Northern Africa. No transactions have been completed for the time being. The actions taken in 2008 led to considerably stronger financial results at our Mexican and Dominican Republic destination service providers.

OBJECTIVE 5

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.

ACCOMPLISHMENTS

Some 500 managers were trained on coaching techniques in 2008. In addition, approximately 150 employees were selected for an accelerated development project, successfully designed and implemented in 2008, to track employee development plans as part of a broad-based talent management project to underpin the organization's long-term viability. A Talent Development Committee, consisting of all the commercial entities' presidents and HR vice-presidents, was also created for enhanced tracking.

Moreover, our new talent development philosophy was presented to all employees during the president's tour.

Building on the success of the Air Transat Academy, we set up Transat Academy to extend access to this program to all of Canadian employees. Under this program, employees can take university-level courses in the workplace. Approximately 70 people are currently studying under this program.

Our initiatives will continue uninterrupted and also involve organizational changes to facilitate information flow and decision-making from a broader perspective, improve efficiency, optimize employee utilization and reduce costs.

OBJECTIVE 6

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.

ACCOMPLISHMENTS

The above objectives are part of a more far-reaching initiative to modernize and integrate Transat's key management systems and improve our multichannel distribution platforms.

We have selected the technological approach for our next-generation Web-based platform for online travel distribution.

We have identified and acquired the solution to implement a new centralized seat management system complete with a revenue management tool. Detailed project planning for an initial implementation slated for 2009 is well underway.

Finally, in 2008, we completed integration of financial management at TTC and our head office into our SAP environment; this process will be undertaken at our French subsidiaries in 2009.

OBJECTIVE 7

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 gas emissions.

ACCOMPLISHMENTS

Transat developed and publicly released its sustainable tourism policy, green-lighted by the Board of Directors in June 2008. A number of initiatives got underway in connection with a three-year plan to be completed in 2009 under the authority of the Sustainable Tourism Steering Committee, consisting of all the leaders of Transat's key subsidiaries. The projects undertaken mainly seek to improve our environmental performance, identify and promote generally accepted practices at our main tourism service providers, raise employee and public awareness of concepts related to sustainable tourism and obtain buy-in of stakeholders at destination to support our sustainable tourism projects.

Fleet renewal and the likely additional costs related to greenhouse gas emissions (GGE) are two complex, interrelated issues that were examined throughout the year. Various scenarios were contemplated, but industry conditions are rapidly evolving. Transat is targeting 2012 to commission aircraft best suited to our operating model and environmental requirements.

CONSOLIDATED OPERATIONS

Acquisitions

On December 10, 2007, the Corporation acquired a 35% interest in Caribbean Investments B.V. ["CIBV"], a company operating five hotels in Mexico and the Dominican Republic, for $51.6 million [US$51.1 million] in cash and additional payments of up to US$4.0 million contingent on meeting certain specific terms and conditions by 2009. This acquisition was recorded using the equity method, and the share of net income of the acquired company has been accounted for as of December 10, 2007. The difference between the cost of the Corporation's interest in CIBV and its share of the net assets at the acquisition date amounted to $16.0 million and was allocated to imputed goodwill.

In addition, on April 9 and November 30, 2008, the Corporation made capital contributions of $4.2 million [US$4.1 million] and $5.2 million [US$4.2 million], respectively, to CIBV. These additional contributions were made to enable CIBV to acquire land in the Dominican Republic in connection with a hotel complex development project. The Corporation expects that additional capital contributions will be required in the next two fiscal years to cover a portion of costs under the project, which is still in the evaluation stage.

On July 11, 2008, the Corporation paid contingent consideration totalling $3.8 million [€2.4 million] in respect of the July 11, 2007 acquisition of L'Européenne de Tourisme (Amplitude Internationale). A total of $2.2 million [€1.4 million] has already been recognized as a payable in relation to this contingent consideration. The Corporation also recognized additional contingent consideration payable of $0.2 million [€0.1 million]. Subsequent to these transactions, a total of $1.8 million was recognized in goodwill.

Geographic Areas

We derive 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 this MD&A to explain certain variances. Basically, tour operators record round-trips in terms of travellers, and airlines record flight segments in terms of passengers.

The overall growth in revenues was driven by increases of 11.4% and 27.1% in the Americas and Europe, respectively. These increases were mainly attributable to greater business activity (due to our expanded product offering), a higher volume of seats sold to third parties (during the winter season) and to a lesser degree to our 2007 acquisition of Amplitude Internationale ("Amplitude"). Owing to our expanded product offering in various markets, our volume of travellers rose 18.0% compared with the previous fiscal year.

We expect that revenues and the total number of travellers in 2009 will slightly outpace their 2008 levels. In light of current economic conditions and excess market capacity, we expect competition to remain intense throughout fiscal 2009.

Operating Expenses

Our operating expenses consist mainly of direct costs, aircraft fuel, salaries and employee benefits, commissions, aircraft maintenance, airport and navigation fees, and aircraft rent. Approximately 30% of our operating expenses are payable in U.S. dollars.

The overall growth in operating expenses stemmed from increases of 14.1% and 23.1% in operating expenses in the Americas and Europe, respectively. These variances resulted mainly from greater business activity. As a percentage of revenues, operating expenses rose slightly to 96.4% from 95.5% in 2007.

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 2008, these costs represented 55.0% of our revenues, up from 52.6% in 2007. Direct costs were up 20.7% compared with the fiscal year ended October 31, 2007. This increase was primarily driven by greater business activity and higher per-seat costs, caused in part by rising fuel prices and the euro's strength against the dollar.

Aircraft fuel costs rose 33.6%, or $91.8 million, during the year. This increase resulted primarily from the spike in fuel prices, greater business activity and the addition of two aircraft to the fleet since November 1, 2006.

Salaries and employee benefits were up 4.4% compared with fiscal 2007, due in part to greater business activity and the addition of two aircraft to our fleet since November 1, 2006, resulting in new hires, offset however by lower short-term variable pay plans than in 2007.

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense fell $11.9 million during the year from its 2007 level. Expressed as a percentage, commission expense represented 5.0% of our revenues compared with 6.1% in 2007. This decrease resulted mainly from lower commissions in Canada, and to a lesser extent from greater synergies from the expansion of our travel agency network through an acquisition in fiscal 2006 and higher direct sales at our European subsidiaries.

Revenues by Geographic Areas

Years ended October 31 (in thousands of dollars)

	2008	2007	2006	Variance 2008	Variance 2007
	$	$	$	%	%
Americas	2,536,831	2,278,116	2,059,611	11.4	10.6
Europe	976,020	767,801	544,135	27.1	41.1
Total	3,512,851	3,045,917	2,603,746	15.3	17.0

Aircraft maintenance costs relate to the engine and airframe maintenance expenses incurred by Air Transat, primarily in U.S. dollars. Compared with 2007, these expenses rose 28.6%, or $21.7 million, primarily as a result of the year-end adjustment to the provision for overhaul of leased aircraft subsequent to the strengthening of the U.S. dollar against the loonie, the addition of two aircraft to our fleet since November 1, 2006 and greater business activity.

Airport and navigation fees mainly comprise fees charged by airports. The 4.7% increase in fees compared with the previous year stemmed mainly from greater business activity.

Aircraft rent remained relatively unchanged in 2008 compared with 2007. The strength of the Canadian dollar against its U.S. counterpart offset the rise in lease payments for aircraft added to the fleet in 2007 and 2008.

Although they fell marginally as a percentage of revenues, other expenses were up 8.5% compared with 2007, due primarily to greater business activity, and relate mainly to our aircraft's other operating costs.

Despite our continued efforts to reduce and control costs, we expect total operating expenses to increase due to greater business activity in 2009.

Americas

In the Americas, revenues were up 13.5% during the 2008 winter season compared with the same period in 2007. This increase was mainly due to growth of 23.5% in the volume of travellers compared with the same period in 2007. For the six-month winter season in 2008, margins fell to 5.6% in 2008 from 6.7% in 2007. These slimmer margins resulted primarily from downward price pressure due to excess supply in the marketplace and an environment that remains highly competitive.

During the summer season, revenues grew 8.2% due to higher average prices for our outbound routes to Europe and a 3.7% increase in the volume of travellers from the same season of 2007. The Corporation reported a negative margin of 1.2% for the summer season compared with a positive margin of 3.2% for the same season in 2007. This margin inversion stemmed primarily from fuel prices that scaled record the heights coupled with downward price pressure due to excess supply for southern destinations and a continuously competitive environment.

This margin underperformance resulted mainly from our inability to pass along significant fuel cost increases through concurrent selling price increases, but also from downward price pressure due to excess supply for southern destinations.

Operating Expenses

Years ended October 31 (in thousands of dollars)

	2008 $	2007 Restated $	2006 $	% of revenues 2008	% of revenues 2007	% of revenues 2006	Variance 2008 %	Variance 2007 %
Direct costs	1,933,706	1,601,652	1,307,732	55.0	52.6	50.2	20.7	22.5
Aircraft fuel	365,457	273,614	247,697	10.4	9.0	9.5	33.6	10.5
Salaries and employee benefits	349,746	334,973	290,385	10.0	11.0	11.1	4.4	15.4
Commissions	174,740	186,686	171,116	5.0	6.1	6.6	(6.4)	9.1
Aircraft maintenance	97,842	76,099	81,150	2.8	2.5	3.1	28.6	(6.2)
Airport and navigation fees	90,624	86,594	71,833	2.6	2.8	2.8	4.7	20.5
Aircraft rent	48,628	48,883	48,870	1.4	1.6	1.9	(0.5)	0.0
Other	324,781	299,299	258,019	9.2	9.8	9.9	8.5	16.0
Total	3,385,524	2,907,800	2,476,802	96.4	95.5	95.1	16.4	17.4

Americas

Years ended October 31 (in thousands of dollars)

		2008 $	2007 Restated $	2006 $	Variance 2008 %	Variance 2007 %
Winter season	Revenues	1,560,186	1,375,092	1,178,532	13.5	16.7
	Operating expenses	1,473,359	1,282,623	1,093,342	14.9	17.3
	Margin	86,827	92,469	85,190	(6.1)	8.5
	Margin (%)	5.6	6.7	7.2	(16.9)	(6.9)
Summer season	Revenues	976,645	903,024	881,079	8.2	2.5
	Operating expenses	987,931	874,415	847,474	13.0	3.2
	Margin	(11,286)	28,609	33,605	(139.4)	(14.9)
	Margin (%)	(1.2)	3.2	3.8	(136.1)	(15.8)

Europe

In Europe, revenues and operating expenses were up from the corresponding six-month winter season in 2007. These increases stemmed primarily from greater business activity, mainly at our French subsidiaries, our 2007 acquisition of Amplitude and the euro's strength against the dollar. The volume of travellers rose 72.6% during the winter season compared with the corresponding period of 2007. Excluding Amplitude travellers, the increase was 39.3% for the six-month period. Our European operations reported a negative margin of $1.5 million in 2008 compared with $1.4 million in the corresponding period of 2007.

