TRANSAT A.T.INC.
Consolidated Financial Statements
October 31, 2010 and 2009

Investor Relations
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Trading symbols
boursiers
TSX: TRZ.B, TRZ.A

AUDITORS' REPORT

To the Shareholders of
Transat A.T. Inc.

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

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2010 and 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP[1]

Montréal, Canada
December 3, 2010

Chartered Accountants

[1] CA auditor permit no. 13764

Transat A.T. Inc.

CONSOLIDATED BALANCE SHEETS

As at October 31 [In thousands of dollars]	2010 $	2009 $
ASSETS		
Current assets		
Cash and cash equivalents	**180,627**	180,552
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	**320,428**	244,250
Accounts receivable	**146,944**	105,349
Income taxes receivable	**4,738**	25,083
Future income taxes *[note 19]*	**2,895**	12,860
Inventories	**9,867**	9,823
Prepaid expenses	**50,297**	30,447
Derivative financial instruments *[note 6]*	**868**	6,770
Current portion of deposits	**12,554**	30,578
Total current assets	**729,218**	645,712
Cash and cash equivalents in trust or otherwise reserved *[note 4]*	**32,222**	28,476
Investments in ABCP *[note 5]*	**72,346**	71,401
Deposits *[note 7]*	**29,837**	12,014
Future income taxes *[note 19]*	**9,650**	10,454
Property, plant and equipment *[notes 8, 13 and 18]*	**88,376**	122,911
Goodwill *[notes 9 and 18]*	**112,454**	113,993
Other intangible assets *[note 9]*	**50,464**	46,163
Derivative financial instruments *[note 6]*	**23**	9,488
Investments and other assets *[note 10]*	**64,868**	68,891
	1,189,458	1,129,503
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	**300,355**	266,445
Current portion of provision for overhaul of leased aircraft	**18,301**	21,029
Income taxes payable	**14,608**	4,021
Future income tax liabilities *[note 19]*	**106**	266
Customer deposits and deferred income	**313,695**	251,018
Derivative financial instruments *[note 6]*	**4,116**	40,243
Debenture *[note 12]*	**—**	3,156
Payments on current portion of long-term debt	**13,768**	24,576
Total current liabilities	**664,949**	610,754
Long-term debt *[note 13]*	**15,291**	83,108
Provision for overhaul of leased aircraft	**12,408**	8,550
Other liabilities *[note 14]*	**45,368**	41,743
Derivative financial instruments *[note 6]*	**—**	50
Future income tax liabilities *[note 19]*	**12,370**	17,937
	750,386	762,142
Shareholders' equity		
Share capital *[note 15]*	**217,604**	216,236
Contributed surplus	**9,090**	6,642
Retained earnings	**230,703**	165,096
Accumulated other comprehensive loss *[notes 6 and 16]*	**(18,325)**	(20,613)
	439,072	367,361
	1,189,458	1,129,503

Commitments and contingencies *[note 22]*

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Jean-Marc Eustache, Director

André Bisson, Director

Transat A.T. Inc.

CONSOLIDATED STATEMENTS OF INCOME

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

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

See accompanying notes to consolidated financial statements.

Transat A.T. Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME LOSS

Years ended October 31
[In thousands of dollars]

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

See accompanying notes to consolidated financial statements.

Transat A.T. Inc.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended October 31
[In thousands of dollars]

	Share capital $	Contributed surplus $	Retained earnings $	Accumulated other comprehensive income (loss) $	Shareholders' equity $
2010					
Balance, beginning of year	**216,236**	**6,642**	**165,096**	**(20,613)**	**367,361**
Net income for the year	—	—	**65,607**	—	**65,607**
Other comprehensive income	—	—	—	**2,288**	**2,288**
Issued from treasury *[note 15]*	**1,226**	—	—	—	**1,226**
Options exercised *[note 15]*	**142**	—	—	—	**142**
Compensation expense related to stock option plan *[note 15]*	—	**2,448**	—	—	**2,448**
Balance, end of year	**217,604**	**9,090**	**230,703**	**(18,325)**	**439,072**

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

See accompanying notes to consolidated financial statements.

