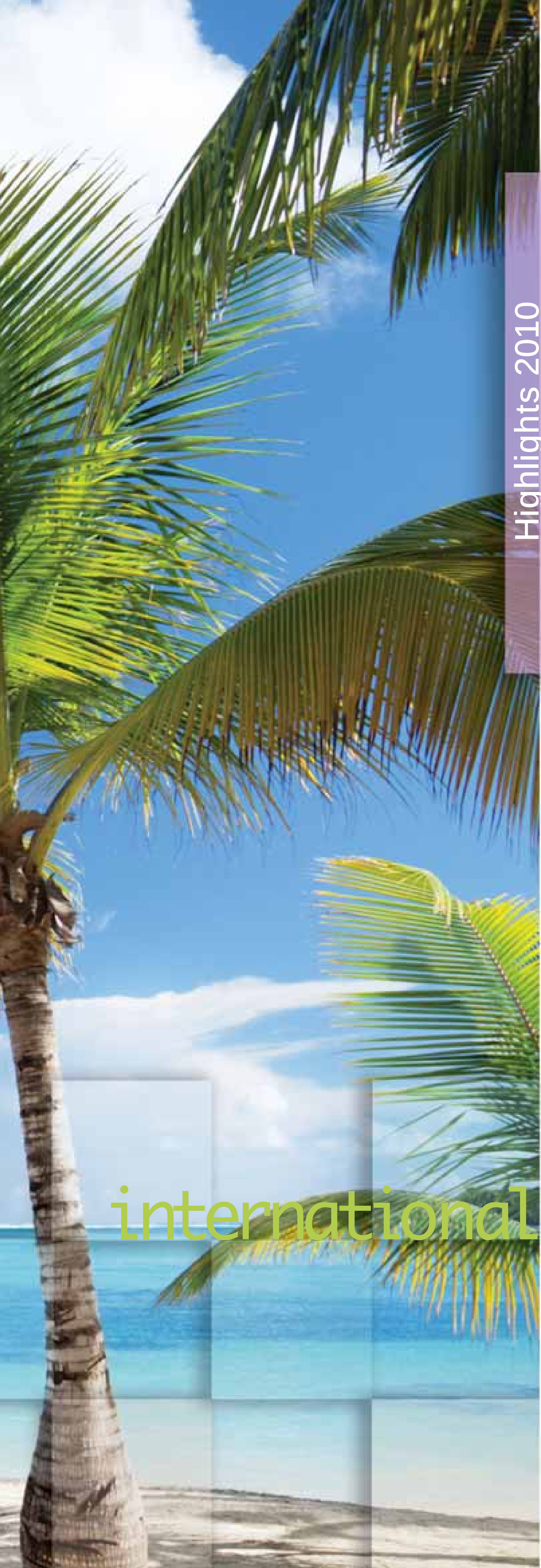
2010 Annual Report Transat A.T. Inc.



Highlights 2010

Revenues of $3.5 billion.

Margin of $127.6 million, compared with $93.4 million in 2009.

Net income of $65.6 million, compared with $61.8 million in 2009.

A challenging year on the sun destinations market, but outstanding results for transatlantic travel.

Agreement with air carrier Transavia for chartering of narrow-body jets.

Progress of Air Transat fleet renewal.

Creation of an outgoing tour operator based in Mexico: Eleva Travel.

international tour operator

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.

Highlights

In thousands of Canadian dollars
except per share amounts and ratios

	2010	2009	Variance $	Variance %
Revenues	3,498,877	3,545,341	(46,464)	(1.3)
Margin[1]	127,582	93,395	34,187	36.6
Net income	65,607	61,847	3,760	6.1
Diluted earnings per share	1.73	1.85	(0.12)	(6.5)
Cash flows relating to operating activities	119,131	45,234	73,897	163.4
Cash and cash equivalents	180,627	180,552	75	0.04
Total assets	1,189,458	1,129,503	59,955	5.3
Long-tem debt (including current portion)	29,059	107,684	(78,625)	(73.0)
Debt ratio[2]	0.63	0.67	(0.04)	(6.5)
Return on average shareholders' equity[3] (%)	16.3	17.3	(1.0)	(6.2)
Book value per share[4]	11.60	9.74	1.86	19.1
Stock price as at October 31 (TRZ.B)	16.35	14.54	1.81	12.4
Oustanding shares, end of year	37,850	37,729	1.21	0.3

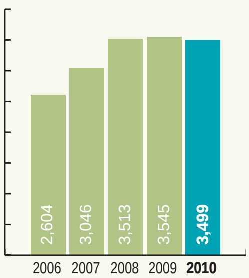
1 Margin: Revenues less operating expenses, according to the consolidated statements of income

2 Debt ratio: Total liabilities divided by total assets

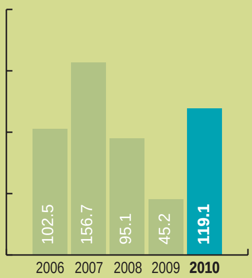
3 Return on average shareholders's equity: Net income divided by average shareholders' equity

4 Book value per share: Shareholders' equity divided by total number of shares oustanding

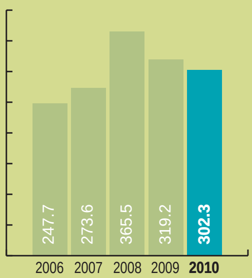
Revenues
(In millions of dollars)



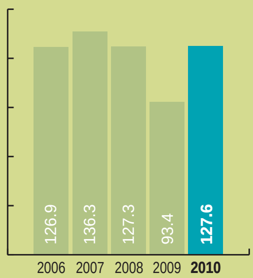
Cash flows relating to operating activities
(In millions of dollars)



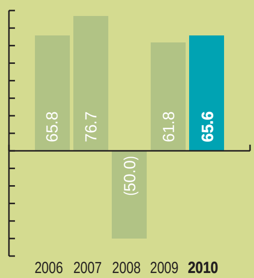
Aircraft fuel
(In millions of dollars)



Margin
(In millions of dollars)



Net income (loss)
(In millions of dollars)



Message to Shareholders

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

Leveraging the strong potential of the tourism market

During fiscal 2010, the foundations were laid for an economic recovery that has been slow getting off the ground and very unequal from one market to another. International tourism demand has nonetheless been restored following the downturn of 2009. For Transat, volumes remained solid, but as in past years, demand was in part driven by particularly attractive selling prices, which exerted downward pressure on our margins for the winter season and on the French market. The process-optimization and cost-reduction measures implemented over the last few years, however, helped us post results that, all in all, are satisfactory under the circumstances—further proof of the soundness of these measures.

The past year has been an atypical one. During the winter season, our results are strongly dependent on travel to sun destinations outbound from Canada. This market is extremely competitive, because for several years now, capacities offered at the start of the season have tended to largely exceed demand—even though the latter is particularly strong. In response, this past year we took the exceptional step of reducing our inventory at the start of winter, which led to significant disruptions in scheduling, operation and distribution. Unfortunately, the hoped-for benefits—higher prices and margins—failed to materialize, because our competitors quickly moved to fill the void we had left. As a result, we had a disappointing first six-month period. Then, in the second half of the year, with some predicting a difficult period on the transatlantic market, we had the best summer in our history, thanks particularly to the outstanding performance of the teams responsible for this segment, including those at Transat Tours Canada, Vacances Transat (France) and Canadian Affair.

For fiscal 2010, we posted sales of $3.5 billion, a 1% decrease from the previous year; a margin of $127.6 million, versus $93.4 million for 2009; and net income of $65.6 million ($1.73 per share), compared with $61.8 million ($1.85 per share) for 2009. Note that the results for both periods include non-cash and non-operating items. With these items excluded, our adjusted income was $53.7 million in 2010 ($1.41 per share), a clear improvement over the 2009 result of $33.7 million ($1.01 per share). Note also that Transat's margin in 2010 suffered by some $4 million due to the disruptions to air traffic in the wake of the Eyjafjallajökull volcano eruption in Iceland.

As we begin 2011, the outlook seems bright, despite challenges that cannot be ignored, and uncertainties linked to ongoing changes affecting the industry. Forecasts by the UN World Tourism Organization and the Conference Board of Canada, among others, point to a trend of long-term growth for international tourism, propelled by factors such as demographic expansion. Transat possesses the right skills, resources and organizational structure to leverage this potential, and so we embark on this new year with our usual blend of caution and optimism.

The outgoing Canadian market

Transat Tours Canada (TTC), which operates mainly under the brands Transat Holidays, Nolitours and Air Transat, had an arduous winter season. The decision to adjust inventory downward led to a slight decrease in passenger numbers, while oversupply remained, causing sales prices to plummet. We therefore posted a drop in sales and a loss, due also to the impact of our hedging operations. The cost-reduction initiatives rolled out over the past few years and at the start of the season, however, helped contain the damage. Results were much better in the second half, thanks to increased volumes, prices and margins on the transatlantic market. Indeed, Transat is by far the most active tour operator in that market, with an unmatched, powerful presence that is perfectly tailored to tourism: approximately 70 direct routes linking Canada to some 30 European cities.

In 2009, we entered into a five-year agreement with the Canadian-based carrier CanJet Airlines for chartering of Boeing Next Generation 737-800 narrow-body jets on sun destination routes. We began using these aircraft in summer 2009, but the operational break-in period truly began in the first quarter of 2010.

Performance was unfortunately not up to our expectations, due in part to the scheduling changes imposed by Transat, but we have taken the necessary measures to improve the situation for winter 2011. These difficulties notwithstanding, the agreement with CanJet Airlines has considerably strengthened TTC's position on the sun destinations market and had a positive impact on our 2010 results.

We continued implementing the Air Transat fleet renewal plan. A fifth Airbus A330 entered service in the fall of 2009, three more followed during 2010, and we have made arrangements to add three more aircraft of the same type by the fall of 2011. An initial Airbus A310 was withdrawn from the fleet in the fall of 2009, and another in the fall of 2010. The remainder will be withdrawn gradually, or may be retained as part of special agreements with the lessors, with application of substantially lower lease prices. Operating a fleet consisting mainly of a single aircraft type, the A330, will allow us to lower our operating costs as well as reduce per-passenger greenhouse gas emissions.

Air Transat recorded one of its best-ever years for flight on-time performance and reliability, with results again superior to the average. In-flight amenities, including meal service, were improved, and periodic customer satisfaction surveys continue to confirm the extremely high calibre of Air Transat's overall performance.

A relaunched Air Transat Cargo, which began offering expanded services in November, now transports cargo from Canada to all destinations served by Air Transat, but also to other destinations around the world, pursuant to agreements with some 30 air carriers and a network of representatives in 50 countries.

In Canada, more than 30% of our sales are made through our distribution network and our websites. Transat Distribution Canada (TDC) continues to assert its presence from coast to coast, and comprised 442 agencies, including 368 franchises, as of October 31, 2010. TDC posted excellent results in 2010.

The outgoing European market

Outbound travel from France recovered after a difficult 2009, though the market remains somewhat depressed. Demand on long-haul routes, which had declined sharply and severely affected our results in 2009, rebounded. The medium-haul market, however, suffered from hesitant demand, despite the fact that it had fared remarkably well the year before, notably in the case of Look Voyages. The abundant supply in this market created an imbalance that led to lower prices and margins.

As for travel between the United Kingdom and Canada, a very important market for Transat, we logged excellent performance in both directions, consolidating our position as the leading tour operator, in the face of competition that came essentially from the air carriers.

In the wake of the 2009 creation of Transat France (a structure that groups our two tour operators' Finance, Legal, Information Systems, Human Resources and, as of 2010, Communications departments), we continued implementation of our distribution strategy. This included the sale, with satisfactory conditions, of 20 travel agencies, and the retention of 40 agencies, which now operate under the Look Voyages banner. In November 2009, Transat France became a partner of reference of AS Voyages, France's biggest travel distribution network with more than 1,300 agencies, including those of Look Voyages since January 2010.

In 2010, Transat entered into a three-year agreement with Transavia France, an air carrier founded by the Air France / KLM group, under which Transat France charters narrow-body Boeing 737-800 aircraft, mainly for its destinations in the Mediterranean Basin. With this agreement, Transavia France became the air-carrier partner of choice of Vacances Transat (France) and Look Voyages, which serve nearly 600,000 customers per year, a good percentage of whom board medium-haul flights to Mediterranean Basin destinations. The agreement will enhance and strengthen our offer, much like the agreement we reached with XL Airways, which uses one of Air Transat's aircraft to serve our France-based tour operators during the winter season.

A new outgoing market: Mexico

During the year, Transat began activities in a new source market, setting up operations in Monterrey, Mexico, under the Eleva Travel banner. Since the summer of 2010, Eleva Travel has offered Mexican travellers a variety of package products within their country (Cancún, Puerto Vallarta, Acapulco) as well as in the United States (Las Vegas). Eleva Travel will gradually add other destinations, including Canada, which is a popular choice for Mexicans.

Mexican tourism demand is concentrated on domestic destinations, and is highest during summer. Cancún and Puerto Vallarta attract more than two million Mexican travellers, the majority of them between April and September. Transat was already present in the incoming tour market in Mexico, and had existing agreements and business relationships with several hoteliers in the two destinations.

The creation of Eleva Travel will, of course, allow us to diversify our revenue streams. But it will also have positive spinoffs for our outgoing tour operators in Canada, our incoming tour operator in Mexico, and our hotels along the Riviera Maya, bolstering our presence at destination.

Incoming markets and destination services

Despite vigorous demand for international tourism in 2010, Canada experienced another difficult year as a destination country. Jonview Canada, the leading incoming tour operator in the country, nevertheless posted very good results last year after a challenging 2009: our business unit welcomed more than 236,000 passengers to Canada, an increase of 15%, and improved its profitability. The upturn was mainly attributable to the British and French markets. However, the strong Canadian dollar combined with the introduction of the harmonized sales tax in Ontario and British Columbia are now hampering development of tourism to Canada and compounding existing industry difficulties. In 2010, we made representations to the federal government, insisting on the need for changes to Canada's tax regime to improve the country's ability to compete with other destinations.

In Mexico, a major renovation project has been completed in one of our hotel complexes, and everything is in place for our establishments to benefit from the coming recovery, notably along the Riviera Maya.

Corporate responsibility

Jointly with our employees and partners, we are continuing our efforts to make Transat one of the most responsible players in the mass tourism industry. We intend to build more dynamic relationships with stakeholders, and adopt forward-looking corporate responsibility practices while encouraging our partners to do the same, with a principal objective being to ensure the longevity of the assets essential to tourism development. This is in the common interest of shareholders, employees, customers, partners and communities.

In 2010, we developed and implemented a dashboard tool that will guide us in our approach to corporate responsibility by monitoring progress toward achievement of 10 objectives, with 52 related priorities and targets.

Transat is especially proud to have signed a partnership agreement with the Canadian-based NGO Beyond Borders to combat the sexual exploitation of children in tourism. Transat had previously made this issue one of its core concerns in June 2008, when we adopted our policy on sustainable tourism.

In November 2010, Transat received a World Travel Market Global Award in recognition of its efforts in sustainable development. This international recognition reflects on all of our employees, and especially on all those who have focused directly on this issue as part of their daily tasks. The award is an incentive to keep up the good work.

With regard to human resources, over the past year we continued our efforts at skills upgrading and implementing a dynamic succession, building on the solid foundations laid in recent years. For obvious reasons, we paid particular attention to training in the area of change management. The training program for front-line managers (150 participants) has been enriched with new modules. We also renewed a finely targeted, accelerated training program built around a Web tool that promotes periodic interaction between executives and participants, with the goal of ensuring sustained, documented progress. Lastly, we revisited our incentive compensation and group insurance programs with an eye to enhancing the company's attractiveness as an employer and to build employee loyalty.

Transat, ahead to 2011

As we enter 2011, Transat is well positioned, both strategically and financially. Our organization has made significant efficiency and flexibility gains, we are doing a good job of controlling our costs, and our financial structure is sound.

Looking ahead to 2011 and beyond

While demand for tourism is showing very encouraging signs of progress over both the short and long terms, the market is still changing and regularly bringing new challenges. In the last two years, for example, scheduled carriers have sent signals that they could be in the tourism market for the long run, having long been content to make only sporadic incursions. The result is an industry where two distinct operating models rub shoulders: that of tour operators and that of airlines. This makes designing and implementing commercial strategies more complicated still. And, of course, the tenacity of the traditional competition shows no signs of abating.

There are other drivers of uncertainty at work. First, tourists' tastes and expectations continue to evolve and diversify. Second, consumers are becoming more powerful each day with new tools available to plan holidays, rate service providers' performance and share information among themselves. And the Internet doubtless holds yet more untapped possibilities that will become either challenges or opportunities for market players, depending on how much vision and imagination they are able to muster.

It is against this backdrop that we look ahead to 2011 with relative optimism, and are actively working in three areas to prepare Transat for the future.

- With regard to commercialization in the broadest sense, we will continue to move the organization forward with an eye to presenting a more flexible product offering. Steering this transformation will involve, among other things, a renewal of our product strategy as well as upgrading of our information-management systems, which has been underway for several years and is progressing as planned. In 2011, we plan to invest $21 million in technology capital expenditures. We must also refine our marketing strategy, continue expansion of our distribution network and, of course, implement increasingly more effective business processes.

- In addition, we have begun a strategic rethinking of our brand and customer experience. The goal is to improve our potential for differentiation, enhance customer-experience quality, and channel the energies of our teams in a clearly defined direction so as to propel Transat into a class by itself on the worldwide leisure travel market.

- Finally, growth remains a priority, of course. This includes going the acquisition route, when interesting targets become available and conditions are propitious. Our main intentions are to diversify our source markets by penetrating other national markets, increase our market share in Ontario (Canada's largest regional market), and continue integration, strengthening our presence in the incoming segments of our principal markets (notably in southern Europe and northern Africa) and in the hotel sector.

