TRANSAT A.T. INC.
THIRD QUARTERLY REPORT
Period ended July 31, 2017

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MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended July 31, 2017, compared with the quarter ended July 31, 2016, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2016 and the accompanying notes and the 2016 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a third-quarter update to the information contained in the MD&A section of our 2016 Annual Report. The risks and uncertainties set out in the MD&A of the 2016 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of September 6, 2017. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended July 31, 2017 and the Annual Information Form for the year ended October 31, 2016.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). We occasionally refer to non-IFRS financial measures in the MD&A. See the *Non-IFRS financial measures* section for more information. All dollar figures in this MD&A are in Canadian dollars unless otherwise indicated. The terms "Transat," "we," "us," "our" and the "Corporation" mean Transat A.T. Inc. and its subsidiaries, unless otherwise indicated.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the sale of our 35% minority interest in Ocean Hotels will be concluded for an anticipated amount of US$150.5 million ($183.6 million).
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for the fourth quarter, the impact of increased fuel cost combined with currency-exchange fluctuations will result in a decrease in operating expenses of 1.3% on the transatlantic market, and of 1.5% on sun destinations market compared with the same period last year.
- The outlook whereby the Corporation expects that the recent increase in fuel prices following hurricane Harvey will be attenuated by our hedging program.

- The outlook whereby the Corporation expects that the adjusted operating income for the fourth quarter will be similar to 2015, which was $70.8 million for continuing operations.

- The outlook whereby other hurricanes, like Irma, could impact our forecasts.

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

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

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

NON-IFRS FINANCIAL MEASURES

This MD&A was prepared using results and financial information determined under IFRS. In addition to IFRS financial measures, management uses non-IFRS measures to assess the Corporation's operational performance. It is likely that the non-IFRS financial measures used by the Corporation will not be comparable to similar measures reported by other issuers or those used by financial analysts as their measures may have different definitions. The measures used by the Corporation are furnished to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

Generally, a non-IFRS financial measure is a numerical measure of an entity's historical or future financial performance, financial position or cash flows that is neither calculated nor recognized under IFRS. Management believes that such non-IFRS financial measures are important as they provide users of our consolidated financial statements with a better understanding of the results of our recurring operations and their related trends, while increasing transparency and clarity into our operating results. Management also believes these measures to be useful in assessing the Corporation's capacity to discharge its financial obligations.

By excluding from results items that arise mainly from long-term strategic decisions and/or do not, in our opinion, reflect the Corporation's operating performance for the period, such as the change in fair value of fuel-related derivatives and other derivatives, restructuring charges, impairment of goodwill, depreciation and amortization and other significant unusual items, we believe this MD&A helps users to better analyze the Corporation's results and ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

The non-IFRS measures used by the Corporation are as follows:

Adjusted operating income (loss)	Operating income (loss) before depreciation and amortization expense, restructuring charge, lump-sum payments related to collective agreements and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the operational performance of its activities before the items mentioned previously to ensure better comparability of financial results.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of a subsidiary, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period. The Corporation uses this measure to assess the financial performance of its activities before the items mentioned previously to ensure better comparability of financial results.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before net income (loss) from discontinued operations, change in fair value of fuel-related derivatives and other derivatives, gain (loss) on disposal of a subsidiary, restructuring charge, lump-sum payments related to collective agreements, asset impairment and other significant unusual items, and including premiums for fuel-related derivatives and other derivatives matured during the period, net of related taxes. The Corporation uses this measure to assess the financial performance of its activities before the items mentioned previously to ensure better comparability of financial results. Adjusted net income (loss) is also used in calculating the variable compensation of employees and senior executives.
Adjusted net income (loss) per share	Adjusted net income (loss) divided by the adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share.
Adjusted operating leases	Aircraft rental expense for the past four quarters multiplied by 5.
Total debt	Long-term debt plus the amount for adjusted operating leases. Management uses total debt to assess the Corporation's debt level, future cash needs and financial leverage ratio. Management believes this measure is useful in assessing the Corporation's capacity to discharge its current and future financial obligations.
Total net debt	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position with respect to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to discharge its current and future financial obligations.

The following tables reconcile the non-IFRS financial measures to the most comparable IFRS financial measures:

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31		Nine-month periods ended July 31	
	2017 $	2016 $	2017 $	2016 $
Operating income (loss)	40,952	(2,990)	(24,780)	(57,233)
Lump-sum payments related to a collective agreement	—	4,200	—	4,200
Restructuring charge	1,350	3,700	1,350	3,700
Depreciation and amortization	18,077	12,111	49,435	35,335
Premiums related to fuel-related derivatives and other derivatives matured during the period	(1,324)	(1,057)	(2,521)	(6,723)
Adjusted operating income (loss)	59,055	15,964	23,484	(20,721)
Income (loss) before income tax expense	37,731	11,755	(18,996)	(95,064)
Lump-sum payments related to a collective agreement	—	4,200	—	4,200
Restructuring charge	1,350	3,700	1,350	3,700
Change in fair value of fuel-related derivatives and other derivatives	341	(13,922)	(3,533)	24,042
Loss on disposal of a subsidiary	—	—	—	843
Asset impairment	—	—	—	15,809
Premiums related to fuel-related derivatives and other derivatives matured during the period	(1,324)	(1,057)	(2,521)	(6,723)
Adjusted pre-tax income (loss)	38,098	4,676	(23,700)	(53,193)
Net income (loss) attributable to shareholders	26,588	9,439	(13,839)	(76,668)
Net income (loss) from discontinued operations	—	(1,735)	—	5,645
Lump-sum payments related to a collective agreement	—	4,200	—	4,200
Restructuring charge	1,350	3,700	1,350	3,700
Change in fair value of fuel-related derivatives and other derivatives	341	(13,922)	(3,533)	24,042
Loss on disposal of a subsidiary	—	—	—	843
Asset impairment	—	—	—	15,809
Premiums related to fuel-related derivatives and other derivatives matured during the period	(1,324)	(1,057)	(2,521)	(6,723)
Tax impact	(98)	1,898	1,261	(10,573)
Adjusted net income (loss)	26,857	2,523	(17,282)	(39,725)
Adjusted net income (loss)	26,857	2,523	(17,282)	(39,725)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	36,997	36,678	36,937	36,925
Adjusted net income (loss) per share	0.73	0.07	(0.47)	(1.08)