Transat A.T. Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended October 31
[In thousands of dollars]

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

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2010 and 2009
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

1. INCORPORATION AND NATURE OF BUSINESS

Transat A.T. Inc. [the "Corporation"], incorporated under the *Canada Business Corporations Act*, is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of tour operators based in Canada and Europe. The Corporation is also involved in air transportation, value-added services at travel destinations and accommodations. Finally, the Corporation has secured a dynamic presence in distribution through travel agency networks.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of consolidation

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

Cash equivalents

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

Inventories

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

Property, plant and equipment

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Goodwill and other intangible assets

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

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

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

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

Software	3 to 10 years
Customer lists	7 to 10 years

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Impairment of long-lived assets

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

Investments and other assets

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

Provision for overhaul of leased aircraft

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

Foreign currency translation

Self-sustaining foreign operations

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Accounts and transactions in foreign currencies

The accounts and transactions of the Corporation denominated in foreign currencies including the accounts of integrated foreign operations are translated using the temporal method. At the transaction date, each asset, liability, revenue or expense arising from a foreign currency transaction is translated into Canadian dollars by using the exchange rate in effect at that date. At each balance sheet date, monetary items denominated in a foreign currency are adjusted to reflect the exchange rate in effect at the balance sheet date. Any exchange gain or loss that arises on translation is included in the determination of net income for the period.

Stock-based compensation and other compensation plans

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2010 and 2009
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Revenue recognition

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

Financial instruments

Classification of financial instruments

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

<u>Held-for-trading</u>

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

<u>Loans and receivables and other financial liabilities</u>

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Transaction costs

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

Fair value hierarchy

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

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

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

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

Hedge accounting and derivative financial instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES [Cont'd]

Income taxes

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

Deferred lease inducements

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

Employee future benefits

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

Earnings per share

Earnings per share are calculated based on the weighted average number of Class A Variable Voting Shares and Class B Voting Shares outstanding during the year. Diluted earnings per share are calculated using the treasury stock method and take into account all the elements that have a dilutive effect.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. FUTURE CHANGES TO ACCOUNTING POLICIES

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

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

4. CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

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

5. INVESTMENTS IN ABCP

Restructuring

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

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

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

5. INVESTMENTS IN ABCP [Cont'd]

Portfolio

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

MAV2 Eligible

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

MAV3 Traditional

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

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5. INVESTMENTS IN ABCP [Cont'd]

Valuation

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

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

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

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

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

5. INVESTMENTS IN ABCP [Cont'd]

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

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

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

	Notional value of investments in ABCP $	Provision for impairment 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 estimated cash accumulated in conduits	—	—	—	(6,400)
Remeasurement of options related to repayment of revolving credit facilities	—	—	—	(800)
Balance as at October 31, 2009; impact on results for the year ended October 31, 2009	**128,835**	**(57,434)**	**71,401**	**(68)**
Disposal of investments in ABCP	(7,630)	7,630	—	—
Appreciation in value of investments in ABCP	—	4,648	4,648	(4,648)
Principal repayments	(3,083)	—	(3,083)	—
Share of cash accumulated in conduits	—	(620)	(620)	—
Balance as at October 31, 2010; impact on results for the year ended October 31, 2010	**118,122**	**(45,776)**	**72,346**	**(4,648)**

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

5. INVESTMENTS IN ABCP [Cont'd]

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

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

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6. FINANCIAL INSTRUMENTS

Classification of financial instruments

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

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

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6. FINANCIAL INSTRUMENTS [Cont'd]

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

Determination of fair value of derivative financial instruments

The fair value of the financial instruments represents the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The following methods and assumptions were used to measure fair value:

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

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6. FINANCIAL INSTRUMENTS [Cont'd]

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

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

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

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

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6. FINANCIAL INSTRUMENTS [Cont'd]

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

	Assets $	Liabilities $
2010		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	**250**	**4,011**
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	**7**	**—**
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	**634**	**105**
	891	**4,116**
2009		
Derivative financial instruments designated as cash flow hedges		
Foreign exchange forward contracts	2,413	27,144
Derivative financial instruments designated as fair value hedges		
Foreign exchange forward contracts	504	200
Derivative financial instruments classified as held-for-trading		
Fuel purchasing forward contracts and other fuel-related derivative financial instruments	4,141	12,949
Options related to repayment of revolving credit facilities *[note 5]*	9,200	—
	13,341	12,949
	16,258	40,293

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

6. FINANCIAL INSTRUMENTS [Cont'd]

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

	Quoted prices in active markets (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
2010				
Financial assets				
Investments in ABCP	—	—	**72,346**	**72,346**
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	**634**	—	**634**
– Foreign exchange forward contracts	—	**257**	—	**257**
	—	**891**	**72,346**	**73,237**
Financial liabilities				
Derivative financial instruments				
– Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	**105**	—	**105**
– Foreign exchange forward contracts	—	**4,011**	—	**4,011**
	—	**4,116**	—	**4,116**

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

6. FINANCIAL INSTRUMENTS [Cont'd]

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

Trade accounts receivable included in accounts receivable in the balance sheet totalled $78,310 as at October 31, 2010 [$59,380 as at October 31, 2009]. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators, dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2010, approximately 7% [approximately 8% as at October 31, 2009] of accounts receivable were over 90 days past due, whereas approximately 78% [approximately 73% as at October 31, 2009] were up to date, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to certain agreements entered into with its service providers, consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2010, these deposits totalled $31,837 [$31,808 as at October 31, 2009] and were generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

6. FINANCIAL INSTRUMENTS [Cont'd]

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $10,554 as at October 31, 2010 [$10,784 as at October 31, 2009] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are expensed when the funds are disbursed. However, these cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2010, the cash security deposits with lessors that have been claimed totalled $13,879 [$14,723 as at October 31, 2009] and have been included in accounts receivable. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

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

Except for the investments in ABCP *[see note 5]*, the Corporation does not believe it is exposed to a significant concentration of credit risk as at October 31, 2010.