For the summer season, revenues were up 29.8%, due primarily to greater business activity at all our European operations, our 2007 acquisition of Amplitude and the euro's strength against the dollar. The volume of travellers was up 18.1% from the 2007 summer season. Excluding Amplitude travellers, the increase was 11.9% for the six-month period.

Our European operations reported a margin of $53.3 million (7.9%) for the summer season compared with $8.5 million (3.6%) for the same season in 2007. This improved margin resulted in part from more profitable operations at Canadian Affair compared with the 2007 summer season.

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 commissionning costs.

Amortization expense was up $5.7 million, or 11.1%, mainly as a result of additions to property, plant and equipment during the year and previous years and, in particular, information technology amortized over relatively shorter periods compared with the other property, plant and equipment as a whole.

Interest on long-term debt and debenture

Interest on long-term debt and debenture rose 21.0% from 2007 owing primarily to higher average long-term debt levels subsequent to drawdowns from the Corporation's credit facilities.

Other interest and financial expenses

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

Interest income

Interest income was down $3.6 million, or 18.1%, from 2007. This decrease resulted mainly from lower average balances of cash and cash equivalents and lower average interest rates compared with 2007.

Europe

Years ended October 31 (in thousands of dollars)

		2008 $	2007 $	2006 $	Variance 2008 %	Variance 2007 %
Winter season	Revenues	302,361	248,645	194,613	21.6	27.8
	Operating expenses	303,896	250,073	197,286	21.5	26.8
	Margin	(1,535)	(1,428)	(2,673)	(7.5)	46.6
	Margin (%)	(0.5)	(0.6)	(1.4)	15.4	57.1
Summer season	Revenues	673,659	519,156	349,522	29.8	48.5
	Operating expenses	620,338	500,689	338,700	23.9	47.8
	Margin	53,321	18,467	10,822	188.7	70.6
	Margin (%)	7.9	3.6	3.1	119.9	16.1

Other expenses and revenues

Years ended October 31 (in thousands of dollars)

	2008 $	2007 Restated $	2006 $	Variance 2008 %	Variance 2007 %
Amortization	56,649	50,990	39,360	11.1	29.5
Interest on long-term debt and debenture	7,538	6,229	7,264	21.0	(14.2)
Other interest and financial expenses	1,758	1,929	1,484	(8.9)	30.0
Interest income	(16,172)	(19,745)	(15,706)	(18.1)	25.7
Change in fair value of derivative financial instruments used for aircraft fuel purchases	106,435	(26,577)	—	(500.5)	N/A
Foreign exchange loss (gain) on long-term monetary items	2,295	(3,023)	(4,162)	(175.9)	(27.4)
Write-off of goodwill	—	3,900	—	N/A	N/A
Writedown of investments in ABCP	45,927	11,200	—	310.1	N/A
Gain on repurchase of preferred shares of a subsidiary	(1,605)	—	—	N/A	N/A
Share of net loss (income) of companies subject to significant influence	427	(651)	(375)	(165.6)	73.6

Change in fair value of derivative financial instruments used for aircraft fuel purchases
The change in fair value of derivative financial instruments used for aircraft fuel purchases represents the change in fair value for the year of the derivative financial instruments outstanding as at October 31, 2008, used by the Corporation to manage risks related to fuel price volatility. The fair value of derivative financial instruments used for aircraft fuel purchases was down $106.4 million compared with a $26.6 million increase in 2007. This significant variance resulted from the rapid decline in fuel prices at the end of the fiscal year relative to the Corporation's prices under its fuel purchasing forward contracts that were fixed when prices were higher.

Foreign exchange loss (gain) on long-term monetary items
The Corporation recorded a $2.3 million foreign exchange loss on long-term monetary items for the fiscal year compared with a $3.0 million foreign exchange gain in 2007. This loss resulted primarily from the adverse effect of exchange rates on long-term debt.

Write-off of goodwill
During the year ended October 31, 2008, the Corporation performed its annual test for impairment of goodwill and trademarks by discounting the future cash flows of its reporting units, and no impairment was detected.

The 2007 annual impairment test on goodwill and trademarks translated into a $3.9 million impairment of goodwill related to its Travel Superstore Inc. reporting unit.

Writedown of investments in ABCP
As at October 31, 2008, the Corporation held a portfolio of asset backed commercial paper ("ABCP") issued by several trusts with an overall notional value of $143.5 million. In mid-August 2007, the Canadian third-party ABCP market was hit by a liquidity disruption. Since then, the securities held by the Corporation have not traded in an active market.

On August 16, 2007, subsequent to the liquidity disruption, a group of financial institutions and other parties agreed, pursuant to the Montréal Accord (the "Accord"), to a standstill period in respect of ABCP sold by 23 conduit issuers. A Pan-Canadian Investors Committee was subsequently established to oversee the orderly restructuring of these instruments during this standstill period.

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

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

- The Corporation holds $114.8 million in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, to be restructured into floating rate notes with maturities through December 31, 2016. The Corporation expects to receive replacement notes at the notional value as follows:

Class A-1:	$35.2 million
Class A-2:	$65.0 million
Class B:	$11.2 million
Class C:	$3.4 million

- The Corporation holds $12.7 million in ABCP supported mainly by U.S. sub-prime assets to be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.

- The Corporation holds $16.0 million in ABCP supported solely by traditional securitized assets to be restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through 2016.

On April 25, 2008, the Restructuring Plan proposed by the Pan-Canadian Committee of ABCP investors was approved by the noteholders. On June 5, 2008, the Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 25, 2008, a number of ABCP holders appealed the Ontario Superior Court of Justice decision to the Ontario Court of Appeal. On August 18, 2008, the Ontario Court of Appeal upheld the Ontario Superior Court of Justice decision approving the Committee's Restructuring Plan. On August 29, 2008, a number of ABCP holders appealed the Ontario Court of Appeal decision to the Supreme Court of Canada. On September 19, 2008, the Supreme Court of Canada dismissed the appeal filed by certain ABCP holders. Subsequent to this dismissal, the Pan-Canadian Committee of ABCP investors announced that the process of tendering existing ABCP securities in exchange for new restructured notes had begun.

On January 12, 2009, the Pan-Canadian Committee of ABCP investors announced the implementation of the restructuring plan. The Committee also announced that interest payments, in respect of interest accrued since August 2007, net of restructuring costs, would be made in two instalments based on the ABCP series. The Corporation has not recorded any interest income since the initial maturity of the ABCP it holds. The interest will be accounted for as determined.

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

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

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 4.8% (weighted average rate of 2.6%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.2 years) and using discount rates ranging from 6.7% to 103.6% (weighted average rate of 17.4%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the Accord.

As a result of this valuation, the Corporation recognized an additional $45.7 million writedown in respect of its investments in ABCP for the year ended October 31, 2008 [$11.2 million writedown for the year ended October 31, 2007]. The provision for impairment of ABCP totalled $56.9 million as at October 31, 2008. The writedown of investments in ABCP also included a

$0.2 million loss on the December 2007 disposal of an investment with a notional value of $11.0 million for a cash consideration of $10.8 million.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $4,500 in the estimated fair value of ABCP held by the Corporation.

The Corporation's estimate of the fair value of its ABCP investments as at October 31, 2008 is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities over the coming fiscal year. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

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

Gain on repurchase of preferred shares of a subsidiary

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

Income taxes

Income tax recovery for the fiscal year ended October 31, 2008 amounted to $29.2 million compared with $34.6 million in income taxes for the previous fiscal year. Excluding the share in net income (loss) of companies subject to significant influence, the effective tax rates were 38.7% for the fiscal year ended October 31, 2008 and 30.6% for the preceding year.

The tax rate increase resulted mainly from the use of our French subsidiaries' tax loss carryforwards from prior fiscal years previously unrecognized in future income tax assets and from the tax treatment of the writedown of investments in ABCP.

Net income (loss)

In light of the items discussed in "Consolidated operations" of this MD&A, the Corporation reported a net loss of $50.0 million, or $1.51 per share, for the year compared with net income of $78.5 million, or $2.33 per share, for fiscal 2007. The weighted average number of outstanding shares used to compute per share amounts was 33,108,000 for the current year and 33,763,000 for fiscal 2007.

On a diluted per share basis, the loss was $1.51 per share compared with earnings of $2.30 per share for the previous year. The adjusted weighted average number of shares used to determine diluted earnings per share was 33,108,000 for the current year and 34,212,000 for 2007 *(see note 15 to the Consolidated Financial Statements)*.

Excluding non-cash and non-operating items, consisting of a loss arising from the change in fair value of fuel-related financial instruments, the foreign exchange loss on long-term monetary items, the write-off of goodwill, the writedown of investments in ABCP and the gain on repurchase of preferred shares of a subsidiary, adjusted income for the year amounted to $57.5 million, or $1.74 per fully diluted share, and $70.5 million, or $2.06 per fully diluted share, in 2007.

Selected unaudited quarterly financial information

As the Corporation's operations are seasonal in nature, quarterly operating results do not necessarily proportionately reflect the operating results for a full fiscal year. Overall, revenues in 2008 were up from their 2007 level, primarily due to our expanded product offering and a higher volume of travellers.

Our margins fluctuated over the quarters of 2008, compared with 2007. In general, our revenue streams were up while margins where squeezed by steep fuel price increases and intense competition for southern destinations throughout the year.

Fourth-quarter highlights

For the fourth quarter, the Corporation generated $790.4 million in revenues, up $110.0 million, or 16.2%, from $680.4 million for the corresponding period in 2007. This increase was driven mainly by revenue growth at our Canadian and European tour operators.

The Corporation reported a margin of $29.3 million, or 3.7%, for the quarter compared with $21.2 million, or 3.1%, for the corresponding period of 2007. These improved margins resulted in part from more profitable operations at Canadian Affair compared with 2007.