	As at July 31, 2017	As at October 31, 2016
	$	$
Aircraft rent for the past four quarters	138,697	135,813
Multiple	5	5
Adjusted operating leases	693,485	679,065
Long-term debt	—	—
Adjusted operating leases	693,485	679,065
Total debt	693,485	679,065
Total debt	693,485	679,065
Cash and cash equivalents	(580,739)	(363,664)
Total net debt	112,746	315,401

FINANCIAL HIGHLIGHTS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of Canadian dollars, except per share amounts)	2017 $	2016 $	Difference $	Difference %	2017 $	2016 $	Difference $	Difference %
Consolidated Statements of Income								
Revenues	733,152	663,591	69,561	10.5	2,306,794	2,277,535	29,259	1.3
Operating income (loss)	40,952	(2,990)	43,942	1,469.6	(24,780)	(57,233)	32,453	56.7
Net income (loss) attributable to shareholders	26,588	9,439	17,149	181.7	(13,839)	(76,668)	62,829	81.9
Basic earnings (loss) per share	0.72	0.26	0.46	176.9	(0.37)	(2.08)	1.71	82.2
Diluted earnings (loss) per share	0.72	0.26	0.46	176.9	(0.37)	(2.08)	1.71	82.2
Adjusted operating income (loss)(1)	59,055	15,964	43,091	269.9	23,484	(20,721)	44,205	213.3
Adjusted net income (loss)(1)	26,857	2,523	24,334	964.5	(17,282)	(39,725)	22,443	56.5
Adjusted net income (loss) per share(1)	0.73	0.07	0.66	942.9	(0.47)	(1.08)	0.61	56.5
Consolidated Statements of Cash Flows								
Operating activities	39,241	52,162	(12,921)	(24.8)	294,241	217,813	76,428	35.1
Investing activities	(19,807)	(18,089)	(1,718)	(9.5)	(73,035)	(42,774)	(30,261)	(70.7)
Financing activities	(1,321)	(751)	(570)	(75.9)	(2,992)	(8,870)	5,878	66.3
Effect of exchange rate changes on cash and cash equivalents	(3,662)	(3,815)	153	4.0	(1,139)	(10,091)	8,952	88.7
Net change in cash and cash equivalents related to continuing operations	14,451	29,507	(15,056)	(51.0)	217,075	156,078	60,997	39.1

	As at July 31, 2017 $	As at October 31, 2016 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	580,739	363,664	217,075	59.7
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	235,089	338,581	(103,492)	(30.6)
	815,828	702,245	113,583	16.2
Total assets	1,439,746	1,277,420	162,326	12.7
Long-term debt	—	—	—	—
Total debt(1)	693,485	679,065	14,420	2.1
Total net debt(1)	112,746	315,401	(202,655)	(64.3)

1 SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

CORE BUSINESS

Transat is an integrated international tour operator. We operate solely in the holiday travel industry and market our services in the Americas and Europe. As a tour operator, Transat's core business consists in developing and marketing holiday travel services in package and air-only formats. We operate as both an outgoing and incoming tour operator by bundling services purchased in Canada and abroad and reselling them primarily in Canada, France, the U.K. and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. Transat relies on its subsidiary Air Transat for a significant portion of its needs, but also deals with other air carriers as needed. Transat offers destination services in Canada, Mexico, the Dominican Republic and Jamaica. Transat holds interests in hotel businesses which own, operate or manage properties in Mexico, Cuba and the Dominican Republic.

VISION

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our business to other countries where we see high growth potential for an integrated tour operator specializing in holiday travel.

STRATEGY

To deliver on its vision, the Corporation has considerably improved the effectiveness of its airline operations and launched technological initiatives to improve its efficiency as a distributor. The strategy also includes entry into new source markets and the launch of new destinations, targeting new markets for its traditional destinations and increasing its buying power for these routes. Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains to improve its operating income and maintain or grow market share in all its markets. Given the growing strategic importance of sustainable development in the holiday and air travel industries, Transat has undertaken to adopt avant-garde policies on corporate responsibility and sustainable tourism.

For 2017, Transat has set the following objectives at the beginning of the fiscal year:

1. Increase the competitiveness of our distribution, notably by reinforcing our product offering and network, continuing to increase our controlled sales and client intimacy and optimizing our revenue management.

2. Continue to improve Air Transat's operational efficiency and plan for the optimization and renewal of our fleet.

3. Increase our presence in hotels and acquire more hotel management competencies.

4. Pursue our cost reduction and unit margin improvement initiatives.

5. Continue working on employee engagement.

Our key performance drivers are adjusted operating income (loss), market share, and revenue growth, which are essential to successfully implement our strategy and meet our objectives.

Our ability to deliver on our objectives is dependent on our financial and non-financial resources, both of which have contributed in the past to the success of our strategies and achievement of our objectives. Our financial resources consist primarily of cash not held in trust or otherwise reserved and the undrawn balances of our credit facilities. Our non-financial resources include our brand, structure, employees and relationships with suppliers.

REVISITING OUR JUNE 7, 2017 OUTLOOK

In our MD&A as at April 30, 2017, we mentioned that barring a change in the trends observed, we expected overall results for the second half of the year to be in line with 2016 levels. The results for the third quarter of 2017 were significantly better than a year ago, owing to stronger-than-expected demand, combined with an increase in average selling prices observed from mid-June across all of our markets.

BUSINESS ACQUISITIONS AND DISPOSALS

On July 19, 2017, the Corporation entered into an agreement with H10 Hotels to sell its 35% minority interest in Ocean Hotels for an anticipated amount of US$150.5 million ($183.6 million). As at July 31, 2017, this interest represented an asset amounting to $100.7 million, reported as an asset held for sale in the statement of financial position. The agreement entered into with H10 Hotels, which already owns 65% of the company formed in 2007, is enforceable and subject to certain customary conditions. The selling price is subject to adjustments upon closing, which is expected to take place by November 2, 2017 or afterward if necessary. Transat remains committed to becoming a full-fledged hotel operator and sold its minority interest in Ocean Hotels to accelerate the development of its own sun-destination hotel chain.

