TRANSAT A.T. INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2011

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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 quarter and six-month period ended April 30, 2011 compared with the quarter and six-month period ended April 30, 2010 and should be read in conjunction with the unaudited interim consolidated financial statements for the second quarters of fiscal 2011 and 2010, the accompanying notes and the 2010 Annual Report including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second-quarter update to the information contained in the MD&A section of our 2010 Annual Report. The risks and uncertainties set out in the MD&A of the 2010 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of June 8, 2011. 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 quarter ended April 30, 2011 and Annual Information Form for the year ended October 31, 2010.

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 will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The Corporation's outlook whereby results are expected to be inferior to those recorded in last year's last six months.

In making these statements, the Corporation has assumed that price pressure trends will hold firm through to season-end, that bookings will continue to track reported trends, that fuel prices, costs and the Canadian dollar relative to European currencies and the U.S. dollar will remain stable, that the assumptions used to measure securities held in ABCP will materialize, that credit facilities will remain available as in the past and that management will continue to manage changes in cash flows to fund working capital requirements. 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, 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 related to 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 related to 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 off-balance sheet arrangements, excluding agreements with service providers.
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 to be useful in 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 to be useful in 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, except per share amounts)	Quarters ended April 30		Six-month periods ended April 30	
	2011 $	2010 $	2011 $	2010 $
Revenues	1,101,109	1,060,386	1,911,263	1,852,948
Operating expenses	1,091,941	1,052,188	1,916,733	1,857,159
Margin (operating loss)	9,168	8,198	(5,470)	(4,211)
Income (loss) before non-controlling interest in subsidiaries' results	10,000	7,481	(2,620)	(5,299)
Income taxes (recovery)	1,174	2,454	(4,857)	(5,480)
Change in fair value of derivative financial instruments related to aircraft fuel purchases	(8,155)	(9,090)	(11,993)	(10,318)
Non-monetary gain on investments in ABCP	(3,504)	(1,939)	(6,637)	(5,394)
Gain on disposal of assets related to restructuring	—	(960)	—	(960)
Adjusted loss	(485)	(2,054)	(26,107)	(27,451)
Net income (loss)	8,620	6,198	(4,853)	(7,674)
Change in fair value of derivative financial instruments related to aircraft fuel purchases	(8,155)	(9,090)	(11,993)	(10,318)
Non-monetary gain on investments in ABCP	(3,504)	(1,939)	(6,637)	(5,394)
Gain on disposal of assets related to restructuring	—	(960)	—	(960)
Tax impact	2,368	3,096	3,399	3,454
Adjusted after-tax loss	(671)	(2,695)	(20,084)	(20,892)
Adjusted after-tax loss	(671)	(2,695)	(20,084)	(20,892)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	38,173	38,004	37,891	37,767
Adjusted after-tax loss per share diluted	(0.02)	(0.07)	(0.53)	(0.55)

	As at April 30, 2011 $	As at October 31, 2010 $
Payments on current portion of long-term debt	6,577	13,768
Long-term debt	290	15,291
Off-balance sheet arrangements, excluding agreements with service providers	618,752	643,750
Total debt	625,619	672,809
Total debt	625,619	672,809
Cash and cash equivalents	(278,242)	(180,627)
Investments in ABCP	(78,188)	(72,346)
Net debt	269,189	419,836

FINANCIAL HIGHLIGHTS

(In thousands of dollars, except per share amounts)	Quarters ended April 30 2011 $	2010 $	Variance $	Variance %	Six-month periods ended April 30 2011 $	2010 $	Variance $	Variance %
Consolidated Statements of Income								
Revenues	1,101,109	1,060,386	40,723	3.8	1,911,263	1,852,948	58,315	3.1
Margin (operating loss)[1]	9,168	8,198	970	11.8	(5,470)	(4,211)	(1,259)	(29.9)
Net income (loss)	8,620	6,198	2,422	39.1	(4,853)	(7,674)	2,821	36.8
Basic earnings (loss) per share	0.23	0.16	0.07	43.8	(0.13)	(0.20)	0.07	35.0
Diluted earnings (loss) per share	0.23	0.16	0.07	43.8	(0.13)	(0.20)	0.07	35.0
Adjusted after-tax loss[1]	(671)	(2,695)	2,024	75.1	(20,084)	(20,892)	808	3.9
Adjusted after-tax loss per share diluted	(0.02)	(0.07)	0.05	71.4	(0.53)	(0.55)	0.02	3.6
Consolidated Statements of Cash Flows								
Operating activities	104,667	127,997	(23,330)	(18.2)	152,244	106,739	45,505	42.6
Investing activities	(15,730)	(5,877)	(9,853)	(167.7)	(28,485)	(9,168)	(19,317)	(210.7)
Financing activities	(8,647)	(51,410)	42,763	83.2	(23,123)	(55,190)	32,067	58.1
Effect of exchange rate changes on cash and cash equivalents	(1,002)	(11,480)	10,478	91.3	(3,021)	(15,967)	12,946	81.1
Net change in cash and cash equivalents	79,288	59,230	20,058	33.9	97,615	26,414	71,201	269.6

	As at April 30, 2011 $	As at October 31, 2010 $	Variance $	Variance %
Consolidated Balance Sheets				
Cash and cash equivalents	278,242	180,627	97,615	54.0
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	373,599	352,650	20,949	5.9
Investments in ABCP	78,188	72,346	5,842	8.1
	730,029	605,623	124,406	20.5
Total assets	1,339,973	1,189,458	150,515	12.7
Debt (short-term and long-term)	6,867	29,059	(22,192)	(76.4)
Total debt[1]	625,619	672,809	(47,190)	(7.0)
Net debt[1]	269,189	419,836	(150,647)	(35.9)

[1] SEE NON-GAAP FINANCIAL MEASURES

OVERVIEW

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 consists in 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 over 500 travel agencies (including 383 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 numerous air carriers, but relies on its subsidiary Air Transat for a large portion of its needs. Transat also offers destination and airport services.

According to the World Tourism Organization, the volume of international tourists grew nearly 7% in calendar 2010 after declining 4% in 2009. Transat's vision is to become a leading player in the Americas and build strong competitive positioning in several European countries by 2014. At present, we are a market leader in Canada, operating as an outgoing and incoming tour operator. We are a well-established outgoing tour operator in France and the U.K. and an incoming tour operator in Greece. We offer customers a broad range of international destinations spanning some 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.

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.

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.
- 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.

The key performance drivers are market share, revenue growth and margin, which are essential to successfully implement our strategy and meet our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, which historically have supported successful strategies and meeting our objectives. Our financial resources consist primarily of cash, our investments and access to the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

CONSOLIDATED OPERATIONS

REVENUES

	Quarters ended April 30				Six-month periods ended April 30			
	2011	2010	Variance	Variance	2011	2010	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Americas	908,476	886,750	21,726	2.5	1,584,037	1,543,546	40,491	2.6
Europe	192,633	173,636	18,997	10.9	327,226	309,402	17,824	5.8
	1,101,109	1,060,386	40,723	3.8	1,911,263	1,852,948	58,315	3.1

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

Revenues for the quarter and six-month period were up $40.7 million and $58.3 million, respectively, year over year. These increases resulted from higher average selling prices, owing to the termination of the seat purchase/sale agreement with Sunquest and fuel surcharge increases. Revenue growth was curbed however by overall decreases in the volume of travellers for the quarter and six-month period of 3.5% and 1.6%, respectively. Revenues for the six-month period were further dampened by the Canadian dollar's strength against the euro.