Selected unaudited quarterly financial information

(In thousands of dollars, except per share amounts)

	Q1		Q2		Q3		Q4	
	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated	2008	2007 Restated
Revenues	787,389	712,337	1,075,158	911,400	859,880	741,762	790,424	680,418
Margin	15,944	26,202	69,348	64,839	12,764	25,907	29,271	21,169
Net income (loss)	(10,094)	2,014	40,678	53,757	(2,449)	16,107	(78,146)	6,625
Basic earnings (loss) per share	(0.30)	0.06	1.22	1.59	(0.07)	0.48	(2.41)	0.20
Diluted earnings (loss) per share	(0.30)	0.06	1.21	1.57	(0.07)	0.47	(2.41)	0.20

Fourth-quarter results were affected by three non-cash items consisting of a $120.7 million loss ($81.4 million after taxes) arising from the change in fair value of fuel-related financial instruments, a $13.8 million writedown of investments in ABCP ($11.0 million after taxes) and a $2.3 million foreign exchange loss ($1.5 million after taxes).

In 2007, fourth-quarter results were affected by four non-cash items, namely a $13.6 million gain ($9.1 million after taxes) arising from the change in fair value of fuel-related financial instruments, an $11.2 million writedown of investments in ABCP ($8.0 million after taxes), a $3.9 million write-off of goodwill ($3.9 million net after income taxes) and a $0.8 million foreign exchange gain ($0.5 million after taxes).

The Corporation reported a net loss for the fourth quarter of $78.1 million, or $2.41 per share on a diluted basis, compared to a net income of $6.6 million, or $0.20 per share, for the corresponding period of 2007. Before the aforementioned non-operating non-cash items, Transat posted $15.9 million in adjusted income, or $0.49 per share on a diluted basis, compared with $8.8 million, or $0.26 per share on a diluted basis, for the corresponding period of 2007.

LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2008, cash and cash equivalents totalled $145.8 million compared with $166.8 million as at October 31, 2007. Cash and cash equivalents in trust or otherwise reserved amounted to $256.7 million at the end of fiscal 2008 compared with $168.2 million at the end of 2007. Our balance sheet for 2008 included $24.2 million in working capital, or a ratio of 1.0, compared with $51.0 million for 2007, or a ratio of 1.1.

Total assets grew $184.9 million, or 17.1%, to $1,265.4 million from $1,080.5 million as at October 31, 2007. This growth resulted from the overall increase in balances of cash and cash equivalents and a positive change in fair value of derivative financial instruments compared with the October 31, 2007 levels. The Corporation's liabilities rose $126.4 million to $923.4 million, mainly as a result of drawdowns under the Corporation's credit facilities. Shareholders' equity increased by $58.5 million to $342.0 million as at October 31, 2008 from $283.5 million as at October 31, 2007. The higher shareholders' equity was due to the increase in accumulated other comprehensive income, which was offset by the decline in retained earnings caused by the net loss recorded by the Corporation, compared with 2007. The $140.4 million increase in accumulated other comprehensive income was attributable to a positive change in fair value of derivative financial instruments designed as cash flow hedges (foreign exchange forward contracts) subsequent to the Canadian dollar's depreciation against other currencies.

Financing

As at October 31, 2008, the Corporation had several types of financing, consisting primarily of three revolving term credit facilities, loans secured by aircraft and lines of credit.

The Corporation has an $86.4 million revolving credit facility maturing in 2012 and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium based on certain financial ratios calculated on a consolidated basis. The revolving credit facility bore interest at an average rate of 3.9% for the year ended October 31, 2008. Subsequent to the implementation of the ABCP restructuring plan, the revolving term credit facility will be increased to 157,0 million.

The Corporation has two revolving credit facilities of $9.5 million and $98.1 million, maturing in 2010 and 2011, respectively. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under these agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. These credit facilities include options, which will become effective following implementation of the ABCP restructuring plan [see note 5] and allow the Corporation, at its sole option, to repay up to 68,4 million of the amounts drawn down, under certain conditions, using the restructured notes. These options will be initially reported at fair value, and the corresponding initial gain will be deferred and recognized in net income over the term of the credit agreements. The options will then be reported at fair value at each balance sheet date, and any subsequent change in fair value of the options will be recorded in net income.

As at October 31, 2008, $100.0 million had been drawn down under these credit facilities.

Summary of Cash Flows

Years ended October 31 (in thousands of dollars)

	2008	2007 Restated	2006	% Increase (Decrease) 2008	2007
	$	$	$	%	%
Cash flows related to operating activities	155,225	134,457	116,160	15.4	15.8
Cash flows related to investing activities	(202,183)	(173,386)	(45,054)	(16.6)	(284.8)
Cash flows related to financing activities	15,091	(14,830)	(152,046)	201.8	90.2
Effect of exchange rate changes on cash and cash equivalents	10,866	5,640	2,332	92.7	141.9
Net change in cash and cash equivalents	(21,001)	(48,119)	(78,608)	56.4	38.8

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

On August 1, 2008, the Corporation extended its loans secured by aircraft. Under the new agreements, these loans amount to US$40.0 million and are secured by aircraft. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments through 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €11.3 million ($17.4 million).

Operating activities

Cash flows totalling $155.2 million were generated from operating activities, up $20.8 million from 2007. This improvement resulted mainly from greater business activity and the increase in the net change in non-cash working capital balances related to operations arising primarily from a higher balance of customer deposits and deferred income in 2008 than in 2007.

We expect to continue to generate positive cash flows from our operating activities in 2009.

Investing activities

During the year, cash flows used for investing purposes rose $28.8 million to $202.2 million from $173.4 million in 2007. This increase resulted mainly from the $57.9 million acquisition of a 35% interest in Caribbean Investments B.V. and a $123.9 million increase in the change in cash and cash equivalents in trust or otherwise reserved over the year compared with the corresponding period of 2007. Additions to property, plant and equipment, consisting mainly of aircraft maintenance, computer hardware and software, and the Look Voyages administrative building, were also $12.2 million higher than in 2007.

In 2009, we expect additions to property, plant and equipment to range from $40.0 million to $50.0 million.

Financing activities

During the year, cash flows totalling $15.1 million were generated by financing activities, compared with $14.8 million in cash flows used in 2007. During the fiscal year, we repaid $10.6 million in long-term debt, mainly relating to certain aircraft, and drew down $60.5 million under our long-term credit facilities. We issued over $2.0 million in shares during the fiscal year and paid out $11.9 million in dividends compared with $6.8 million and $11.5 million, respectively, in 2007. A total of $24.9 million was used for share repurchases compared with $23.9 million in 2007.

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 reflected as liabilities in the Corporation's Consolidated Financial Statements. Total obligations amounted to $153.2 million as at October 31, 2008 ($91.8 million as at October 31, 2007). Obligations that are not reported as liabilities are considered off-balance sheet arrangements. These contractual arrangements are entered into with non-consolidated entities and consist of the following:

- Guarantees *(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 was $583.0 million as at October 31, 2008 ($504.9 million in 2007), and is detailed as follows:

Off-balance sheet

(In thousands of dollars)

	2008 $	2007 $
Guarantees		
Irrevocable letters of credit	7,074	10,751
Collateral security contracts	790	848
Operating leases		
Commitments under operating leases	289,230	267,710
Agreements with suppliers	285,873	225,603
Total	582,967	504,912

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. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them. Agreements with suppliers are entered into to reserve hotel rooms, blocks of seats and flights.

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

Payments due by year

Years ending October 31 (in thousands of dollars)

Contractual obligations	2009 $	2010 $	2011 $	2012 $	2013 $	2014 and later $	Total $
Debenture	3,156	—	—	—	—	—	3,156
Long-term debt	16,745	17,280	16,060	20,000	80,000	—	150,085
Operating leases (aircraft)	60,503	48,937	20,651	6,971	1,518	—	138,580
Operating leases (other)	23,018	19,888	17,954	16,440	13,643	59,683	150,626
Agreements with suppliers and other obligations	180,104	51,825	34,938	15,494	3,509	14,262	300,132
Total	283,526	137,930	89,603	58,905	98,670	73,945	742,579

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

OTHER

Normal course issuer bid

On June 15, 2008, the Corporation renewed its normal course issuer bid that expired on June 14, 2008 for a 12-month period. The renewal is aimed at purchasing for cancellation up to a maximum of 3,175,506 Class A Variable Voting Shares and Class B Voting Shares of the Corporation, representing less than 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares as at the renewal date of the normal course issuer bid.

This program allows the Corporation to purchase Class A Variable Voting Shares and Class B Voting Shares in the normal course of business, 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 to be paid by the Corporation 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, 2009.

During the year, 1,064,200 voting shares, consisting of Class A Variable Voting Shares and Class B Voting Shares, were purchased for cancellation for a cash consideration of $24.9 million.

Dividends

During the year, the Corporation declared and paid dividends totalling $11.9 million.

Shares issued and outstanding

As at December 31, 2008, the number of Class A Shares and Class B Shares amounted to 1,314,459 and 31,390,867, respectively.

Stock options

As at December 31, 2008, there were a total of 716,173 stock options outstanding, 322,884 of which were exercisable.

Subsequent event

On December 18, 2008, the Corporation entered into an unsecured subordinated financing agreement with a shareholder of the Corporation for $60,0 million. The Corporation can draw on the facility until October 31, 2009. This agreement will expire on December 31, 2012. The company can make early repayments on the facility subject to premiums. The agreement bears interest separately for each disbursement at Government of Canada bonds rates that have maturities equal to the remaining term of the agreement, plus a premium determined in part based on certain factors specific to unsecured subordinated financing arrangements. In addition, the agreement provides that the rights with respect to the purchase of shares held by this shareholder in Jonview Canada Inc.'s parent company be deferred for three years.

ACCOUNTING

Critical accounting estimates

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

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

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

Fair value of derivative financial instruments

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

Fair value of investments in ABCP

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

Provision for aircraft overhaul

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

Amortization and impairment of property, plant and equipment and intangible assets including goodwill
We record material amounts under Goodwill and other intangible assets calculated using the historical cost method in our balance sheet. Goodwill and other intangible assets stem primarily from business acquisitions. We are required to test for impairment of goodwill and intangible assets that have indefinite lives, such as trademarks, annually or more often if events or changes in circumstances indicate it is more likely than not that they might be impaired. Our test is based on the ability of the asset or reporting unit 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 judgments concerning our future operations. The cash flow forecasts used to determine asset values may change in the future due to market conditions, competition and other factors. Any changes may result in non-cash expenses that could materially affect our results and financial position. Generally speaking, the main assumptions would have to be reduced by 30% to 70% (depending on the operating unit), to result in a significant loss in value for the reporting 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 in the balance sheet represent material amounts based on historical costs. Property, plant and equipment are amortized, taking into account their residual value, on a straight-line basis over their estimated useful life. Aircraft account for a major class of property, plant and equipment. The amortization period is determined based on the fleet renewal schedule, currently comprising a horizon of 2011 to 2013. The estimate of the residual value of aircraft at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on amortization expense. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No events or changes in circumstances of this nature have occurred in recent fiscal years. Generally, the main assumptions would have to be reduced by 60% to result in 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.