As we enter 2011, Transat is well positioned, both strategically and financially. Our organization has made significant efficiency and flexibility gains, we are doing a good job of controlling our costs, and our financial structure is sound.

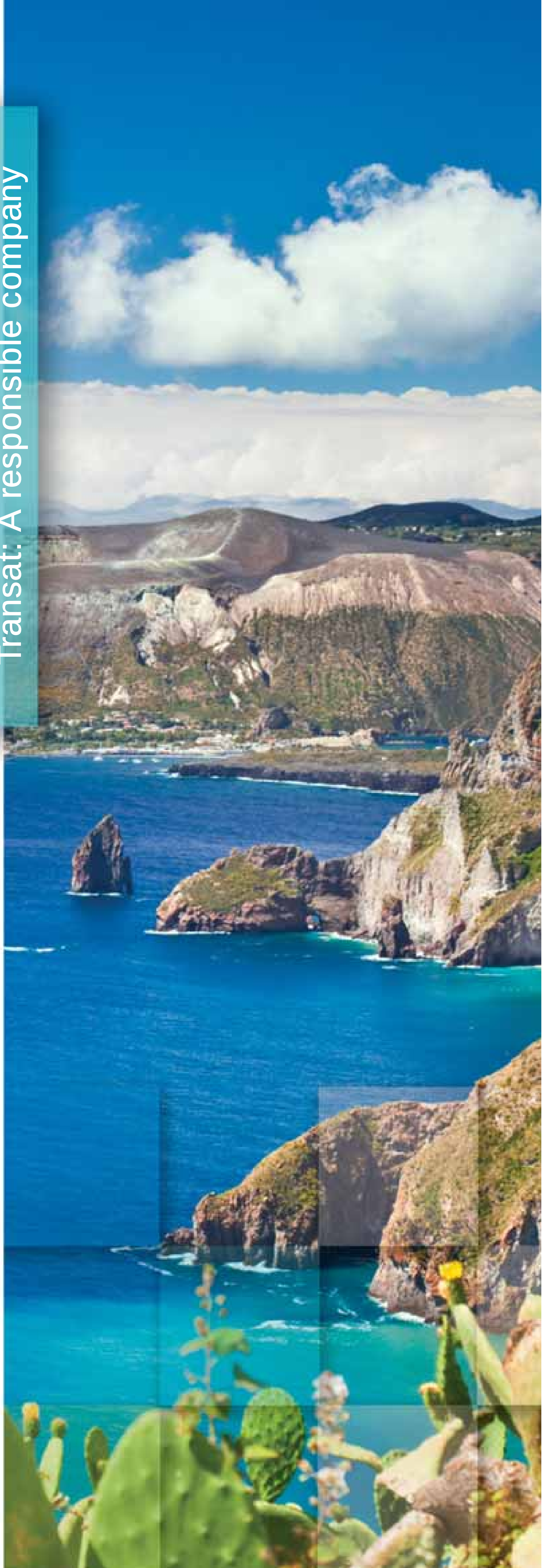
In June 2010, we announced the appointment of W. Brian Edwards as an independent director of the Company. Mr. Edwards is the founder of BCE Emergis, which has grown into one of North America's premier e-commerce companies, and is a seasoned administrator. His strong skills and recognized experience will be significant assets to Transat and its shareholders.

I express my gratitude to all members of our personnel, the management team and the Board of Directors for their contribution and their determination to make Transat into an exemplary company across the board. I also thank our shareholders for their continued confidence. We remain solidly on course for success, and I can assure you that, as we stand on the cusp of the year 2011, Transat has all the necessary assets to get there.

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

December 15, 2010

Transat: A responsible company



Transat is continuing its efforts toward becoming one of the most responsible companies in its industry. We intend to build increasingly dynamic relationships with those stakeholders who share this goal, and integrate exemplary practices, while encouraging our partners to do the same.

Environment

When it comes to environmental protection, our number one job is to reduce our resource consumption and the green footprint of our operations as much as possible. Thus far, actions have focused mainly on integration of the 4R principles (reduction at source, re-use, recycling and recovery) and on preventing and reducing sources of pollution. Furthermore, we have produced reliable Environmental Footprint Reports for fiscal 2009 and 2010, which provide us with objective data that we can use to track our performance.

In 2010, we began implementation of a program to encourage our hotel partners to adopt forward-thinking responsible management practices. The program, which advocates adoption of 55 exemplary practices in eight areas of action, will gradually be extended to include all tourism service providers with whom we do business.

Air Transat and Handlex share a building on the Montréal–Trudeau airport site. In 2010, pursuant to implementation of our environmental management system (begun in 2008), we filed an application for LEED-EB (Leadership in Energy and Environmental Design for Existing Buildings) certification for this building (excluding the maintenance centre).

Air Transat aircraft carry substantial amounts of products of all kinds on board, and each flight generates an appreciable quantity of waste. The Air Transat team began attacking this problem in 2008. A list of 241 distinct products was drawn up, and is now being studied to see whether items can be eliminated, whether quantities brought on board can be reduced, or whether products that are lighter, recycled, recyclable or otherwise more responsible can be substituted.

In 2003, Air Transat implemented a stringent fuel management program. We estimate that this program enables us to reduce fuel consumption and greenhouse gas emissions by some 5%, all other things being equal.

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

	Total CO_2 (tonnes)	Fuel consumption (litres) CO_2 emissions (kg) (per passenger/100 km)
2010	1,109,378	3.30 litres (8.35 kg)
2009	1,139,773	3.28 litres (8.30 kg)
2008	1,137,629	3,26 litres (8.25 kg)
2007	1,013,970	3.17 litres (8.02 kg)

The year-over-year increase in total emissions is due to the higher number of flights. The increase in fuel consumption per passenger/100 kilometres from 2007 to 2008 and from 2008 to 2009 is due mainly to the reduction in the number of seats aboard aircraft in 2008. The modest drop in emissions from 2009 to 2010 stemmed from a slight decrease in the number of flights; and the increase in the per-passenger consumption is attributable to slightly inferior load factors and an increase in cargo.

Co-operation at destination

Taking a corporate responsibility approach in the tourism industry necessarily implies taking an interest in the communities that host travellers. This means, among other things, building relationships with these communities based on respect, and therefore making efforts to reconcile the interests of all stakeholders. To that end, and in spite of the fact that the past few years have been difficult ones for the tourism industry, we have continued to support a number of organizations that are doing good work in tourism markets where Transat is present.

Pursuant to a partnership agreement begun in 2009, we support the actions of SOS Children's Villages, an organization that aids orphans and abandoned children worldwide. SOS Children's Villages runs some 500 villages in 132 countries, where it cares for 80,000 children. This major partnership is in addition to the one that has existed with the Children's Wish Foundation, through Air Transat, since 2004.

In 2010, Transat's most significant initiative on the humanitarian front was its participation in relief operations in the wake of the January 12 earthquake in Haiti. A week after the disaster, on January 20, we flew a wide-body jet to Port-au-Prince, carrying several tonnes of supplies and food provided by humanitarian organizations, Air Transat partners and company staff. Aid workers from various organizations were also on board. In the ensuing weeks, three more Air Transat humanitarian flights to Haiti took place.

Fiscal 2010 was also marked by the signing of a partnership agreement with Beyond Borders, a renowned organization based in Canada that is committed to combating child sexual exploitation. Beyond Borders has developed a training program to help us contribute to the fight against sex tourism that targets children. Implementation of the program has begun.

In addition, we provided financial assistance to several sustainable tourism projects, under a program launched in 2007. Projects supported by Transat are run by local community groups or non-profit organizations, and geared toward tourism development that emphasizes protection and development of the environment and/or heritage. The goal is to maintain or stimulate local economic activity from a perspective of sustainable development.

With the help of Uniterra, in Canada, and Planète Urgence, in France, we set up a humanitarian leave program, whereby our employees can take part in short international co-operation missions.

Professional development and satisfaction of personnel

Transat ascribes great importance to skills upgrading and maintenance of a work atmosphere based on respect. Over the years, we have implemented a variety of programs and tools to improve employee orientation and integration, training as well as all aspects of employee recognition. When it comes to diversity, a key value for Transat, half of our senior executives are women, and we promote hiring of candidates from minority groups. We also encourage employment of local personnel for positions at destination.

Transat's Code of Ethics was revised in 2010, and now includes commitments related to our vision of corporate responsibility. This document, approved by the Board of Directors, is at once an expression of our corporate culture and an instrument of change management. Every employee is required to read it and commit to complying with it.

Skills upgrading and professional development are the core of our strategy. In the last few years, we have developed a flexible training offering, highly adaptable to employees' needs. These efforts have clearly helped our turnover rate, which has decreased by 26% over the past three years.

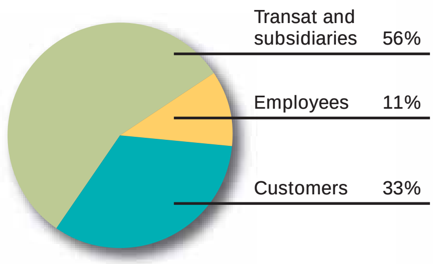
The Odyssey program and Transat Academy form the heart of our skills-development efforts. Odyssey is offered to managers in Canada and comprises eight modules, covering 12 competencies critical to Transat's industry segment. To date, 339 managers have begun the program, and 72 of them have completed more than half the modules. Transat Academy is an undergraduate university program in organizational management, offered to Canadian employees on a volunteer basis, subject to certain selection criteria. It is conducted in partnership with Université de Sherbrooke, Ryerson University in Toronto and Simon Fraser University in Vancouver.

To strengthen this culture geared toward upgrading of competencies and encourage personnel to excel, we have developed a structured method for evaluating employee potential, with input from a specialized firm. Based on the initial results, we decided to deploy this approach earlier in the careers of targeted employees, so as to accelerate their development and outpace competitors elsewhere in our industry.

The Corporate Responsibility Report may be viewed in full as a PDF file downloadable from the Transat website (www.transat.com), and an enriched version is available at www.resp.transat.com

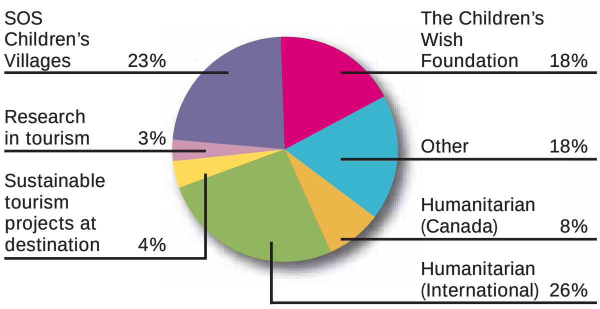
Philanthropic contributions in 2010

Source of funds



$1.8 million in donations

Fund Allocation



1.8 million $

Transat: Overview

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

Outgoing Tour Operators

Transat Tours Canada (TTC)

Transat Holidays, Nolitours, Air Transat, Transat Holidays USA

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

Air Consultants Europe (ACE)

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

Rêvatours and **Merika Tours**

In Canada, Rêvatours offers tours and custom-tailored products in 30 countries in Europe, Asia, Africa and South America, while Merika Tours offers a range of North American destinations.

Look Voyages and **Amplitravel**

In France, Look Voyages offers the winning formula of its Lookéa resort clubs network (32 clubs in 16 countries as of summer 2010), while diversifying its offering to include a range of travel and tour products, including travel to Tunisia under the Amplitravel brand.

Vacances Transat (France)

The leading tour operator in the French market offering travel to Canada, Vacances Transat (France) is also a specialist in tours to the four corners of the globe. Also operating under the Brokair brand (specializing in group travel), Vacances Transat offers more than 30 destination countries from France.

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, Air Transat and Thomas Cook Airlines.

Eleva Travel

Based in Monterrey, Mexico, Eleva Travel markets leisure travel products to Mexicans, to domestic destinations such as Cancún, Puerto Vallarta and Acapulco, as well as Las Vegas in the United States.

Incoming Tour Operators, Destination Services, Accommodation

Jonview Canada (80.07%)

Jonview Canada, the leading incoming tour operator in Canada, markets its products in approximately 50 countries, in Europe and in a growing number of emerging markets.

Tourgreece

Each year, Tourgreece welcomes approximately 100,000 travellers, ranking it among the largest incoming tour operators in Greece.

Trafic Tours (70.0%) and **Turissimo** (70.0%)

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

Ocean Hotels (35.0%)

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

Retail Distribution

Transat Distribution Canada (TDC)

Club Voyages, Marlin Travel, Voyages en Liberté, Travel Plus

At fiscal 2010 year-end, Transat Distribution Canada (TDC) grouped 442 travel agencies (including 368 franchises) and approximately 2,300 travel advisors, and was the largest travel agency network in Canada.

Tripcentral.ca

tripcentral.ca (64.6%) and **exitnow,ca**

In addition to a strong Internet presence, tripcentral.ca operates 22 points of sale in Canada, as well as the exitnow.ca online travel agency.

Eurocharter

Eurocharter is a group of 40 Transat-owned travel agencies in France, all operated under the Look Voyages banner and member of the AS Voyages network.

Air Transportation

Air Transat

Air Transat operates a fleet of Airbus A330 and A310 wide-body aircraft. Its on-time, fleet-reliability and fuel-management performance are among the best in the industry. Several factors combine to make Air Transat a first-rate airline in its category: its qualified, friendly cabin crews, an outstanding program for young families, its Club Class and OptionPlus service, and more.

Handlex

Handlex provides airport ground services (passenger check-in, baggage and cargo handling, aircraft cleaning, ramp services and ground-services equipment maintenance to 32 carriers, including Air Transat, at the international airports in Montreal (Trudeau and Mirabel), Toronto and Vancouver.

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

Americas

	2010	2009
Outgoing Tour Operators and Air Transportation		
Transat Tours Canada		
(Transat Holidays, Nolitours and Air Transat)		
Revenues	2,394,000	2,394,000
Employees	2,516	2,554
Air Transat Passengers[1]	2,960,000	3,207,000
Travellers[2]	1,750,000	1,619,000
Rêvatours		
Revenues	29,300	11,700
Employees	20	18
Travellers	8,700	3,600
Incoming Tour Operators and Destination Services		
Jonview Canada		
Revenues	110,500	105,400
Employees	153	188
Travellers	236,000	206,000
Other		
Revenues	44,800	52,700
Employees	313	285
Retail Distribution		
Transat Distribution Canada		
(Club Voyages, Voyages en Liberté, TravelPlus, and Marlin Travel)		
Revenues (commissions and franchise)	56,400	58,900
Outlets owned	74	77
Employees	432	454
Outlets	368	354
Tripcentral.ca		
Revenues	12,800	9,300
Employees	136	136
Outlets	22	22
Other Airline Services		
Handlex		
Revenues	49,600	54,900
Employees	941	1,024
Transat A.T. Inc.		
Employees	526	488

Europe

	2010	2009
Outgoing Tour Operators		
Vacances Transat (France)		
(Vacances Transat (France), Bennett Voyages et Brokair)		
Revenues (€)	212,000	202,000
Employees	213	200
Travellers	185,000	167,000
Look Voyages		
Revenues (€)	251,000	260,000
Employees	311	276
Travellers	278,000	284,000
Club Lookéa / summer[3]	32	32
Club Lookéa / winter[3]	15	14
Amplitravel		
Revenues (€)	34,000	36,500
Employees	17	18
Travellers	100,000	113,000
Air Consultants Europe		
Revenus commissions (€)	3,300	2,300
Employees	23	23
Travellers	62,000	49,000
Canadian Affair		
Revenues (£)	156,000	110,700
Employees	76	77
Travellers	317,000	271,000
Incoming Tour Operators and Destination Services		
Tourgreece		
Revenues (€)	17,400	17,800
Employees	40	32
Travellers	103,800	80,000
Retail Distribution		
Eurocharter (Look Voyages agencies)		
Revenues commissions (€)	5,800	8,500
Employees	102	177
Outlets owned	40	63

[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%) and Travel Superstore Inc. (Tripcentral.ca) (64.6%)

Management's Discussion & Analysis

This Management's Discussion and Analysis (MD&A) provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2010, compared with the year ended October 31, 2009, and should be read in conjunction with the audited Consolidated Financial Statements and notes thereto. The information contained herein is dated as of December 15, 2010. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2010 and Annual Information Form.

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation should have the resources it needs to meet its 2011 objectives and continue building on its long-term strategies
- The outlook whereby our 2011 revenues and total volume of travellers are expected to outpace 2010 levels.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2011.
- The outlook whereby additions to property, plant and equipment and intangible assets are expected to total up in the neighborhood of $50.0 million.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation could benefit from lower input costs.

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

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

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

NON-GAAP FINANCIAL MEASURES

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

Margin (operating loss)
Revenues less operating expenses.

Adjusted income (loss)
Income (loss) before non-controlling interest in subsidiaries' results, income taxes, change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain).

Adjusted after-tax income (loss)
Net income (loss) before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain), net of related taxes.

Adjusted after-tax income (loss) per share
Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.

Total debt
Long-term debt plus the debenture and off-balance sheet arrangements, excluding agreements with service providers, reported on page 28.

Net debt
Total debt (described above) less cash and cash equivalents and investments in ABCP.

The above-described financial measures have no meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures reported by other issuers or those used by financial analysts. They are furnished to provide additional information and should not be considered in isolation or as a substitute for financial performance measures calculated in accordance with GAAP. Management believes that readers of our MD&A use these measures, or a subset thereof, to analyze the Corporation's results, its financial performance and its financial position.

In addition to GAAP financial measures, management uses adjusted income and adjusted after-tax income to measure the Corporation's ongoing and recurring operational performance. Management considers these measures important as they exclude from results items that arise mainly from long-term strategic decisions, reflecting instead the Corporation's day-to-day operating performance. Management believes these measures are useful for assessing the Corporation's capacity to discharge its financial obligations.