On April 3, 2017, the Corporation invested in a hotel in Puerto Vallarta, on the Pacific coast, which operates under the name Rancho Banderas All Suite Resort, by acquiring a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo"], its owner and operator, for a consideration of US$10 million [$13.4 million], of which US$9.5 million [$12.8 million] was paid in cash and US$0.5 million [$0.6 million] was included in trade and other payables as at July 31, 2017. This amount is payable subject to certain conditions. This interest in a joint venture is accounted for using the equity method.

On December 21, 2016, upon exercise of a put option by the minority shareholder in the subsidiary Jonview Canada Inc., the Corporation completed the purchase of 19.93% of the shares of its subsidiary Jonview Canada Inc., which has an incoming tour operator business in Canada, thereby bringing its interest in the subsidiary to 100%. The cash consideration totalled $5.0 million, being the fair value of the put option at the time of the transaction. In addition, the non-controlling interest was derecognized without any impact being recognized in the consolidated statements of loss.

DISCONTINUED OPERATIONS

On October 31, 2016, Transat completed the sale of its tour operating businesses in France (Transat France) and Greece (Tourgreece) for an amount of €63.4 million ($93.3 million) to TUI AG, a multinational tourism company. On January 27, 2017, TUI AG confirmed that the purchase price will not be subject to any working capital adjustments after the final closing and audit of accounts.

As at July 31, 2016, the tour operating businesses in France and Greece were identified as discontinued operations and their assets as held for sale.

The disposal of Transat France and Tourgreece has no impact on Transat's transatlantic program or on Air Transat's operations.

CONSOLIDATED OPERATIONS

	Quarters ended July 31				Nine-month periods ended July 31			
(in thousands of dollars)	2017 $	2016 $	Difference $	Difference %	2017 $	2016 $	Difference $	Difference %
Continuing operations								
Revenues	733,152	663,591	69,561	10.5	2,306,794	2,277,535	29,259	1.3
Operating expenses								
Costs of providing tourism services	245,812	239,269	6,543	2.7	1,080,749	1,141,407	(60,658)	(5.3)
Salaries and employee benefits	96,788	90,764	6,024	6.6	277,289	267,784	9,505	3.5
Aircraft fuel	106,394	99,287	7,107	7.2	254,205	235,034	19,171	8.2
Aircraft maintenance	46,222	53,839	(7,617)	(14.1)	140,805	130,611	10,194	7.8
Aircraft rent	32,390	31,946	444	1.4	105,854	102,970	2,884	2.8
Airport and navigation fees	39,592	37,192	2,400	6.5	96,152	93,648	2,504	2.7
Commissions	11,920	12,623	(703)	(5.6)	80,831	81,495	(664)	(0.8)
Other airline costs	61,782	58,341	3,441	5.9	160,298	160,373	(75)	(0.0)
Other	33,428	25,765	7,663	29.7	95,607	88,854	6,753	7.6
Share of net income of an associate and a joint venture	(1,555)	(2,456)	901	(36.7)	(11,001)	(10,643)	(358)	3.4
Depreciation and amortization	18,077	12,111	5,966	49.3	49,435	35,335	14,100	39.9
Special items	1,350	7,900	(6,550)	(82.9)	1,350	7,900	(6,550)	(82.9)
Operating expenses	692,200	666,581	25,619	3.8	2,331,574	2,334,768	(3,194)	(0.1)
Operating income (loss)	40,952	(2,990)	43,942	1,469.6	(24,780)	(57,233)	32,453	56.7
Financing costs	557	416	141	33.9	1,456	1,337	119	8.9
Financing income	(2,045)	(1,676)	(369)	22.0	(5,645)	(5,403)	(242)	4.5
Change in fair value of fuel-related derivatives and other derivatives	341	(13,922)	14,263	102.4	(3,533)	24,042	(27,575)	(114.7)
Foreign exchange loss (gain) on non-current monetary items	4,368	437	3,931	899.5	1,938	1,203	735	61.1
Loss on disposal of a subsidiary	—	—	—	—	—	843	(843)	(100.0)
Asset impairment	—	—	—	—	—	15,809	(15,809)	(100.0)
Income (loss) before income tax expense	37,731	11,755	25,976	221.0	(18,996)	(95,064)	76,068	80.0
Income taxes (recovery)								
Current	8,794	(2,461)	11,255	457.3	(9,009)	(24,280)	15,271	62.9
Deferred	1,769	5,403	(3,634)	(67.3)	54	(3,739)	3,793	101.4
	10,563	2,942	7,621	259.0	(8,955)	(28,019)	19,064	68.0
Net income (loss) from continuing operations	27,168	8,813	18,355	208.3	(10,041)	(67,045)	57,004	85.0
Discontinued operations								
Net income (loss) from discontinued operations	—	1,735	(1,735)	(100.0)	—	(5,645)	5,645	100.0
Net income (loss) for the period	27,168	10,548	16,620	157.6	(10,041)	(72,690)	62,649	86.2
Net income (loss) attributable to:								
Shareholders	26,588	9,439	17,149	181.7	(13,839)	(76,668)	62,829	81.9
Non-controlling interests	580	1,109	(529)	(47.7)	3,798	3,978	(180)	(4.5)
	27,168	10,548	16,620	157.6	(10,041)	(72,690)	62,649	86.2

REVENUES

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

Compared with 2016, revenues increased by $69.6 million (10.5%) for the quarter ended July 31, 2017 and by $29.3 million (1.3%) for the nine-month period. For the quarter, the growth was driven by an 8.7% rise in total travellers in the transatlantic market, our main market for the period, resulting from a 7.2% increase in our product offering in that market. The increase was accentuated by a 1.9% increase of our product offering in sun destinations market, resulting in a 2.9% rise in total travellers in that market. In addition, average selling prices increased across all our markets.

For the nine-month period, the increase was driven primarily by revenue growth in the third quarter. The increase was partially offset by our winter season, during which the decrease in revenues resulted from a higher proportion of flight-only versus holiday package sales compared with 2016. During the winter season, the 1.4% decrease in total travellers to sun destinations, our main market for the period, resulted primarily from our decision to reduce our product offering in this market by 2.3%. The impact of this decrease was offset by the 9.6% increase in our product offering in the transatlantic market which led to a 6.5% rise in total travellers. During the winter season, average selling prices increased in the sun destinations market but decreased slightly in the transatlantic market.