Accrued benefit liability
The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by employees is determined from actuarial calculations, performed annually, using the projected benefit method prorated on services and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Past service costs and amendments to the arrangements are amortized on a straight-line basis over the average remaining service period of active employees generally affected thereby. The excess of net actuarial gains and losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which was 7.2 years as at November 1, 2007. Plan obligations are discounted using current market interest rates.

Accounting changes – 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 of the audited 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 the 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. 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 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 has been adopted retroactively with restatement of prior periods. The adoption of these new standards translated into a $2.6 million increase in retained earnings on November 1, 2006, and into the following changes 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 fiscal 2007, the adoption of these new standards translated 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. Also for the year ended October 31, 2007, the adoption of these new standards translated into a $12.6 million increase in cash flows related to operating activities and a $12.6 million decrease in cash flows related to investing activities.

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

Other standards

The Canadian Institute of Chartered Accountants ("CICA") issued the following accounting standards that took effect on November 1, 2007 for the Corporation: Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, Section 1535, *Capital Disclosures*, and Section 1506, *Accounting Changes*.

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

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

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

Accounting changes – November 1, 2006

Financial instruments, hedges and comprehensive income

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

Following the adoption of these standards, the Corporation ceased using hedge accounting for its derivative financial instruments for aircraft fuel purchases. Any unrealized gains or losses were recognized in other comprehensive income at the transition date, namely November 1, 2006, and were recognized in net income under "Aircraft fuel" when derivative financial instruments expire and the related fuel purchases occur. For the year ended October 31, 2007, the Corporation recognized a $12.1 million loss [net of $6.0 million in related income taxes] under other comprehensive income representing the portion of unrealized losses related to derivative financial instruments for aircraft fuel purchases realized by the transition date. Unrealized losses amounting to $0.4 million [net of $0.2 million in related income taxes], included in "Accumulated other comprehensive income" as at October 31, 2007, were reclassified to net income during the year ended October 31, 2008.

Future accounting changes

In February 2008, the CICA issued *Handbook* Section 3064, *Goodwill and Intangible Assets*, which will supersede Section 3062, *Goodwill and Other Intangible Assets*, and Section 3450, *Research and Development Costs*, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These new standards will be adopted retroactively with restatement of prior fiscal years. The adoption of these new standards will translate into a decrease in retained earnings of approximately $4.2 million on November 1, 2007 and into the following changes as at October 31, 2008: an approximate $7.8 million decrease in prepaid expenses, a $0.8 million decrease in other assets, a $2.8 million decrease in future income tax liabilities and a $1.6 million decrease in retained earnings in respect of certain marketing expenses related to upcoming seasons. These expenses were previously recorded in net income for the related seasons and aircraft commissioning costs were previously deferred and amortized over a period not exceeding five years.

Also in February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012. The Corporation is currently preparing its IFRS conversion plan. The plan is aimed at identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

Financial instruments

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

Foreign exchange risk management

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

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

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

Management of fuel price risk

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

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

Credit and counterparty risk

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

Trade accounts receivable included in accounts receivable in the balance sheet totalled $76.5 million as at October 31, 2008. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2008, approximately 6% of accounts receivable were over 90 days past due, whereas approximately 80% were up to date, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to the agreements entered into with its service providers, consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2008, these deposits totalled $38.5 million and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $12.1 million as at October 31, 2008 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2008, the cash security deposits with lessors that have been claimed totalled $8.6 million and have been included in accounts receivable. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2008 relates to cash and cash equivalents, including cash and cash equivalents in trust and otherwise reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better by Dominion Bond Rating Service (DBRS), A1 by Standard & Poor's or P1 by Moody's and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

Except for the investments in ABCP, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2008.

Liquidity risk

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

Interest rate risk

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

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

Related party transactions and balances

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. During the year, the Corporation recorded $13.5 million in person-nights purchased at hotels belonging to CIBV, a company subject to significant influence.

CONTROLS AND PROCEDURES

The implementation of the Canadian Securities Administrators 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, 2008, and based on their evaluation, they have concluded that these controls and procedures were adequate and effective. Among other things, this evaluation took into consideration the Corporate Disclosure Policy, the sub-certification process, and the operation of the Corporation's Disclosure Committee.

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 adequate 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 2008 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.

Competition

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

Fluctuations in foreign exchange and interest rates

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

Fuel costs and supply

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

Changing industry dynamics: new distribution methods

The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thereby bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. For the time being, direct Internet sales remain limited in the vacation travel segment, but shifts in industry dynamics in the distribution business occur rapidly and, in this respect, give rise to risks. In order to address this issue, Transat is in the process of 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 phenomenon of the gradual erosion in commissions paid by travel suppliers, particularly airlines, has weakened the financial position of many travel agents. Because we rely to some extent on retail travel agencies for access to travellers and revenues, any consumer shift away from travel agencies and toward direct purchases from travel suppliers could have an impact on our Corporation.

Reliance on contracting travel suppliers

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

Dependence on technology

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

Dependence on customer deposits and advance payments

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

Negative working capital

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

Fluctuations in financial results

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

Government regulation and taxation

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

Future capital requirements

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

Interruption of operations

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

Insurance coverage

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

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

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

Casualty losses

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

Slot and gate availability

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

Aircraft lease obligations

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

Aircraft availability at the end of leases

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

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

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

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

OUTLOOK

Winter bookings in North America are tracking slightly higher than last year at the same date. A weakening Canadian economy and significant industry capacity for Mexico and the Caribbean have prompted the Corporation to anticipate significantly lower dollar margins (EBITDA) than last winter. In Europe, winter bookings are tracking lower for long-haul travel than last year at the same date, but higher for medium-haul travel; the Corporation expects that it will be difficult to match the dollar margins (EBITDA) recorded in 2008.

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, 2008 and 2007 and the consolidated statements of income (loss), 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, 2008 and 2007 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 5, 2008
(Except for notes 5 and 25, which are dated January 12, 2009)

Ernst & Young LLP

Ernst & Young LLP
Chartered Accountants

As at October 31
[In thousands of dollars]

	2008	2007 [restated – note 3]
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	145,767	166,768
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	256,697	168,196
Investments in ABCP *[note 5]*	—	142,346
Accounts receivable	119,852	109,128
Income taxes receivable	4,095	13,037
Future income tax assets *[note 19]*	11,382	25,250
Inventories	11,412	8,931
Prepaid expenses	53,259	45,981
Derivative financial instruments *[notes 3 and 6]*	112,259	26,997
Current portion of deposits	32,094	31,077
Total current assets	746,817	737,711
Investments in ABCP *[note 5]*	86,595	—
Deposits *[note 7]*	18,526	17,191
Future income tax assets *[note 19]*	16,097	9,341
Property, plant and equipment *[notes 8 and 13]*	171,294	163,018
Goodwill and other intangible assets *[note 9]*	151,803	148,515
Derivative financial instruments *[notes 3 and 6]*	11,002	316
Investments and other assets *[note 10]*	63,297	4,431
	1,265,431	1,080,523
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	282,440	281,985
Current portion of provision for overhaul of leased aircraft	23,231	20,493
Income taxes payable	6,942	8,757
Future income tax liabilities *[note 19]*	16,770	298
Customer deposits and deferred income	293,537	237,898
Derivative financial instruments *[notes 3 and 6]*	79,831	88,469
Debenture	3,156	—
Payments on current portion of long-term debt	16,745	48,794
Total current liabilities	722,652	686,694
Long-term debt *[note 13]*	133,340	39,887
Debenture *[note 12]*	—	3,156
Provision for overhaul of leased aircraft *[note 3]*	13,011	11,208
Other liabilities *[note 14]*	34,517	32,189
Derivative financial instruments *[notes 3 and 6]*	10,227	6,135
Future income tax liabilities *[note 19]*	9,692	17,802
	923,439	797,071
Shareholders' equity		
Share capital *[note 15]*	154,198	156,964
Retained earnings	109,302	191,118
Contributed surplus *[note 15]*	4,619	1,871
Accumulated other comprehensive income *[notes 3, 6 and 16]*	73,873	(66,501)
	341,992	283,452
	1,265,431	1,080,523

Commitments and contingencies *[notes 5 and 22]*
See accompanying notes to consolidated financial statements.

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

Consolidated statements of income (loss)

As at October 31
[In thousands of dollars, except per share amounts]

	2008	2007 [restated – note 3]
	$	$
Revenues	3,512,851	3,045,917
Operating expenses		
Direct costs	1,933,706	1,601,652
Salaries and employee benefits	349,746	334,973
Aircraft fuel	365,457	273,614
Commissions	174,740	186,686
Aircraft maintenance	97,842	76,099
Airport and navigation fees	90,624	86,594
Aircraft rent	48,628	48,883
Other	324,781	299,299
	3,385,524	2,907,800
	127,327	138,117
Amortization *[note 17]*	56,649	50,990
Interest on long-term debt and debenture	7,538	6,229
Other interest and financial expenses	1,758	1,929
Interest income	(16,172)	(19,745)
Changes in fair value of derivative financial instruments related to aircraft fuel purchases	106,435	(26,577)
Foreign exchange loss (gain) on long-term monetary items	2,295	(3,023)
Write-off of goodwill *[note 9]*	—	3,900
Writedown of investments in ABCP *[note 5]*	45,927	11,200
Gain on repurchase of preferred shares of a subsidiary *[note 18]*	(1,605)	—
Share of net loss (income) of companies subject to significant influence	427	(651)
	203,252	24,252
Income (loss) before the undernoted items	(75,925)	113,865
Income taxes (recovery) *[note 19]*		
Current	19,565	28,222
Future	(48,766)	6,403
	(29,201)	34,625
Income (loss) before non-controlling interest in subsidiaries' results	(46,724)	79,240
Non-controlling interest in subsidiaries' results	(3,287)	(737)
Net income (loss) for the year	(50,011)	78,503
Basic earnings (loss) per share *[note 15]*	(1.51)	2.33
Diluted earnings (loss) per share *[note 15]*	(1.51)	2.30

See accompanying notes to consolidated financial statements.