Management also uses total debt and net debt to calculate the Corporation's indebtedness level, cash position, future cash needs and financial leverage ratio. Management believes these measures are useful for gauging the Corporation's financial leveraging.

The following table reconciles the non-GAAP financial measures to the most comparable GAAP financial measures:

(In thousands of dollars)	2010 $	2009 $	2008 $
Revenues	3,498,877	3,545,341	3,512,851
Operating expenses	3,371,295	3,451,946	3,385,083
Margin	127,582	93,395	127,768
Income (loss) before non-controlling interest in subsidiaries' results	69,331	64,894	(46,107)
Income taxes	23,806	30,916	(28,875)
Change in fair value of derivative financial instruments related to aircraft fuel purchases	(9,341)	(68,267)	106,435
Non-monetary loss (gain) on investments in ABCP			
Writedown of investments in ABCP (provision reversal)	(4,648)	5,993	45,927
Adjustment related to January 21, 2009 restructuring plan implementation	—	1,759	—
Remeasurement of options related to repayment of revolving credit facilities	—	(800)	—
	(4,648)	6,952	45,927
Restructuring charge (gain)	(1,157)	11,967	—
Adjusted income	77,991	46,462	77,380
Net income (loss)	65,607	61,847	(49,394)
Change in fair value of derivative financial instruments related to aircraft fuel purchases	(9,341)	(68,267)	106,435
Non-monetary loss (gain) on investments in ABCP	(4,648)	6,952	45,927
Restructuring charge (gain)	(1,157)	11,967	—
Tax impact	3,202	21,224	(45,954)
Adjusted after-tax income	53,663	33,723	57,014
Adjusted after-tax income	53,663	33,723	57,014
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	37,993	33,485	33,108
Adjusted after-tax income per share diluted	1.41	1.01	1.72
Payments on current portion of long-term debt	13,768	24,576	16,745
Long-term debt	15,291	83,108	133,340
Debenture	—	3,156	3,156
Off-balance sheet arrangements, excluding agreements with service providers	643,750	396,433	297,094
Total debt	672,809	507,273	450,335
Total debt	672,809	507,273	450,335
Cash and cash equivalents	(180,627)	(180,552)	(145,767)
Investments in ABCP	(72,346)	(71,401)	(86,595)
Net debt	419,836	255,320	217,973

FINANCIAL HIGHLIGHTS					
(In thousands of dollars)	2010	2009	2008	Change 2010	Change 2009
	$	$	$	%	%
Consolidated Statements of Income					
Revenues	3,498,877	3,545,341	3,512,851	(1.3)	0.9
Margin[1]	127,582	93,395	127,768	36.6	(26.9)
Net income (loss)	65,607	61,847	(49,394)	6.1	225.2
Basic earnings (loss) per share	1.74	1.86	(1.49)	(6.5)	224.8
Diluted earnings (loss) per share	1.73	1.85	(1.49)	(6.5)	224.2
Adjusted after-tax income (loss)[1]	53,663	33,723	57,014	59.1	(39.1)
Diluted after-tax income per share	1.41	1.01	1.72	39.6	(41.3)
Dividend – Class A and Class B shares	—	0.09	0.36	(100.0)	(75.0)
Consolidated Statements of Cash Flows					
Operating activities	119,131	45,234	95,069	163.4	(52.4)
Investing activities	(27,819)	(26,662)	(142,027)	(4.3)	81.2
Financing activities	(81,034)	18,303	15,091	(542.7)	21,3
Effect of exchange rate changes on cash and cash equivalents	(10,203)	(2,090)	10,866	(388.2)	(119.2)
Net change in cash and cash equivalents	75	34,785	(21,001)	(99.8)	265.6
	As at October 31, 2010	As at October 31, 2009	As at October 31, 2008	Change 2010	Change 2009
	$	$	$	%	%
Consolidated Balance Sheets					
Cash and cash equivalents	180,627	180,552	145,767	0.0	23.9
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	352,650	272,726	256,697	29.3	6.2
Investments in ABCP	72,346	71,401	86,595	1.3	(17.5)
Total assets	1,189,458	1,129,503	1,267,214	5.3	(10.9)
Debt (short-term and long-term)	29,059	110,840	153,241	(73.8)	(27.7)
Total debt[1]	672,809	507,273	450,335	32.6	12.6
Net debt[1]	419,836	255,320	217,973	64.4	17.1

[1] SEE NON-GAAP FINANCIAL MEASURES (page 18)

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

Transat is one of the largest fully integrated world-class tour operators in North America. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business involves developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in ten other European countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with a total of approximately 500 travel agencies (including 368 franchisees) and a multi-channel distribution system incorporating web-based sales. Transat holds an interest in a hotel business that owns and operates properties in Mexico and the Dominican Republic. Transat deals with a large number of air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat also offers destination and airport services.

VISION

According to the World Tourism Organization, the volume of international tourists, which fell in 2009, is expected to grow 5%-6% in calendar 2010. Transat's vision is to become a leading player in the Americas and build strong competitive positioning in several European countries by 2014. At present, we are a market leader in Canada, operating as an outgoing and incoming tour operator. We are a well-established outgoing tour operator in France and the U.K. and an incoming tour operator in Greece. We offer customers a broad range of international destinations spanning some 60 countries and market products in over 50 countries. Over time, we intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

To deliver on its vision, the Corporation intends to continue: deriving synergies from its vertical integration model, which distinguishes it from several of its rivals; growing its market share in France, where it ranks among the largest tour operators; and tapping into new markets or expanding operations in markets not yet fully served. To increase its buying power for its traditional destinations, Transat is targeting new markets with potential demand for these routes.

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

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

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

For fiscal 2011, Transat has set the following targets:

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

REVIEW OF 2010 OBJECTIVES AND ACHIEVEMENTS

The main goals and achievements for fiscal 2010 were as follows:

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

- Continue our bilateral approach by improving market share in the countries in which we enjoy strong coverage (France, United Kingdom and the Netherlands) and developing growth plans for markets we are able to enhance coverage (Germany, Italy, Spain and Mexico).
- Facilitate growth of direct or online sales in all our subsidiaries and, from a traditional distribution network standpoint:
    - In Canada, increase the number of agencies, their productivity and their sales of products;
    - In France, refocus our operations on tourism products by implementing a new structure for our travel agency network.
- Reassess our offering relative to our customers' evolving profiles, needs, values and priorities.
- Capitalize on Transat's scale to negotiate better hotel agreements to enhance our competitive positioning.
- Begin the renewal of Air Transat's fleet and work more closely with other companies to better manage our airline capacity to reduce aggregate airline costs.
- Redefine the operating model of our Canadian incoming tour operator to adapt it to new market realities.
- Maximize profitability of destination-based services by working closely with our hotel business and developing our incoming tour operators

In the trans-Atlantic market, 2010 performance was Transat's best ever. Our performance in the U.K. was particularly remarkable. We continued our efforts to strengthen our positioning in Germany, Italy and Spain. Moreover, in 2010, Transat entered the Mexican market as an outgoing tour operator.

Transat Distribution Canada posted record results. Controlled sales were up in 2010, as well as the productivity of our travel agencies. In Canada, our agencies increased to 464 from 431, and we remain Canada's largest travel agency network. In France, we successfully completed the implementation of the new structure of our distribution network with the sale of 20 agencies and the rebranding of the existing travel agencies under the Look Voyages banner, thereby refocusing our tourism business.

We began realigning our offering of Canadian departures with market expectations. This process will be continued in 2011 at the same time as a reflective analysis of our brands.

In 2010, thanks to our longstanding relationship with our hotel partners, we successfully negotiated some hotel pricing and adapted our offering to market conditions.

As anticipated, our airline costs were down in 2010 thanks to the agreement entered into with CanJet Airlines for Canadian departures. In addition our agreement with French carrier XL Airways to charter one of Air Transat's Airbus A330 to serve our French long-haul market was also beneficial for Transat. The renewal of Air Transat's fleet is now solidly underway with agreements in place to add six new A330 aircraft to the fleet by the end of 2011.

Following process and structural adjustments, Jonview capitalized on a robust transatlantic market to report strong performance in 2010. Our incoming tour operators in Mexico and the Dominican Republic recorded very healthy margins in 2010. We carried out significant renovations at one of the Ocean hotels (jointly owned with H10 Hotels) and are well positioned to capitalize on the recovery, particularly in Mexico.

---

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

- Actively pursue the process of identifying, managing and developing talent and the next generation of leaders.
- Enhance human resource retention, training and mobilization programs.
- Develop the change management skills of our managers in connection with strategic initiative deployments.
- Reinforce communications and teamwork as fundamental to the Corporation's success.

Over the years, various programs and tools have been implemented to improve the welcoming, integration and training of employees, as well as employee recognition. In the past few years, we developed a flexible training program tailored to employee needs. Our efforts in this regard have clearly helped reduce the employee turnover rate, which is down 26% over the past three years.

Our skill development strategy is primarily based on the Odyssey program and Transat Academy. Odyssey is for Canadian managers and includes eight modules focusing on 12 essential skills in Transat's business. Transat Academy is a university undergraduate program in organization management in which our Canadian staff can participate on a voluntary basis on meeting a set of selection criteria. This program is offered in partnership with the Université de Sherbrooke, Ryerson University in Toronto and Simon Fraser University in Vancouver.

To foster a culture of ongoing professional development and encourage employees to surpass themselves, we have implemented a structured method for assessing employee potential with support from a specialized firm. In light of our initial results, we decided to implement this approach earlier in the career path of targeted employees to accelerate their development and differentiate us from the rest of the industry. Non-unionized Canadian employees who wish to do so can also benefit from an individualized development plan (IDP).

---

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

- Continue system implementation to allow the creation of à la carte offerings.
- Complete implementation of the new airline seat inventory management system.
- Complete the analysis and begin replacing the main tour operator system.
- Establish a technology roadmap aligned with the new strategic plan of our Canadian incoming tour operator.

Information system development is intimately related to ever-changing market expectations, and particularly, to a more flexible offering and the possibility for Transat to offer more and more à la carte travel services. This long-term project, which gives rise to substantial investments, proceeded as expected in 2010 and will continue in 2011 at the same time as a reflective analysis of our product line and strategy.

As regards airline seat management, an important milestone was reached in 2010 with the partial implementation of a new management system for sales made through global reservation networks.

---

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

- Implement a three-year action plan based on a system of indicators tailored to Transat's business.
- Proceed with implementation of initiated programs.
- Step up awareness and internal and external communications programs, while working more closely with industry and destination stakeholders.

With respect to corporate responsibility and sustainable tourism, a three-year scorecard (2010-2012) based on ten targets and 52 priorities was prepared by Transat in 2009, then adopted and communicated internally in 2010. This tool will provide a formal framework for ongoing and future project planning.

The major programs that were previously initiated have been renewed in 2010 with others to be launched or accelerated. The highlights are as follows:

- Air Transat proceeded with its fuel management program, the implementation of an environmental management system (including applying for LEED certification) and fast-tracked a program to promote responsible onboard product use.
- Our tour operators completed an update to a program to promote the adoption of responsible practices by their suppliers and implemented the hotel component in January 2010.
- Transat signed and implemented a three-year partnership with SOS Children's Villages, an international organization assisting orphaned and abandoned children in 132 countries.
- Transat signed and implemented a partnership with Beyond Borders, an organization specialized in fighting the sexual exploitation of children.
- Transat continued it support program for destination-based sustainable tourism projects. As at October 31, 2010, 12 projects in eight countries had received financial support from Transat.
- Transat continued its internal environmental initiatives and adopted an environmental policy.
- Transat maintained its donations program and, with help from staff, numerous initiatives were launched to support communities, including a remarkable effort in favour of Haiti following the January 2010 earthquake.

Transat continued its internal and external communications and awareness programs through all available channels and issued a corporate responsibility report for 2009 and 2010.

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 3%, excluding acquisitions.

MARGIN
Generate margins higher than 4%.

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash
Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $180.6 million as at October 31, 2010. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels. In addition, we hold investments in ABCP with a fair value and a notional value of $72.3 million and $118.1 million, respectively, as at October 31, 2010.

Credit facilities
We have revolving term credit facilities currently totalling $242.8 million, up for renewal in 2012.

Our non-financial resources include:

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

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

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

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

Transat has the resources it needs to meet its 2011 objectives and continue building on its long-term strategies.

CONSOLIDATED OPERATIONS

REVENUES

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

For the year ended October 31, 2010, revenues were down $46.5 million, owing primarily to revenues from our foreign subsidiaries once translated into Canadian dollars, which declined due to the strength of the Canadian dollar against the euro and the pound sterling, and to a decrease in average selling prices in the first half of the year, due mainly to intense competition. The decline in revenues was offset however by a 6.7% aggregate increase in the volume of travellers. During the year, revenues rose 0.6% in the Americas, while they fell 6.3% in Europe. In the Americas, selling prices trended generally lower during the 2010 winter season due to intense competition arising from excess supply, and rose in the summer season compared with 2009. In Europe, revenues from our European subsidiaries in local currencies held steady compared with 2009, except in the U.K., where they were significantly higher than in fiscal 2009.

For fiscal 2011, revenues and total volume of travellers are expected to outpace 2010 levels. We expect competition to remain intense throughout the first half of the fiscal year owing to the aggregate increase in supply in the sun destinations market departing from Canada.

OPERATING EXPENSES

Our total operating expenses fell $80.7 million or 2.3% during the year, compared with 2009, owing in part to the strength of Canada's currency against the U.S. dollar, the euro and the pound sterling, which resulted in lower operating expenses at our foreign subsidiaries once translated into Canadian dollars, in addition to having a favourable impact on our expenses denominated in foreign currencies. Nearly 30% of operating expenses are settled in U.S. dollars. This decline also resulted from cost reduction initiatives undertaken in 2009, offset however by higher expenses triggered by a larger volume of travellers. In the Americas and Europe, operating expenses were down 0.1% and 8.1%, respectively. As a percentage of revenues, operating expenses fell slightly to 96.4% from 97.4% in 2009.

DIRECT COSTS

Direct costs are incurred by our tour operators. They consist primarily of hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Direct costs were down $14.9 million or 0.7% compared with the fiscal year ended October 31, 2009. The decrease in direct costs was due mainly to lower seat and hotel room costs arising from negotiated contract savings, coupled with the strength of the Canadian dollar against other currencies. In 2010, these costs represented 58.5% of revenues, up from 58.2% in 2009.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits fell $15.3 million or 4.2% to $349.3 million, resulting primarily from stringent personnel management, coupled with the Canadian dollar's appreciation against the euro.

AIRCRAFT FUEL

Aircraft fuel expense fell $16.9 million or 5.3% during the year, owing mainly to our decision to reduce our offering and sublease certain of our aircraft for the 2010 winter season. This decline was offset however by a greater utilization of our fleet to European destinations in the summer season. Our average fuel price for the year was slightly higher than in fiscal 2009.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense totalled $155.4 million, down $21.8 million or 12.3% from its fiscal 2009 level. This decline resulted primarily from a drop in revenues on which commissions are calculated during the winter season and, to a lesser degree, higher direct sales (with no commission), particularly in Europe. As a percentage of our revenues, commissions amounted to 4.4% compared with 5.0% in 2009.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. These costs fell $4.2 million or 4.6% during the year compared with 2009. The decline was mainly due to downward revisions to a number of assumptions used in determining future maintenance costs following renegotiation of a number of our supplier agreements, a streamlined maintenance schedule and less business activity in some areas during the winter season.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air navigation service providers. Fees for the year were down $5.3 million or 5.8% compared with 2009, owing primarily to less business activity in some areas in the first half of the year, coupled with the strength of the Canadian dollar against its U.S. counterpart.

REVENUES BY GEOGRAPHIC AREA

(In thousands of dollars)	2010	2009	2008	Change 2010	Change 2009
	$	$	$	%	%
Americas	2,567,983	2,552,348	2,536,831	0.6	0.6
Europe	930,894	992,993	976,020	(6.3)	1.7
	3,498,877	3,545,341	3,512,851	(1.3)	0.9

OPERATING EXPENSES

				% of revenues			Change	
(In thousands of dollars)	2010	2009	2008	2010	2009	2008	2010	2009
	$	$	$	%	%	%	%	%
Direct costs	2,047,713	2,062,626	1,933,706	58.5	58.2	55.0	(0.7)	6.7
Salaries and employee benefits	349,323	364,642	349,746	10.0	10.3	10.0	(4.2)	4.3
Aircraft fuel	302,333	319,224	365,457	8.6	9.0	10.4	(5.3)	(12.7)
Commissions	155,357	177,166	174,740	4.4	5.0	5.0	(12.3)	1.4
Aircraft maintenance	85,731	89,896	97,842	2.5	2.5	2.8	(4.6)	(8.1)
Airport and navigation fees	85,321	90,611	90,624	2.4	2.6	2.6	(5.8)	0.0
Aircraft rent	52,949	54,287	48,628	1.5	1.5	1.4	(2.5)	11.6
Other	292,568	293,494	324,340	8.4	8.3	9.2	(0.3)	(9.5)
Total	3,371,295	3,451,946	3,385,083	96.4	97.4	96.4	(2.3)	2.0

AIRCRAFT RENT

Aircraft rent fell $1.3 million or 2.5% during the year, resulting primarily from the net effect of the addition of one Airbus A-330 during the third quarter of 2009, the withdrawal of one Airbus A-310 at the beginning of the first quarter of 2010 and the Canadian dollar's strength against the U.S. dollar. In addition, as a result of our currency hedges, the Corporation was unable to fully capitalize on the Canadian dollar's appreciation against the U.S. currency.