Revenues for the second quarter rose 2.5% and 10.9% in the Americas and Europe, respectively, while the six-month period saw revenue gains of 2.6% and 5.8% in the respective areas.

OPERATING EXPENSES

	Quarters ended April 30				Six-month periods ended April 30			
	2011	2010	Variance	Variance	2011	2010	Variance	Variance
(In thousands of dollars)	$	$	$	%	$	$	$	%
Direct costs	680,945	709,906	(28,961)	(4.1)	1,179,946	1,221,688	(41,742)	(3.4)
Salaries and employee benefits	92,308	83,761	8,547	10.2	182,208	167,850	14,358	8.6
Aircraft fuel	104,372	70,303	34,069	48.5	170,167	127,445	42,722	33.5
Commissions	61,133	56,533	4,600	8.1	102,778	93,108	9,670	10.4
Aircraft maintenance	30,943	24,942	6,001	24.1	54,234	43,323	10,911	25.2
Airport and navigation fees	23,404	18,678	4,726	25.3	41,196	34,076	7,120	20.9
Aircraft rent	17,089	13,855	3,234	23.3	31,910	27,597	4,313	15.6
Other	81,747	74,210	7,537	10.2	154,294	142,072	12,222	8.6
Total	1,091,941	1,052,188	39,753	3.8	1,916,733	1,857,159	59,574	3.2

Our aggregate operating expenses for the quarter and six-month period were up $39.8 million (3.8%) and $59.6 million, respectively, year over year. Higher operating expenses for the quarter and six-month period resulted mainly from increased fuel costs, alongside a decline in overall traveller volumes for the same periods. With the addition of Airbus 330 aircraft in fiscal 2010, the member of flights went up, which curtailed direct costs but increased other operating costs relative to the corresponding quarter and six-month period of fiscal 2010. We also capitalized on the strength of Canada's currency against the U.S. dollar, the euro and the pound sterling, which lowered operating expenses at our foreign subsidiaries on translation into Canadian dollars as well as foreign currency expenses at our Canadian subsidiaries.

For these reasons, operating expenses for the quarter were up 2.9% and 8.2% in the Americas and Europe, respectively, while the six-month period saw increases of 3.0% and 4.2% for the respective areas.

DIRECT COSTS

Direct costs are incurred by our tour operators. They include hotel room costs and the cost of reserving blocks of seats or full flights with air carriers other than Air Transat. Direct costs for the quarter and six-month period were down $29.0 million (4.1%) and $41.7 million (3.4%), respectively, compared with the corresponding periods of the previous year. The decreases resulted primarily from a decline in seat purchases owing to the termination of our seat purchase agreement with Sunquest and the strength of the Canadian dollar, offset by higher hotel room costs.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits for the quarter and the six-month period were up $8.5 million (10.2%) and $14.4 million (8.6%), respectively, compared with the corresponding periods of fiscal 2010. The quarterly and six-month period increases stemmed among others from new hires, primarily following the addition of new aircraft to our fleet and, to a lesser degree, annual salary increases.

AIRCRAFT FUEL

Year over year, aircraft fuel costs for the quarter and six-month period rose $34.1 million (48.5%) and $42.7 million (33.5%), respectively, owing primarily to the surge in fuel prices and higher number of flights by our aircraft fleet.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense for the second quarter and six-month period was up $4.6 million (8.1%) and $9.7 million (10.4%), respectively, compared with the corresponding periods of fiscal 2010. As a percentage of revenues, commissions for the second quarter increased to 5.6% from 5.3% for the same period of fiscal 2010. For the six-month period, commission expense was also higher, totalling 5.4% of revenues compared with 5.0% for the same period of fiscal 2010. These increases stemmed primarily from the higher revenue base used to calculate commissions.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. During the second quarter and six-month period, these costs grew $6.0 million (24.1%) and $10.9 million (25.2%), respectively, compared with the corresponding periods of fiscal 2010. These increases were mainly driven by the higher number of flights by our aircraft fleet. At the beginning of the first half of fiscal 2010, we revised some of our future maintenance cost assumptions downwards following a new agreement entered into with a supplier and the optimization of our maintenance schedule.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Year over year, fees for the quarter and six-month period were up $4.7 million (25.3%) and $7.1 million (20.9%), respectively, owing primarily to the higher number of flights by our aircraft fleet, offset by a stronger Canadian dollar.

AIRCRAFT RENT

Aircraft rent for the second quarter and six-month period rose $3.2 million (23.3%) and $4.3 million (15.6%), respectively, compared with the corresponding periods of fiscal 2010. These increases resulted from the net effect of the addition of three Airbus A330s (diminished by the retirement of one Airbus A310) in the first quarter of fiscal 2011 and the addition of an Airbus A330 in the second quarter; partially offset by the strength of the Canadian dollar against its U.S. counterpart.

OTHER

Other expenses for the second quarter and six-month period were up $7.5 million (10.2%) and $12.2 million (8.6%), respectively, compared with the corresponding periods of fiscal 2010, owing primarily to greater business activity.

MARGIN (OPERATING LOSS)

In light of the foregoing, the Corporation recorded a margin of $9.2 million (0.8%) for the second quarter compared with $8.2 million (0.8%) in the corresponding period of fiscal 2010. For the six-month period, the Corporation reported an operating loss of $5.5 million (0.3%) compared with an operating loss of $4.2 million (0.2%) for the same period of fiscal 2010. Soaring fuel prices conspired with lower traveller volumes and intense market competition to compress our margins for the quarter and the six-month period.

GEOGRAPHIC AREAS

AMERICAS

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars)	2011 $	2010 $	Variance $	Variance %	2011 $	2010 $	Variance $	Variance %
Revenues	908,476	886,750	21,726	2.5	1,584,037	1,543,546	40,491	2.6
Operating expenses	898,803	873,658	25,145	2.9	1,580,437	1,534,387	46,050	3.0
Margin	9,673	13,092	(3,419)	(26.1)	3,600	9,159	(5,559)	(60.7)

Revenues for the second quarter and the six-month period at our North American subsidiaries from sales in Canada and abroad were up $21.7 million (2.5%) and $40.5 million (2.6%), respectively, from the corresponding periods of fiscal 2010, owing to higher average selling prices year over year, while overall traveller volumes for the quarter slipped 1.2% and remained flat for the six-month period compared with the corresponding periods of fiscal 2010. However, for the second quarter and the six-month period, we recorded increases of approximately 8% and 12%, respectively, in the volume of travellers from Canada to sun destinations. We reported a margin for the second quarter and six-month period of 1.1% and 0.2%, respectively, compared with 1.5% and 0.6% year over year. These slimmer margins resulted primarily from higher fuels costs.