Liquidity risk

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

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6. FINANCIAL INSTRUMENTS [Cont'd]

The maturities of the Corporation's financial liabilities as at October 31 are summarized in the following table:

2010	Maturing within 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Contractual cash flows Total	Carrying amount Total
	$	$	$	$	$
Accounts payable and accrued liabilities	**300,355**	—	—	**300,355**	**300,355**
Derivative financial instruments	**4,205**	—	—	**4,205**	**4,116**
Long-term debt	**14,089**	**15,291**	—	**29,380**	**29,059**
Total	**318,649**	**15,291**	—	**333,940**	**333,530**

2009	Maturing within 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Contractual cash flows Total	Carrying amount Total
	$	$	$	$	$
Accounts payable and accrued liabilities	266,445	—	—	266,445	266,445
Derivative financial instruments	41,323	—	—	41,323	40,293
Long-term debt	24,897	83,854	—	108,751	107,684
Debenture	3,156	—	—	3,156	3,156
Total	335,821	83,854	—	419,675	417,578

6. FINANCIAL INSTRUMENTS [Cont'd]

Market risk

Foreign exchange risk

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

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

6. FINANCIAL INSTRUMENTS [Cont'd]

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

Net assets (liabilities) **2010**	**U.S. dollar** $	**Euro** $	**Pound sterling** $	**Canadian dollar** $	**Other currencies** $	**Total** $
Financial statement measurement currency of the group's companies						
Euro	(9,185)	—	203	(457)	(2,061)	(11,500)
Pound sterling	2,172	3,003	—	5,629	—	10,804
Canadian dollar	(28,624)	(8,518)	50	—	(313)	(37,405)
Other currencies	(276)	91	—	1	(13)	(197)
Total	**(35,913)**	**(5,424)**	**253**	**5,173**	**(2,387)**	**(38,298)**

Net assets (liabilities) **2009**	**U.S. dollar** $	**Euro** $	**Pound sterling** $	**Canadian dollar** $	**Other currencies** $	**Total** $
Financial statement measurement currency of the group's companies						
Euro	(4,168)	—	16	(1,837)	(579)	(6,568)
Pound sterling	648	7,192	—	7,326	—	15,166
Canadian dollar	(63,117)	2,628	9,199	—	361	(50,929)
Other currencies	153	213	—	(60)	(343)	(37)
Total	**(66,484)**	**10,033**	**9,215**	**5,429**	**(561)**	**(42,368)**

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

6. FINANCIAL INSTRUMENTS [Cont'd]

Risk of fluctuations in fuel prices

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

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

As at October 31, 2010, 18% of estimated requirements for fiscal 2011 were covered by fuel-related derivative financial instruments [21% of estimated requirements for fiscal 2010 and 2% of estimated requirements for fiscal 2011 were covered as at October 31, 2008].

Interest rate risk

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

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

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

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6. INSTRUMENTS FINANCIERS [suite]

Capital risk management

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

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

The Corporation monitors its capital structure using the adjusted debt/equity ratio. This ratio is calculated as follows: net debt/shareholders' equity. Net debt is equal to the aggregate of long-term debt, the debenture and obligations under operating leases, less cash and cash equivalents [not held in trust or otherwise reserved] and investments in ABCP.

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

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

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2010, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

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7. DEPOSITS

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

8. PROPERTY, PLANT AND EQUIPMENT

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

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9. GOODWILL AND OTHER INTANGIBLE ASSETS

Goodwill

The change in goodwill is as follows:

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

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

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

Other intangible assets

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

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

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

10. INVESTMENTS AND OTHER ASSETS

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

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

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

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

CIBV’s majority shareholder may demand that the Corporation provide the necessary funds to repay one of CIBV’s long-term debts should CIBV be unable to make the scheduled repayments. However, the maximum amount that the Corporation could be required to provide may not exceed its 35% share of said long-term debt. As at October 31, 2010, the Corporation’s share of long-term debt amounted to $8,118 [US$7,968].