OTHER

Other operating expenses remained unchanged from 2009. As a percentage of revenues, however, other expenses for the year rose to 8.4% in 2010 from 8.3% in 2009.

MARGIN

In light of the foregoing, the Corporation recorded a margin of $127.6 million compared with $93.4 million in the previous year. As a percentage of revenues, our margins increased to 3.6% in 2010 from 2.6% in 2009. The improvement in our margins is a result of the summer season when the volume of travellers, the passenger load factor and average selling prices, in Canadian dollars, were higher than in summer 2009, despite weakening in the euro and the pound sterling against the Canadian dollar.

GEOGRAPHIC SEGMENTS

AMERICAS

Revenues at our North American subsidiaries, stemming from sales in Canada and abroad, were down $110.1 million or 6.7% during the winter season, compared with 2009. Lower average selling prices combined with a 1.1% drop in the volume of travellers caused the fall in revenues. The lower volume of travellers is attributable, among other factors, to a decline in business activity during the first quarter, partly due to a reduced product offering. Our winter season margin stood at 0.6%, compared with 2.4% in 2009. The slimmer margins were mainly attributable to lower average selling prices resulting from excess market supply during the winter and our inability to fully capitalize on the strength of the Canadian dollar against the U.S. currency due to our currency hedges and constant competitive pressure.

For the summer season, revenues were up 14.0%, owing primarily to a 17.0% increase in the volume of travellers, higher average selling prices than in 2009 and a rise in passenger load factors. Our margin rose to 7.6% from 3.3% in 2009.

EUROPE

Compared with 2009, revenues at our European subsidiaries, stemming from sales in Europe and Canada, were down $43.3 million or 12.3% over the winter season, despite an 18.7% surge in the volume of travellers. The combined impact of the strength of the Canadian dollar against the euro and the pound sterling, and lower selling prices, more than offset the revenue boost from higher traveller volumes, mainly at our Canadian Affair subsidiary. Growth in traveller volumes was driven by Canadian Affair's sales in the U.K. and Canada, partially offset by lower volumes in France. Our European operations reported an operating loss of $13.4 million or 4.3% for the winter compared with an operating loss of $9.5 million or 2.7% in 2009. The decline in margins is partly due to the weakening of the euro against other currencies, lower selling prices and additional costs incurred by our European companies following the volcanic activity in Iceland.

Revenues for the summer season were down $18.8 million or 2.9% despite a 4.6% rise in the volume of travellers. This decline stems primarily from the translation into Canadian dollars of rev-

AMERICAS

(In thousands of dollars)		2010	2009	2008	Change 2010	Change 2009
		$	$	$	%	%
Winter season	Revenues	1,543,546	1,653,636	1,560,186	(6.7)	6.0
	Operating expenses	1,534,387	1,613,468	1,468,934	(4.9)	9.8
	Margin	9,159	40,168	91,252	(77.2)	(56.0)
	Margin (%)	0.6	2.4	5.8	(75.6)	(58.5)
Summer season	Revenues	1,024,437	898,712	976,645	14.0	(8,0)
	Operating expenses	946,430	869,276	991,767	8.9	(12,4)
	Margin	78,007	29,436	(15,122)	165.0	294.7
	Margin (%)	7.6	3.3	(1.5)	132.5	320.0

EUROPE

(In thousands of dollars)		2010	2009	2008	Change 2010	Change 2009
		$	$	$	%	%
Winter season	Revenues	309,402	352,695	302,361	(12.3)	16.6
	Operating expenses	322,772	362,231	303,624	(10.9)	19.3
	Margin	(13,370)	(9,536)	(1,263)	(40.2)	(655.0)
	Margin (%)	(4.3)	(2.7)	(0.4)	(59.8)	(575.0)
Summer season	Revenues	621,492	640,298	673,659	(2.9)	(5.0)
	Operating expenses	567,706	606,971	620,758	(6.5)	(2.2)
	Margin	53,786	33,327	52,901	61.4	(37.0)
	Margin (%)	8.7	5.2	7.9	66.3	(34.2)

enues at European subsidiaries following the strengthening of the dollar against European currencies. Our European operations reported a margin of $53.8 million or 8.7% for the summer season compared with $33.3 million or 5.2% in 2008. This improvement arises primarily from our U.K. subsidiary which reported significantly higher revenues following higher traveller volumes and average selling prices.

OTHER EXPENSES (REVENUES)

AMORTIZATION

Amortization includes amortization of property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. Amortization expense was down $2.5 million, or 4.9% in fiscal 2010, mainly resulting from fewer additions to property, plant and equipment than in fiscal 2010 and 2009. As at October 31, 2010, the deferred gain on options was amortized in full with an amortization expense of $4.2 million for the years ended October 31, 2010 and 2009.

INTEREST ON LONG-TERM DEBT AND DEBENTURE

Interest on long-term debt and the debenture was down $2.6 million in 2010 compared with 2009, mainly due to lower average debt than in 2009 and the redemption of the debenture in November 2009.

OTHER INTEREST AND FINANCIAL EXPENSES

Other interest and financial expenses were down $0.3 million in 2010 compared with the previous year. This decrease resulted primarily from interest charges related to prior year income tax assessments affecting some of our subsidiaries recorded in 2009.

INTEREST INCOME

Interest income in 2010 was down $1.6 million or 33.8% from 2009, owing primarily to lower interest rates in 2010 than in 2009, and despite generally higher average balances of cash and cash equivalents.

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

The change in fair value of derivative financial instruments related to aircraft fuel purchases represents the change in fair value for the period of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices. For the year, the fair value of derivative financial instruments related to aircraft fuel purchases rose $9.3 million compared with a $68.3 million increase for the same period of 2009.

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

The foreign exchange gain on long-term monetary items for the year, amounting to $1.1 million, arose mainly from a favourable foreign exchange effect on the long-term debt linked to aircraft financing.

LOSS (GAIN) ON INVESTMENTS IN ABCP

The gain on investments in ABCP results from the change in the fair value of investments in ABCP during the period. The gain on investments in ABCP for fiscal 2010 amounted to $4.6 million compared with $0.1 million in 2009. See Investments in ABCP for more information.

RESTRUCTURING CHARGE (GAIN)

On September 24, 2009, we announced a restructuring plan to make structural changes to our distribution network in France. These structural changes resulted in the closure of an administrative centre. Furthermore, under these changes, some agencies have closed and others will close, while some agencies will be sold. Following this announcement, we recognized a $12.0 million restructuring charge for fiscal 2009. This charge includes $2.9 million in cash payments, consisting mainly of termination benefits, a $0.6 million asset impairment charge and an $8.5 million write-off of goodwill after the assets and goodwill of agencies involved in the restructuring were tested for impairment. During the year ended October 31, 2010, the Corporation recorded a $1.2 million gain on disposal of held-for-sale assets related to the restructuring, consisting mainly of gains on the sale of agencies for which no restructuring charge had been recognized in 2009.

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 con-

OTHER EXPENSES (REVENUES)

(In thousands of dollars)	2010	2009	2008	Change 2010	Change 2009
	$	$	$	%	%
Amortization	48,662	51,155	56,147	(4.9)	(8.9)
Interest on long-term debt and debenture	2,225	4,866	7,538	(54.3)	(35.4)
Other interest and financial expenses	2,359	2,679	1,758	(11.9)	52.4
Interest income	(3,036)	(4,588)	(16,172)	(33.8)	(71.6)
Changes in fair value of derivative financial instruments related to aircraft fuel purchases	(9,341)	(68,267)	106,435	86.3	(164.1)
Foreign exchange loss (gain) on long-term monetary items	(1,109)	(135)	2,295	(721.5)	(105.9)
Loss (gain) on investments in ABCP	(4,648)	(68)	45,927	n/a	(100.1)
Restructuring charge (gain)	(1,157)	11,967	—	(109.7)	n/a
Gain on repurchase of preferred shares of a subsidiary	—	—	(1,605)	—	(100.0)
Share of net loss (income) of a company subject to significant influence	490	(24)	427	n/a	(105.6)

sideration of $0.3 million. As these redeemable preferred shares were considered liabilities, $1.9 million was included in other liabilities in the balance sheet. In light of the classification of these redeemable preferred shares as liabilities, the $1.6 million gain was recorded in the consolidated statement of income (loss). A total of $0.6 million related to this transaction was also included under non-controlling interest in subsidiaries' results in the consolidated statement of income.

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

Our share of net loss (income) of a company subject to significant influence represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of the net loss for the year amounted to $0.5 million compared with $24,000 for 2009. The increase in our share stems primarily from tax adjustments relating to previous fiscal years but recognized in the fourth quarter.

INCOME TAXES

For the fiscal year ended October 31, 2010, income taxes totalled $23.8 million, compared with $30.9 million for the previous fiscal year. Excluding the share in net income (loss) of companies subject to significant influence, the effective tax rates were 25.4% for the fiscal year ended October 31, 2010 and 32.3% for the preceding year.

The factors underlying the change in tax rates from fiscal 2009 to 2010 included a higher amount for non-deductible items in 2009 than in 2010 and the recognition in 2009 of unfavourable items related to prior year assessments affecting a number of our subsidiaries.

NET INCOME

In light of the items discussed in Consolidated Operations, net income for the year ended October 31, 2010 totalled $65.6 million, or $1.74 per share, compared with $61.8 million, or $1.86 per share, for the previous year. The weighted average number of outstanding shares used to compute per share amounts was 37,796,000 for fiscal 2010 and 33,168,000 for fiscal 2009.

On a diluted per share basis, income per share was $1.73 for fiscal 2010, compared with $1.85 in 2009. The adjusted weighted average number of shares used to determine these amounts was 37,993,000 for the current year and 33,485,000 for fiscal 2009. *See note 15 to the audited Consolidated Financial Statements.*

For fiscal 2010, our adjusted after-tax income stood at $53.7 million ($1.41 per share) compared with $33.7 million ($1.01 per share) for fiscal 2009.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are down compared with the same quarters in previous fiscal years, mainly as a result of lower priced sales owing to intense competition sparked by excess supply and a strong Canadian dollar, despite a rise in traveller volumes. Margins have fluctuated from quarter to quarter, mainly due to competitive price pressures. As a result, the following quarterly financial information sometimes varies significantly from quarter to quarter.

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $778.6 million in revenues, up $58.9 million or 8.2% from $719.7 million for the corresponding period in 2009. This increase resulted mainly from higher average selling prices and a 14.7% rise in the volume of travellers compared with the fourth quarter of 2009.

The Corporation reported a margin of $77.9 million or 10.0% for the quarter compared with $35.6 million or 4.9% in 2009. This improved margin resulted mainly from an increase in the volume of travellers, higher average selling prices and better passenger load factors compared with the corresponding period of 2009.

In the fourth quarter, we recorded a $2.0 million gain arising from the change in fair value of derivative financial instruments related to for aircraft fuel purchases, compared with a $14.9 million in for the corresponding period of 2009. We also recorded a $3.2 million gain on investments in ABCP compared with $2.0 million for the same period in 2009.

The Corporation reported $52.4 million in net income for the fourth quarter or $1.37 per share on a diluted basis, compared with $18.1 million or $0.52 per share for the corresponding period of 2009.

For the fourth quarter, adjusted after-tax income stood at $47.7 million or $1.25 per share compared with $17.8 million or $0.51 per share in 2009.

SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION

(In thousands of dollars, except per share amounts)	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010
	$	$	$	$	$	$	$	$
Revenues	877,254	1,129,077	819,354	719,656	792,562	1,060,386	867,344	778,585
Margin	(8,498)	39,130	27,187	35,576	(12,409)	8,198	53,941	77,852
Net income (loss)	(29,436)	42,186	30,991	18,106	(13,872)	6,198	20,925	52,356
Basic earnings (loss) per share	(0.90)	1.29	0.95	0.53	(0.37)	0.16	0.55	1.38
Diluted earnings (loss) per share	(0.90)	1.27	0.94	0.52	(0.37)	0.16	0.55	1.37

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2010 and October 31, 2009, cash and cash equivalents totalled $180.6 million. Cash and cash equivalents in trust or otherwise reserved amounted to $352.7 million as at the end of fiscal 2010 compared with $272.7 million for fiscal 2009. The balance sheet shows working capital of $64.3 million and a ratio of 1.10 compared with $35.0 million and 1.06 as at October 31, 2009.

Total assets increased by $60.0 million or 5.3% to $1,189.5 million as at October 31, 2010 from $1,129.5 million as at October 31, 2009. This increase resulted mainly from increases of $79.9 million in cash and cash equivalents in trust or otherwise reserved and $41.6 million in receivables, partly offset by decreases of $34.5 million in property, plant and equipment and $10.8 million in future income tax assets. Shareholders' equity rose $71.7 million to $439.1 million as at October 31, 2010 from $367.4 million as at October 31, 2009. This increase stemmed primarily from net income of $65.6 million and a $15.5 million change in fair value of derivatives designated as cash flow hedges, partly offset by a $13.2 million foreign exchange loss on translation of the financial statements of our self-sustaining operations, recognized under accumulated other comprehensive income.

CASH FLOWS

OPERATING ACTIVITIES

Operating activities generated $119.1 million in cash flows, compared with $45.2 million in 2009. This $73.9 million or 163.4% decrease during the year resulted mainly from a $70.0 million increase in the net change in non-cash working capital balances related to operations and a $7.8 million increase in the net change in the provision for overhaul of leased aircraft.

We expect to continue to generate positive cash flows from our operating activities in 2011.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $27.8 million for the year, up $1.2 million from 2009. Compared with 2009, additions to property, plant and equipment and other intangible assets increased by $0.1 million to $29.0 million. Following the increase in our letters of credit, cash and cash equivalents reported under non-current assets rose $3.8 million. We also purchased the remaining shares of Tourgreece for $0.5 million and made a $1.1 million capital contribution to our hotel business to finance renovations; during fiscal 2009, the Corporation had made a $5.8 million capital contribution to acquire land in the Dominican Republic. Also in fiscal 2010, Transat received proceeds of $2.9 million from the disposal of property, plant and equipment mainly following the sale of some agencies of our distribution network in France, and received proceeds on our ABCP investments in the amount of $3.7 million compared with $8.1 million in 2009.

In 2011, additions to property, plant and equipment and intangible assets are expected to total up in the neighborhood of $50.0 million.

FINANCING ACTIVITIES

Cash flows used by financing activities totalled $81.0 million, up $99.3 million compared with cash inflows of $18.3 million in 2009. This rise resulted mainly from a $42.4 million increase in repayments of credit facilities and other debts, compared with 2009, and a $60.7 million decrease in proceeds from a share issue. In fiscal 2009, our public offering of shares generated proceeds of $60.5 million. In addition, total dividends paid were $3.7 million lower than in 2009.

FINANCING

As at October 31, 2010, the Corporation had several types of financing, consisting primarily of two revolving term credit facilities, loans secured by aircraft and lines of credit.

The Corporation has a $157.0 million revolving credit facility maturing in 2012 or immediately repayable in the event of a change in control and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security amounting to 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. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at October 31, 2010, all financial criteria and ratios were met.

The Corporation also has access to an $85.8 million revolving credit facility which matures in 2012 or is immediately repayable in the event of a change in control. Under the terms and conditions of this agreement, funds may be drawn down

CASH FLOWS

(In thousands of dollars)	2010	2009	2008	Change 2010	Change 2009
	$	$	$	%	%
Cash flows related to operating activities	119,131	45,234	95,069	163.4	(52.4)
Cash flows related to investing activities	(27,819)	(26,662)	(142,027)	(4.3)	81.2
Cash flows related to financing activities	(81,034)	18,303	15,091	(542.7)	21.3
Effect of exchange rate changes on cash	(10,203)	(2,090)	10,866	(388.2)	(119.2)
Net change in cash	75	34,785	(21,001)	(99.8)	(265.6)

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 specific to the type of financing vehicle. This credit facility also includes options, now in effect following implementation of the ABCP restructuring plan, allowing the Corporation, at its discretion, to repay amounts drawn down as they fall due under certain conditions up to a maximum of $47.0 million using the restructured notes. This option is reported at fair value at each balance sheet date under derivative financial instruments, and any change in fair value of the options is recorded in net income under loss (gain) on the investments in ABCP. The Corporation measured the option as at October 31, 2010 and recorded no change in its fair value. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at October 31, 2010, all financial criteria and ratios were met.

As at October 31, 2010, $15.0 million had been drawn down under these credit facilities.

The loans secured by aircraft of the Corporation amounted to $13.6 million [US$13.3 million] as at October 31, 2010. 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 €10.0 million [$14.2 million].

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the audited consolidated financial statements as at October 31, 2010. As at October 31, 2010 and October 31, 2009, these obligations, as reported in the balance sheet, amounted to $29.1 million and $110.8 million, respectively.

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

- Guarantees *(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)*

Off-balance sheet arrangements that can be estimated amounted to approximately $916.1 million as at October 31, 2010 compared with $801.3 million as at October 31, 2009, and is detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS

	2010	2009
	$	$
Guarantees		
Irrevocable letters of credit	5,273	10,364
Guarantee contracts	957	860
Operating leases		
Obligations under operating leases	637,520	385,209
	643,750	396,433
Agreements with suppliers	272,334	404,852
	916,084	801,285

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 guarantee contracts. Historically, Transat has not made any significant payments under such guarantees. Operating leases are entered into to enable the Corporation to lease certain items rather than acquire them.

In addition, since May 5, 2010, the Corporation has a $50.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue guarantee contracts with a maximum three-year term. As at October 31, 2010, this facility was undrawn.

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

DEBT LEVELS

Debt levels as at October 31, 2010 were lower than as at October 31, 2009.

Balance sheet debt declined $81.8 million to $29.1 million from $110.8 million, and our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, increased $247.3 million to $643.8 million from $396.4 million, collectively representing a $165.5 million increase in total debt compared with October 31, 2009. The decrease in balance sheet debt resulted from repayments during the year. The $247.3 million increase in off-balance sheet arrangements results mainly from the signing of leases for six aircraft, offset by repayments made during the year.