Consolidated statements of comprehensive income

As at October 31 [In thousands of dollars]	2008	2007 [restated – note 3]
	$	$
Net income (loss) for the year	(50,011)	78,503
Other comprehensive income		
Changes in fair value of derivatives designated as cash flow hedges	134,592	(85,423)
Reclassification in income	61,560	(2,159)
Future income taxes	(63,852)	28,546
	132,300	(59,036)
Losses on derivatives designated as fuel hedges before November 1, 2006 included in net income for the year *[note 3]*	522	18,030
Future income taxes	(172)	(5,950)
	350	12,080
Foreign exchange gains (losses) on the translation of financial statements of self-sustaining foreign subsidiaries due to the (appreciation) depreciation of the Canadian dollar vs. the euro, pound sterling and U.S. dollar at the balance sheet date	7,724	(7,132)
	140,374	(54,088)
Comprehensive income for the year	90,363	24,415

Consolidated statements of retained earnings

As at October 31 [In thousands of dollars]	2008	2007 [restated – note 3]
	$	$
Retained earnings, beginning of year, as previously reported	190,534	142,116
Change in accounting policy *[note 3]*	584	2,561
Retained earnings, beginning of year	191,118	144,677
Net income (loss) for the year	(50,011)	78,503
Premium paid on share repurchase *[note 15]*	(19,864)	(20,561)
Dividends	(11,941)	(11,501)
Retained earnings, end of year	109,302	191,118

See accompanying notes to consolidated financial statements.

Consolidated statements of cash flows

As at October 31
[In thousands of dollars]

	2008	2007 [restated – note 3]
	$	$
OPERATING ACTIVITIES		
Net income (loss)	(50,011)	78,503
Operating items not involving an outlay (receipt) of cash		
Amortization	56,649	50,990
Changes in fair value of derivative financial instruments related to aircraft fuel purchases	106,435	(26,577)
Foreign exchange loss (gain) on long-term monetary items	2,295	(3,023)
Write-off of goodwill	—	3,900
Changes in fair value of investments in ABCP	45,705	11,200
Loss on disposal of investments in ABCP	222	—
Gain on repurchase of preferred shares of a subsidiary	(1,605)	—
Share of net loss (income) of companies subject to significant influence	427	(651)
Non-controlling interest in subsidiaries' results	3,287	737
Future income taxes	(48,766)	6,403
Pension expense	3,075	2,809
Compensation expense related to stock option plan	3,012	1,577
	120,725	125,868
Net change in non-cash working capital balances related to operations	29,284	17,324
Net change in provision for overhaul of leased aircraft	4,541	(7,852)
Net change in other assets and liabilities related to operations	675	(883)
Cash flows related to operating activities	155,225	134,457
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(64,901)	(52,702)
Cash and cash equivalents of acquired companies	—	5,607
Consideration paid for acquired companies	(59,559)	(8,162)
Net change in investments in ABCP *[note 5]*	10,778	(153,546)
Net change in cash and cash equivalents in trust or otherwise reserved	(88,501)	35,417
Cash flows related to investing activities	(202,183)	(173,386)
FINANCING ACTIVITIES		
Increase in long-term debt	60,491	39,887
Repayment of long-term debt	(10,565)	(26,088)
Proceeds from issuance of shares	1,970	6,816
Share repurchase	(24,864)	(23,944)
Dividends	(11,941)	(11,501)
Cash flows related to financing activities	15,091	(14,830)
Effect of exchange rate changes on cash and cash equivalents	10,866	5,640
Net change in cash and cash equivalents	(21,001)	(48,119)
Cash and cash equivalents, beginning of year	166,768	214,887
Cash and cash equivalents, end of year	145,767	166,768
Supplementary information		
Income taxes paid	11,865	43,391
Interest paid	6,821	6,774

See accompanying notes to consolidated financial statements.

October 31, 2008 and 2007
[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 specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of tour operators based in Canada and Europe. The Corporation is also involved in air transportation, value-added services at travel destinations and accommodations. Finally, the Corporation has secured a dynamic presence in distribution through travel agency networks.

2

SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

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

Cash equivalents

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

Inventories

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

Immobilisations corporelles

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

Improvements to aircraft under operating leases	Lease term
Aircraft equipment	5 to 10 years
Computer 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

When aircraft are acquired, a portion of the cost is allocated to the "major maintenance activities" subclass, which is related to airframe, engine and landing gear overhaul costs. Aircraft and major maintenance activities, included in Aircraft, are amortized taking into account their expected estimated residual value. Aircraft are amortized on a straight-line basis over seven- to ten-year periods, and major maintenance activities are amortized according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are amortized according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred *[see note 3]*.

Goodwill and other intangible assets

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

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

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

Other assets include commissioning costs deferred and amortized over periods not exceeding five years *[see note 3]*.

Provision for overhaul of leased aircraft *[see note 3]*
Under the aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The excess of the maintenance obligation over maintenance deposits made to lessors and unclaimed is included in liabilities under "Provision for overhaul of leased aircraft."

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

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 period.

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

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

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

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

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

Financial instruments *[see note 3]*
Financial instruments
The standards require that financial assets and financial liabilities, including derivative financial instruments, be initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held-for-trading, loans and receivables or other financial assets. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract,

are classified as held-for-trading unless they are designated within an effective hedging relationship.

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

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

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

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

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

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

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

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

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

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

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 best estimate assumptions for the increase in eligible earnings and the retirement age of employees. The past service costs and amendments to the arrangements 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 7.2 years as at November 1, 2007. 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, 2007
Aircraft overhaul expenses
On November 1, 2007, the Corporation changed its method for accounting for aircraft overhaul expenses. Up until October 31, 2007, the Corporation accounted for its expenses using the accrue-in-advance method, in accordance with the accounting methods suggested in the U.S. Audits of Airlines guide issued by the American Institute of Certified Public Accountants. Under this method, the Corporation provided for aircraft overhaul expenses based on an estimate of all future expenses until expiry of the leases for the aircraft leased under operating leases, or on their useful lives estimated by the Corporation while held, amortized over the total number of engine cycles and the total number of

months anticipated for the airframe and other components over the same periods.

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

This change in accounting policy has been adopted retroactively with restatement of prior fiscal years. The adoption of these new standards translated into a $2,561 increase in retained earnings on November 1, 2006, and into the following changes 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 translated into the following changes: a $5,048 decrease in maintenance expense, a $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. Also for the year ended October 31, 2007, the adoption of these new standards translated into a $12,629 increase in cash flows related to operating activities and a $12,629 decrease in cash flows related to investing activities.

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

Other standards
The Canadian Institute of Chartered Accountants ["CICA"] issued the following accounting standards that took effect on November 1, 2007 for the Corporation: Section 3862, *Financial Instruments – Disclosures*, Section 3863, *Financial Instruments – Presentation*, Section 1535, *Capital Disclosures*, and Section 1506, *Accounting Changes*.

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

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

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

Standards in effect on November 1, 2006
Financial instruments, hedges and comprehensive income
On November 1, 2006, the Corporation adopted retroactively, without restatement of prior periods, the recommendations of the following sections of the CICA Handbook: Section 1530, Comprehensive Income, Section 3855, Financial Instruments – Recognition and Measurement, and Section 3865, Hedges. Following the adoption of these standards, the Corporation ceased using hedge accounting for its derivative financial instruments for aircraft fuel purchases. Any unrealized gains or losses were recognized in other comprehensive income at the transition date, namely November 1, 2006, and were recognized in net income under "Aircraft fuel" when derivative financial instruments expire and the related fuel purchases occur. 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 related to derivative financial instruments used for aircraft fuel purchases realized by the transition date. Unrealized losses amounting to $350 [net of $172 in related income taxes], included in "Accumulated other comprehensive income" as at October 31, 2007, were reclassified to net income during the year ended October 31, 2008.

Future changes in accounting policies
In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, which will supersede Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs, effective November 1, 2008 for the Corporation. This new section sets out standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets. These new standards will be adopted retroactively with restatement of prior fiscal years. The adoption of these new standards will translate into a decrease in retained earnings of approximately $4,200 on November 1, 2007 and into the following changes as at October 31, 2008: a $7,800 decrease, approximately, in prepaid expenses, a $800 decrease in other assets, a $2,800 decrease in future income tax liabilities and a $1,600 decrease in retained earnings in respect of certain marketing expenses related to upcoming seasons. These expenses were previously recorded in net income for the related seasons and aircraft commissioning costs were previously deferred and amortized over a period not exceeding five years.

Also in February 2008, Canada's Accounting Standards Board (AcSB) confirmed that Canadian GAAP, as used by publicly accountable enterprises, will be superseded by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Corporation will be required to report under IFRS for its interim and annual financial statements for the fiscal year ending October 31, 2012. The Corporation is currently preparing its IFRS conversion plan. The plan will be aimed in particular at identifying the differences between IFRS and the Corporation's accounting policies, assessing their impact and, where necessary, analyzing the various policies that the Corporation could elect to adopt.

4
CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED
As at October 31, 2008, cash and cash equivalents in trust or otherwise reserved included $210,481 [$168,196 as at October 31, 2007] in funds received from customers for services not yet rendered and $46,216 [nil as at October 31, 2007] which was pledged as collateral security against letters of credit and foreign exchange contracts *[note 23]*.

5
INVESTMENTS IN ABCP
As at October 31, 2008, the Corporation held a portfolio of asset-backed commercial paper ("ABCP") issued by several trusts with an aggregate notional value of $143,500. In mid-August 2007, the Canadian third-party ABCP market was hit by a liquidity disruption. Since then, the securities held by the Corporation

have not traded in an active market. On August 16, 2007, subsequent to the liquidity disruption, a group of financial institutions and other parties agreed, pursuant to the Montréal Accord [the "Accord"], to a standstill period in respect of ABCP sold by 23 conduit issuers. A Pan-Canadian Investors Committee was subsequently established to oversee the orderly restructuring of these instruments during this standstill period.

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

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

- The Corporation holds $114,848 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which will be restructured into floating rate notes with maturities through December 31, 2016. The Corporation expects to receive replacement notes at the notional value as follows:
  Class A-1: $35,217
  Class A-2: $64,997
  Class B: $11,188
  Class C: $3,446

- The Corporation holds $12,652 in ABCP supported mainly by U.S. sub-prime assets to be restructured on a series-by-series basis, with each series maintaining its separate exposure to its own assets and maturing through 2037.

- The Corporation holds $16,000 in ABCP supported solely by traditional securitized assets to be restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through 2016.

On April 25, 2008, the Restructuring Plan proposed by the Pan-Canadian Committee of ABCP investors was approved by the noteholders. On June 5, 2008, the Ontario Superior Court of Justice approved the Committee's Restructuring Plan. On June 25, 2008, a number of ABCP holders appealed the Ontario Superior Court of Justice decision to the Ontario Court of Appeal. On August 18, 2008, the Ontario Court of Appeal upheld the Ontario Superior Court of Justice decision approving the Committee's Restructuring Plan. On August 29, 2008, a number of ABCP holders appealed the Ontario Court of Appeal decision to the Supreme Court of Canada. On September 19, 2008, the Supreme Court of Canada dismissed the appeal filed by certain ABCP holders. Subsequent to this dismissal, the Pan-Canadian ABCP Investors Committee announced that the process of tendering existing ABCP securities in exchange for new restructured notes had begun.