EUROPE

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars)	2011 $	2010 $	Variance $	Variance %	2011 $	2010 $	Variance $	Variance %
Revenues	192,633	173,636	18,997	10.9	327,226	309,402	17,824	5.8
Operating expenses	193,138	178,530	14,608	8.2	336,296	322,772	13,524	4.2
Operating loss	(505)	(4,894)	4,389	89.7	(9,070)	(13,370)	4,300	32.2

Year over year, revenues for the second quarter and six-month period at our European subsidiaries from sales in Europe and Canada were up $19.0 million (10.9%) and $17.8 million (5.8%), respectively. Except for our subsidiary Amplitravel, which sells packages to Tunisia, revenues at our European subsidiaries were all higher, owing primarily to increased average selling prices despite declines in traveller volumes for the quarter and six-month period of 14.4% and 10.0%, respectively. Revenue growth was further curbed by the Canadian dollar's strength against the euro and the pound sterling. Our European operations reported operating losses for the quarter and six-month period of $0.5 million (0.3%) and $9.1 million (2.8%) respectively, compared with $4.9 million (2.8%) and $13.4 million (4.3%) for the respective periods of fiscal 2010. Margins for the second quarter and six-month period were affected by turmoil in Northern Africa, which resulted in the temporary suspension of sales of travel to Tunisia and Egypt. In fiscal 2010, our second-quarter margin was reduced by additional costs incurred by our European companies owing to volcanic activity in Iceland.

OTHER EXPENSES (REVENUES)

	Quarters ended April 30				Six-month periods ended April 30			
(In thousands of dollars)	2011 $	2010 $	Variance $	Variance %	2011 $	2010 $	Variance $	Variance %
Amortization	11,055	12,041	(986)	(8.2)	22,257	24,225	(1,968)	(8.1)
Interest on long-term debt	330	273	57	20.9	774	1,189	(415)	(34.9)
Other interest and financial expenses	578	456	122	26.8	1,002	877	125	14.3
Interest income	(1,772)	(605)	(1,167)	(192.9)	(3,704)	(1,037)	(2,667)	(257.2)
Change in fair value of derivative financial instruments related to aircraft fuel purchases	(8,155)	(9,090)	935	10.3	(11,993)	(10,318)	(1,675)	(16.2)
Foreign exchange loss on long-term monetary items	1,079	543	536	98.7	1,356	331	1,025	309.7
Gain on investments in ABCP	(3,504)	(1,939)	(1,565)	(80.7)	(6,637)	(5,394)	(1,243)	(23.0)
Gain on disposal of assets related to restructuring	—	(960)	960	100.0	—	(960)	960	100.0
Share of net income of a company subject to significant influence	(1,617)	(2,456)	839	34.2	(1,049)	(2,345)	1,296	55.3

AMORTIZATION

Amortization includes amortization of property, plant and equipment, intangible assets subject to amortization, deferred lease inducements and deferred gains on options. Amortization for the second quarter and six-month period declined $1.0 million and $2.0 million, respectively, compared with the same periods of fiscal 2010, as a result of fewer additions to property, plant and equipment and intangible assets than in the past few fiscal years. In fiscal 2010, amortization expense included deferred gains on a debt repayment option for the second quarter and six-month period of $1.1 million and $2.1 million, respectively.

INTEREST ON LONG-TERM DEBT

Year over year, interest on long-term debt for the quarter held steady, whereas for the six-month period it was down $0.4 million. The decrease in the first half of fiscal 2011 resulted from lower average debt balances than in the corresponding period of fiscal 2010.

OTHER INTEREST AND FINANCIAL EXPENSES

Other interest and financial expenses for the second quarter and six-month period were up $0.1 million year over year.

INTEREST INCOME

Interest income for the second quarter and six-month period grew $1.2 million and $2.7 million, respectively, compared with the corresponding periods of fiscal 2010, owing mainly to higher average balances of cash and cash equivalents than in fiscal 2010.

CHANGE 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 fuel price volatility. The Corporation reported an $8.2 million increase in fair value of derivative financial instruments used for aircraft fuel purchases for the second quarter compared with $9.1 million for the corresponding period of fiscal 2010. For the six-month period, the increase in fair value of derivative financial instruments used for aircraft fuel purchases amounted to $12.0 million compared with $10.3 million in fiscal 2010.

FOREIGN EXCHANGE LOSS ON LONG-TERM MONETARY ITEMS

Foreign exchange loss on long-term monetary items for the quarter and six-month period, amounting to $1.1 million and $1.4 million, respectively, resulted primarily from the unfavourable effect of foreign exchange rates on our foreign currency deposits.

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 the second quarter and the six-month period amounted to $3.5 million and $6.6 million, respectively. (See *Investments in ABCP* for more information.)

SHARE OF NET INCOME OF A COMPANY SUBJECT TO SIGNIFICANT INFLUENCE

Our share of net income of a company subject to significant influence represents our share of net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. The share of net income for the second quarter amounted to $1.6 million compared with $2.5 million for the corresponding quarter of fiscal 2010. Our share of net income for six-month period totalled $1.0 million compared with $2.3 million in fiscal 2010. These decreases resulted primarily from the exchange loss on long-term debt, despite the company's improved operational profitability.

INCOME TAXES

Income taxes for the quarter totalled $1.2 million compared with $2.5 million year over year. Income tax recovery for the six-month period totalled $4.9 million compared with $5.5 million in fiscal 2010. Excluding the share of net income of a company subject to significant influence, the effective tax rate for the second quarter and six-month period was 12.28% and 66.1%, respectively, compared with 19.8% and 41.8% for the respective periods of fiscal 2010. The changes in tax rates for the quarter and the six-month period resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

NET INCOME (LOSS)

In light of the items discussed in *Consolidated operations*, net income for the quarter ended April 30, 2011 totalled $8.6 million or $0.23 per share compared with $6.2 million or $0.16 per share for the corresponding quarter of the previous fiscal year. The weighted average number of shares outstanding used to determine the per share amounts for the second quarter of fiscal 2011 was 37,968,000 compared with 37,841,000 for corresponding quarter of fiscal 2010.

The Corporation reported a net loss for the six-month period ended April 30, 2011 totalling $4.9 million or $0.13 per share compared with net loss of $7.7 million or $0.20 per share, for the corresponding period of the previous fiscal year. The weighted average number of shares outstanding used to determine the per share amounts for the first half of fiscal 2011 was 37,891,000 compared with 37,767,000 for the corresponding period of fiscal 2010.

On a diluted basis, earnings per share for the second quarter of fiscal 2011 stood at $0.23 compared with $0.16 in fiscal 2010, whereas the Corporation reported a loss per share for the six-month period ended April 30, 2011 of $0.13 compared with $0.20 for the year-over-year period. The adjusted weighted average number of shares used to compute these amounts for the second quarter and six-month period was 38,173,000 and 37,891,000, respectively, compared with 38,004,000 and 37,767,000 for the respective periods of fiscal 2010. *See note 8 to the unaudited Interim Consolidated Financial Statements.*

The adjusted after-tax loss for the second quarter and six-month period amounted to $0.1 million ($0.02 per share) and $20.1 million, ($0.53 per share), respectively, compared with $2.7 million ($0.07) and $20.9 million ($0.55 per share) for the respective periods of fiscal 2010.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Overall, revenues are up compared with the corresponding quarters of previous years, owing primarily to increases in traveller volumes and/or average selling prices. 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.

