TRANSAT A.T. INC.
Management's Discussion & Analysis
Year ended October 31, 2010

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TSX: TRZ.B, TRZ.A

This Management's Discussion and Analysis consists of the following sections:

MANAGEMENT'S DISCUSSION & ANALYSIS

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

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

NON-GAAP FINANCIAL MEASURES

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

Margin (operating loss)	Revenues less operating expenses.
Adjusted income (loss)	Income (loss) before non-controlling interest in subsidiaries' results, income taxes, change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain).
Adjusted after-tax income (loss)	Net income (loss) before change in fair value of derivative financial instruments used for aircraft fuel purchases, non-monetary gain (loss) on investments in ABCP and restructuring charge (gain), net of related taxes.
Adjusted after-tax income (loss) per share	Adjusted after-tax income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Total debt	Long-term debt plus the debenture and off-balance sheet arrangements, excluding agreements with service providers, reported on page 17.
Net debt	Total debt (described above) less cash and cash equivalents and investments in ABCP.

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

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

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

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

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

FINANCIAL HIGHLIGHTS

	2010	2009	2008	Change	
				2010	2009
(In thousands of dollars)	$	$	$	%	%
Consolidated Statements of Income					
Revenues	3,498,877	3,545,341	3,512,851	(1.3)	0.9
Margin[1]	127,582	93,395	127,768	36.6	(26.9)
Net income (loss)	65,607	61,847	(49,394)	6.1	225.2
Basic earnings (loss) per share	1.74	1.86	(1.49)	(6.5)	224.8
Diluted earnings (loss) per share	1.73	1.85	(1.49)	(6.5)	224.2
Adjusted after-tax income (loss)[1]	53,663	33,723	57,014	59.1	(39.1)
Diluted after-tax income per share	1.41	1.01	1.72	39.6	(41.3)
Dividend – Class A and Class B shares	—	0.09	0.36	(100.0)	(75.0)
Consolidated Statements of Cash Flows					
Operating activities	119,131	45,234	95,069	163.4	(52.4)
Investing activities	(27,819)	(26,662)	(142,027)	(4.3)	81.2
Financing activities	(81,034)	18,303	15,091	(542.7)	21.3
Effect of exchange rate changes on cash and cash equivalents	(10,203)	(2,090)	10,866	(388.2)	(119.2)
Net change in cash and cash equivalents	75	34,785	(21,001)	(99.8)	265.6

	As at October 31, 2010	As at October 31, 2009	As at October 31, 2008	Change 2010	Change 2009
	$	$	$	%	%
Consolidated Balance Sheets					
Cash and cash equivalents	180,627	180,552	145,767	0.0	23.9
Cash and cash equivalents in trust or otherwise reserved (short-term and long-term)	352,650	272,726	256,697	29.3	6.2
Investments in ABCP	72,346	71,401	86,595	1.3	(17.5)
Total assets	1,189,458	1,129,503	1,267,214	5.3	(10.9)
Debt (short-term and long-term)	29,059	110,840	153,241	(73.8)	(27.7)
Total debt[1]	672,809	507,273	450,335	32.6	12.6
Net debt[1]	419,836	255,320	217,973	64.4	17.1

[1] SEE NON-GAAP FINANCIAL MEASURES.

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

Transat is one of the largest fully integrated world-class tour operators in North America. We operate solely in the holiday travel industry and market our services mainly in the Americas and Europe. As a tour operator, Transat's core business involves developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services bought in Canada and abroad and reselling them in Canada, France, the U.K. and in ten other European countries, mainly through travel agencies, some of which we own (as in France and Canada). Transat is also a major retail distributor with a total of approximately 500 travel agencies (including 358 franchisees) and a multi-channel distribution system incorporating web-based sales. Transat holds an interest in a hotel business that owns and operates properties in Mexico and the Dominican Republic. Transat deals with a large number of air carriers, but relies on its subsidiary Air Transat for a significant portion of its needs. Transat also offers destination and airport services.

VISION

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

STRATEGY

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

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

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

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

For fiscal 2011, Transat has set the following targets:

- Continue the organizational transformation with the harmonized implementation of new information systems and related operating processes.
- Increase revenues at Transat Tours Canada through organic growth.
- Grow revenues and profitability at Transat France to become France's third largest tour operator by 2013.
- Strengthen our presence, expand sales and improve our bottom line in certain foreign markets.
- Enhance the strategic value of our brand.

- Actively pursue our plan to make Transat one of the industry's most responsible companies.
- Improve our competitiveness in terms of service quality and operating costs in the air carrier industry.
- Improve our organization's adaptability.