On January 12, 2009, the Pan-Canadian Committee of ABCP investors announced the implementation of the restructuring plan. The Committee also announced that interest payments, in respect of interest accrued since August 2007, net of restructuring costs, would be made in two instalments based on the ABCP series. The Corporation has not recorded any interest income since the initial maturity of the ABCP it holds. The interest will be accounted for as determined.

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

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

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 4.8% (weighted average rate of 2.6%), depending on the type of series. These future cash flows were discounted, according to the type of series, over 5- to 28-year periods (weighted average period of 7.2 years) and using discount rates ranging from 6.7% to 103.6% (weighted average rate of 17.4%), which factor in liquidity. The Corporation also took into account its estimated share of the restructuring costs associated with the Accord.

As a result of this valuation, the Corporation recognized an additional $45,705 writedown in respect of its investments in ABCP during the year ended October 31, 2008 [$11,200 writedown for the year ended October 31, 2007]. The provision for impairment totalled $56,905 as at October 31, 2008. The writedown of the investments in ABCP also includes a $222 loss incurred in December 2007 on disposal of an investment with a notional amount of $11,000 for which for a cash consideration of $10,778 was received.

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) in the estimated fair value of ABCP held by the Corporation of approximately $4,500.

The Corporation's estimate of the fair value of its ABCP investments as at October 31, 2008 is subject to significant uncertainty. While management believes that its valuation technique is appropriate in the circumstances, changes in significant assumptions could substantially affect the value of ABCP securities over the coming fiscal year. The resolution of these uncertainties could result in the ultimate value of these investments varying significantly from management's current best estimates and the extent of that difference could have a material effect on our financial results.

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

6

FINANCIAL INSTRUMENTS

Fair value

Classification of financial instruments

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

Fair value of financial instruments

As at October 31, 2008 and 2007, the carrying amounts of the financial assets classified 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 in the short term. The carrying amounts of other long-term financial liabilities approximate their fair value given that they are subject to terms and conditions, such as variable interest rates, similar to those available to the Corporation for instruments with comparable terms.

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

Classification of financial instruments

	Carrying amount			Fair value
	Held-for-trading $	Loans and receivables $	Total $	$
2008				
Financial assets				
Cash and cash equivalents	145,767	—	145,767	145,767
Cash and cash equivalents in trust or otherwise reserved	256,697	—	256,697	256,697
Accounts receivable	—	119,852	119,852	119,852
Investments in ABCP	86,595	—	86,595	86,595
Derivative financial instruments – Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,498	—	8,498	8,498
	497,557	119,852	617,409	617,409
Financial liabilities				
Accounts payable and accrued liabilities	—	282,440	282,440	282,440
Long-term debt	—	150,085	150,085	150,085
Debenture	—	3,156	3,156	3,156
Derivative financial instruments – Fuel purchasing forward contracts and other fuel-related derivative financial instruments	88,215	—	88,215	88,215
	88,215	435,681	523,896	523,896

	Carrying amount			Fair value
	Held-for-trading $	Loans and receivables $	Total $	$
2007				
Financial assets				
Cash and cash equivalents	166,768	—	166,768	166,768
Cash and cash equivalents in trust or otherwise reserved	168,196	—	168,196	168,196
Accounts receivable	—	109,128	109,128	109,128
Investment in ABCP	142,346	—	142,346	142,346
Derivative financial instruments – Fuel purchasing forward contracts and other fuel-related derivative financial instruments	26,997	—	26,997	26,997
	504,307	109,128	613,435	613,435
Financial liabilities				
Accounts payable and accrued liabilities	—	281,985	281,985	281,985
Long-term debt	—	88,681	88,681	88,681
Debenture	—	3,156	3,156	3,156
Derivative financial instruments – Fuel purchasing forward contracts and other fuel-related derivative financial instruments	6	—	6	6
	6	373,822	373,828	373,828

The classification and carrying amounts of the financial instruments as at October 31, 2008 are as follows:

	Assets $	Liabilities $
2008		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	111,448	1,843
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	3,315	—
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,498	88,215
	123,261	90,058
2007		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	1,252	90,969
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	—	3,629
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	26,061	6
	27,313	94,604

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

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

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

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

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2008 relates to cash and cash equivalents, including cash and cash equivalents in trust and otherwise reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better by Dominion Bond Rating Service (DBRS), A1 by Standard & Poor's or P1 by Moody's and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

Except for the investments in ABCP *[see note 5]*, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2008.

Liquidity risk

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

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

Market risk

Foreign exchange risk

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

Expressed in Canadian dollar terms, the net financial assets and net financial liabilities of the Corporation and its subsidiaries denominated in currencies other than the measurement currency of the financial statements as at October 31, 2008, based on their financial statement measurement currency, are summarized in the following table.

Risk of fluctuations in fuel prices

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

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

As at October 31, 2008, 46% of estimated fuel requirements for fiscal 2009 and 10% of estimated requirements for fiscal 2010 were covered by fuel-related derivative financial instruments [50% of estimated requirements for fiscal 2008 and 2% of estimated requirements for fiscal 2009 were covered as at October 31, 2007].

Liquidity risk

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

Market risk

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

Interest rate risk

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

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

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

Capital risk management

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

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

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

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

Debt / equity ratio	2008 $	2007 $
Net debt		
Long-term debt	150,085	88,681
Debenture	3,156	3,156
Off-balance sheet arrangements	297,094	279,309
Cash and cash equivalents	(145,767)	(166,768)
Investments in ABCP	(86,595)	(142,346)
	217,973	62,032
Shareholders' equity	341,992	283,452
Debt / equity ratio	63.7%	21.9%

The Corporation's credit facilities are subject to certain covenants including a debt / equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2008, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

7
DEPOSITS

DEPOSITS	2008 $	2007 $
Deposits on leased aircraft and engines	12,128	8,946
Deposits with suppliers	38,492	39,322
	50,620	48,268
Less current portion	32,094	31,077
	18,526	17,191

8
PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment

	2008		2007 [restated – note 3]	
	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Aircraft	150,304	95,490	148,282	87,206
Improvements to aircraft under operating leases	42,209	28,261	33,698	21,155
Aircraft equipment	42,522	34,891	38,172	32,986
Computer hardware and software	132,322	93,355	115,444	82,897
Aircraft engines	20,172	10,419	20,358	9,094
Office furniture and equipment	30,901	22,356	31,900	20,667
Leasehold improvements	34,540	18,231	31,008	16,909
Rotable aircraft spare parts	27,039	14,561	26,301	11,657
Hangar and administrative buildings	9,585	736	832	406
	489,594	318,300	445,995	282,977
Accumulated amortization	318,300		282,977	
Net book value	171,294		163,018	

9
GOODWILL AND OTHER INTANGIBLE ASSETS

During the quarter ended October 31, 2008, the Corporation performed its annual test for impairment of goodwill and trademarks by discounting future cash flows based on the most recent financial forecasts of its reporting units, and no impairment was identified [$3,900 in 2007 related to Travel Superstore].

Goodwill and other intangible assets

	2008 $	2007 $
Goodwill	124,444	119,614
Trademarks not subject to amortization	17,144	17,203
Customer lists, net of $1,496 in accumulated amortization [$1,139 in 2007]	10,215	11,698
	151,803	148,515

The change in goodwill is as follows:

	2008 $	2007 $
Balance, beginning of year	119,614	121,138
Acquisitions *[note 18]*	1,756	5,624
Write-off of goodwill	—	(3,900)
Translation adjustment	3,074	(3,248)
	124,444	119,614

10
INVESTMENTS AND OTHER ASSETS

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

Investments and other assets

	2008 $	2007 $
Investment in Caribbean Investments B.V.	59,059	—
Deferred costs, unamortized balance *[note 3]*	2,788	2,701
Other investments	603	628
Sundry	847	1,102
	63,297	4,431

The change in the investment in Caribbean Investments B.V. is detailed as follows:

	2008 $
Balance, beginning of year	—
Acquisition and capital contribution	57,854
Share of net loss	(427)
Translation adjustment	1,632
	59,059

In addition, on April 9, 2008, the Corporation made a $4,150 capital contribution [US$4,113] to CIBV. The Corporation also made an additional US$4,200 capital contribution on November 30, 2008.

CIBV's majority shareholder may demand that the Corporation provide the necessary funds to repay one of CIBV's long-term debts should CIBV be unable to cover the scheduled repayments. However, the maximum amount that the Corporation could be required to provide may not exceed its 35% share of said long-term debt. As at October 31, 2008, the Corporation's share of the long-term debt amounted to $13,234 [€8,579].

11

BANK LOANS

Operating lines of credit totalling €11,287 [$17,411] [€11,300] [$15,529] in 2007] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2008 and 2007.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €14,118 [$21,778] [€13,100 [$18,002] in 2007]. As at October 31, 2008, letters of guarantee had been issued totalling €4,586 [$7,074] [€7,525 [$10,341] in 2007].

12

DEBENTURE

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

13

LONG-TERM DEBT

Long-term debt	2008 $	2007 $
Loans secured by aircraft amounting to US$40,000 [US$49,500 as at October 31, 2007], bearing interest at the London Interbank Offered Rate [LIBOR] plus 2.15% and 3.25% and payable in six equal semi-annual payments through August 2011[a]	48,180	46,763
Drawdows from revolving credit facilities maturing from 2010 up to 2012	100,000	39,887
Other	1,905	2,031
	150 085	88,681
Less current portion	16,745	48,794
	133,340	39,887

[a] The initial agreement relative to the loans secured by aircraft ended on August 1, 2008. During the year, the Corporation renewed these loans under similar terms for US$40,000, maturing in 2011.

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

Payments on long-term debt	$
2009	16,745
2010	17,280
2011	16,060
2012	20,000
2013	80,000
	150,085

As at October 31, 2008, the Corporation has a $86,350 revolving credit facility and a $60,000 revolving credit facility for issuing letters of credit which both mature in 2012; the Corporation must pledge cash as collateral security against 105% of letters of credit issued under the latter facility. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium based on certain financial ratios calculated on a consolidated basis. The revolving credit facility bore interest at an average rate of 3.9% for the year ended October 31, 2008. Subsequent to the implementation of the ABCP restructuring plan *[see note 5]*, the revolving term credit facility will be increased to $157,000.