(In thousands of dollars, except per share amounts)	Q3-2009 $	Q4-2009 $	Q1-2010 $	Q2-2010 $	Q3-2010 $	Q4-2010 $	Q1-2011 $	Q2-2011 $
Revenues	819,354	719,656	792,562	1,060,386	867,344	788,585	810,154	1,101,109
Margin (operating loss)	27,187	35,576	(12,409)	8,198	53,941	77,852	(14,638)	9,168
Net income (loss)	30,991	18,106	(13,872)	6,198	20,925	52,356	(13,473)	8,620
Basic earnings (loss) per share	0.95	0.53	(0.37)	0.16	0.55	1.38	(0.36)	0.23
Diluted earnings (loss) per share	0.94	0.52	(0.37)	0.16	0.55	1.37	(0.36)	0.23

LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2011, cash and cash equivalents totalled $278.2 million compared with $180.6 million as at October 31, 2010. Cash and cash equivalents in trust or otherwise reserved amounted to $373.6 million as at the end of the second quarter of fiscal 2011 compared with $352.7 million as at October 31, 2010. Our balance sheet reflects working capital of $28.9 million and a ratio of 1.03 compared with $64.3 million and 1.10 as at October 31, 2010.

Total assets rose $150.5 million (12.7%) to $1,340.0 million as at April 30, 2011 from $1,189.5 million as at October 31, 2010. This rise resulted mainly from the following increases: $97.6 million in cash and cash equivalents, $20.9 million in cash and cash equivalents in trust or otherwise reserved, $17.5 million in income taxes receivables, $14.9 million in deposits, and approximately $12.0 million each in prepaid expenses and financial instruments; these increases were offset by a $31.2 million decrease in receivables. These changes reflect the seasonal nature of our operations. Shareholders' equity fell $11.2 million to $427.9 million as at April 30, 2011 from $439.1 million as at October 31, 2010, owing primarily to the $6.1 million foreign exchange loss on translating the financial statements of our self-sustaining foreign operations and our $4.9 million net loss.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
(In thousands of dollars)	2011 $	2010 $	Variance $	2011 $	2010 $	Variance $
Cash flows related to operating activities	104,667	127,997	(23,330)	152,244	106,739	45,505
Cash flows related to investing activities	(15,730)	(5,877)	(9,853)	(28,485)	(9,168)	(19,317)
Cash flows related to financing activities	(8,647)	(51,410)	42,763	(23,123)	(55,190)	32,067
Effect of exchange rate changes on cash	(1,002)	(11,480)	10,478	(3,021)	(15,967)	12,946
Net change in cash and cash equivalents	79,288	59,230	20,058	97,615	26,414	71,201

OPERATING ACTIVITIES

During the second quarter, operating activities generated $104.7 million in cash flows compared with $128.0 million for the corresponding quarter of fiscal 2010. This $23.3 million year-over-year decrease for the quarter resulted mainly from a $37.6 million decrease reflected in the net change in non-cash working capital balances related to operations, offset by an $11.0 million increase reflected in the net change in other assets and liabilities.

For the six-month period, cash flows provided by operating activities rose $45.5 million to $152.2 million from $106.7 million for the corresponding period of fiscal 2010. This growth resulted mainly from a $28.3 million increase under net change in non-cash working capital balances related to operations, and a $7.9 million increase under net change in other assets and liabilities.

INVESTING ACTIVITIES

Cash flows used in investing activities for the second quarter totalled $15.7 million, up $9.9 million from the corresponding period of fiscal 2010. During the quarter, our additions to property, plant and equipment and other intangible assets totalled $11.9 million, up $8.0 million from $3.9 million for the corresponding period of fiscal 2010. Following the increase in some of our letters of credit, our balances of reserved cash and cash equivalents reported on a long-term basis rose $4.2 million, compared with $3.7 million for the same quarter of fiscal 2010. Also during the quarter, we received $0.4 million from investments in ABCP compared with $0.7 million in fiscal 2010. During the second quarter of fiscal 2010, we paid $0.5 million to acquire the outstanding shares of Tourgreece that we did not already own in addition to receiving proceeds totalling $1.5 million on the sale of a number of agencies in our French distribution network.

For the six-month period, cash flows used in investing activities amounted to $28.5 million, up $19.3 million from $9.2 million for the same period of fiscal 2010. Year over year, our investments in property, plant and equipment and other intangible assets for the first half of fiscal 2011 were up $16.8 million and our balance of cash and cash equivalents reserved was up $0.5 million. Also during the six-month period, we received $0.8 million from investments in ABCP compared with $1.8 million for the same period of fiscal 2010.

FINANCING ACTIVITIES

Cash flows used in financing activities for the second quarter totalled $8.6 million, down $42.8 million from $51.4 million in the corresponding period of fiscal 2010. This decline resulted primarily from a $42.8 million decrease in repayments of our credit facilities and other debt compared with fiscal 2010. Dividends paid to a non-controlling shareholder for the quarter amounted $2.2 million compared with $2.1 million for the same period of fiscal 2010.

For the six-month period, cash flows used in financing activities amounted to $23.1 million, down $32.1 million from $55.2 million in fiscal 2010. This decline resulted primarily from a $32.0 million decrease in repayments of our credit facilities and other debt compared with fiscal 2010.

FINANCING

As at April 30, 2011, 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 payable immediately in the event of a change in control and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium 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 April 30, 2011, all financial criteria and ratios were met.

The Corporation also has access to an $85.0 million 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. 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 $46.2 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 *Gain on the investments in ABCP*. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at April 30, 2011, all financial criteria and ratios were met.

As at April 30, 2011, these credit facility were undrawn, except for the $60.0 million facility for issuing for issuing letters of credit for which the Corporation must pledge cash as collateral security against 105% of the letters of credit issued, under which $45.4 million was drawn down.

Loans secured by aircraft of the Corporation amounted to $6.3 million [US$6.7 million] as at April 30, 2011. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments until August 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €10.5 million [$14.8 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 unaudited consolidated interim financial statements as at April 30, 2011. As at April 30, 2011 and October 31, 2010, these obligations, reported in liabilities, amounted to $6.9 million and $29.1 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
- Operating leases

Estimated off-balance sheet debt, excluding agreements with service providers, amounted to approximately $618.8 million as at April 30, 2011 compared with $643.8 million as at October 31, 2010, and is detailed as follows:

(In thousands of dollars)	As at April 30, 2011 $	As at October 31, 2010 $
Guarantees		
Irrevocable letters of credit	2,912	5,273
Collateral security contracts	952	957
Operating leases		
Commitments under operating leases	614,888	637,520
	618,752	643,750

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

In addition, the Corporation has a $50.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at April 30, 2011, $12,522 was drawn down under these credit facilities for issuing letters of credit to some of our service providers.

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

The Corporation's debt levels as at April 30, 2011 were lower than as at October 31, 2010.