OPERATING EXPENSES

Total operating expenses were up $25.6 million (3.8%) for the quarter and down $3.2 million (0.1%) for the nine-month period compared with 2016. For the quarter, the increase resulted primarily from a rise in total travellers, driven by our decision to increase our product offering by 7.2% in the transatlantic market, our main market for the period.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with the corresponding periods of 2016, the cost of providing tourism services was up $6.5 million (2.7%) for the quarter and down $60.7 million (5.3%) for the nine-month period. For the quarter, the increase resulted primarily from a rise in total travellers compared with 2016. For the nine-month period, the decrease in costs of providing tourism services was attributable to a higher proportion of flight-only versus holiday package sales compared with 2016, the addition of two Airbus A330s and one Boeing 737 to our fleet compared with 2016, which resulted in decrease in the Corporation's flight purchases from air carriers other than Air Transat, and our decision to reduce our sun-destination product offering by 2.3% during the winter.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $6.0 million (6.6%) for the quarter and $9.5 million (3.5%) for the nine-month period compared with 2016. These increases resulted primarily from annual salary reviews and pilot and mechanic hires following the addition of the Airbus A330s and the Boeing 737 to our aircraft fleet.

AIRCRAFT FUEL

The aircraft fuel expense for the quarter and nine-month period was up $7.1 million (7.2%) and $19.2 million (8.2%), respectively, compared with the corresponding periods of 2016. These increases resulted mainly from a higher number of flights compared with 2016. For the nine-month period, the higher fuel expense was also attributable to a rise in fuel price indices in markets combined with an unfavourable foreign exchange effect.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses for leased aircraft incurred by Air Transat. Compared with 2016, aircraft maintenance costs were down $7.6 million (14.1%) for the third quarter and up $10.2 million (7.8%) for the nine-month period. During the quarter, the decrease resulted from the increase in the dollar relative to the U.S. dollar. During the nine-month period, the increase was primarily driven by the expansion of our aircraft fleet compared with 2016.

AIRCRAFT RENT

In line with our strategic plan, we implemented a flexible aircraft fleet at the beginning of 2015. In addition to our permanent fleet, this flexible fleet allows us, among other options, to operate a seasonal fleet that comprises a greater number of Boeing 737s during the winter than during the summer season.

During the quarter, Air Transat's permanent fleet consisted of sixteen Airbus A330s, nine Airbus A310s and seven Boeing 737-800s. Of this number, two Airbus A330s were commissioned in summer 2017, which contributed to the $0.4 million (1.4%) increase in aircraft rent during the quarter.

During winter 2017, Air Transat's permanent fleet consisted of fourteen Airbus A330s, nine Airbus A310s and seven Boeing 737-800s. Of this number, two Airbus A330s and three Boeing 737-800s were commissioned in summer 2016. For winter 2017, the $2.4 million (3.4%) increase resulted primarily from the two Airbus A330s commissioned in summer 2016.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $2.4 million (6.5%) for the quarter and $2.5 million (2.7%) for the nine-month period, compared with 2016. These increases are due to a higher number of flights compared with 2016.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense was down $0.7 million (5.6%) for the quarter and $0.7 million (0.8%) for the nine-month period, compared with 2016. As a percentage, commissions decreased and accounted for 1.6% of our revenues compared with 1.9% in 2016. For the nine-month period, as a percentage, commissions decreased and accounted for 3.5% of our revenues, compared with 3.6% in 2016. These decreases resulted from the lower revenue base used in calculating commissions.

OTHER AIR COSTS

Other air costs consist mainly of handling, crew and catering costs. Other air costs were up $3.4 million (5.9%) for the quarter and down $0.1 million (0.0%) for the nine-month period. For the quarter, the increase was primarily due to a rise in the number of flights compared with 2016. For the nine-month period, the decrease was attributable to lower crew costs, partially offset by the increase in the number of flights compared with 2016.

OTHER

Other expenses were up $7.7 million (29.7%) for the quarter and $6.8 million (7.6%) for the nine-month period, compared with 2016. The increases were primarily attributable to an increase professional fees, pilot training costs and marketing expenses related to the growth in volume.

SHARE OF NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE

Our share of net income of an associate and a joint venture is generated by Caribbean Investments B.V. ["CIBV"] and Desarrollo, our hotel businesses. Our share of net income for the third quarter totalled $1.6 million, compared with $2.5 million for the corresponding quarter of 2016. For the nine-month period, the share of net income stood at $11.0 million, compared with $10.6 million in 2016. For the quarter, the decrease was due to an unfavourable foreign exchange effect. For the nine-month period, the increase resulted from CIBV's higher operating profitability, partially offset by an unfavourable foreign exchange effect.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes depreciation, amortization and impairment losses relating to property, plant and equipment, intangible assets and deferred lease inducements. Depreciation and amortization expense was up $6.0 million (49.3%) for the third quarter and $14.1 million (39.9%) for the nine-month period, compared with 2016. These increases resulted primarily from recent aircraft maintenance work that was capitalized and computer software.

OPERATING INCOME (LOSS)

In light of the foregoing, we recorded $41.0 million (5.6%) in operating income for the quarter compared with an operating loss of $3.0 million (0.5%) in 2016. The improvement from an operating loss to operating income resulted primarily from higher average selling prices, combined with increases in total travellers and load factors across our markets.

For the nine-month period, the Corporation reported an operating loss of $24.8 million (1.1%) compared with $57.2 million (2.5%) in 2016. The decrease in our operating loss originated from our summer season, driven primarily by higher average selling prices, combined with increases in total travellers and load factors across our markets. During the winter season, the increase in the operating loss was due to a rise in air costs and the unfavourable foreign exchange effect which, combined with an increase in fuel prices, resulted in a $39.3 million increase in operating expenses, that the higher average selling prices for sun packages could not offset.

For the quarter, we reported $59.1 million (8.1%) in adjusted operating income compared with $16.0 million (2.4%) in 2016. For the nine-month period, we reported $23.5 million (1.0%) in adjusted operating income, compared with an adjusted operating loss of $20.7 million (0.9%) in 2016.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs rose $0.1 million for the quarter and nine-month period, compared with 2016.

FINANCING INCOME

Financing income was up $0.4 million for the quarter and $0.2 million for the nine-month period, compared with 2016. These increases were attributable to the increase in cash and cash equivalents compared with 2016.