As at October 31, 2008, the Corporation had two revolving credit facilities of $9,485 and $98,140, for a total of $107,625, the first maturing in 2010 and the second in 2011. Under the terms and conditions of these agreements, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under these agreements, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. These credit facilities include options, which will become effective following implementation of the ABCP restructuring plan *[see note 5]* and allow the Corporation, at its sole option, to repay up to $68,368 of the amounts drawn down, under certain conditions, using the restructured notes. These options will be initially reported at fair value, and the corresponding initial gain will be deferred and recognized in net income over the term of the credit agreements. The options will then be reported at fair value at each balance sheet date, and any subsequent change in fair value of the options will be recorded in net income.

14

OTHER LIABILITIES

Other liabilities	2008 $	2007 $
Deferred lease inducements	11,813	13,832
Non-controlling interest	8,442	7,148
Accrued benefit liability *[note 21]*	14,262	11,209
	34,517	32,189

15

SHAREHOLDERS' EQUITY

Authorized share capital

Class A Variable Voting Shares

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

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

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

Class B Voting Shares

An unlimited number of Class B Voting Shares ["Class B Shares"], participating, which may be owned and controlled by Canadians as defined by the CTA only and shall confer the right to one vote per Class B Share at all meetings of shareholders of the Corporation. Each issued and outstanding Class B Share shall be converted into one Class A Share automatically without further action on the part of the Corporation or the holder if the Class B Share is or becomes owned or controlled by a non-Canadian as defined by the CTA.

Preferred shares

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

Issued and outstanding share capital

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

Issued and outstanding share capital	Number of shares	$
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
Issued from treasury	65,635	1,331
Exercise of options	48,420	903
Repurchase and cancellation of shares	(1,064,200)	(5,000)
Balance as at October 31, 2008	32,678,241	154,198

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

Contributed surplus

The changes in the Corporation's contributed surplus are summarized in the following table:

Contributed surplus	2008 $	2007 $
Contributed surplus		
Balance, beginning of year	1,871	1,379
Compensation expense related to stock option plan	3,012	1,577
Options exercised	(264)	(1,085)
Balance, end of year	4,619	1,871

Normal course issuer bid

On June 15, 2008, the Corporation renewed its normal course issuer bid, which began on June 15, 2007, for a 12-month period. With this renewal, the Corporation may purchase for cancellation up to a maximum of 3,175,506 Class A Shares and Class B Shares, representing less than 10% of the publicly held Class A Shares and Class B Shares at the offer renewal date [3,288,003 Class A Shares and Class B Shares, representing less than 10% of the issued and outstanding Class A Shares and Class B Shares as at June 15, 2007]. The shares 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, 2008, a total of 1,064,200 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $24,864 [736,100 voting shares, consisting of Class A Shares and Class B Shares, for a cash consideration of $23,944 in 2007].

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

Subscription rights plan

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

Stock option plan

Options are granted under a stock option plan for executives and employees. Under the plan, as at October 31, 2008, the Corporation may grant 610,611 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 exercisable at the outset of the fourth year.

The following tables summarize all outstanding options:

Compensation expense for stock option plan

During the year ended October 31, 2008, the Corporation granted 259,181 stock options [145,099 in 2007] to certain key executives and employees. The average fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

Compensation expense

	2008	2007
Risk-free interest rate	3.66%	4.18%
Expected life	6 years	6 years
Expected volatility	37.6%	40.0%
Dividend yield	1.70%	0.97%
Weighted average fair value at date of grant	$7.42	$15.05

During the year ended October 31, 2008, the Corporation recorded a compensation expense of $3,012 [$1,577 in 2007] for its stock option plan. A total of $264 [$1,085 in 2007] 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, 2008, the Corporation was authorized to issue up to 510,541 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

Stock option plan

	2008		2007	
	Number of options	Weighted average price $	Number of options	Weighted average price $
Beginning of year	506,083	22.70	710,462	14.07
Granted	259,181	21.35	145,099	37.12
Exercised	(48,420)	13.21	(331,257)	10.29
Cancelled	(671)	22.34	(18,221)	26.80
End of year	716,173	22.85	506,083	22.70
Options exercisable, end of year	322,884	19.90	250,993	14.73

2008	Outstanding options			Exercisable options	
Range of exercise prices $	Number of options outstanding as at October 31, 2008	Weighted average remaining life	Weighted average price $	Number of options exercisable as at October 31, 2008	Weighted average price $
3.00 – 4.50	27,526	4.5 years	3.80	27,526	3.80
6.01 – 7.50	28,098	2.4 years	6.79	28,098	6.79
7.51 – 9.00	8,160	1.4 years	7.86	8,160	7.86
9.01 – 11.50	16,511	2.4 years	9.90	16,511	9.90
15.01 – 17.00	32,957	5.6 years	15.68	32,957	15.68
21.01 – 29.00	465,699	8.4 years	21.94	165,184	22.58
37.00 – 37.50	137,222	8.6 years	37.24	44,448	37.24
	716,173		22.85	322 884	19.90

During the year, the Corporation issued 65,635 Class B Shares [35,307 Class B Shares in 2007] for a total of $1,331 [$1,042 in 2007] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

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

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

During the year ended October 31, 2008, the Corporation accounted for a compensation expense of $182 [$117 in 2007] for its stock ownership incentive and capital accumulation plan.

Permanent stock ownership incentive plan

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

During the year ended October 31, 2008, the Corporation accounted for a compensation expense of $232 [$208 in 2007] for its permanent stock ownership incentive plan.

Deferred share unit plan

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

As at October 31, 2008, the number of DSUs awarded amounted to 42,003 [35,732 as at October 31, 2007]. Subsequent to the decline in its share prices, the Corporation reduced its compensation expense by $952 [recorded a compensation expense of $595 in 2007] for its deferred share unit plan during the year ended October 31, 2008.

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, 2008, the number of RSUs awarded amounted to 126,892 [66,784 as at October 31, 2007]. Subsequent to the decline in its share prices, the Corporation reduced its compensation expense by $615 [recorded a compensation expense of $887 in 2007] for its restricted share unit plan during the year ended October 31, 2008.

Warrants

On January 10, 2002, the Corporation issued 1,421,225 warrants entitling the holders to purchase 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 and were exercised during the year ended October 31, 2007.

Earnings (loss) per share

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

Earnings (loss) per share

	2008	2007 [restated — note 3]
	$	$
NUMERATOR		
Income (loss) attributable to voting shareholders	(50,011)	78,503
Interest on the debenture that may be settled in voting shares	—	129
Income (loss) used to calculate diluted earnings (loss) per share	(50,011)	78,632
DENOMINATOR		
Weighted average number of outstanding shares	33,108	33,763
Effect of dilutive securities		
Debenture that may be settled in voting shares	—	94
Stock options	—	304
Warrants	—	51
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	33,108	34,212
Basic earnings (loss) per share	(1.51)	2.33
Diluted earnings (loss) per share	(1.51)	2.30

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

In calculating diluted earnings per share for the year ended October 31, 2007, 137,222 stock options were not included 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

Accumulated other comprehensive income

	2008 $	2007 $
Balance, beginning of year	(66,501)	(12,413)
Other comprehensive income for the year	140,374	(54,088)
Balance, end of year	73,873	(66,501)

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AMORTIZATION

Amortization

	2008 $	2007 [restated — note 3] $
Property, plant and equipment	55,380	49,235
Intangible assets subject to amortization	1,458	1,600
Other assets	1,471	1,815
Deferred lease inducements	(1,660)	(1,660)
	56,649	50,990

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BUSINESS ACQUISITIONS

During the years ended October 31, 2008 and 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, unless otherwise indicated.

2008

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

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

2007

On May 1, 2007, the Corporation made a €1,264 cash payment [$1,921] to acquire the remainder of the shares [30%] of Air Consultants Europe ["ACE"] that it did not already own. Goodwill amounting to $2,108 was recorded 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 consideration of €4,644 [$6,241] was paid on the acquisition date, and the balance, initially estimated at €1,400 [$1,923], was paid on July 11, 2008. A temporary goodwill amount of $3,516 was recognized subsequent to this transaction.

Business acquisitions

	2007		
	Air Consultants Europe $	L'Européenne de tourisme $	Total $
Assets acquired			
Cash and cash equivalents	2,363	5,607	7,970
Other current assets	381	12,117	12,498
Property, plant and equipment	46	79	125
Goodwill	2,108	3,516	5,624
	4,898	21,319	26,217
Liabilities assumed			
Current liabilities	2,977	12,688	15,665
Consideration paid	1,921	8,631	10,552

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INCOME TAXES

Income taxes

	2008		2007 [restated — note 3]	
	$	%	$	%
Income taxes at the statutory rate	(23,602)	31.1	36,418	32.0
Change in income taxes arising from the undernoted items:				
Effect of differences in Canadian and foreign tax rates	(2,984)	3.9	(1,781)	(1.6)
Non-deductible (non-taxable) items	(555)	0.7	4,858	4.3
Recognition of previously unrecorded tax benefits	(7,827)	10.3	(7,350)	(6.5)
Effect of tax rate changes	1,572	(2.0)	(397)	(0.3)
Effect of differences in tax rates on temporary items	2,030	(2.7)	—	—
Valuation allowance	1,767	(2.3)	2,557	2.2
Other	398	(0.5)	320	0.3
	(29,201)	38.5	34,625	30.4

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

The factors explaining this difference and the effect on income taxes are detailed above.

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

Future income taxes

	2008	2007 [restated — note 3]
	$	$
Future income taxes		
Loss carry-forwards and other tax deductions	12,263	17,380
Carrying value of capital assets in excess of tax basis	(25,338)	(28,536)
Non-deductible reserves and provisions	36,866	26,561
Taxes related to accumulated other comprehensive income and derivative financial instruments	(10,437)	21,115
Other	932	52
Total future income taxes	14,286	36,572
Valuation allowance	(13,269)	(20,081)
Net future income tax assets (liabilities)	1,017	16,491
Current future income tax assets	11,382	25,250
Long-term future income tax assets	16,097	9,341
Current future income tax liabilities	(16,770)	(298)
Long-term future income tax liabilities	(9,692)	(17,802)
Net future income tax assets (liabilities)	1,017	16,491

Non-capital losses carried forward and other tax deductions for which a writedown was recorded, available to reduce future taxable income of certain subsidiaries in Canada and Europe, respectively totalled $2,388 and €17,102 [$26,382] as at October 31, 2008 [$2,734 and €31,266 [$42,966] as at October 31, 2007]. Of these loss carryforwards and deductions, €17,102 [$26,382] will expire in two years, and the remainder will expire in 2015 and thereafter.