Balance sheet debt decreased $22.2 million to $6.9 million from $29.1 million and our off-balance sheet debt decreased $25.0 million to $618.8 million from $643.8 million, collectively representing a $47.2 million decrease in total debt compared with October 31, 2010. The decreases in balance sheet and off-balance sheet debt resulted from repayments made during the second quarter and the Canadian dollar's strengthening against the U.S. currency. Our off-balance sheet debt also reflects payments under a lease entered into in the second quarter for a new aircraft.

Net of cash and cash equivalents and our investments in ABCP, the Corporation reported $269.2 million in net debt as at April 30, 2011, down $150.6 million from $419.8 million as at October 31, 2010.

OUTSTANDING SHARES

As at April 30, 2011, there were 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 April 30, 2011, there were 889,705 Class A Variable Voting Shares outstanding and 37,038,345 Class B Voting Shares outstanding.

STOCK OPTIONS

As at June 8, 2011, there were a total of 1,899,520 stock options outstanding, 699,370 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

In the first half of fiscal 2011, the Corporation received $0.8 million in principal repayments on ABCP supported solely by traditional securitized assets (MAV3 Traditional). The notional value of the new ABCP amounted to $117.3 million as at April 30, 2011 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 $4.0 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 April 30, 2011, 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 six-month period ended April 30, 2011, 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 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 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 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 at rates ranging from 0.0% to 2.4% [weighted average rate of 2.0%], depending on the type of series. These future cash flows were discounted, according to the type of series, over a 5.8-year period using discount rates ranging from 6.8% to 39.3% [weighted average rate of 11.5%], which factor in liquidity.

Subsequent to this new valuation, the Corporation recognized increases, on April 30, 2011, in the fair value of its investments in ABCP for the quarter and six-month period of $3.5 million and $6.6 million, respectively. The fair value of the ABCP investment portfolio stood at $78.2 million as at that date and the provision for impairment totalled $39.1 million, representing 33.4% of the notional value of $117.3 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 *Gain on investments in ABCP* in the consolidated statement of income (loss):

(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, 2009	128,835	(57,434)	71,401	
Increase in value of investments in ABCP	—	3,455	3,455	(3,455)
Principal repayments	(1,092)	—	(1,092)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at January 31, 2010; impact on results for period ended January 31, 2010	127,743	(54,599)	73,144	(3,455)
Increase in value of investments in ABCP	—	1,939	1,939	(1,939)
Principal repayments	(709)	—	(709)	—
Balance as at April 30, 2010; impact on results for period ended April 30, 2010	127,034	(52,660)	74,374	(5,394)
Disposal of investments in ABCP	(7,630)	7,630	—	—
Increase in value of investments in ABCP	—	(746)	(746)	746
Principal repayments	(1,282)	—	(1,282)	—
Balance as at October 31, 2010; impact on results for the year ended October 31, 2010	118,122	(45,776)	72,346	(4,648)
Increase in value of investments in ABCP	—	3,133	3,133	(3,133)
Principal repayments	(424)	—	(424)	—
Balance as at January 31, 2011; impact on results for period ended January 31, 2011	117,698	(42,643)	75,055	(3,133)
Increase in value of investments in ABCP	—	3,504	3,504	(3,504)
Principal repayments	(371)	—	(371)	—
Balance as at April 30, 2011; impact on results for period ended April 30, 2011	117,327	(39,139)	78,188	6,637

The balance of investments in ABCP as at April 30, 2011 is detailed as follows:

(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	(7,210)	27,205
Class A-2	63,894	(20,573)	43,321
Class B	11,598	(8,501)	3,097
Class C	3,403	(2,850)	553
	113,310	(39,134)	74,176
MAV3 Traditional	4,017	(5)	4,012
	117,327	(39,139)	78,188

OTHER

HANDLEX

On February 15, 2011, Handlex, one of the Corporation's subsidiaries, locked out 400 of its ramp and baggage workers at airports in Toronto and Montréal, following the rejection of its most recent offer to renew the collective bargaining agreement, which expired in November 2010, and the strike action launched by the union. A contingency plan was immediately implemented to ensure continuity of operations and services for all airlines served by Handlex, including Air Transat. On March 7, 2011, Handlex and its ramp and employees at airports in Toronto and Montréal agreed to renew the collective bargaining agreement.

NEW CREDIT CARD PROCESSOR

On February 28, 2011, we announced the signing of an agreement with a second credit card processor in Canada effective immediately, expiring on February 28, 2015.

Credit card transactions processed in Canada under this new agreement will to be subject to the requirement of segregating funds in a restricted bank account. However, the Corporation is required to maintain certain levels of unrestricted cash and other cash equivalents at each quarter-end, as well as certain financial ratios similar to those set out in its bank credit agreements. The Corporation's failure to comply with these covenants could result in a variety of adverse consequences, including an obligation by Transat to provide this new credit card processor with a letter of credit according to a predetermined formula based on the quarterly dollar volume of credit card transactions processed by this new credit card processor.

FLEET

The Air Transat fleet currently consists of 12 Airbus A310 aircraft (249 seats), which will be gradually retired, and ten Airbus A330 (342 seats). An A310 was retired during the first half of fiscal 2011, and three A330s were added. A fourth A330 was commissioned in May 2011. The eleventh and twelfth A330s are slated for commissioning in fall 2011.

FUTURE CHANGES IN ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

In February 2008, the 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.

The first stage of Phase 2 of its plan, which focused on identifying the differences between IFRS and the Corporation's accounting policies, and developing solutions, is now complete. During this stage, the Corporation performed a detailed analysis of IFRS, consisting 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. The second stage of Phase 2 includes detailed planning of information technology and human resources requirements as they relate to the changeover. Moreover, we will identify internal procedures and systems that require updating and adapting, 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. Phase 2 of the plan will be finalized during fiscal 2011.

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 April 30, 2011:

	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 have been completed, and in certain cases, we are finalizing the quantified effects 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 began in the second quarter of fiscal 2011.
Information 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.	Our assessment of the effects of changes on information and data systems is in its final stage of analysis.
Internal control over financial reporting	Assess the effects of changes on internal control over financial reporting and disclosures controls and procedures and implement modifications as necessary.	Implement the required changes starting in the first quarter of fiscal 2011. Follow-ups and updates during fiscal 2011.	Our assessment of the effects on internal control over financial reporting is in its final stage of analysis.
Business activity	Determine the conversion's impact on the Corporation's business activity.	Changes to be finalized before October 31, 2011.	Our assessment of the effects on business activity is in its final stage of analysis.
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.
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.

Accounting area	Main differences with potential impact for the Corporation	Progress
Provisions and contingencies	• A different threshold is used to recognize contingent liabilities, which could impact the timing for recognition of provisions.	Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation.
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 also provides 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.

CONTROLS AND PROCEDURES

In accordance with the Canadian Securities Administrators *National Instrument 52-109*, 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, deem adequate as at April 30, 2011 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;

- Internal control over financial reporting ("ICFR"), which provides reasonable assurance regarding the reliability of the Corporation's financial reporting and its compliance with Canadian GAAP in its financial statements.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended April 30, 2011 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

The transatlantic market accounts for a very significant portion of Transat's business in the summer. For the second half of 2011, the Corporation's capacity and bookings are approximately 15% higher than the actual capacity offered in 2010; approximately 60% of capacity has been sold and load factors are similar to last year at the same date.