CHANGE IN FAIR VALUE OF FUEL-RELATED DERIVATIVES AND OTHER DERIVATIVES

The change in fair value of fuel-related derivatives and other derivatives represents the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives decreased by $0.3 million, compared with a $13.9 million increase in fair value in 2016. The decrease for the quarter resulted from the decrease in fair value of foreign exchange derivatives, partially offset by the increase in fair value of fuel-related derivatives. For the nine-month period, the fair value of fuel-related derivatives and other derivatives was up $3.5 million, compared with a $24.0 million decrease in fair value in 2016. This improvement was attributable to an increase in fair value of fuel-related derivatives, partially offset by the decrease in fair value of foreign exchange derivatives.

FOREIGN EXCHANGE LOSS ON NON-CURRENT MONETARY ITEMS

During the quarter, we recognized a $4.4 million foreign exchange loss on non-current monetary items, compared with $0.4 million in 2016. For the nine-month period, we recognized a $1.9 million foreign exchange loss on non-current monetary items, compared with $1.2 million in 2016. These changes resulted mainly from the unfavourable exchange effect on foreign currency deposits following the strong appreciation of dollar against the U.S. dollar during the quarter ended July 31, 2017.

LOSS ON DISPOSAL OF A SUBSIDIARY

On April 1, 2016, the Corporation closed the sale of its Travel Superstore subsidiary for a total cash consideration of $0.3 million and recorded a $0.8 million loss on disposal of a subsidiary.

IMPAIRMENT OF ASSETS

The accounting policies adopted by the Corporation require that intangible assets with indefinite lives be tested for impairment annually on April 30. Accordingly, the Corporation performed an impairment test on April 30, 2017 and 2016 to determine if the carrying amounts of the cash-generating units ("CGUs"), for the purposes of goodwill and trademarks, were higher than their recoverable amounts. No charge was required in 2017 following this test compared with a $15.8 million asset impairment charge in 2016. The impairment loss is related to the trademarks and results from the implementation of an integrated distribution and brand strategy, including the introduction of a new reservation platform which, for European travellers, favours the purchasing of seats directly from our Air Transat subsidiary instead of through our European subsidiaries, and the greater use of the Transat brand while decreasing the use of certain trademarks held by the Corporation.

INCOME TAXES

Income tax expense amounted to $10.6 million for the third quarter, compared with $2.9 million for the corresponding period of the previous fiscal year. For the nine-month period, our income tax recovery amounted to $9.0 million, compared with $28.0 million in 2016. Excluding the share of net income of an associate and a joint venture, the effective tax rate stood at 29.2% for the quarter and 29.9% for the nine-month period, compared with 31.6% and 26.5%, respectively, for the corresponding periods of 2016. The changes in tax rates for the quarter and nine-month period resulted from differences between countries in the statutory tax rates applied to taxable income or losses.

NET INCOME (LOSS) FROM CONTINUING OPERATIONS

In light of the items discussed in the *Consolidated operations* section, our net income from continuing operations for the quarter ended July 31, 2017 amounted to $27.2 million, compared with $8.8 million in 2016. Net income from continuing operations attributable to shareholders for the quarter amounted to $26.6 million or $0.72 per share (basic and diluted), compared with $7.7 million or $0.21 per share (basic and diluted) for the corresponding quarter of the previous fiscal year. For the third quarter of 2017, the weighted average number of outstanding shares used to compute basic earnings per share was 36,991,000 (36,997,000 for diluted earnings per share), compared with 36,571,000 (36,678,000 for diluted earnings per share), for the corresponding quarter of 2016.

For the nine-month period ended July 31, 2017, we reported a net loss from continuing operations amounting to $10.0 million, compared with $67.0 million in 2016. Net loss attributable to shareholders stood at $13.8 million or $0.37 per share (basic and diluted), compared a net loss from continuing operations attributable to shareholders of $71.0 million or $1.92 per share (basic and diluted) for the corresponding period of the previous year. For the nine-month period, the weighted average number of outstanding shares used to compute per share amounts was 36,937,000 (basic and diluted), compared with 36,925,000 (basic and diluted) for the corresponding period of 2016.

NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

As mentioned in the *Discontinued operations* section, for the quarter ended July 31, 2016, the net income (loss) of our subsidiaries Transat France and Tourgreece, which is generated from sales made to clients in Europe, is reported as net income (loss) from discontinued operations.

For the quarter ended July 31, 2016, revenues from our discontinued operations amounted to $213.6 million and $498.4 million, respectively, and posted net income of $1.7 million (0.8%) and a net loss of $5.6 million (1.1%), respectively.

NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

For the third quarter, net income attributable to shareholders amounted to $26.6 million or $0.72 per share (basic and diluted), compared with $9.4 million or $0.26 per share (basic and diluted) for the corresponding quarter of the previous fiscal year. For the nine-month period, net loss attributable to shareholders amounted to $13.8 million or $0.37 per share (basic and diluted), compared with $76.7 million or $2.08 per share (basic and diluted) in 2016.