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11. BANK LOANS

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

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

12. DEBENTURE

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

13. LONG-TERM DEBT

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

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

13. LONG-TERM DEBT [Cont'd]

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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14. OTHER LIABILITIES

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

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

15. SHAREHOLDERS' EQUITY

Authorized share capital

Class A Variable Voting Shares

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

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

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15. SHARE CAPITAL [Cont'd]

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

Class B Voting Shares

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

Preferred shares

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

Issued and outstanding share capital

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

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

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

15. SHARE CAPITAL [Cont'd]

Public offering

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

Subscription rights plan

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

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15. SHARE CAPITAL [Cont'd]

Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 1,945,000 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. Options granted are exercisable over a ten-year period, provided the performance criteria determined on each grant are met. The remaining number of options available for grant is 1,492,355. The options granted in 2010 are exercisable over a ten-year period in three tranches of 33⅓% as of mid-December of each year provided the performance criteria determined on each grant are met. Provided that the performance criteria set on grant are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

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

The following tables summarize all outstanding options:

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

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

15. SHARE CAPITAL [Cont'd]

2010

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

Compensation expense for stock option plan

During the year ended October 31, 2010, the Corporation granted 682,570 stock options [441,084 in 2009] to certain key executives and employees. The average fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. SHARE CAPITAL [Cont'd]

Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. Under the plan, as at October 31, 2010, the Corporation was authorized to issue up to 263,192 Class B Shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the Class B Shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 97,302 Class B Shares [150,047 Class B Shares in 2009] for a total of $1,226 [$1,419 in 2009] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

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

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

During the year ended October 31, 2010, the Corporation accounted for a compensation expense of $153 [$186 in 2009] for its stock ownership incentive and capital accumulation plan.

15. SHARE CAPITAL [Cont'd]

Permanent stock ownership incentive plan

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

During the year ended October 31, 2010, the Corporation accounted for a compensation expense of $234 [$247 in 2009] for its permanent stock ownership incentive plan.

Deferred share unit plan

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

As at October 31, 2010, the number of DSUs awarded amounted to 55,387 [55,455 as at October 31, 2009]. During the year ended October 31, 2010, the Corporation recorded a compensation expense of $99 [$307 in 2009] for its deferred share unit plan.

15. SHARE CAPITAL [Cont'd]

Restricted share unit plan

Restricted share units ["RSUs"] are awarded annually to eligible employees under the restricted share unit plan. Under this plan, each eligible employee receives a portion of his or her compensation in the form of RSUs. The value of an RSU is determined based on the weighted average closing price of the Class B Shares for the five trading days prior to the award of the RSUs. The rights related to RSUs are acquired over a period of three years. When acquired, the RSUs are immediately repurchased by the Corporation, subject to certain conditions and certain provisions relating to the Corporation's financial performance. For the purpose of repurchasing RSUs, the value of an RSU is determined based on the weighted average closing price of the Class B Shares for the five trading days prior to the repurchase of the RSUs.

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

Earnings per share

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

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

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15. SHARE CAPITAL [Cont'd]

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

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

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

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

17. AMORTIZATION

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

18. RESTRUCTURING CHARGE (GAIN)

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

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

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19. INCOME TAXES

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

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

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

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

19. INCOME TAXES [Cont'd]

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

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

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

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

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

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20. RELATED PARTY TRANSACTIONS AND BALANCES

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

	2010 $	**2009** $
Operating expenses incurred with company subject to significant influence	13,283	18,055

21. EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. These arrangements provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations, the Corporation has issued a $27,976 letter of credit to the trustee *[see note 13]*. The Corporation uses an actuarial estimate to measure the accrued benefit obligation as at October 31 each year.

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

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

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21. EMPLOYEE FUTURE BENEFITS [Cont'd]

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

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

Pension plan expense is allocated as follows:

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

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

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

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

22. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

23. GUARANTEES

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

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

Notes 4, 11, 12, 13 and 20 to the financial statements provide information about some of these agreements. The following constitutes additional disclosure.

Operating leases

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

Irrevocable letters of credit

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2010 and 2009
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

23. GUARANTEES [Cont'd]

Guarantee contracts

The Corporation has entered into guarantee contracts whereby it has guaranteed a prescribed amount to its customers at the request of regulatory agencies for the performance of the obligations included in mandates by its customers during the term of the licenses granted to the Corporation for its travel agent and wholesaler activities in the province of Québec. These agreements typically cover a one-year period and are renewable annually. As at October 31, 2010, these guarantees totalled $957. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2010, no amounts have been accrued with respect to the above-mentioned agreements.

Guarantee facility

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

24. SEGMENT DISCLOSURE

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

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

October 31, 2010 and 2009
[Unless specified otherwise, amounts are expressed in thousands of Canadian dollars, except for per share amounts]

24. SEGMENT DISCLOSURE [Cont'd]

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

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