Aircraft fuel costs, expressed in Canadian dollars, have increased by approximately 30%, including the impact of the introduction of additional fuel-efficient Airbus A330s and fuel hedging. Despite additional fuel surcharges implemented, selling prices are similar to last year.

In France, bookings for medium-haul travel are slightly behind compared to last year, due to unrest in North Africa. The decrease in bookings for North African destinations, notably Tunisia and Egypt, is partially offset by the rise on other destinations. On long-haul travel, bookings are more than 10% higher than the prior year.

Consequently, Transat expects the results of the second half to be inferior to the record results reported last year.

TRANSAT A.T. INC.
CONSOLIDATED BALANCE SHEETS

(in thousands of dollars) (unaudited)	As at April 30, 2011 $	As at October 31, 2010 $
ASSETS		
Current assets		
Cash and cash equivalents	278,242	180,627
Cash and cash equivalents in trust or otherwise reserved *[note 3]*	337,487	320,428
Accounts receivable	115,708	146,944
Income taxes receivable	22,202	4,738
Future income tax assets	1,765	2,895
Inventories	10,868	9,867
Prepaid expenses	62,301	50,297
Derivative financial instruments	12,736	868
Current portion of deposits	31,770	12,554
Total current assets	873,079	729,218
Cash and cash equivalents reserved *[note 3]*	36,112	32,222
Investments in ABCP *[note 4]*	78,188	72,346
Deposits	25,526	29,837
Future income tax assets	13,284	9,650
Property, plant and equipment	84,800	88,376
Goodwill	111,709	112,454
Other intangible assets	55,496	50,464
Derivative financial instruments	—	23
Investments and other assets *[note 5]*	61,779	64,868
	1,339,973	1,189,458
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	333,477	300,355
Current portion of provision for overhaul of leased aircraft	25,804	18,301
Income taxes payable	2,970	14,608
Future income tax liabilities	1,301	106
Customer deposits and deferred income	464,660	313,695
Derivative financial instruments	9,371	4,116
Payments on current portion of long-term debt	6,577	13,768
Total current liabilities	844,160	664,949
Long–term debt *[note 6]*	290	15,291
Provision for overhaul of leased aircraft	9,587	12,408
Other liabilities *[note 7]*	44,747	45,368
Future income tax liabilities	13,335	12,370
	912,119	750,386
Shareholder's equity		
Share capital *[note 8]*	218,710	217,604
Retained earnings	225,850	230,703
Contributed surplus	10,634	9,090
Accumulated other comprehensive loss *[note 9]*	(27,340)	(18,325)
	427,854	439,072
	1,339,973	1,189,458

See accompanying notes to consolidated interim financial statement

NOTICE

The Corporation's independent auditors have not performed a review of the accompanying financial statements in accordance with the Canadian Institute of Chartered Accountants' standards for a review of interim financial statements by the auditors.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME

(in thousands of dollars, except per share amounts) (unaudited)	Quarters ended April 30 2011 $	Quarters ended April 30 2010 $	Six-month periods ended April 30 2011 $	Six-month periods ended April 30 2010 $
Revenues	1,101,109	1,060,386	1,911,263	1,852,948
Operating expenses				
Direct costs	680,945	709,906	1,179,946	1,221,688
Salaries and employee benefits	92,308	83,761	182,208	167,850
Aircraft fuel	104,372	70,303	170,167	127,445
Commissions	61,133	56,533	102,778	93,108
Aircraft maintenance	30,943	24,942	54,234	43,323
Airport and navigation fees	23,404	18,678	41,196	34,076
Aircraft rent	17,089	13,855	31,910	27,597
Other	81,747	74,210	154,294	142,072
	1,091,941	1,052,188	1,916,733	1,857,159
	9,168	8,198	(5,470)	(4,211)
Amortization	11,055	12,041	22,257	24,225
Interest on long-term debt	330	273	774	1,189
Other interest and financial expenses	578	456	1,002	877
Interest income	(1,772)	(605)	(3,704)	(1,037)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,155)	(9,090)	(11,993)	(10,318)
Foreign exchange loss on long-term monetary items	1,079	543	1,356	331
Gain on investments in ABCP *[note 4]*	(3,504)	(1,939)	(6,637)	(5,394)
Gain on disposal of assets under the restructuring plan	—	(960)	—	(960)
Share of net income of a company subject to significant influence	(1,617)	(2,456)	(1,048)	(2,345)
	(2,006)	(1,737)	2,007	6,568
Income (loss) before the undernoted items	11,174	9,935	(7,477)	(10,779)
Income taxes (recovery)				
Current	225	2,648	(5,632)	(2,879)
Future	949	(194)	775	(2,601)
	1,174	2,454	(4,857)	(5,480)
Income (loss) before non-controlling interest in subsidiaries' results	10,000	7481	(2,620)	(5,299)
Non-controlling interest in subsidiaries' results	(1,380)	(1,283)	(2,233)	(2,375)
Net income (loss) for the period	8,620	6,198	(4,853)	(7,674)
Earnings (loss) per share *[note 8]*				
Basic	0.23	0.16	(0.13)	(0.20)
Diluted	0.23	0.16	(0.13)	(0.20)

See accompanying notes to consolidated interim financial statement

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands of dollars) (unaudited)	Quarters ended April 30 2011 $	 2010 $	Six-month periods ended April 30 2011 $	 2010 $
Net income (loss) for the period	8,620	6,198	(4,853)	(7,674)
Other comprehensive income				
Change in fair value of derivatives designated as cash flow hedges	(37)	7,765	618	34,076
Reclassification in income	(3,540)	(4,760)	(4,582)	(16,106)
Future income taxes	1,053	(769)	1,005	(5,376)
	(2,524)	2,236	(2,959)	12,594
Foreign exchange gains (losses) on translation of financial statements of self-sustaining foreign subsidiaries due to (appreciation) depreciation of Canadian dollars vs. euro, pound sterling and U.S. dollar at balance sheet date	(2,638)	(11,189)	(6,056)	(17,417)
	(5,162)	(8,953)	(9,015)	(4,823)
Comprehensive income (loss) for the period	3,458	(2,755)	(13,868)	(12,497)

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDER'S EQUITY

(in thousands of dollars) (unaudited)	Share capital $	Retained earnings $	Contributed surplus $	Accumulated other comprehensive income (loss) $	Shareholders' equity $
Balance as at October 31, 2009	216,236	165,096	6,642	(20,613)	367,361
Net Income for the period	—	(13,872)	—	—	(13,872)
Other comprehensive loss	—	—	—	4,130	4,130
Issued from treasury	356	—	—	—	356
Exercise of options	112	—	—	—	112
Compensation expense for stock option plan	—	—	535	—	535
Balance as at January 31, 2010	216,704	151,224	7,177	(16,483)	358,622
Net Income for the period	—	79,479	—	—	79,479
Other comprehensive income	—	—	—	(1,842)	(1,842)
Issued from treasury	870	—	—	—	870
Exercise of options	30	—	—	—	30
Compensation expense for stock option plan	—	—	1,913	—	1,913
Balance as at October 31, 2010	217,604	230,703	9,090	(18,325)	439,072
Net loss for the period	—	(4,853)	—	—	(4,853)
Other comprehensive income	—	—	—	(9,015)	(9,015)
Issued from treasury	645	—	—	—	645
Exercise of options	461	—	—	—	461
Compensation expense for stock option plan	—	—	1,544	—	1,544
Balance as at April 30, 2011	218,710	225,850	10,634	(27,340)	427,854