For the quarter and nine-month period ended July 31, 2017, our adjusted net income amounted to $26.9 million ($0.73 per share) and our adjusted net loss amounted to $17.3 ($0.47 per share), respectively, compared with adjusted net income of $2.5 million ($0.07 per share) and an adjusted net loss of $39.7 million ($1.08 per share), respectively, for the corresponding periods of 2016.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues decreased compared with the corresponding quarters, with the exception of the third quarter, which recorded an increase compared with the previous year. For the first part of winter (Q1), following our decision to reduce our product offering by 5.2% in the sun destinations market, total travellers decreased and average selling prices increased for sun destinations. The reverse occurred in the transatlantic market due to the 10.1% increase in our product offering in this market. For the summer season (Q3 and Q4), total travellers were up year over year. For the second part of summer 2016 (Q4), average selling prices were lower in the transatlantic market, our main market for the period, whereas they were higher across our markets in the first part of summer 2017 (Q3). In terms of operating results, increases in average selling prices for sun packages in winter combined with cost reduction and margin improvement initiatives were not sufficient to offset the foreign exchange effect on our costs. For the second part of summer 2016 (Q4), the decreases in average selling prices and load factors were only partially offset by lower fuel prices. For the first half of the summer (Q3), the improvement in our operating income was driven by higher average selling prices, combined with increases in total travellers and load factors across our markets, and a decrease in air costs. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q4-2015 $	Q1-2016 $	Q2-2016 $	Q3-2016 $	Q4-2016 $	Q1-2017 $	Q2-2017 $	Q3-2017 $
Revenues	634,004	725,723	888,221	663,591	612,111	689,332	884,310	733,152
Aircraft rent	26,306	32,275	38,749	31,946	32,843	36,103	37,361	32,390
Operating income (loss)	57,850	(40,541)	(13,701)	(2,990)	26,898	(50,671)	(15,061)	40,952
Net income (loss)	69,965	(59,803)	(23,817)	10,548	36,313	(31,054)	(6,155)	27,168
Net income (loss) attributable to shareholders	69,108	(61,155)	(24,952)	9,439	34,920	(32,073)	(8,354)	26,588
Basic earnings (loss) per share	1.82	(1.64)	(0.68)	0.26	0.95	(0.87)	(0.23)	0.72
Diluted earnings (loss) per share	1.82	(1.64)	(0.68)	0.26	0.95	(0.87)	(0.23)	0.72
Net income (loss) from continuing operations attributable to shareholders	59,035	(53,393)	(25,333)	7,704	(20,497)	(32,073)	(8,354)	26,588
Basic earnings (loss) per share from continuing operations	1.56	(1.43)	(0.69)	0.21	(0.56)	(0.87)	(0.23)	0.72
Diluted earnings (loss) per share from continuing operations	1.55	(1.43)	(0.69)	0.21	(0.56)	(0.87)	(0.23)	0.72
Adjusted operating income (loss)(1)	70,805	(31,682)	(5,002)	15,964	46,497	(37,079)	1,508	59,055
Adjusted net income (loss)(1)	44,648	(30,378)	(11,868)	2,523	24,183	(36,039)	(8,100)	26,857
Adjusted net income (loss) per share(1)	1.18	(0.82)	(0.32)	0.07	0.66	(0.98)	(0.22)	0.73

1 SEE NON-IFRS FINANCIAL MEASURES

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at July 31, 2017, cash and cash equivalents totalled $580.7 million compared with $363.7 million as at October 31, 2016. Cash and cash equivalents in trust or otherwise reserved amounted to $235.1 million as at the end of the third quarter of 2017, compared with $338.6 million as at October 31, 2016. The Corporation's statement of financial position reflected $233.0 million in working capital, for a ratio of 1.26, compared with $192.5 million and a ratio of 1.28 as at October 31, 2016.

Total assets were up $162.3 million (12.7%) from $1,277.4 million as at October 31, 2016 to $1,439.7 million as at July 31, 2017. This increase is explained in the financial position table provided below. Equity was down $35.0 million, from $464.4 million as at October 31, 2016 to $429.4 million as at July 31, 2017. This decrease resulted from our $13.8 million net loss attributable to shareholders, combined with a $13.2 million unrealized loss on cash flow hedges and an $8.2 million foreign exchange loss on the translation of the financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended July 31			Nine-month periods ended July 31		
	2017	2016	Difference	2017	2016	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	39,241	52,162	(12,921)	294,241	217,813	76,428
Cash flows related to investing activities	(19,807)	(18,089)	(1,718)	(73,035)	(42,774)	(30,261)
Cash flows related to financing activities	(1,321)	(751)	(570)	(2,992)	(8,870)	5,878
Effect of exchange rate changes on cash	(3,662)	(3,815)	153	(1,139)	(10,091)	8,952
Net change in cash and cash equivalents related to continuing operations	14,451	29,507	(15,056)	217,075	156,078	60,997
Net change in cash flows related to discontinued operations	—	19,872	(19,872)	—	11,759	(11,759)

OPERATING ACTIVITIES

During the third quarter, operating activities related to continuing operations generated $39.2 million in cash flows, compared with $52.2 million in 2016. The $12,9 million decrease resulted primarily from a $34.8 million decrease in the net change in non-cash working capital balances related to operations. The decrease in cash flows generated by operating activities also resulted from a $9.3 million decrease in the net change in other assets and liabilities related to operations and an $8.5 million decrease in the net change in provision for overhaul of leased aircraft. The decrease in cash flows related to operating activities was offset by a $39.7 million increase in our profitability.

For the nine-month period, cash flows from operating activities related to continuing operations were up $76.4 million from $217.8 million in 2016 to $294.2 million in 2017. The increase was primarily due to a $51.9 million increase in the net change in non-cash working capital balances related to operations owing to an increase in customer deposits received. The growth in cash flows related to operating activities was also driven by a $30.6 million increase in our profitability, partially offset by an $8.9 million decrease in net change in other assets and liabilities related to operations.

INVESTING ACTIVITIES

Cash flows used in investing activities related to continuing operations totalled $19.8 million for the third quarter, up $1.7 million from $18.1 million in 2016. During the corresponding quarter of 2016, the Corporation received a $9.1 million dividend from its associate. The Corporation also completed an additional investment of $2.6 million in Desarrollo in 2017. The increase was offset by a $10.0 million decrease in additions to property, plant and equipment and intangible assets compared with 2016, owing to significant acquisitions related to maintenance and aircraft improvements last year.

For the nine-month period, cash flows used in investing activities related to continuing operations totalled $73.0 million, up $30.3 million from $42.8 million in 2016. The increase was primarily due to the $15.3 million investment in Desarrollo and the $5.0 million consideration paid to acquire all the shares of our subsidiary Jonview Canada Inc., as well as the $9.1 million dividend received from our associate in 2016.

FINANCING ACTIVITIES

Cash flows used in financing activities related to continuing operations for the third quarter rose $0.6 million from $0.8 million for the third quarter of 2016 to $1.3 million in 2017. For the nine-month period, financing activities related to continuing operations used $3.0 million in cash flows, compared with $8.9 million in 2016. For the nine-month period, the decrease in cash flows used compared with 2016 resulted primarily from $7.1 million in share repurchases in 2016, compared with no share repurchases in 2017.

CASH FLOWS RELATED TO DISCONTINUED OPERATIONS

For the third quarter of 2016, discontinued operations generated $19.9 million in cash flows, including $20.8 million in cash flows generated by operations. For the nine-month period, discontinued operations generated $11.8 million in cash flows, primarily due to $15.1 million in cash flows generated by operations, partially offset by $3.4 million in asset acquisitions.