PAYMENTS DUE BY YEAR

Year ending October 31	2011	2012	2013	2014	2015	2016 and later	Total
	$	$	$	$	$	$	$
Contractual obligations							
Long-term debt	13,768	15,291	—	—	—	—	29,059
Leases (aircraft)	66,346	77,257	73,985	65,424	45,556	127,411	455,979
Leases (other)	29,598	23,152	19,758	16,618	11,614	80,801	181,541
Agreements with suppliers and other obligations	172,999	48,269	35,277	12,345	3,444	18,630	290,964
	282,711	163,969	129,020	94,387	60,614	226,842	957,543

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $419.8 million in net debt as at October 31, 2010, up 64.4% from $255.3 million as at October 31, 2009.

SHARES ISSUED AND OUTSTANDING
The Corporation has three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 14, 2010, there were 974,136 Class A Variable Voting Shares outstanding and 36,889,914 Class B Voting Shares outstanding.

STOCK OPTIONS
As at December 14, 2010, there were a total of 1,722,302 stock options outstanding, 668,680 of which were exercisable.

INVESTMENTS IN ABCP

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

In 2009, the Pan-Canadian Investors Committee announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for longer-term notes whose maturities match those of the assets previously held in the underlying conduits. As at January 21, 2009, the Corporation held a portfolio of ABCP issued by several trusts with an overall notional value of $143.5 million.

On January 21, 2009, the plan implementation date, the Corporation measured its investments in ABCP at fair value prior to the exchange. During this valuation, the Corporation reviewed its assumptions to factor in new information available at that date, as well as the changes in credit market conditions. Subsequent to this valuation, the provision for impairment totalled $47.5 million, and the fair value of the ABCP investment portfolio stood at $96.1 million. The ABCP held by the Corporation was exchanged on that date for new securities. As at that date, the new ABCP had a notional value of $141.7 million.

PORTFOLIO
During fiscal 2010, the Corporation received $3.1 million in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible ["MAV2 Eligible"]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional ["MAV3 Traditional"]). During the year ended October 31, 2010, the Corporation received its share of $0.6 million of the cash accumulated in the conduits. In addition, the Corporation exercised one of its options allowing it to repay an amount of $9.4 million of the balance of one its revolving credit facilities using ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) with a notional value of $7.6 million and a carrying amount of nil. The option was initially reported at a fair value, amounting to $8.4 million, with the corresponding initial gain deferred and amortized to net income over the term of the credit agreements. The option is reported at fair value at each balance sheet date in assets under derivative financial instruments with any change in fair value of the options recorded in net income under loss (gain) in fair value of the investments in ABCP. The notional value of the new ABCP amounted to $118.1 million as at October 31, 2010 and is detailed as follows:

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

MAV3 Traditional
The Corporation holds $4.8 million in ABCP supported solely by traditional securitized assets that have been restructured on a series-by-series basis, with each series or trust maintaining its own assets and maturing through September 2016.

VALUATION
On October 31, 2010, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the year ended October 31, 2010, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. ["BlackRock"], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the fair value of ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) and ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation's management measured the fair value of its assets from these classes using said valuations. The Corporation also considered the information released by DBRS on September 21, 2010, upgrading ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] from Class A-1 to A+ and confirming the BBB- rating of Class A-2. For the other securities, given the lack of an active market, the Corporation's management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management's best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 1.76% [weighted average rate of 1.5%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a period of 6.2 years using discount rates ranging from 6.3% to 41.5% [weighted average rate of 11.3%], which factor in liquidity.

As a result of this new valuation, on October 31, 2010, the Corporation reversed $4.6 million of its provision for impairment on its investments in ABCP ($6.0 million for the year ended October 31, 2009). These adjustments do not take into account any additional amount of the Corporation's share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $72.3 million and the provision for impairment totalled $45.8 million, representing 38.8% of the notional value of $118.1 million.

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

A 1% increase (decrease), representing 100 basis points, in the estimated discount rates would result in a decrease (increase) of approximately $3.7 million in the estimated fair value of ABCP held by the Corporation.

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

VALUATION

(In thousands of dollars)	Notional value of investments in ABCP	Provision for impairment of investments in ABCP	Investments in ABCP	Loss (gain) on investments in ABCP
	$	$	$	$
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(5,993)	(5,993)	5,993
Principal repayments	(8,062)	—	(8,062)	—
Share of estimated cash receivable	—	620	620	(620)
Share of cash accumulated in conduits	—	—	—	(6,400)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(800)
Balance as at October 31, 2009; impact on results for year ended October 31, 2009	128,835	(57,434)	71,401	(68)
Disposal of investments in ABCP	(7,630)	7,630	—	—
Reversal of provision	—	4,648	4,648	(4,648)
Principal repayments	(3,083)	—	(3,083)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at October 31, 2010; impact on results for the year ended October 31, 2010	118,122	(45,776)	72,346	(4,648)

THE BALANCE OF INVESTMENTS IN ABCP AS AT OCTOBER 31, 2010

(In thousands of dollars)	Notional value of investments in ABCP	Provision for impairment of investments in ABCP	Investments in ABCP
	$	$	$
MAV2 Eligible			
Class A-1	34,415	(7,969)	26,446
Class A-2	63,894	(25,262)	38,632
Class B	11,598	(9,316)	2,282
Class C	3,403	(3,112)	291
	113,310	(45,659)	67,651
MAV3 Traditional	4,812	(117)	4,695
	118,122	(45,776)	72,346

OTHER

On June 10, 2010, the Corporation announced plans to set up an ongoing tour operator in Monterrey, Mexico under the Eleva Travel banner offering leisure travel products to Mexican customers and leveraging its existing agreements and business relationships with hotels.

On February 26, 2010, the Corporation made a cash payment of $0.5 million [€0.3 million] to acquire the remainder of the shares [10%] of Tourgreece Tourist Enterprises S.A. that it did not already own.

On October 5, 2010, Air Transat and its pilots, represented by the Air Line Pilots Association (ALPA), ratified the agreement-in-principle reached September 3, 2010 on the renewal of their labour contract. The new 48-month collective agreement will expire May 1, 2014.

On October 28, 2010, the Corporation acquired certain assets of French Affair Limited, a U.K. wholesaler specializing in the European market for $0.8 million (0.5 million pounds sterling).

Air Transat's fleet currently consists of 13 Airbus A310 aircraft (249 seats), which will be gradually retired, and five Airbus A330 (342 seats). During the year, the Corporation announced it had entered into long-term lease agreements for five Airbus A330 wide-body aircraft. Under all the agreements entered into by the Corporation, three A330 aircraft should be added to the fleet by the end of 2010 as well as three more in 2011, bringing the number of A330s in the Air Transat fleet to 11 by the end of 2011.

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

FAIR VALUE OF INVESTMENTS IN ABCP

See Investments in ABCP.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

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

GOODWILL AND INTANGIBLE ASSETS

We record material balance sheet amounts under goodwill and other intangible assets calculated using the historical cost method. Goodwill and other intangible assets stem primarily from business acquisitions. We are required to test goodwill and intangible assets with indefinite lives, such as trademarks, for impairment each year or more often if events or changes in circumstances indicate it is more likely than not that they might be impaired.

The impairment test to identify a potential impairment in goodwill is performed in two steps. 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 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 associated with its carrying amount to measure the amount of the impairment loss, if any. The Corporation uses the discounted cash flow method to measure the fair value of its reporting units. We carry out an analysis by estimating the discounted cash flows attributable to each reporting unit. This analysis requires us to make a variety of judgments concerning our future operations. The cash flow forecasts used to determine asset values may change in the future due to market conditions, competition and other risk factors (see Risks and uncertainties). During fiscal 2010 and 2009, we determined that the fair value of our reporting units exceeded their carrying amount; as a result, we did not carry out step 2 of the test for any of our reporting units. No impairment was recognized except for an $8.5 million charge recognized in 2009 in connection with our distribution network restructuring in France.

The impairment test for identifying a possible impairment of intangible assets with an indefinite life such as trademarks consists in comparing their fair value with their carrying amount. When the carrying amount of an intangible asset exceeds its fair value, an impairment charge in the amount of the excess amount is recognized in the consolidated statement of income. The Corporation uses the discounted cash flow method to measure the fair value of its trademarks. Similarly to the review of goodwill, this analysis requires us to make a variety of judgments concerning our future operations.

Generally, we consider that our main assumptions regarding the cash flow forecasts would have to be reduced by 30% to 70%, depending on the reporting unit or the trademark, in order to trigger a loss in fair value of a reporting unit or trademark such that its fair value would be less than its carrying amount and to require the Corporation, in the case of goodwill, to carry out step 2 of the impairment test and determine the impairment loss.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

Property, plant and equipment in the balance sheet represent material amounts based on historical costs. Property, plant and equipment are amortized, taking into account their residual value, over their estimated useful life. Aircraft and aircraft components account for a major class of property, plant and equipment. The amortization period is determined based on the fleet renewal schedule, currently slated for completion by 2014. The estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on amortization expense. Generally speaking, the main assumptions would have to be reduced by 60% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

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

ACCRUED BENEFIT LIABILITY

The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by employees is determined from actuarial calculations, performed annually, using the projected benefit method prorated on services and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Past service costs and amendments to the arrangements are amortized on a straight-line basis over the average remaining service period of active employees generally affected thereby. The excess of net actuarial gains and losses over 10% of the benefit obligation is amortized over the average remaining service period of active employees, which was 8.5 years as at November 1, 2009. Plan obligations are discounted using current market interest rates.

NEW ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

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

As part of Phase 2, which is expected to be completed in fiscal 2011, the Corporation is now identifying the differences between IFRS and the Corporation's accounting policies, and developing solutions. In this phase, the Corporation is performing a detailed analysis of IFRS, which consists in identifying the differences between IFRS and the Corporation's current accounting policies to prioritize key areas that will be more significantly impacted by the changeover and determining the options permitted under IFRS at the effective date and on an ongoing basis in order to finalize conclusions. Phase 2 also includes detailed planning of information technology and human resources as they relate to the changeover. Moreover, internal procedures and systems that require updating and adapting will be identified, including adjustments to existing internal control procedures and the implementation of additional internal control over financial reporting and disclosure controls and procedures that are necessary to certify financial reporting during the changeover and post-implementation periods.

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

The following table provides a progress update on timelines for core items of the IFRS conversion plan as at October 31, 2010:

	Core item(s)	Timeline	Progress
Financial information	Identify differences and develop solutions for accounting policy elections, particularly permitted elections under IFRS, including those involving permitted exemptions under IFRS 1.	During fiscal 2011.	The analyses are underway, and in certain cases, we are unable to quantify the impact of differences.
	Develop a model set of IFRS financial statements with accompanying notes.	During fiscal 2011.	Development of a model set of IFRS financial statements is underway.
	Prepare an opening balance sheet and compile financial information to prepare comparative IFRS financial statements.	During fiscal 2011.	Analysis is expected to begin in the first quarter of 2011.
Information technology and data systems	Assess the effects of changes on information and data systems, and make the necessary changes.	Changes to information and data systems finalized in a timely fashion to compile the financial information during fiscal 2011. Follow-ups and updates during fiscal 2011.	The effects on information and data systems are analyzed at the same time as differences are identified and financial reporting solutions are developed.
Internal control over financial reporting	Assess the effects of changes on internal control over financial reporting and disclosure controls and procedures and implement modifications as necessary.	Implement the required modifications starting in the first quarter of fiscal 2011. Follow-ups and updates during fiscal 2011.	The effects on information and data systems are analyzed at the same time as differences are identified and financial reporting solutions are developed.
Business activity	Determine the conversion's impact on the Corporation's business activity.	Changes to be finalized before October 31, 2011.	The effects on business activity are analyzed at the same time as differences are identified and financial reporting solutions are developed.
Training and communications	Offer training to affected employees, management and the Board of Directors and its relevant committees, particularly the Audit Committee.	During fiscal 2010 and 2011.	Training is being offered in a timely fashion in accordance with conversion timelines.
	Provide conversion plan status reports to internal and external stakeholders.	During fiscal 2010 and 2011.	Periodic status reports are sent to internal and external stakeholders.

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

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

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

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

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

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

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

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

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

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

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 a smaller 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 15 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

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

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 15 months.

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 $78.3 million as at October 31, 2010. 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, 2010, approximately 7% of accounts receivable were over 90 days past due, whereas approximately 78% 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, 2010, these deposits totalled $31.8 million and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $10.6 million as at October 31, 2010 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, 2010, the cash security deposits with lessors that have been claimed totalled $13.9 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, 2010 relates to cash and cash equivalents, including cash and cash equivalents reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

Except for the investments in ABCP, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2010.

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 $13.3 million in person-nights purchased at hotels belonging to CIBV, a company subject to significant influence.

RISKS AND UNCERTAINTIES

As part of a process improvement and prevention initiative, the Corporation identified several potential risks and uncertainties pertaining specifically to the travel industry or otherwise. Additional risks and uncertainties not currently known to the Corporation or that are currently considered immaterial could also materialize in the future and impact the Corporation.

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, climate-related or geological disasters, war, political instability, terrorism whether actual or apprehended, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perceptions of destination-based service and 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 use derivative financial instruments in accordance with our hedging policy 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. However, while our derivative financial instruments partially protect the Corporation from adverse exchange rate fluctuations, they could also prevent the Corporation from capitalizing on favourable exchange rate fluctuations.

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 use forward contracts and other derivative financial instruments in accordance with our hedging policy to hedge against fuel cost fluctuations. However, while our derivative financial instruments partially protect the Corporation from adverse fluctuations in fuel costs, they could also prevent the Corporation from capitalizing on favourable fluctuations in fuel costs. Furthermore, a potential reduction in our fuel supply could adversely affect operations.

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.

However, given that 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 impact the Corporation.

RELIANCE ON CONTRACTING TRAVEL SUPPLIERS

Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. We are dependent, for example, on non-group airlines and a large number of hotels, several of which are exclusive to the Corporation. 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, stave off information system intrusions 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 a portion of its interest income from customer deposits and advance payments. In accordance with our investment policy, we are required to invest these deposits and advance payments exclusively in investment-grade securities. Any failure of these investment securities to perform at historical levels could reduce our interest income.

NEGATIVE WORKING CAPITAL

In the normal course of business, we receive customer deposits and advance payments. If funds from advance payments were to diminish or be unavailable to pay our suppliers, we would be required to secure alternative capital funding. There could be no assurance that additional funding would be available under terms and conditions suitable to the Corporation, which could adversely affect its 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, comparisons of our operating results between quarters or between six-month periods 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 or different regulatory frameworks or amendments to existing legislation or regulations and tax policy changes could affect our operations, particularly as regards hotel room taxes, car rental taxes, airline excise taxes and airport taxes and fees.

FUTURE CAPITAL REQUIREMENTS

Transat may need to raise additional funds in the future to capitalize on growth opportunities or to respond to competitive pressures. There can be no assurance that additional financing will be available on terms and conditions acceptable to us. This could adversely affect our business. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions.

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.

As a result, governments are still required to cover air carriers above this US$150 million limit until commercial insurers do so at a reasonable cost. The Canadian government covers domestic air carriers accordingly. In addition, some insurers that could provide coverage in excess of US$150 million are not licensed to transact business in Canada, which further limits availability.

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. If that were to happen, we would be required to deal with private insurers to attempt to secure such coverage, and there could be no assurance that we would be able to secure coverage at an acceptable level and cost.

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.

ACCESS TO AIRPORT FACILITIES

To carry on business or extend its outreach, the Corporation requires access to airport facilities in its source markets and multiple destinations. In particular, the Corporation must have access to takeoff and landing slots and gates under conditions that allow it to be competitive. Accordingly, any difficulty in securing such access or disruptions in airport operations caused, for instance by labour conflicts or other factors could adversely affect the Corporation.

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

To carry on business or extend its outreach, the Corporation requires access to aircraft and, in particular, its own fleet operated by its subsidiary Air Transat. This fleet consists primarily of aircraft leased for several years with varying renewal dates and conditions. If the Corporation were unable to renew its leases, secure timely access to appropriate aircraft under adequate conditions or retire certain aircraft as anticipated, such an outcome could adversely affect the Corporation.

CLIMATE CHANGE REGULATIONS

Numerous jurisdictions around the world have implemented or unveiled measures, particularly taxes, to penalize greenhouse gas emissions, which cover the airline industry, with a view to fighting climate change. Other jurisdictions could follow suit. In light of its airline operations, the Corporation is directly exposed to such measures, which generally give rise to additional costs that the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

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 COLLECTIVE AGREEMENTS

Our operations could be affected by any inability to reach an agreement with a labour union representing our employees.

CONTROLS AND PROCEDURES

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

In accordance with this instrument, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, report on the design and operating effectiveness of disclosure controls and procedures and the design and operating effectiveness of internal control over financial reporting.

DISCLOSURE CONTROLS AND PROCEDURES

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

- Material information relating to the Corporation has been made known to them; and

- Information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

An evaluation of the design and operating effectiveness of DC&P was carried out under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. Based on this evaluation, these two certifying officers concluded that the DC&P were effective as at October 31, 2010. Among other things, this evaluation took into consideration the Corporate Disclosure Policy, the sub-certification process and the operation of the Corporation's Disclosure Committee.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

An evaluation of the design and operating effectiveness of ICFR was carried out under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. Based on this evaluation, these two certifying officers concluded that ICFR was effective as at October 31, 2010 using the criteria set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission on Internal Control – Integrated Framework.

Lastly, no changes in ICFR occurred during the fourth quarter ended October 31, 2010 that materially affected, or are likely to materially affect, the Corporation's ICFR.