REVIEW OF 2010 OBJECTIVES AND ACHIEVEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

KEY PERFORMANCE DRIVERS

The following key performance drivers are essential to the successful implementation of our strategy and to the achievement of our objectives:

MARKET SHARE	Remain the leader in Canada in all provinces and increase market share in Ontario, across the rest of the country and in Europe.
REVENUE GROWTH	Grow revenues by more than 3%, excluding acquisitions.
MARGIN	Generate margins higher than 4%.

ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $180.6 million as at October 31, 2010. Our continued focus on expense reductions and margin increases should maintain these balances at healthy levels. In addition, we hold investments in ABCP with a fair value and a notional value of $72.3 million and $118.1 million, respectively, as at October 31, 2010.
Credit facilities	We have revolving term credit facilities currently totalling $242.8 million, up for renewal in 2012.

Our non-financial resources include:

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

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

CONSOLIDATED OPERATIONS

REVENUES

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

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

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

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

OPERATING EXPENSES

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

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

DIRECT COSTS

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

SALARIES AND EMPLOYEE BENEFITS

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

AIRCRAFT FUEL

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

COMMISSIONS

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

AIRCRAFT MAINTENANCE

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

AIRPORT AND NAVIGATION FEES

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

AIRCRAFT RENT

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

OTHER

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

MARGIN

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

GEOGRAPHIC SEGMENTS

AMERICAS

Americas				Change	
(In thousands of dollars)	2010 $	2009 $	2008 $	2010 %	2009 %
Winter season					
Revenues	1,543,546	1,653,636	1,560,186	(6.7)	6.0
Operating expenses	1,534,387	1,613,468	1,468,934	(4.9)	9.8
Margin	9,159	40,168	91,252	(77.2)	(56.0)
Margin (%)	0.6	2.4	5.8	(75.6)	(58.5)
Summer season					
Revenues	1,024,437	898,712	976,645	14.0	(8.0)
Operating expenses	946,430	869,276	991,767	8.9	(12.4)
Margin	78,007	29,436	(15,122)	165.0	294.7
Margin (%)	7.6	3.3	(1.5)	132.5	320.0

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

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

EUROPE

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

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

Revenues for the summer season were down $18.8 million or 2.9% despite a 4.6% rise in the volume of travellers. This decline stems primarily from the translation into Canadian dollars of revenues at European subsidiaries following the strengthening of the dollar against European currencies. Our European operations reported a margin of $53.8 million or 8.7% for the summer season compared with $33.3 million or 5.2% in 2008. This improvement arises primarily from our U.K. subsidiary which reported significantly higher revenues following higher traveller volumes and average selling prices.

OTHER EXPENSES (REVENUES)

				Change	
(In thousands of dollars)	2010 $	2009 $	2008 $	2010 %	2009 %
Amortization	48,662	51,155	56,147	(4.9)	(8,9)
Interest on long-term debt and debenture	2,225	4,866	7,538	(54.3)	(35.4)
Other interest and financial expenses	2,359	2,679	1,758	(11.9)	52.4
Interest income	(3,036)	(4,588)	(16,172)	(33.8)	(71.6)
Changes in fair value of derivative financial instruments related to aircraft fuel purchases	(9,341)	(68,267)	106,435	86.3	(164.1)
Foreign exchange loss (gain) on long-term monetary items	(1,109)	(135)	2,295	(721.5)	(105.9)
Loss (gain) on investments in ABCP	(4,648)	(68)	45,927	n/a	(100.1)
Restructuring charge (gain)	(1,157)	11,967	—	(109.7)	n/a
Gain on repurchase of preferred shares of a subsidiary	—	—	(1,605)	—	(100.0)
Share of net loss (income) of a company subject to significant influence	490	(24)	427	n/a	(105.6)

AMORTIZATION

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

INTEREST ON LONG-TERM DEBT AND DEBENTURE

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

OTHER INTEREST AND FINANCIAL EXPENSES

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

INTEREST INCOME

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

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

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

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

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

LOSS (GAIN) ON INVESTMENTS IN ABCP

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

RESTRUCTURING CHARGE

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

GAIN ON REPURCHASE OF PREFERRED SHARES OF A SUBSIDIARY

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

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

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

INCOME TAXES

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

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

NET INCOME

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

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

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

SELECTED QUARTERLY FINANCIAL INFORMATION

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

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

FOURTH-QUARTER HIGHLIGHTS

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

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

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

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

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

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

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

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

CASH FLOWS

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

OPERATING ACTIVITIES

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

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

INVESTING ACTIVITIES

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

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

FINANCING ACTIVITIES

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

FINANCING

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

The Corporation has a $157.0 million revolving credit facility maturing in 2012 or immediately repayable in the event of a change in control and a $60.0 million revolving credit facility for issuing letters of credit for which the Corporation must pledge cash as collateral security amounting to 105% of the letters of credit issued. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at the London Interbank Offered Rate (LIBOR), plus a premium based on certain financial ratios calculated on a consolidated basis. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at October 31, 2010, all financial criteria and ratios were met.