CONSOLIDATED FINANCIAL POSITION

	July 31, 2017 $	October 31, 2016 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	580,739	363,664	217,075	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	235,089	338,581	(103,492)	Seasonal nature of operations
Trade and other receivables	130,438	105,003	25,435	Seasonal nature of operations
Income taxes receivable	49,916	39,858	10,058	Increase in income taxes recoverable given deductible losses
Inventories	11,194	12,354	(1,160)	Seasonal nature of operations
Prepaid expenses	52,390	58,657	(6,267)	Decrease in prepayments to hotels due to the seasonal nature of operations
Derivative financial instruments	12,462	18,517	(6,055)	Unfavourable change in the Canadian dollar compared with the U.S. currency with respect to foreign exchange derivatives entered into
Deposits	47,454	42,044	5,410	Increase in deposits related to aircraft
Assets held for sale	100,726	—	100,726	Sale of our interest in Ocean Hotels
Deferred tax assets	17,727	15,055	2,672	Increase in deferred taxes related to derivative financial instruments
Property, plant and equipment	133,951	134,959	(1,008)	Depreciation and impairment loss for the period, partially offset by the additions
Intangible assets	52,132	50,327	1,805	Additions during the period, partially offset by amortization
Investments	15,019	97,668	(82,649)	Sale of our interest in Ocean Hotels, partially offset by an investment in a hotel business
Other assets	509	733	(224)	No significant difference
Liabilities				
Trade and other payables	329,614	247,795	81,819	Seasonal nature of operations, partially offset by foreign exchange differences
Provision for overhaul of leased aircraft	43,667	40,861	2,806	Expansion in aircraft fleet, partially offset by foreign exchange differences
Income taxes payable	901	976	(75)	No significant difference
Customer deposits and deferred revenues	509,931	409,045	100,886	Seasonal nature of operations, combined to higher reservations and selling prices
Derivative financial instruments	29,832	21,358	8,474	Unfavourable change in the Canadian dollar compared with the U.S. currency with respect to foreign exchange derivatives entered into
Other liabilities	93,410	88,011	5,399	Increase in deferred lease inducements related to aircraft
Deferred tax liabilities	2,976	4,988	(2,012)	Decrease in deferred taxes related to derivative financial instruments
Equity				
Share capital	215,034	214,250	784	Shares issued from treasury
Share-based payment reserve	18,260	17,849	411	Share-based payment expense
Retained earnings	204,082	218,821	(14,739)	Net income (loss)
Unrealized gain (loss) on cash flow hedges	(11,011)	2,211	(13,222)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	(11,241)	11,255	(22,496)	Foreign exchange loss on translation of financial statements of foreign subsidiaries
Reserve related to assets held for sale	14,291	—	14,291	Sale of our interest in Ocean Hotels

FINANCING

As at June 7, 2017, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50 million revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2020, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the 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. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at July 31, 2017, all the financial ratios and criteria were met and the credit facility was undrawn.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and cash flows, some of which are reported as liabilities in the interim condensed consolidated financial statements and others are disclosed in the notes to the financial statements. The Corporation did not report any obligations in the statements of financial position as at July 31, 2017 and October 31, 2016.

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

- Guarantees
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $1,410.3 million as at July 31, 2017 ($710.3 million as at October 31, 2016) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at July 31, 2017 $	As at October 31, 2016 $
Guarantees		
Irrevocable letters of credit	26,410	17,723
Collateral security contracts	688	721
Operating leases		
Obligations under operating leases	1,383,171	691,841
	1,410,269	710,285

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2017, $54.8 million had been drawn down under the facility, of which $50.1 million was to insure the benefits to participants under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third party trustee. In the event of a change of control, the irrevocable letter of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

In addition, the Corporation has a $35.0 million guarantee facility renewable annually in February. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of these letters of credit. As at July 31, 2017, an amount of $26.4 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £10.7 million [$17.5 million], which has been fully drawn down.

As at July 31, 2017, off-balance sheet arrangements, excluding agreements with suppliers and other obligations, were $700.0 million higher than as at October 31, 2016. This increase resulted primarily from the agreements entered into during the quarter to lease ten Airbus A321s neo LR, to be gradually integrated into our fleet starting in spring 2019, as our A310s are retired, and the agreements entered into during the nine-month period for four Airbus A330s. The increase was partially offset by the repayments made and by the strengthening of the dollar against the U.S. dollar.

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

DEBT LEVELS

The Corporation has no long-term debt on its statement of financial position.

The Corporation's total debt stood at $693.5 million, up $14.4 million from October 31, 2016. This increase resulted from the addition of Airbus 330s and the Boeing 737 to our aircraft fleet.

Total net debt was down $202.7 million from $315.4 million as at October 31, 2016 to $112.7 million as at July 31, 2017. The decrease in total net debt resulted from higher cash and cash equivalent balances than in 2016, partially offset by the increase in total debt.

OUTSTANDING SHARES

As at July 31, 2017, there were three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at September 1, 2017, there was a total of 37,030,755 voting shares outstanding.

STOCK OPTIONS

As at September 1, 2017, there were a total of 2,279,713 stock options outstanding, 2,081,068 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of sixteen Airbus A330s (332, 345 or 375 seats), two of which were commissioned during summer 2017, nine Airbus A310s (250 seats) and seven Boeing 737-800s (189 seats).

During winter 2017, the Corporation also benefited from seasonal lease agreements for ten Boeing 737-800s (189 seats) and three Boeing 737-700s (149 seats).

During the quarter ended July 31, 2017, the Corporation entered into agreements to lease ten Airbus A321s neo LR, to be commissioned gradually starting in spring 2019.

FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected-loss impairment model as well as a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing of revenue recognition as well as requiring them to provide more relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under current standard IAS 17, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which the vast majority of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

The application of IFRS 16 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted if the new IFRS 15 standard on revenue has also been applied. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at July 31, 2017 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended July 31, 2017 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Summer 2017 – The transatlantic market outbound from Canada and Europe accounts for a substantial portion of Transat's business during the summer season. For the period from August to October 2017, total industry capacity is higher by 5%, while that of the Corporation is higher by 8%. To date, 80% of that capacity has been sold, load factors are lower by 0.7% versus those of summer 2016, and selling prices of bookings taken are higher by 3.2% than those recorded at the same date in 2016. The impact of increased fuel costs, combined with currency exchange fluctuations, will result in a decrease in operating expenses of 1.3% if fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.