OUTLOOK

The Canadian sun destinations market accounts for a very significant portion of Transat's business in the winter. In that market, the fact that, at this time of year, a significant portion of seats available remain to be sold, the trend toward last-minute bookings and the volatility of margins make it difficult to make forecasts. For winter 2011, Transat's capacity is approximately 13% higher than actual capacity offered last year. Bookings and load factors are currently higher than last year at the same date, and prices are similar.

In France, capacity and sales on medium- and long-haul destinations are higher than in 2009.

On the transatlantic market, capacity and bookings are higher than last year.

In 2011, the Corporation should benefit from lower input costs, as in 2010 it was unable to fully capitalize on the strength of the dollar against the US currency, due to its hedging transactions.

Management's report

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

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

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

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

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

Auditors' report

To the Shareholders of Transat A.T. Inc.

We have audited the consolidated balance sheets of Transat A.T. Inc. as at October 31, 2010 and 2009 and the consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2010 and 2009 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 3, 2010
Chartered Accountants

Ernst & Young LLP

(1) CA auditor permit no.13764

Consolidated Balance Sheets

As at October 31
[In thousands of dollars]

	2010	2009
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	180,627	180,552
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	320,428	244,250
Accounts receivable	146,944	105,349
Income taxes receivable	4,738	25,083
Future income taxes *[note 19]*	2,895	12,860
Inventories	9,867	9,823
Prepaid expenses	50,297	30,447
Derivative financial instruments *[note 6]*	868	6,770
Current portion of deposits	12,554	30,578
Total current assets	729,218	645,712
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	32,222	28,476
Investments in ABCP *[note 5]*	72,346	71,401
Deposits *[note 7]*	29,837	12,014
Future income taxes *[note 19]*	9,650	10,454
Property, plant and equipment *[notes 8, 13 and 18]*	88,376	122,911
Goodwill *[notes 9 and 18]*	112,454	113,993
Other intangible assets *[note 9]*	50,464	46,163
Derivative financial instruments *[note 6]*	23	9,488
Investments and other assets *[note 10]*	64,868	68,891
	1,189,458	1,129,503
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	300,355	266,445
Current portion of provision for overhaul of leased aircraft	18,301	21,029
Income taxes payable	14,608	4,021
Future income tax liabilities *[note 19]*	106	266
Customer deposits and deferred income	313,695	251,018
Derivative financial instruments *[note 6]*	4,116	40,243
Debenture *[note 12]*	—	3,156
Payments on current portion of long-term debt	13,768	24,576
Total current liabilities	664,949	610,754
Long-term debt *[note 13]*	15,291	83,108
Provision for overhaul of leased aircraft	12,408	8,550
Other liabilities *[note 14]*	45,368	41,743
Derivative financial instruments *[note 6]*	—	50
Future income tax liabilities *[note 19]*	12,370	17,937
	750,386	762,142
Shareholders' equity		
Share capital *[note 15]*	217,604	216,236
Contributed surplus	9,090	6,642
Retained earnings	230,703	165,096
Accumulated other comprehensive loss *[notes 6 and 16]*	(18,325)	(20,613)
	439,072	367,361
	1,189,458	1,129,503

Commitments and contingencies *[note 22]*

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Jean-Marc Eustache, Director

André Bisson, Director

Consolidated Statements of Income

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

	2010	2009
	$	$
Revenues	3,498,877	3,545,341
Operating expenses		
Direct costs	2,047,713	2,062,626
Salaries and employee benefits	349,323	364,642
Aircraft fuel	302,333	319,224
Commissions	155,357	177,166
Aircraft maintenance	85,731	89,896
Airport and navigation fees	85,321	90,611
Aircraft rent	52,949	54,287
Other	292,568	293,494
	3,371,295	3,451,946
	127,582	93,395
Amortization *[note 17]*	48,662	51,155
Interest on long-term debt and debenture	2,225	4,866
Other interest and financial expenses	2,359	2,679
Interest income	(3,036)	(4,588)
Changes in fair value of derivative financial instruments related to aircraft fuel purchases	(9,341)	(68,267)
Foreign exchange gain on long-term monetary items	(1,109)	(135)
Gain on investments in ABCP *[note 5]*	(4,648)	(68)
Restructuring charge (gain) *[note 18]*	(1,157)	11,967
Share of net loss (income) of a company subject to significant influence *[note 10]*	490	(24)
	34,445	(2,415)
Income before the undernoted items	93,137	95,810
Income taxes (recovery) *[note 19]*		
Current	25,603	(9,531)
Future	(1,797)	40,447
	23,806	30,916
Income before non-controlling interest in subsidiaries' results	69,331	64,894
Non-controlling interest in subsidiaries' results	(3,724)	(3,047)
Net income for the year	65,607	61,847
Basic earnings per share *[note 15]*	1.74	1.86
Diluted earnings per share *[note 15]*	1.73	1.85

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income Loss

Years ended October 31
[In thousands of dollars]

	2010	2009
	$	$
Net income for the year	65,607	61,847
Other comprehensive income		
Change in fair value of derivatives designated as cash flow hedges	44,276	(39,829)
Reclassification in income	(22,191)	(92,111)
Future income taxes	(6,564)	42,418
	15,521	(89,522)
Foreign exchange losses on the translation of financial statements of self-sustaining foreign subsidiaries due to appreciation of the Canadian dollar vs. the euro, pound sterling and U.S. dollar as at the balance sheet date	(13,233)	(13,214)
	2,288	(102,736)
Comprehensive income (loss) for the year	67,895	(40,889)

Consolidated Statements of Shareholders' Equity

Years ended October 31
[In thousands of dollars]

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income (loss)	Shareholders' equity
	$	$	$	$	$
2010					
Balance, beginning of year	216,236	6,642	165,096	(20,613)	367,361
Net income for the year	—	—	65,607	—	65,607
Other comprehensive income	—	—	—	2,288	2,288
Issued from treasury *[note 15]*	1,226	—	—	—	1,226
Options exercised *[note 15]*	142	—	—	—	142
Compensation expense related to stock option plan *[note 15]*	—	2,448	—	—	2,448
Balance, end of year	217,604	9,090	230,703	(18,325)	439,072
2009					
Balance, beginning of year	154,198	4,619	106,188	82,123	347,128
Net income for the year	—	—	61,847	—	61,847
Other comprehensive income	—	—	—	(102,736)	(102,736)
Issued from treasury *[note 15]*	61,949	—	—	—	61,949
Options exercised *[note 15]*	89	—	—	—	89
Compensation expense related to stock option plan *[note 15]*	—	2,023	—	—	2,023
Dividends	—	—	(2,939)	—	(2,939)
Balance, end of year	216,236	6,642	165,096	(20,613)	367,361

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended October 31 [In thousands of dollars]	2010	2009
	$	$
OPERATING ACTIVITIES		
Net income for the year	65,607	61,847
Operating items not involving an outlay (receipt) of cash		
Amortization	48,662	51,155
Changes in fair value of derivative financial instruments related to aircraft fuel purchases	(9,341)	(68,267)
Foreign exchange gain on long-term monetary items	(1,109)	(135)
Gain on investments in ABCP	(4,648)	6,332
Restructuring charge (gain)	(1,157)	9,067
Share of net loss (income) of a company subject to significant influence	490	(24)
Non-controlling interest in subsidiaries' results	3,724	3,047
Future income taxes	(1,797)	40,447
Pension expense	2,294	2,888
Compensation expense for stock option plan	2,448	2,023
	105,173	108,380
Net change in non-cash working capital balances related to operations	13,155	(56,833)
Net change in provision for overhaul of leased aircraft	1,130	(6,663)
Net change in other assets and liabilities related to operations	(327)	350
Cash flows relating to operating activities	119,131	45,234
INVESTING ACTIVITIES		
Additions to property, plant and equipment and intangible assets	(29,002)	(28,900)
Disposals of property, plant and equipment and intangible assets	2,880	—
Disposal of investments in ABCP	3,703	8,062
Increase in cash and cash equivalents reserved	(3,786)	—
Consideration paid for an acquisition and a capital contribution to a company under significant influence	(1,614)	(5,824)
Cash flows related to investing activities	(27,819)	(26,662)
FINANCING ACTIVITIES		
Net change in credit facilities and other debt	(63,479)	(22,951)
Repayment of long-term debt	(16,845)	(14,972)
Proceeds from issuance of shares	1,368	62,038
Dividends paid by a subsidiary to a non-controlling shareholder	(2,078)	(2,873)
Dividends	—	(2,939)
Cash flows related to financing activities	(81,034)	18,303
Effect of exchange rate changes on cash and cash equivalents	(10,203)	(2,090)
Net change in cash and cash equivalents	75	34,785
Cash and cash equivalents, beginning of year	180,552	145,767
Cash and cash equivalents, end of year	180,627	180,552
Supplementary information		
Income taxes paid (recovered)	(3,770)	13,518
Interest paid	3,177	4,492

See accompanying notes to consolidated financial statements.

Notes to consolidated financial statements

October 31, 2010 and 2009
[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 other intangible assets including goodwill, allocations in respect of acquired interests and future income tax balances. Actual results could differ from those estimates and differences could be significant. The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

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

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

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

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

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

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

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

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

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

Goodwill is tested for impairment annually or more often if events or changes in circumstances indicate that it is more likely than not that it is impaired. A two-step impairment test is used to identify a potential impairment in goodwill and measure the amount of a goodwill 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 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 associated with the reporting unit with the carrying amount of said goodwill to measure the amount of the impairment loss, if any. When the carrying amount of any goodwill associated with a reporting unit exceeds the fair value of said goodwill, 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 measure the fair value of its reporting units.

Intangible assets with indefinite useful lives, such as trademarks, are tested for impairment annually or more often if events or changes in circumstances indicate that it is more likely than not that they are impaired. The impairment test consists of a comparison of the fair value of the trademarks with their carrying amounts. When the carrying amount exceeds the fair value, an impairment loss equal to the difference is recognized in income in the period in which the impairment occurred. The Corporation uses the discounted cash flow method to measure the fair value of its trademarks.

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

Software	3 to 10 years
Customer lists	7 to 10 years

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

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

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

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

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 summary 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 vests. 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 vests 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 vests. 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

Classification of financial instruments

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

Held-for-trading

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

Loans and receivables and other financial liabilities

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

Transaction costs

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

Fair value hierarchy

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

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

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

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

Hedge accounting and derivative financial instruments

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

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

All derivative financial instruments are recorded at fair value in the balance sheet. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in "Other comprehensive income" 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 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 account in the consolidated statement of income that records the hedged item. For derivative financial instruments designated as fair value hedges, periodic changes in fair value are recognized in the same account in the consolidated statement of income as the hedged item.

In the normal course of business and to manage exposure to fuel pricing instability, the Corporation also enters into derivative financial instruments used for aircraft fuel purchases that have not been designated for hedge accounting. These derivatives are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under

"Change in fair value of derivative financial instruments used for aircraft fuel purchases" in the consolidated statement of income. 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; accordingly, these instruments are normally purchased for risk management purposes and maintained until maturity.

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

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

Employee future benefits
The Corporation offers defined benefit pension arrangements to certain senior executives. The cost of pension benefits earned by employees is determined from actuarial calculations using the projected benefit method prorated on services and management's 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 8.5 years as at November 1, 2009. 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
FUTURE CHANGES TO ACCOUNTING POLICIES

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

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

4
CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at October 31, 2010, cash and cash equivalents in trust or otherwise reserved included $266,617 [$200,396 as at October 31, 2009] in funds received from customers, consisting primarily of Canadians, for services not yet rendered and for which the availability period had not ended, in accordance with Canadian regulatory bodies and the Corporation's business agreement with its credit card processor. Cash and cash equivalents in trust or otherwise reserved also include $86,033, of which $32,222 was recorded as non-current assets [$72,330 as at October 31, 2009, of which $28,476 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

5
INVESTMENTS IN ABCP

Restructuring

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

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

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

Portfolio
During fiscal 2010, the Corporation received $3,083 in principal repayments on ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets (Master Asset Vehicle 2 Eligible [“MAV2 Eligible”]) and ABCP supported solely by traditional securitized assets (Master Asset Vehicle 3 Traditional [“MAV3 Traditional”]). During the year ended October 31, 2010, the Corporation received its $620 share of the cash accumulated in the conduits. In addition, the Corporation exercised one of its options allowing it to repay an amount of $9,355 on the balance of one its revolving credit facilities using ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) with a carrying amount of nil. The option was initially reported at a fair value, amounting to $8,400, with the corresponding initial gain deferred and recognized in net income under amortization over the term of the corresponding credit agreement *[see notes 14 and 17]*. The option is reported at fair value at each balance sheet date in assets under derivative financial instruments *[see note 6]* with any change in fair value of the options recorded in net income under loss (gain) in fair value of the investments in ABCP. The Corporation measured the option as at October 31, 2009 and recorded an $800 increase in fair value to $9,200 as at that date. The notional value of the new ABCP amounted to $118,122 as at October 31, 2010 and is detailed as follows:

MAV2 Eligible
The Corporation holds $113,310 in ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets, which have been restructured into floating rate notes with maturities through January 2017.

MAV3 Traditional
The Corporation holds $4,812 in ABCP supported solely by traditional securitized assets that were restructured on a series-by-series basis, with each series or trust maintaining its own assets, maturing through September 2016.

Valuation
On October 31, 2010, the Corporation remeasured its new ABCP at fair value. During this valuation, the Corporation reviewed its assumptions to factor in new information available, as well as the changes in credit market conditions. During the year ended October 31, 2010, a limited number of transactions were entered into in respect of the investments in ABCP. However, the Corporation did not take these transactions into account in measuring its ABCP since, in its opinion, there were too few of them to meet the definition of an active market. Once ABCP begins trading in an active market again, the Corporation will review its valuation assumptions accordingly.

The Corporation reviews the information released by BlackRock Canada Ltd. [“BlackRock”], which was appointed to administer the assets on the plan implementation date. BlackRock issues monthly valuation reports on the value of ABCP supported primarily by subprime assets in the U.S. (MAV2 Ineligible) and ABCP supported exclusively by traditional securitized assets (MAV3 Traditional). The Corporation’s management measured the fair value of its assets from these classes using said valuations. For the other securities, given the lack of an active market, the Corporation’s management estimated the fair value of these assets by discounting future cash flows determined using a valuation model that incorporates management’s best estimates based as much as possible on observable market inputs, such as the credit risk attributable to underlying assets, relevant market interest rates, amounts to be received and maturity dates. The Corporation also took into account the information released by DBRS on September 21, 2010. DBRS upgraded ABCP supported by synthetic assets or a combination of synthetic and traditional securitized assets [MAV2 Eligible] of Class A-1 to A+ and confirmed the BBB- rating of Class A-2.

For the purposes of estimating future cash flows, the Corporation estimated that the long-term financial instruments arising from the conversion of its ABCP would generate interest returns ranging from 0.0% to 1.76% [weighted average rate of 1.5%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 6.2-year period using discount rates ranging from 6.3% to 41.5% [weighted average rate of 11.3%], which factor in liquidity.

As a result of this new valuation, on October 31, 2010, the Corporation recognized an increase in the fair value of its investments in ABCP of $4,648 (decrease of $5,993 for the year ended October 31, 2009). These adjustments do not take into account any additional amount of the Corporation’s share of the estimated cash accumulated in the conduits. The ABCP investment portfolio had a fair value of $72,346 and the provision for impairment totalled $45,776, representing 38.8% of the notional value of $118,122.

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

A 1% increase (decrease) [100 basis points], in the estimated discount rates would result in a decrease (increase) of approximately $3,700 in the estimated fair value of ABCP held by the Corporation.

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

	Notional value of investments in ABCP	Provision for impairment on investments in ABCP	Investments in ABCP	Loss (gain) on investments in ABCP
	$	$	$	$
Balance as at October 31, 2008	143,500	(56,905)	86,595	
Adjustment related to January 21, 2009 restructuring plan implementation	(1,759)	—	(1,759)	1,759
Writedown in notional value of ABCP	(4,844)	4,844	—	—
Writedown of investments in ABCP	—	(5,993)	(5,993)	5,993
Principal repayments	(8,062)	—	(8,062)	—
Share of estimated cash receivable	—	620	620	(620)
Share of estimated cash accumulated in conduits	—	—	—	(6,400)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(800)
Balance as at October 31, 2009; impact on results for the year ended October 31, 2009	128,835	(57,434)	71,401	(68)
Disposal of investments in ABCP	(7,630)	7,630	—	—
Appreciation in value of investments in ABCP	—	4,648	4,648	(4,648)
Principal repayments	(3,083)	—	(3,083)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at October 31, 2010; impact on results for the year ended October 31, 2010	118,122	(45,776)	72,346	(4,648)

The balance of investments in ABCP as at October 31, 2010 is detailed as follows:

	Notional value of investments in ABCP	Provision for impairment of investments in ABCP	Investments in ABCP
	$	$	$
MAV2 Eligible			
Class A-1	34,415	(7,969)	26,446
Class A-2	63,894	(25,262)	38,632
Class B	11,598	(9,316)	2,282
Class C	3,403	(3,112)	291
	113,310	(45,659)	67,651
MAV3 Traditional	4,812	(117)	4,695
	118,122	(45,776)	72,346

6
FINANCIAL INSTRUMENTS

Classification of financial instruments

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

	Carrying amount				Fair value
	Held-for-trading	Loans and receivables	Other financial liabilities	Total	
	$	$	$	$	$
2010					
Financial assets					
Cash and cash equivalents	180,627	—	—	180,627	180,627
Cash and cash equivalents in trust or otherwise reserved	352,650	—	—	352,650	352,650
Accounts receivable	—	146,944	—	146,944	146,944
Investments in ABCP	72,346	—	—	72,346	72,346
Deposits	—	10,554	—	10,554	10,554
Derivative financial instruments					
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	634	—	—	634	634
	606,257	157,498	—	763,755	763,755
Passifs financiers					
Accounts payable and accrued liabilities	—	—	300,355	300,355	300,355
Long-term debt	—	—	29,059	29,059	29,059
Derivative financial instruments					
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	105	—	—	105	105
	105	—	329,414	329,519	329,519

	Carrying amount				Fair value
	Held-for-trading	Loans and receivables	Other financial liabilities	Total	
	$	$	$	$	$
2009					
Financial assets					
Cash and cash equivalents	180,552	—	—	180,552	180,552
Cash and cash equivalents in trust or otherwise reserved	272,726	—	—	272,726	272,726
Accounts receivable	—	105,349	—	105,349	105,349
Investments in ABCP	71,401	—	—	71,401	71,401
Deposits	—	10,784	—	10,784	10,784
Derivative financial instruments					
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,141	—	—	4,141	4,141
Options related to repayment of revolving credit facilities *[note 5]*	9,200	—	—	9,200	9,200
	538,020	116,133	—	654,153	654,153
Financial liabilities					
Accounts payable and accrued liabilities	—	—	266,445	266,445	266,445
Long-term debt	—	—	107,684	107,684	107,684
Debenture	—	—	3,156	3,156	3,156
Derivative financial instruments					
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	12,949	—	—	12,949	12,949
	12,949	—	377,285	390,234	390,234

Determination of fair value of derivative financial instruments

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

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

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

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

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

Derivative financial instruments consist primarily of foreign exchange forward contracts, fuel purchasing forward contracts and other fuel-related derivative financial instruments. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. When there is no active market for a derivative financial instrument, the Corporation determines the fair value by applying valuation techniques, using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments. The fair value of options related to repayment of revolving credit facilities was determined using the Black & Scholes option pricing model and the fair value of the underlying ABCP as at October 31, 2010.