The Corporation also has access to an $85.8 million revolving credit facility which matures in 2012 or is immediately repayable in the event of a change in control. Under the terms and conditions of this agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. Under this agreement, interest is charged at bankers' acceptance rates, at the financial institution's prime rate or at LIBOR, plus a premium specific to the type of financing vehicle. This credit facility also includes options, now in effect following implementation of the ABCP restructuring plan, allowing the Corporation, at its discretion, to repay amounts drawn down as they fall due under certain conditions up to a maximum of $47.0 million using the restructured notes. This option is reported at fair value at each balance sheet date under derivative financial instruments, and any change in fair value of the options is recorded in net income under loss (gain) on the investments in ABCP. The Corporation measured the option as at October 31, 2010 and recorded no change in its fair value. Under the terms of the agreement, the Corporation is required to comply with financial criteria and ratios. As at October 31, 2010, all financial criteria and ratios were met.

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

The loans secured by aircraft of the Corporation amounted to $13.6 million [US$13.3 million] as at October 31, 2010. The loans bear interest at LIBOR plus 2.15% and 3.25% and are repayable in equal semi-annual instalments through 2011.

With regard to our French operations, we also have access to undrawn lines of credit totalling €10.0 million [$14.2 million].

OFF-BALANCE SHEET ARRANGEMENTS

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

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

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

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

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

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

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

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

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

DEBT LEVELS

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

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

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

SHARES ISSUED AND OUTSTANDING

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

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

STOCK OPTIONS

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

INVESTMENTS IN ABCP

RESTRUCTURING

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

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

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

PORTFOLIO

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

MAV2 Eligible

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

MAV3 Traditional

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

VALUATION

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

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

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

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

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

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

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

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

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

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

OTHER

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

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

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

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

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

ACCOUNTING

CRITICAL ACCOUNTING ESTIMATES

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

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

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

FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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

FAIR VALUE OF INVESTMENTS IN ABCP

See Investments in ABCP.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

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

GOODWILL AND INTANGIBLE ASSETS

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

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

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

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

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

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

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

ACCRUED BENEFIT LIABILITY

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

NEW ACCOUNTING POLICIES

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

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

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

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

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

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

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

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

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

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

Accounting area	Main differences with potential impact for the Corporation	Progress
Financial statement presentation and disclosure	• IFRS require a different format and additional disclosures in the notes to financial statements.	A model set of financial statements has been prepared and is subject to change based on the conclusions of our overall work.
Property, plant and equipment	• Separate recognition of components of significant assets and amortization of components over various useful lives.	Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation.
Asset impairment	• Grouping of assets in cash generating units (CGUs) on the basis of largely independent cash inflows for impairment testing purposes, using a discounted future cash flow method in a single-step approach. • Goodwill allocated to and tested in conjunction with its related CGU or group of CGUs that benefit from collective synergies. • In certain circumstances, previous impairment charges on assets other than goodwill are required to be reversed.	Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation.
Leases	• IFRS require the use of qualitative versus quantitative thresholds as under Canadian GAAP in accounting for capital leases.	Based on preliminary conclusions, there are no differences that could potentially result in a significant impact for the Corporation.
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.	Analysis is underway, and we are unable to quantify the impact of differences, if any.
Employee benefits	• Immediate recognition of past service costs for which benefits are vested through opening retained earnings at the transition date and subsequently through income. • After the transition to IFRS, an entity may recognize actuarial gains and losses as they occur in comprehensive income with no impact on income.	Preliminary conclusions indicate there could be differences with significant impact for the Corporation at the IFRS transition date. However, changes in actuarial gains or losses will be recognized through comprehensive income without any impact on the statement of income.