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

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RELATED PARTY TRANSACTIONS AND BALANCES

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

	2008 $	2007 $
Revenues from companies subject to significant influence	—	262
Operating expenses incurred with companies subject to significant influence	13,530	1,365

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

	2008 $	2007 $
Accounts receivable from companies subject to significant influence	—	239
Accounts payable and accrued liabilities due to companies subject to significant influence	—	69

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EMPLOYEE FUTURE BENEFITS

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

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

	2008 $	2007 $
Accrued benefit obligation, beginning of year	16,695	14,349
Current service cost	867	786
Interest cost	971	840
Benefits paid	(22)	(9)
Actuarial loss (gain) on the obligation	(3,097)	729
Accrued benefit obligation, end of year	15,414	16,695

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

	2008 $	2007 $
Plan assets at fair value	—	—
Accrued benefit obligation	15,414	16,695
Plan deficit	15,414	16,695
Unamortized past service costs	1,561	2,620
Unamortized net actuarial loss (gain)	(409)	2,866
Accrued benefit liability	14,262	11,209

Pension plan expense is allocated as follows:

	2008 $	2007 $
Current service cost	867	786
Interest cost	971	840
Amortization of past service costs	1,060	1,060
Amortization of net actuarial loss	177	123
Pension expense	3,075	2,809

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

	2008 $	2007 $
Accrued benefit obligation		
Discount rate	7.25	5.50
Rate of increase in eligible earnings	3.00	3.00
Pension expense		
Discount rate	5.50	5.50
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 for aircraft, buildings, automotive equipment, telephone systems, maintenance contracts and office premises amounted to $575,103 and are broken down as follows: $132,571, US$135,072, €132,917 and £38,058.

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

	$
2009	263,625
2010	120,650
2011	73,540
2012	38,905
2013	18,700

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

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

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

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GUARANTEES

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

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

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

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

Irrevocable letters of credit
The Corporation has entered into irrevocable letters of credit with some of its suppliers. Under these letters of credit, the Corporation guarantees the payment of certain 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 customers for the performance of its obligations. In addition to the letters of credit and collateral security contracts mentioned in notes 4, 11 and 21, the other guarantees provided by the Corporation under letters of credit totalled $504 as at October 31, 2008. Historically, the Corporation has not made any significant payments under such letters of credit.

Collateral security contracts
The Corporation has entered into collateral security contracts whereby it has guaranteed a prescribed amount to its customers at the request of regulatory agencies for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2008, these guarantees totalled $790. Historically, the Corporation has not made any significant payments under such agreements.

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

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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 (loss) include all the required information. With respect to geographic areas, the Corporation operates mainly in the Americas and in Europe. Geographic intersegment sales are accounted for at prices that take into account market conditions and other considerations.

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SUBSEQUENT EVENTS

Subsequent to implementation of the January 12, 2009 ABCP restructuring plan discussed in note 5, the Corporation entered into an unsecured subordinated financing agreement with a shareholder of the Corporation for $60,000 on December 18, 2008. The Corporation can draw on the facility until October 31, 2009. This agreement will expire on December 31, 2012. The company can make early repayments on the facility subject to premiums. The agreement bears interest separately for each disbursement at Government of Canada bonds rates that have maturities equal to the remaining term of the agreement, plus a premium determined in part based on certain factors specific to unsecured subordinated financing arrangements. In addition, the agreement provides that the rights with respect to the purchase of shares held by this shareholder in Jonview Canada Inc.'s parent company be deferred for three years *(note 22)*.

Segment disclosure

		Americas $	Europe $	Total $
2008	Revenues from third parties	2,536,831	976,020	3,512,851
	Operating expenses	2,461,307	924,217	3,385,524
		75,524	51,803	127,327
2007	Revenues from third parties	2,278,116	767,801	3,045,917
[restated — note 3]	Operating expenses	2,157,038	750,762	2,907,800
		121,078	17,039	138,117

Segment disclosure

	Revenues[1]		Property, plant and equipment, goodwill and other intangible assets	
	2008	2007	2008	2007 [restated — note 3]
	$	$	$	$
Canada	2,503,227	2,257,040	190,222	192,636
France	779,701	602,058	41,149	63,413
United Kingdom	176,739	146,108	79,045	44,384
Other	53,184	40,711	12,681	11,100
	3,512,851	3,045,917	323,097	311,533

[1] Revenues are allocated based on the subsidiary's country of domicile.

SUPPLEMENTARY FINANCIAL DATA

(In thousands of dollars, except per share amounts)

	2008	2007 [restated — note 3]	2006	2005	2004
Consolidated Statements of Income					
Revenues	3,512,851	3,045,917	2,603,746	2,364,481	2,199,822
Operating expenses	3,385,524	2,907,800	2,476,802	2,243,850	2,036,067
	127,327	138,117	126,944	120,631	163,755
Expenses and other revenues					
Amortization	56,649	50,990	39,360	37,558	33,027
Restructuring charge	—	—	—	(934)	11,350
Interest on long-term debt and debentures	7,538	6,229	7,264	10,815	7,712
Other interest and financial expenses	1,758	1,929	1,484	1,708	1,907
Interest income	(16,172)	(19,745)	(15,706)	(12,963)	(11,307)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	106,435	(26,577)	—	—	—
Foreign exchange (gain) loss on long-term monetary items	2,295	(3,023)	(4,162)	(2,309)	1,474
Write-off of goodwill	—	3,900	—	—	—
Writedown of investments in ABCP	45,927	11,200	—	—	—
Gain on disposal of investment	—	—	—	(5,747)	—
Gain on repurchase of preferred shares of a subsidiary	(1,605)	—	—	—	—
Share of net (income) loss of companies subject to significant influence	427	(651)	(375)	(461)	1,509
	203,252	24,252	27,865	27,667	45,672
Income (loss) before the undernoted items	(75,925)	113,865	99,079	92,964	118,083
Income taxes (recovery)	(29,201)	34,625	32,046	36,302	45,010
Non-controlling interest in subsidiaries' results	(3,287)	(737)	(1,263)	(1,246)	(753)
Net income (loss) for the year	(50,011)	78,503	65,770	55,416	72,320
Basic earnings (loss) per share	(1.51)	2.33	1.88	1.43	2.07
Diluted earnings (loss) per share	(1.51)	2.30	1.85	1.33	1.76
Cash flows related to:					
Operating activities	155,225	134,457	116,160	70,434	179,008
Investing activities	(202,183)	(173,386)	(45,054)	(39,468)	(79,162)
Financing activities	15,091	(14,830)	(152,046)	(44,091)	(35,359)
Effect of exchange rate changes on cash and cash equivalents	10,866	5,640	2,332	(4,255)	3,436
Net change in cash and cash equivalents	(21,001)	(48,119)	(78,608)	(17,380)	67,923
Cash and cash equivalents, end of year	145,767	166,768	214,887	293,495	310,875
Cash provided by operations[1]	120,725	125,868	104,802	78,014	124,039
Total assets	1,265,431	1,080,523	959,195	949,537	838,389
Long-term debt (including current portion)	150,085	88,681	84,248	93,613	—
Debentures	3,156	3,156	3,156	13,156	33,214
Shareholders' equity	341,992	283,452	295,963	362,383	311,106
Debt / equity ratio[2]	0.73	0.74	0.69	0.62	0.63
Book value per share[3]	10.47	8.43	8.80	9.02	9.16
Return on average shareholders' equity[4]	(15.99 %)	26.98%	19.98%	16.03%	25.11%
Shareholding statistics (in thousands)					
Outstanding shares, end of year	32,678	33,628	33,648	40,156	33,955
Weighted average number of outstanding shares (undiluted)[5]	33,108	33,763	34,907	37,863	33,374
Weighted average number of outstanding shares (diluted)[5]	33,108	34,212	35,660	41,684	41,156

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

[2] Total liabilities divided by the total assets.

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

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

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

Board of Directors

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

André Bisson, O.C.
Chairman of the Board, CIRANO
Chancellor Emeritus, Université de Montréal

John P. Cashman
President, Humphrey Management Limited

Lina De Cesare
President, Tour Operators, Transat A.T. Inc.

Jean Pierre Delisle
Director

H. Clifford Hatch Jr.
President and Chief Executive Officer
of Cliffco Investments Limited

Jean-Yves Leblanc
Director

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

Philippe Sureau
President, Distribution, Transat A.T. Inc.

John D. Thompson
Deputy Chairman,
Montreal Trust Company of Canada

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

Executive Committee

Jean-Marc Eustache (President)
André Bisson, O.C.
H. Clifford Hatch Jr.

Human Resources and Compensation Committee

John D. Thompson (President)
H. Clifford Hatch Jr.
Dennis Wood, O.C.

Audit Committee

André Bisson, O.C. (President)
Jean Pierre Delisle
John D. Thompson

Corporate Governance and Nominating Committee

H. Clifford Hatch Jr. (President)
André Bisson, O.C.
John P. Cashman
Jacques Simoneau

Management

Jean-Marc Eustache
President
and Chief Executive Officer

Philippe Sureau
President, Distribution

Lina De Cesare
President, Tour Operators

Bernard Bussières
Vice-President,
General Counsel
and Corporate Secretary

Corinne Charette
Vice-President
and Chief Information Officer

André De Montigny
Vice-President,
Corporate Development

Nelson Gentiletti
Executive Vice-President,
Tour Operators

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

Michel Lemay
Vice-President,
Communications
and Corporate Affairs

Jean-Luk Pellerin
Corporate Vice-President,
Human Resources

Subsidiaries Management

Air Consultants Europe
Marc Koenis
General Manager

Air Transat
Allen B. Graham
President and
Chief Executive Officer

Canadian Affair
Anette Rayner
President and
General Manager

Club Voyages (France)
Patricia Chastel
General Manager

Handlex
Jean-Luc Paiement
President
and General Manager

Jonview Canada
Nelson Gentiletti
President

Look Voyages
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General Manager

Tourgreece
Vassilis P. Sakellaris
President

Trafic Tours
Turissimo
Alfonso Rizzuto
President

Transat Distribution Canada
Philippe Sureau
President

Transat Tours Canada
Nelson Gentiletti
President

tripcentral.ca
Richard Vanderlubbe
President

Vacances Transat (France)
Patrice Caradec
General Manager

Information for Shareholders

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Information

www.transat.com
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Ce rapport annuel est disponible en français.

Stock Exchange

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

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Auditors

Ernst & Young LLP
Montréal, Québec

Annual and Special Meeting of Shareholders

March 11, 2009, 10:00 a.m.
Fairmont Queen Elizabeth Hotel
Marquette-Joliette Room
900 René-Lévesque Boulevard West
Montréal, Québec

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Graphic Design: Claude Angers
Picture of Jean-Marc Eustache: Pierre Charbonneau
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