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

	Assets	Liabilities
	$	$
2010		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	250	4,011
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	7	—
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	634	105
	891	4,116

	Assets	Liabilities
	$	$
2009		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	2,413	27,144
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	504	200
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,141	12,949
Options related to repayment of revolving credit facilities *[note 5]*	9,200	—
	13,341	12,949
	16,258	40,293

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

	Quoted prices in active markets (Level 1)	Other observable inputs (Level 2)	Unobservable inputs (Level 3)	Total
	$	$	$	$
2010				
Financial assets				
Investments in ABCP	—	—	72,346	72,346
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	634	—	634
- Foreign exchange forward contracts	—	257	—	257
	—	891	72,346	73,237
Financial liabilities				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	105	—	105
- Foreign exchange forward contracts	—	4,011	—	4,011
	—	4,116	—	4,116
2009				
Financial assets				
Investments in ABCP	—	—	71,401	71,401
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	4,141	—	4,141
- Foreign exchange forward contracts	—	2,917	—	2,917
- Options related to repayment of revolving credit facilities *[note 5]*	—	—	9,200	9,200
	—	7,058	80,601	87,659
Financial liabilities				
Derivative financial instruments				
- Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	12,949	—	12,949
- Foreign exchange forward contracts	—	27,344	—	27,344
	—	40,293	—	40,293

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

Trade accounts receivable included in accounts receivable in the balance sheet totalled $78,310 as at October 31, 2010 [$59,380 as at October 31, 2009]. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2010, approximately 7% [approximately 8% as at October 31, 2009] of accounts receivable were over 90 days past due, whereas approximately 78% [approximately 73% as at October 31, 2009] 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 certain 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, 2010, these deposits totalled $31,837 [$31,808 as at October 31, 2009] and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $10,554 as at October 31, 2010 [$10,784 as at October 31, 2009] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2010, the cash security deposits with lessors that have been claimed totalled $13,879 [$14,723 as at October 31, 2009] 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, 2010 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, 2010.

Liquidity risk

The Corporation is exposed to the risk of being unable to honour its financial commitments on a timely basis as 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 timely payment on a Corporation-wide basis. 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 are summarized in the following table:

	Maturing within 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Contractual cash flows Total	Carrying amount Total
	$	$	$	$	$
2010					
Accounts payable and accrued liabilities	300,355	—	—	300,355	300,355
Derivative financial instruments	4,205	—	—	4,205	4,116
Long-term debt	14,089	15,291	—	29,380	29,059
Total	318,649	15,291	—	333,940	333,530
2009					
Accounts payable and accrued liabilities	266,445	—	—	266,445	266,445
Derivative financial instruments	41,323	—	—	41,323	40,293
Long-term debt	24,897	83,854	—	108,751	107,684
Debenture	3,156	—	—	3,156	3,156
Total	335,821	83,854	—	419,675	417,578

Market risk

Foreign exchange risk

The Corporation is exposed, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 30% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas an insignificant percentage of revenues is incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 15 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

Net assets (liabilities)	U.S. dollar	Euro	Pound sterling	Canadian dollar	Other currencies	Total
2010	$	$	$	$	$	$
Financial statement measurement currency of the group's companies						
Euro	(9,185)	—	203	(457)	(2,061)	(11,500)
Pound sterling	2,172	3,003	—	5,629	—	10,804
Canadian dollar	(28,624)	(8,518)	50	—	(313)	(37,405)
Other currencies	(276)	91	—	1	(13)	(197)
Total	(35,913)	(5,424)	253	5,173	(2,387)	(38,298)
2009						
Financial statement measurement currency of the group's companies						
Euro	(4,168)	—	16	(1,837)	(579)	(6,568)
Pound sterling	648	7,192	—	7,326	—	15,166
Canadian dollar	(63,117)	2,628	9,199	—	361	(50,929)
Autres devises	153	213	—	(60)	(343)	(37)
Total	(66,484)	10,033	9,215	5,429	(561)	(42,368)

On October 31, 2010, a 5% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in a $7,400 increase or decrease, respectively, in the Corporation's net income for the year ended October 31, 2010 [$3,950 for the year ended October 31, 2009], whereas other comprehensive income (loss) would have increased or decreased by $13,000, respectively [$19,700 for the year ended October 31, 2009].

Risk of fluctuations in fuel prices
The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To hedge against sharp increases in fuel prices, the Corporation has implemented a fuel price risk management policy that authorizes foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 15 months.

On October 31, 2010, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $2,000 increase or decrease, respectively, in the Corporation's net income for the year ended October 31, 2010 [$7,500 for the year ended October 31, 2009].

As at October 31, 2010, 18% of estimated requirements for fiscal 2011 were covered by fuel-related derivative financial instruments [21% of estimated requirements for fiscal 2010 and 2% of estimated requirements for fiscal 2011 were covered as at October 31, 2009].

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, 2010, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $1,000 increase or decrease, respectively, in the Corporation's net income for the year ended October 31, 2010 [$800 for the year ended October 31, 2009].

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

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

The Corporation monitors its capital structure using the adjusted debt/equity ratio. This ratio is calculated as follows: net debt/shareholders' equity. Net debt is equal to the aggregate of long-term debt, the debenture and obligations under operating leases, 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 calculations of the debt/equity ratio as at October 31 are summarized as follows:

	2010	2009
	$	$
Net debt		
Long-term debt	29,059	107,784
Debenture	—	3,156
Obligations under operating leases *[note 22]*	637,520	385,209
Cash and cash equivalents	(180,627)	(180,552)
Investments in ABCP	(72,346)	(71,401)
	413,606	244,196
Shareholders' equity	439,072	367,361
Debt/equity ratio	94.2 %	66.5 %

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, 2010, 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

	2010	2009
	$	$
Deposits on leased aircraft and engines	10,554	10,784
Deposits with suppliers	31,837	31,808
	42,391	42,592
Less current portion	12,554	30,578
	29,837	12,014

8
PROPERTY, PLANT AND EQUIPMENT

	2010		2009	
	Cost	Accumulated amortization	Cost	Accumulated amortization
	$	$	$	$
Aircraft	145,499	118,402	143,936	102,055
Improvements to aircraft under operating leases	48,682	38,913	45,456	34,803
Aircraft equipment	43,137	37,185	44,081	36,833
Computer equipment	47,617	39,500	62,507	47,868
Aircraft engines	20,172	13,364	20,172	11,891
Office furniture and equipment	29,646	23,615	30,765	22,937
Leasehold improvements	32,937	22,846	35,178	21,586
Rotable aircraft spare parts	29,841	22,618	28,095	17,896
Administrative buildings	8,518	1,230	9,700	1,110
	406,049	317,673	419,890	296,979
Less: accumulated amortization	317,673		296,979	
Net book value	88,376		122,911	

9
GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill
The change in goodwill is as follows:

	2010	2009
	$	$
Balance, beginning of year	113,993	124,444
Goodwill on acquisition	335	—
Write-off of goodwill	—	(8,468)
Translation adjustment	(1,874)	(1,983)
	112,454	113,993

On October 28, 2010, the Corporation acquired certain assets, for a consideration of $770 [£471], including a trademark, customer lists and other net liabilities in the amounts of $220 [£135], $220 [£135] and $5 [£4], respectively. Goodwill in the amount of $335 [£205] was recognized following this transaction.

During the quarter ended October 31, 2010, the Corporation performed its annual test for impairment of goodwill, and no impairment was identified [no impairment in 2009, except for the $8,468 write-off in connection with the restructuring of its distribution network in France *[see note 18]*].

Other intangible assets

	2010	2009
	$	$
Software, net of $60,126 in accumulated amortization [$37,111 in 2009]	29,306	22,432
Trademarks not subject to amortization	14,687	15,738
Customer lists, net of $2,023 in accumulated amortization [$1,876 in 2009]	6,471	7,993
	50,464	46,163

During the quarter ended October 31, 2010, the Corporation performed its annual test for impairment of goodwill, and no impairment was detected [no impairment in 2009].

10
INVESTMENTS AND OTHER ASSETS

	2010	2009
	$	$
Investment in Caribbean Investments B.V. ["CIBV"]	61,239	66,347
Deferred costs, unamortized balance	1,868	2,234
Other investments	115	118
Other	1,646	192
	64,868	68,891

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

	2010	2009
	$	$
Balance, beginning of year	66,347	68,114
Capital contribution	1,110	5,824
Share of net income (loss)	(490)	24
Translation adjustment	(5,728)	(7,615)
	61,239	66,347

Transat has a 35% interest in CIBV, which owns and operates five hotels in Mexico and the Dominican Republic. On October 6, 2010, the Corporation made a $1,110 capital contribution [US$1,090].

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 make 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, 2010, the Corporation's share of long-term debt amounted to $8,118 [US$7,968].

11
BANK LOANS

Operating lines of credit totalling €10,000 [$14,155] [€11,287 [$17,942] in 2009] have been authorized for certain French subsidiaries. These operating lines of credit are renewable annually and were undrawn as at October 31, 2010 and 2009.

For its European operations, the Corporation has guarantee facilities renewable annually amounting to €13,462 [$19,055] [€13,050 [$20,744] in 2009]. As at October 31, 2010, letters of guarantee had been issued totalling €3,394 [$4,806] [€6,220 [$9,888] in 2009].

12
DEBENTURE

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

13
LONG-TERM DEBT

	2010	2009
	$	$
Loans secured by aircraft amounting to US$13,333 [US$26,667 as at October 31, 2009], bearing interest at the London Interbank Offered Rate [LIBOR] plus 2.15% and 3.25% and payable in two equal semi-annual payments through August 2011	13,584	28,730
Drawdowns under the revolving term credit facilities maturing from 2010 to 2012	15,000	77,963
Other	475	991
	29,059	107,684
Less: current portion	13,768	24,576
	15,291	83,108

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

	$
2011	13,768
2012	15,291
	29,059

As at October 31, 2010, the Corporation has a revolving term credit facility, which was increased to $157,000 from $86,350 on February 9, 2009 [subsequent to the implementation of the ABCP restructuring plan and pursuant to the terms of the agreement] maturing in 2012, or repayable immediately on change in control, and a $60,000 revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security amounting to 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the LIBOR, plus a premium based on certain financial ratios calculated on a consolidated basis. As at October 31, 2010, this credit facility was undrawn.

As at October 31, 2010, the Corporation has an $85,805 revolving credit facility which matures in 2012 or is immediately payable in the event of a change in control. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the LIBOR, plus a premium specific to the type of financing vehicle. The revolving term credit facilities bore interest at an average rate of 1.28% for the year ended October 31, 2010. This credit facility also includes options, now in effect following implementation of the ABCP restructuring plan *[see note 5]*, allowing the Corporation, at its discretion, to repay amounts drawn down as they fall due under certain conditions up to a maximum of $47,025 using the restructured notes. The option is reported at fair value at each balance sheet date under derivative financial instruments in assets with any change in fair value of the options recorded in net income under loss (gain) in fair value of the investments in ABCP. The Corporation measured the option as at October 31, 2010 and recorded no fair value because it was immaterial at that date.

14
OTHER LIABILITIES

	2010	2009
	$	$
Accrued benefit liability *[note 21]*	18,630	17,050
Deferred lease inducements	18,500	12,739
Non-controlling interest	8,238	7,754
Deferred gains on options related to repayment of revolving credit facilities	—	4,200
	45,368	41,743

On February 26, 2010, the Corporation acquired, for a cash consideration of $504 [€350], the non-controlling interests of Tourgreece Tourist Enterprises S.A., i.e. the remaining 10% of shares it did not already own.

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

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

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

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

Class B Voting Shares

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

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

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

	Number of shares	$
Balance as at October 31, 2008	32,678,241	154,198
Issued from treasury	5,037,547	61,949
Exercise of options	13,011	89
Balance as at October 31, 2009	37,728,799	216,236
Issued from treasury	97,302	1,226
Exercise of options	23,733	142
Balance as at October 31, 2010	37,849,834	217,604

As at October 31, 2010, the number of Class A Shares and Class B Shares stood at 997,796 and 36,852,038 respectively [869,249 and 36,859,550 as at October 31, 2009].

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

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
Under the stock option plan, the Corporation may grant up to a maximum of 1,945,000 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted are exercisable over a ten-year period, provided the performance criteria determined on each grant are met. The remaining number of options available for grant is 1,492,355. The options granted in 2010 are exercisable over a ten-year period in three tranches of 33 1/3% as of mid-December of each year provided the performance criteria determined on each grant are met. Provided that the performance criteria set on grant are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

No options were available for grant under the former plan as at October 31, 2010. However, on cancellation of the options granted under this plan, a number of options will become available for grant in future. All options granted under the former plan are for Class A Shares or Class B Shares and are granted at a price per share equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted in the past are exercisable over a ten-year period; a maximum of one-third of options is exercisable in the first two years after the grant date for grants subsequent to November 1, 2006, and a maximum of one-third of options in the second year subsequent to the grant, for grants subsequent to November 1, 2006, a maximum of two-thirds of options in the third year with all options exercisable at the outset of the fourth year.

The following tables summarize all outstanding options:

	2010		2009	
	Number of options	Weighted average price	Number of options	Weighted average price
		$		$
Beginning of year	1,101,140	18.31	716,173	22.85
Granted	682,570	12.25	441,084	11.18
Exercised	(23,733)	5.99	(13,011)	6.84
Cancelled	(37,675)	19.82	(43,106)	24.32
End of year	1,722,302	16.04	1,101,140	18.31
Options exercisable, end of year	668,680	21.45	460,744	22.35

2010

Range of exercise prices			Outstanding options			Options exercisable	
			Number of options outstanding as at October 31, 2010	Weighted average remaining life	Weighted average price	Number of options outstanding as at October 31, 2010	Weighted average price
		$			$		$
3.80	—	6.99	26,987	2.0	5.35	26,987	5.35
9.90	—	15.68	1,155,500	8.9	11.91	178,537	11.88
21.36	—	28.41	416,992	6.4	21.93	340,336	22.06
37.03	—	37.25	122,823	6.6	37.24	122,820	37.24
			1,722,302		16.04	668,680	21.45

Compensation expense for stock option plan

During the year ended October 31, 2010, the Corporation granted 682,570 stock options [441,084 in 2009] 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:

	2010	2009
Risk-free interest rate	3.54%	3.07%
Expected life	6 years	6 years
Expected volatility	49.0%	45.4%
Dividend yield	—	—
Weighted average fair value at date of grant	$5.02	$6.10

During the year ended October 31, 2010, the Corporation recorded a compensation expense of $2,448 [$2,023 in 2009] for its stock option plan. No expense was recognized in share capital for the exercise of options during the years ended October 31, 2010 and 2009.

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, 2010, the Corporation was authorized to issue up to 263,192 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 97,302 Class B Shares [150,047 Class B Shares in 2009] for a total of $1,226 [$1,419 in 2009] 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, 2010, the Corporation accounted for a compensation expense of $153 [$186 in 2009] 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, 2010, the Corporation accounted for a compensation expense of $234 [$247 in 2009] 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, 2010, the number of DSUs awarded amounted to 55,387 [55,455 as at October 31, 2009]. During the year ended October 31, 2010, the Corporation recorded a compensation expense of $99 [$307 in 2009] for its deferred share unit plan.

Restricted share unit plan
Restricted share units ["RSUs"] are awarded annually to eligible employees under the 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, 2010, the number of RSUs awarded amounted to 418,841 [373,678 as at October 31, 2009]. During the year ended October 31, 2010, the Corporation recorded a compensation expense of $1,121 [$90 in 2009] for its restricted share unit plan.