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

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

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

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

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

FINANCIAL INSTRUMENTS

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

FOREIGN EXCHANGE RISK MANAGEMENT

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

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

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

MANAGEMENT OF FUEL PRICE RISK

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

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

CREDIT AND COUNTERPARTY RISK

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

Trade accounts receivable included in accounts receivable in the balance sheet totalled $78.3 million as at October 31, 2010. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2010, approximately 7% of accounts receivable were over 90 days past due, whereas approximately 78% were up to date, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to the agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2010, these deposits totalled $31.8 million and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $10.6 million as at October 31, 2010 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2010, the cash security deposits with lessors that have been claimed totalled $13.9 million and have been included in accounts receivable. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2010 relates to cash and cash equivalents, including cash and cash equivalents reserved, investments in ABCP and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better [by DBRS], A1 [by Standard & Poor's] or P1 [by Moody's] and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

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

LIQUIDITY RISK

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

INTEREST RATE RISK

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

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

RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are measured at the exchange amount, which is the amount of consideration determined and agreed to by the related parties. During the year, the Corporation recorded $13.3 million in person-nights purchased at hotels belonging to CIBV, a company subject to significant influence.

RISKS AND UNCERTAINTIES

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

ECONOMIC AND GENERAL FACTORS

Economic factors such as a significant downturn in the economy, a recession or a decline in the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. Our operating results could also be adversely affected by more general factors, including the following: extreme weather conditions, climate-related or geological disasters, war, political instability, terrorism whether actual or apprehended, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perceptions of destination-based service and airline safety, demographic trends; disruptions to air traffic control systems, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

COMPETITION

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

FLUCTUATIONS IN FOREIGN EXCHANGE AND INTEREST RATES

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

FUEL COSTS AND SUPPLY

Transat is particularly exposed to fluctuations in fuel costs. Due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results. We use forward contracts and other derivative financial instruments in accordance with our hedging policy to hedge against fuel cost fluctuations. However, while our derivative financial instruments partially protect the Corporation from adverse fluctuations in fuel costs, they could also prevent the Corporation from capitalizing on favourable fluctuations in fuel costs. Furthermore, a potential reduction in our fuel supply could adversely affect operations.

CHANGING INDUSTRY DYNAMICS: NEW DISTRIBUTION METHODS

The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thereby bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial portion of our revenues. For the time being, direct Internet sales remain limited in the vacation travel segment, but shifts in industry dynamics in the distribution business occur rapidly and, in this respect, give rise to risks. In order to address this issue, Transat is in the process of developing and implementing a multichannel distribution system to strike a harmonious balance between a variety of distribution strategies such as travel agencies, direct sales (including via Internet), third-party sales and the use of electronic booking systems.

However, given that we rely to some extent on retail travel agencies for access to travellers and revenues, any consumer shift away from travel agencies and toward direct purchases from travel suppliers could impact the Corporation.

RELIANCE ON CONTRACTING TRAVEL SUPPLIERS

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

DEPENDENCE ON TECHNOLOGY

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

DEPENDENCE ON CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

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

NEGATIVE WORKING CAPITAL

In the normal course of business, we receive customer deposits and advance payments. If funds from advance payments were to diminish or be unavailable to pay our suppliers, we would be required to secure alternative capital funding. There could be no assurance that additional funding would be available under terms and conditions suitable to the Corporation, which could adversely affect its business.

FLUCTUATIONS IN FINANCIAL RESULTS

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

GOVERNMENT REGULATION AND TAXATION

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

FUTURE CAPITAL REQUIREMENTS

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

INTERRUPTION OF OPERATIONS

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

INSURANCE COVERAGE

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

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

The Canadian government continues to cover its air carriers, prompted by the licensing situation and by the U.S. government's decision to continue covering its own carriers against such risks. However, there can be no assurance that the Canadian government will not withdraw its coverage, particularly if the U.S. government were to change its position. If that were to happen, we would be required to deal with private insurers to attempt to secure such coverage, and there could be no assurance that we would be able to secure coverage at an acceptable level and cost.

CASUALTY LOSSES

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

ACCESS TO AIRPORT FACILITIES

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

AIRCRAFT LEASE OBLIGATIONS

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

AIRCRAFT AVAILABILITY

To carry on business or extend its outreach, the Corporation requires access to aircraft and, in particular, its own fleet operated by its subsidiary Air Transat. This fleet consists primarily of aircraft leased for several years with varying renewal dates and conditions. If the

Corporation were unable to renew its leases, secure timely access to appropriate aircraft under adequate conditions or retire certain aircraft as anticipated, such an outcome could adversely affect the Corporation.

CLIMATE CHANGE REGULATIONS

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

KEY PERSONNEL

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

UNCERTAINTY REGARDING COLLECTIVE AGREEMENTS

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

CONTROLS AND PROCEDURES

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

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

DISCLOSURE CONTROLS AND PROCEDURES

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

- Material information relating to the Corporation has been made known to them; and
- Information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

OUTLOOK

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

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

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

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

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