See accompanying notes to consolidated interim financial statement

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF CASH FLOW

(in thousands of dollars) (unaudited)	Quarters ended April 30 2011 $	Quarters ended April 30 2010 $	Six-month periods ended April 30 2011 $	Six-month periods ended April 30 2010 $
OPERATING ACTIVITIES				
Net income (loss) for the period	8,620	6,198	(4,853)	(7,674)
Operating items not involving an outlay (receipt) of cash :				
Amortization	11,055	12,041	22,257	24,225
Change in fair value of derivative financial instruments used for aircraft fuel purchases	(8,155)	(9,090)	(11,993)	(10,318)
Foreign exchange loss on long-term monetary items	1,079	543	1,356	331
Gain on investments in ABCP	(3,504)	(1,939)	(6,637)	(4,774)
Gain on disposal of assets under the restructuring plan	—	(960)	—	(960)
Share of net income of a company subject to significant influence	(1,617)	(2,456)	(1,048)	(2,345)
Non-controlling interest in subsidiaries' results	1,380	1,283	2,233	2,375
Future income taxes	949	(194)	775	(2,601)
Pension expense	573	458	1,147	1,133
Compensation expense related to stock option plan	995	536	1,544	1,071
	11,375	6,420	4,781	463
Net change in non-cash working capital balances related to operations	92,362	129,931	149,483	121,146
Net change in other assets and liabilities related to operation	(1,275)	(12,244)	(6,702)	(14,625)
Net change in provision for overhaul of leased aircraft	2,205	3,890	4,682	(245)
Cash flows related to operating activities	104,667	127,997	152,244	106,739
INVESTING ACTIVITIES				
Additions to property, plant and equipment and to intangible assets	(11,904)	(3,942)	(25,083)	(8,325)
Proceeds on disposal of property, plant and equipment and to intangible assets under the restructuring plan *[note 10]*	—	1,544	—	1,544
Realization of principal of investments in ABCP	371	709	795	1,801
Increase in cash and cash equivalent reserved	(4,197)	(3,684)	(4,197)	(3,684)
Consideration paid for acquired companies *[note 7]*	—	(504)	—	(504)
Cash flow related to investing activities	(15,730)	(5,877)	(28,485)	(9,168)
FINANCING ACTIVITIES				
Net change in credit facilities and other debt	—	(42,762)	(15,076)	(43,854)
Debenture and loan repayments	(6,802)	(6,877)	(6,802)	(10,033)
Proceeds from issuance of shares	379	307	979	775
Dividend paid to a non-controlling interest	(2,224)	(2,078)	(2,224)	(2,078)
Cash flow related to financing activities	(8,647)	(51,410)	(23,123)	(55,190)
Effect of exchange rate changes on cash and cash equivalents	(1,002)	(11,480)	(3,021)	(15,967)
Net change in cash and cash equivalents	79,288	59,230	97,615	26,414
Cash and cash equivalents, beginning of the period	198,954	147,736	180,627	180,552
Cash and cash equivalents, end of the period	278,242	206,966	278,242	206,966
Supplementary information				
Income taxes paid	8,275	(12,307)	22,523	(7,839)
Interest paid	1,167	1,291	1,231	2,147

See accompanying notes to consolidated interim financial statement

[The amounts are expressed in thousands, except for share capital, stock options, and amounts per option or per share] [Unaudited]

Note 1 BASIS OF PRESENTATION

The unaudited consolidated interim financial statements were prepared by the Corporation in accordance with Canadian generally accepted accounting principles applicable to interim financial statements and follow the same accounting policies and methods of their application as the most recent annual financial statements. In the opinion of management, all adjustments necessary for a fair presentation are reflected in the consolidated interim financial statements. Such adjustments are of a normal and recurring nature. The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year. The unaudited interim consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Corporation's 2010 Annual Report.

Note 2 FUTURE CHANGES IN 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 IFRS 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.

Note 3 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at April 30, 2011, cash and cash equivalents in trust or otherwise reserved included $297,113 [$266,617 as at October 31, 2010] 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 one of its credit card processor. Cash and cash equivalents in trust or otherwise reserved also include $76,486, of which $36,112 was recorded as non-current assets [$86,033 as at October 31, 2010, of which $32,222 was presented as non-current assets], which was pledged as collateral security against letters of credit.

Note 4 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 $143,500.

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 valuation, the provision for impairment totalled $47,450, and the fair value of the ABCP investment portfolio stood at $96,050. 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 $141,741.

PORTFOLIO

During the six-month period ended April 30, 2011, the Corporation received $795 in the form of principal repayments on ABCP supported solely by traditional securitized assets ["MAV3 Traditional"]. The notional value of the new ABCP amounted to $117,327 as at April 30, 2011 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 $4,017 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 April 30, 2011, 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 six-month period ended April 30, 2011, 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 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 2.4% [weighted average rate of 2.0%], depending on the type of series. These future cash flows were discounted, according to the type of series, over 5.8-year periods using discount rates ranging from 6.8% to 39.3% [weighted average rate of 11.5%], which factor in liquidity.

As a result of this new valuation, on April 30, 2011, the Corporation recognized an increase in the fair value of its investments in ABCP of $3,504, $6,637 for the six-month period. The ABCP investment portfolio had a fair value of $78,188 and the provision for impairment totalled $39,139, representing 33.4% of the notional value of $117,327.

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 $3,700 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 Gain on investments in ABCP in the consolidated statement of income:

(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, 2009	128,835	(57,434)	71,401	
Appreciation in value of investments in ABCP	—	3,455	3,455	(3,455)
Principal repayments	(1,092)	—	(1,092)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at January 31, 2010; impact on results for the period ended January 31, 2010	127,743	(54,599)	73,144	(3,455)
Appreciation in value of investments in ABCP	—	1 939	1 939	(1,939)
Principal repayments	(709)	—	(709)	—
Balance as at April 30, 2010; impact on results the period ended April 30, 2010	127,034	(52,660)	74,374	(5,394)
Disposal of investments in ABCP	(7,630)	7,630	—	—
Writedown of investments in ABCP	—	(746)	(746)	746
Principal repayments	(1,282)	—	(1,282)	—
Balance as at October 31, 2010; impact on results for fiscal year ended October 31, 2010	118,122	(45,776)	72,346	(4,648)
Appreciation in value of investments in ABCP	—	3,133	3,133	(3,133)
Principal repayments	(424)	—	(424)	—
Balance as at January 31, 2011; impact on results for period ended January 31, 2011	117,698	(42,643)	75,055	(3,133)
Appreciation in value of investments in ABCP	—	3,504	3,504	(3,504)
Principal repayments	(371)	—	(371)	—
Balance as at April 30, 2011; impact on results for the period ended April 30, 2011	117,327	(39,139)	78,188	6,637