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

[In thousands, except per share amounts]	2010	2009
	$	$
NUMERATOR		
Income attributable to voting shareholders	65,607	61,847
Interest on the debenture that may be settled in voting shares	—	131
Income used to calculate diluted earnings per share	65,607	61,978
DENOMINATOR		
Weighted average number of outstanding shares	37,796	33,168
Effect of dilutive securities		
Debenture that may be settled in voting shares	—	288
Stock options	197	29
Adjusted weighted average number of outstanding shares used in computing earnings per share	37,993	33,485
Basic earnings per share	1.74	1.86
Diluted earnings per share	1.73	1.85

In calculating diluted earnings per share for the year ended October 31, 2010, 570,292 stock options were not included since the exercise price of these options was higher than the average price of the Corporation's shares.

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

16
ACCUMULATED OTHER COMPREHENSIVE INCOME

	Cash flow hedges	Deferred translation adjustments	Accumulated other comprehensive income
	$	$	$
Accumulated other comprehensive income			
Balance as at October 31, 2008	72,479	9,644	82,123
Change during the year	(89,522)	(13,214)	(102,736)
Balance as at October 31, 2009	(17,043)	(3,570)	(20,613)
Change during the year	15,521	(13,233)	2,288
Balance as at October 31, 2010	(1,522)	(16,803)	(18,325)

17
AMORTIZATION

	2010	2009
	$	$
Property, plant and equipment	41,582	45,008
Intangible assets subject to amortization	12,047	10,822
Other assets	433	974
Deferred lease inducements	(1,200)	(1,449)
Options related to repayment of revolving credit facilities *[note 5]*	(4,200)	(4,200)
	48,662	51,155

18
RESTRUCTURING CHARGE (GAIN)

On September 24, 2009, the Corporation announced a restructuring plan to make structural changes to its distribution network in France. Under these structural changes, an administrative centre and some agencies were closed and other agencies were sold. During the year ended October 31, 2009, the Corporation recorded a restructuring charge of $11,967. This charge included $2,900 in cash payments, consisting mainly of termination benefits, a $599 asset impairment charge and an $8,468 write-off of goodwill after the assets and goodwill of agencies involved in the restructuring were tested for impairment. As at October 31, 2009, property, plant and equipment *[see note 8]* included held-for-sale assets related to the restructuring plan with a net carrying amount of $1,050.

During the year ended October 31, 2010, the Corporation recorded a $1,157 gain on disposal of held-for-sale assets related to the restructuring, consisting mainly of gains on the sale of agencies for which no restructuring charge had been recognized.

19
INCOME TAXES

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

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

	2010		2009	
	$	%	$	%
Income taxes at the statutory rate	28,003	30.1	29,605	30.9
Change in income taxes arising from the undernoted items:				
Effect of differences in Canadian and foreign tax rates	(3,163)	(3.4)	(3,101)	(3.2)
Non-deductible (non-taxable) items	(556)	(0.6)	4,499	4.7
Recognition of previously unrecorded tax benefits	(1,919)	(2.1)	(2,366)	(2.5)
Unrecognized tax benefits	264	0.3	—	—
Adjustment for prior years	1,394	1.5	1,201	1.2
Effect of tax rate changes	(121)	(0.1)	—	—
Effect of differences in tax rates on temporary items	209	0.2	(1,368)	(1.4)
Valuation allowance	(30)	0.0	1,690	1.8
Other	(275)	(0.3)	756	0.8
	23,806	25.6	30,916	32.3

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

	2010	2009
	$	$
Future income taxes		
Loss carryforwards and other tax deductions	3,482	8,139
Carrying value of capital assets in excess of tax basis	(15,183)	(19,799)
Non-deductible reserves and provisions	17,549	21,391
Taxes related to accumulated other comprehensive income and derivative financial instruments	465	8,580
Other	(917)	(860)
Total future income taxes	5,396	17,451
Valuation allowance	(5,327)	(12,340)
Net future income tax assets	69	5,111
Current future income tax assets	2,895	12,860
Long-term future income tax assets	9,650	10,454
Current future income tax liabilities	(106)	(266)
Long-term future income tax liabilities	(12,370)	(17,937)
Net future income tax assets	69	5,111

As at October 31, 2010, non-capital losses carried forward and other temporary differences for which a writedown was recorded, available to reduce future taxable income of certain subsidiaries in Canada and the Caribbean totalled $519 [$2,401 as at October 31, 2009] and MXP 8,556 [$669][nil as at October 31, 2009]. As at October 31, 2010, there are no more non-capital loss carryforwards in Europe for which a writedown has been recognized [€17,102 ($27,186) as at October 31, 2009].

Of these loss carryforwards and deductions, a $519 amount expires during 2026 and subsequent years and an MXP 8,556 amount [$669] expires in 2020. With respect to the balance of European loss carryforwards totalling €17,102 [$27,186] as at October 31, 2009, an unused balance of €14,376 [$20,350] expired during the year.

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.

20
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:

	2010	209
	$	$
Operating expenses incurred with company subject to significant influence	13,283	18,055

21
EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. These arrangements provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations, the Corporation has issued a $27,976 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:

	2010	2009
	$	$
Accrued benefit obligation, beginning of year	20,674	15,414
Current service cost	774	768
Cost of changes	293	320
Interest cost	1,222	1,219
Benefits paid	(715)	(100)
Actuarial loss on the obligation	3,077	3,053
Accrued benefit obligation, end of year	25,325	20,674

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

	2010	2009
	$	$
Plan assets at fair value	—	—
Accrued benefit obligation	25,325	20,674
Plan deficit	25,325	20,674
Unamortized past service costs	1,058	980
Unamortized actuarial loss	5,637	2,644
Accrued benefit liability	18,630	17,050

Pension plan expense is allocated as follows:

	2010	2009
	$	$
Current service cost	774	768
Interest cost	1,222	1,219
Amortization of past service costs	214	901
Amortization of net actuarial loss	84	—
Pension expense	2,294	2,888

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

	2010	2009
	$	$
Accrued benefit obligation		
Discount rate	4.75	5.75
Rate of increase in eligible earnings	3.00	3.00
Pension expense		
Discount rate	5.75	7.25
Rate of increase in eligible earnings	3.00	3.00

22
COMMITMENTS AND CONTINGENCIES

[a] The Corporation's commitments under agreements with suppliers amounted to $272,334, whereas its obligations under operating leases for aircraft, buildings, automotive equipment, telephone systems, maintenance contracts and office premises amounted to $637,520. These commitments total $909,853 are allocated as follows: $204,104, $475,716 [US$466,938], $225,063 [€158,999] and $4,970 [£3,045].

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

	$
2011	268,943
2012	148,678
2013	129,020
2014	94,387
2015	60,614

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

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

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

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

23
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 guarantee 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 20 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

Operating leases

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

Irrevocable letters of credit

The Corporation has entered into irrevocable letters of credit with some of its suppliers. Under these letters of credit, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These agreements typically cover a one-year period and are renewable.

The Corporation has also issued letters of credit to regulatory bodies guaranteeing, among other things, certain amounts to its customers for the performance of its obligations. As at October 31, 2010, the total guarantees provided by the Corporation under the letters of credit amounted to $467. Historically, the Corporation has not made any significant payments under such letters of credit.

Guarantee contracts

The Corporation has entered into guarantee 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, 2010, these guarantees totalled $957. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2010, no amounts have been accrued with respect to the above-mentioned agreements.

Guarantee facility
Since May 5, 2010, the Corporation has a $50,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue guarantee contracts with a maximum three-year term. As at October 31, 2010, this facility was undrawn.

24
SEGMENT DISCLOSURE

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

	Americas	Europe	Total
	$	$	$
2010			
Revenues from third parties	2,567,983	930,894	3,498,877
Operating expenses	2,480,817	890,478	3,371,295
	87,166	40,416	127,582
2009			
Revenues from third parties	2,552,348	992,993	3,545,341
Operating expenses	2,482,744	969,202	3,451,946
	69,604	23,791	93,395

	Revenues (1)		Property, plant and equipment, goodwill and other intangible assets	
	2010	2009	2010	2009
	$	$	$	$
Canada	2,532,147	2,513,216	147,247	173,167
France	666,004	776,742	57,587	59,129
United Kingdom	248,245	199,159	34,517	38,079
Other	52,481	56,224	11,943	12,692
	3,498,877	3,545,341	251,294	283,067

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

Supplementary financial data

(in thousands of dollars, except per share amounts)

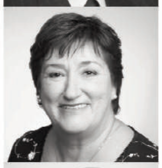
	2010	2009	2008	2007	2006
Consolidated statements of income					
Revenues	3,498,877	3,545,341	3,512,851	3,045,917	2,603,746
Operating expense	3,371,295	3,451,946	3,385,083	2,909,570	2,476,802
	127,582	93,395	127,768	136,347	126,944
Expenses and other revenues					
Amortization	48,662	51,155	56,147	50,176	39,360
Interest on long-term debt and debenture	2,225	4,866	7,538	6,229	7,264
Other interest and financial expenses	2,359	2,679	1,758	1,929	1,484
Interest income	(3,036)	(4,588)	(16,172)	(19,745)	(15,706)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(9,341)	(68,267)	106,435	(26,577)	—
Foreign exchange (gain) loss on long-term monetary items	(1,109)	(135)	2,295	(3,023)	(4,162)
Restructuring charge (gain) and write-off of goodwill	(1,157)	11,967	—	3,900	—
Loss (gain) on investments in ABCP	(4,648)	(68)	45,927	11,200	—
Gain on repurchase of preferred shares of a subsidiary	—	—	(1,605)	—	—
Share of net (income) loss of companies subject to significant influence	490	(24)	427	(651)	(375)
	34,445	(2,415)	202,750	23,438	27,865
Income (loss) before the undernoted items	93,137	95,810	(74,982)	112,909	99,079
Income taxes (recovery)	23,806	30,916	(28,875)	34,350	32,046
Non-controlling interest in subsidiaries' results	(3,724)	(3,047)	(3,287)	(737)	(1,263)
Net income (loss) for the year	65,607	61,847	(49,394)	77,822	65,770
Basic earnings (loss) per share	1.74	1.86	(1.49)	2.30	1.88
Diluted earnings (loss) per share	1.73	1.85	(1.49)	2.27	1.85
Cash flows related to:					
Operating activities	119,131	45,234	95,069	156,728	102,511
Investing activities	(27,819)	(26,662)	(142,027)	(195,657)	(31,405)
Financing activities	(81,034)	18,303	15,091	(14,830)	(152,046)
Effect of exchange rate changes on cash and cash equivalents	(10,203)	(2,090)	10,866	5,640	2,332
Effect of exchange rate changes on cash and cash equivalents	75	34,785	(21,001)	(48,119)	(78,608)
Cash and cash equivalents, end of year	180,627	180,552	145,767	166,768	214,887
Cash provided by operations[1]	105,173	108,380	121,166	125,868	104,802
Total assets	1,189,458	1,129,503	1,267,214	1,072,377	959,195
Long-term debt (including current portion)	29,059	107,684	150,085	88,681	84,248
Debenture	—	3,156	3,156	3,156	3,156
Shareholders' equity	439,072	367,361	345,930	283,452	295,963
Debt/equity ratio[2]	0.63	0.67	0.73	0.74	0.69
Book value per share[3]	11.60	9.74	10.59	8.43	8.80
Return on average shareholders' equity[4]	16.3%	17.3%	(15.9%)	27.0%	20.0%
Shareholding statistics (in thousands)					
Outstanding shares, end of year	37,850	37,729	32,678	33,628	33,648
Weighted average number of outstanding shares (undiluted)	37,796	33,168	33,108	33,763	34,907
Weighted average number of outstanding shares (diluted)	37,993	33,485	33,108	34,212	35,660

[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 change in other assets and liabilities related to operations.
[2] Total liabilities divided by total assets.
[3] Total shareholders' equity divided by the number of oustanding shares.
[4] Net income (loss) divided by the average shareholders' equity.

Board of Directors

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

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



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

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

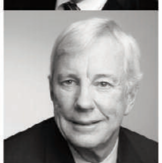
W. Brian Edwards
Entrepreneur and Corporate Director

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

Jean-Yves Leblanc[2, 4]
Corporate Director

Jacques Simoneau[3, 4]
Corporate Director

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



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

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

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

Management

Jean-Marc Eustache
President and Chief Executive Officer

Nelson Gentiletti
Chief Operating Officer

Michel Bellefeuille
Vice-President
and Chief Information Officer

Bernard Bussières
Vice-President, General Counsel
and Corporate Secretary

André De Montigny
Vice-President,
Corporate Development

Michel Lemay
Vice-President,
Communications and Corporate Affairs

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

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

Air Consultants Europe
Marc Koenis
General Manager

Air Transat
Allen B. Graham
President and Chief Executive Officer

Canadian Affair
Anette Rayner
President and General Manager

Eleva Travel
Esteban Benavides
General Manager

Handlex
Jean-Luc Paiement
President and General Manager

Jonview Canada
Andrew Lind
Vice-President
and General Manager

Tourgreece
Vassilis P. Sakellaris
President

Transat Distribution Canada
Yves Lalumière
President

Transat France
Patrice Caradec
President and General Manager

Transat Tours Canada
Michael DiLollo
President

Trip Central
Richard Vanderlubbe
President

Information for Shareholders

Head Office

Transat A.T. Inc.
Place du Parc
300 Léo-Pariseau Street,
Suite 600
Montréal, Québec H2X 4C2
Telephone: 514.987.1660
Fax: 514.987.8035
www.transat.com
info@transat.com

Information

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

Ce rapport annuel
est disponible en français

Stock Exchange

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

Transfer Agent and Registrar

CIBC Mellon Trust Company
2001 University Street,
Suite 1600
Montréal, Québec
H3A 2A6
Toll-free: 1.800.387.0825
inquiries@cibcmellon.com
www.cibcmellon.com

Auditors

Ernst & Young s.r.l./LLP
Montréal (Québec)

Annual and Special Meeting
of Shareholders

March 10, 2011

10:00 a.m.

The Montreal Museum of Fine Arts

Maxwell-Cummings Auditorium

1379 Sherbrooke West

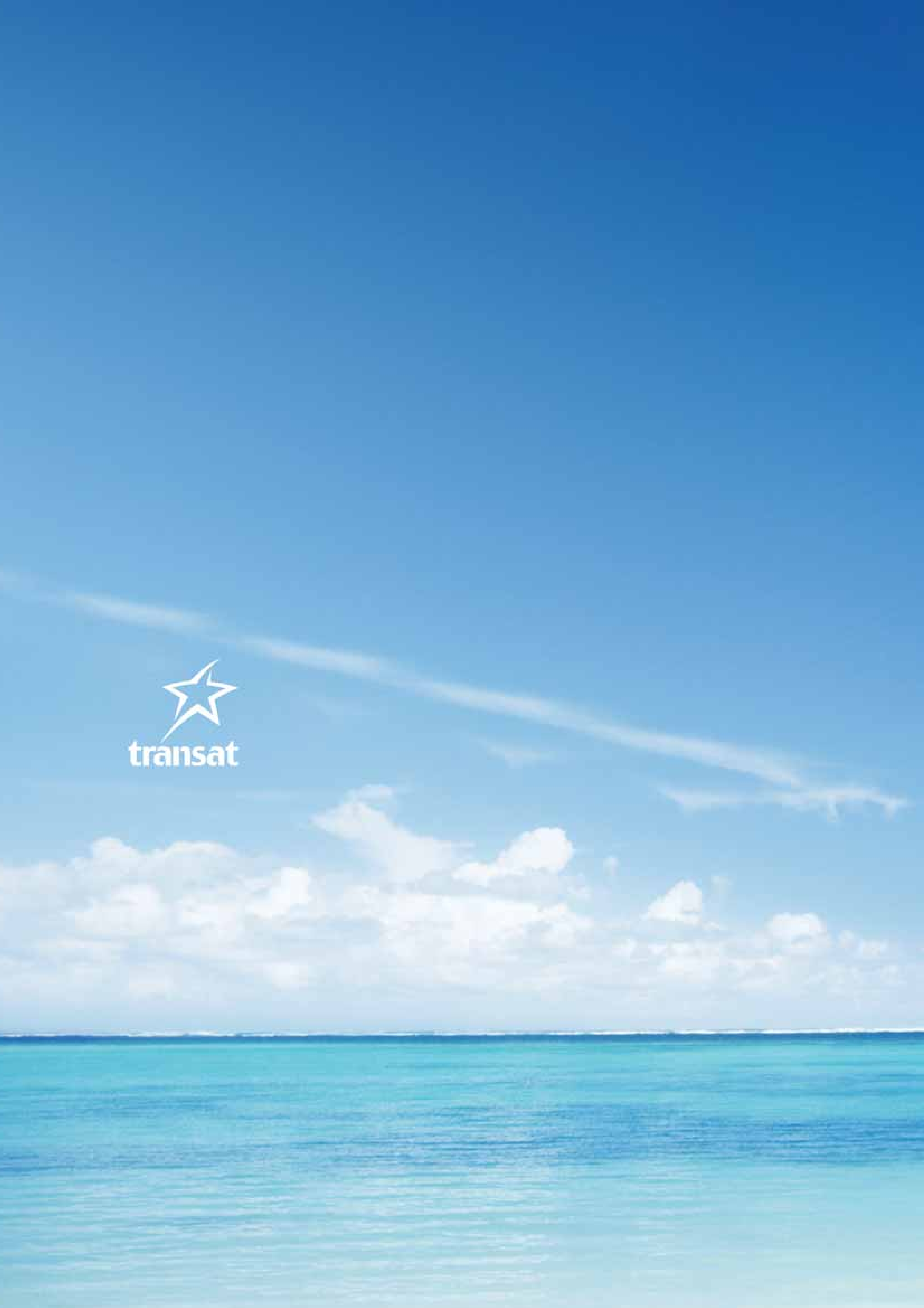
Montreal QC H3G 1J5

Graphic Design
Claude Angers

Pictures of Jean-Marc Eustache
and Board of Directors
Pierre Charbonneau

Picture of W. Brian Edwards
Yves Renaud

MIX
From responsible sources
FSC® C103111


transat