The balance of investments in ABCP as at April 30, 2011 is detailed as follows:

(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	(7,210)	27,205
Class A-2	63,894	(20,573)	43,321
Class B	11,598	(8,501)	3,097
Class C	3,403	(2,850)	553
	113,310	(39,134)	74,176
MAV3 Traditional	4,017	(5)	4,012
	117,327	(39,139)	78,188

Note 5 INVESTMENTS AND OTHER ASSETS

	As at April 30, 2011 $	As at October 31, 2010 $
Investment in Caribbean Investments B.V.	58,665	61,239
Deferred costs, unamortized balance	1,485	1,868
Other investments	81	115
Sundry	1,548	1,646
	61,779	64,868

The change in the investment in Caribbean Investments B.V. [« CIBV »] is detailed as follows:

	$
Balance as at October 31, 2010	61,239
Share of net income	1,048
Translation adjustment	(3,622)
Balance as at April 30, 2011	58,665

Note 6 LONG-TERM DEBT

	As at April 30, 2011 $	As at October 31, 2010 $
Loan secured by aircraft amounting to US$6,667 [US$13,333 as at October 31, 2010]	6,324	13,584
Drawdowns under the revolving term credit facility maturing in 2012	—	15,000
Other	543	475
	6,867	29,059
Less: current portion	6,577	13,768
	290	15,291

Note 7 OTHER LIABILITIES

	As at April 30, 2011 $	As at October 31, 2010 $
Accrued benefit liabilities	19,362	18,630
Deferred lease inducements	17,740	18,500
Non-controlling interest	7,645	8,238
	44,747	45,368

On February 26, 2010, the Corporation acquired Tourgreece Tourist Enterprises S.A's non-controlling interest, which consisted of the balance of the remaining shares (10%), for a cash consideration of $504 (€350).

Note 8 SHARE CAPITAL

A) SHARE CAPITAL

AUTHORIZED

Class A variable voting shares

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

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

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

Class B voting shares

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

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

Preferred shares

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

ISSUED AND OUTSTANDING

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

	Number of shares	Amount ($)
Balance as at October 31, 2010	37,849,834	217,604
Issued from treasury	44,404	645
Exercise of options	33,812	461
Balance as at April 30, 2011	37,928,050	218,710

As at April 30, 2011, the number of Class A Shares and Class B Shares amounted to 889,705 and 37,038,345, respectively.

B) OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2010	1,722,302	16.04
Granted	237,239	19.24
Exercised	(33,812)	9.87
Cancelled	(26,209)	17.03
Balance as at April 30, 2011	1,899,520	16.54
Options exercisable as at April 30, 2011	699,370	21.98

C) EARNINGS (LOSS) PER SHARE

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

	Quarters ended April 30		Six-month periods ended April 30	
	2011	2010	2011	2010
(in thousands of dollars, except per share amounts)	$	$	$	$
Numerator				
Income (loss) attributable to voting shareholders and used to calculate diluted earnings (loss) per share	8,620	6,198	(4,853)	(7,674)
Denominator				
Weighted average number of outstanding shares	37,968	37,841	37,891	37,767
Stock options	205	163	—	—
Weighted average number of outstanding shares and adjusted weighted average number of outstanding shares used in computing diluted income (loss) per share	38,173	38,004	37,891	37,767
Earnings (loss) per share				
Basic	0.23	0.16	(0.13)	(0.20)
Diluted	0.23	0.16	(0.13)	(0.20)

In computing diluted earnings per share for the thee-month period ended April 30, 2011, a total of 797,135 stock options [544,805 stock options for the three-month period ended April 30, 2010] were excluded from the computation because the exercise price on these options exceeded the average price of the Corporation's share for the period. Given the loss recorded for the six-month periods ended April 30, 2011 and 2010, the 1,055,038 stock options outstanding [1,905,233 stock options for the six-month period ended April 30, 2010] were excluded from the computation of diluted loss per share because of their antidilutive effect.

Note 9 ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in the accumulated other comprehensive income were as follows for the quarter ended April 30, 2011:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income (loss) $
Accumulated other comprehensive income (loss)			
Balance as at October 31, 2010	(1,522)	(16,803)	(18,325)
Change during the period	(435)	(3,418)	(3,853)
Balance as at January 31, 2011	(1,957)	(20,221)	(22,178)
Change during the period	(2,524)	(2,638)	(5,162)
Balance as at April 30, 2011	(4,481)	(22,859)	(27,340)

Changes in the accumulated other comprehensive income were as follows for the quarter ended April 30, 2010:

	Cash flow hedges $	Cumulative translation adjustment $	Accumulated other comprehensive income (loss) $
Accumulated other comprehensive income (loss)			
Balance as at October 31, 2009	(17,043)	(3,570)	(20,613)
Change during the period	10,358	(6,228)	4,130
Balance as at January 31, 2010	(6,685)	(9,798)	(16,483)
Change during the period	2,236	(11,189)	(8,953)
Balance as at April 30, 2010	(4,449)	(20,987)	(25,436)

Note 10 SEGMENTED INFORMATION

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

	Three-month period ended April 30, 2011			Six-month period ended April 30, 2011		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	908,476	192,633	1,101,109	1,584,037	327,226	1,911,263
Operating expenses	898,803	193,138	1,091,941	1,580,437	336,296	1,916,733
	9,673	(505)	9,168	3,600	(9,070)	(5,470)
Property, plant and equipment, goodwill and other intangible assets [1]				142,439	109,566	252,005

	Three-month period ended April 30, 2010			Six-month periods ended April 30, 2010		
	Americas $	Europe $	Total $	Americas $	Europe $	Total $
Revenues	886,750	173,636	1,060,386	1,543,546	309,402	1,852,948
Operating expenses	873,658	178,530	1,052,188	1,534,387	322,772	1,857,159
	13,092	(4,894)	8,198	9,159	(13,370)	(4,211)
Property, plant and equipment, goodwill and other intangible assets [2]				139,705	111,589	251,294

[1] As at April 30, 2011
[2] As at October 31, 2010

Note 11 GUARANTEES

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

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

Notes 4, 11, 12, 13 and 21 to the 2010 audited consolidated financial statements provide information relating to some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

IRREVOCABLE LETTERS OF CREDIT

The Corporation has entered into irrevocable letters of credit guarantees with some of its suppliers. The Corporation guarantees the payment of certain rendered services that it has undertaken to pay for. These agreements typically cover a one year period and are renewed annually.

The corporation has also issued letters of credit to provincial regulatory agencies guaranteeing amounts to the Corporation's clients for the performance of its obligations. The amount guaranteed totalled $458 as at April 30, 2011. Historically, the Corporation has not made any significant payments under such letters of credit.

SECURITY CONTRACTS

The Corporation has entered into security contracts whereby it has guaranteed a prescribed amount to its clients at the request of regulatory agencies for the performance of the obligations given in mandates by its clients during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewed annually. The amount guaranteed totalled $951 as at April 30, 2011. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2011, no amounts had been accrued with respect to the above-mentioned agreements.

SECURITY FACILITY

The Corporation has a $50,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at April 30, 2011, an amount of $12,522 was used under this facility.

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