On the sun destinations market outbound from Canada, for which summer is low season, Transat's capacity is higher by 4% than that marketed at the same date last year. To date, 73% of that capacity has been sold, load factors are higher by 5.8%, and selling prices are higher by 6.5%. The impact of increased fuel costs, combined with currency-exchange fluctuations, will result in a decrease in operating expenses of 1.5% if fuel prices remain stable and the dollar remains at its current level against the U.S. dollar. Unit margins are currently higher by 6.0% compared with those recorded at the same date last year.

If the current trends hold, taking into account the costs of implementing Air Transat's feeder flights program, and despite the recent increase in fuel prices following hurricane Harvey, which will be attenuated by our hedging program, the Corporation expects its adjusted operating income[1] for the fourth quarter to be similar to 2015, which was $70.8 million for continuing operations. It is especially worth noting that other hurricanes, like Irma, could impact our forecasts.

Winter 2018 – For the winter season, 20% of capacity on the sun destinations market has been sold to date, versus 18% at the same date in 2016. Moreover, the outlook for the Canadian dollar's value against its U.S. counterpart is far more favourable compared with the same date in previous years. Despite these indicators, the Corporation considers that it is too soon to provide any indication regarding winter season results.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of Canadian dollars)	As at July 31, 2017 $	As at October 31, 2016 $
ASSETS		
Cash and cash equivalents	580,739	363,664
Cash and cash equivalents in trust or otherwise reserved *[note 6]*	184,989	292,131
Trade and other receivables	130,438	105,003
Income taxes receivable	34,816	24,758
Inventories	11,194	12,354
Prepaid expenses	52,390	58,657
Derivative financial instruments	11,738	18,318
Current portion of deposits	9,174	13,067
Assets held for sale *[note 7]*	100,726	—
Current assets	1,116,204	887,952
Cash and cash equivalents reserved *[note 6]*	50,100	46,450
Deposits	38,280	28,977
Income taxes receivable	15,100	15,100
Deferred tax assets	17,727	15,055
Property, plant and equipment	133,951	134,959
Intangible assets	52,132	50,327
Derivative financial instruments	724	199
Investments *[note 9]*	15,019	97,668
Other assets	509	733
Non-current assets	323,542	389,468
	1,439,746	1,277,420
LIABILITIES		
Trade and other payables	329,614	247,795
Current portion of provision for overhaul of leased aircraft	14,416	16,232
Income taxes payable	901	976
Customer deposits and deferred revenues	509,931	409,045
Derivative financial instruments	28,347	21,358
Current liabilities	883,209	695,406
Provision for overhaul of leased aircraft *[note 10]*	29,251	24,629
Other liabilities *[note 12]*	93,410	88,011
Derivative financial instruments	1,485	—
Deferred tax liabilities	2,976	4,988
Non-current liabilities	127,122	117,628
EQUITY		
Share capital *[note 13]*	215,034	214,250
Share-based payment reserve	18,260	17,849
Retained earnings	204,082	218,821
Unrealized gain (loss) on cash flow hedges	(11,011)	2,211
Cumulative exchange differences	(11,241)	11,255
Reserve related to assets held for sale *[note 7]*	14,291	—
	429,415	464,386
	1,439,746	1,277,420

See accompanying notes to interim condensed consolidated financial statements

NOTICE

The Corporation's independent auditors have not performed a review of the accompanying interim condensed consolidated financial statements.

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

(in thousands of Canadian dollars, except per share amounts)	Quarters ended July 31 2017 $	2016 $	Nine-month periods ended July 31 2017 $	2016 $
Continuing operations				
Revenues	733,152	663,591	2,306,794	2,277,535
Operating expenses				
Costs of providing tourism services	245,812	239,269	1,080,749	1,141,407
Salaries and employee benefits	96,788	90,764	277,289	267,784
Aircraft fuel	106,394	99,287	254,205	235,034
Aircraft maintenance	46,222	53,839	140,805	130,611
Aircraft rent	32,390	31,946	105,854	102,970
Airport and navigation fees	39,592	37,192	96,152	93,648
Commissions	11,920	12,623	80,831	81,495
Other airline costs	61,782	58,341	160,298	160,373
Other	33,428	25,765	95,607	88,854
Share of net income of an associate and a joint venture	(1,555)	(2,456)	(11,001)	(10,643)
Depreciation and amortization	18,077	12,111	49,435	35,335
Special items *[note 14]*	1,350	7,900	1,350	7,900
	692,200	666,581	2,331,574	2,334,768
Operating income (loss)	40,952	(2,990)	(24,780)	(57,233)
Financing costs	557	416	1,456	1,337
Financing income	(2,045)	(1,676)	(5,645)	(5,403)
Change in fair value of fuel-related derivatives and other derivatives	341	(13,922)	(3,533)	24,042
Foreign exchange (gain) loss on non-current monetary items	4,368	437	1,938	1,203
Loss on disposal of a subsidiary *[note 4]*	—	—	—	843
Asset impairment *[note 8]*	—	—	—	15,809
Income (loss) before income tax expense	37,731	11,755	(18,996)	(95,064)
Income taxes (recovery)				
Current	8,794	(2,461)	(9,009)	(24,280)
Deferred	1,769	5,403	54	(3,739)
	10,563	2,942	(8,955)	(28,019)
Net income (loss) from continuing operations	27,168	8,813	(10,041)	(67,045)
Discontinued operations				
Net income (loss) from discontinued operations *[note 5]*	—	1,735	—	(5,645)
Net income (loss) for the period	27,168	10,548	(10,041)	(72,690)
Net income (loss) attributable to:				
Shareholders	26,588	9,439	(13,839)	(76,668)
Non-controlling interests	580	1,109	3,798	3,978
	27,168	10,548	(10,041)	(72,690)
Earnings (loss) per share from continuing operations *[note 13]*				
Basic	0.72	0.21	(0.37)	(1.92)
Diluted	0.72	0.21	(0.37)	(1.92)
Earnings (loss) per share *[note 13]*				
Basic	0.72	0.26	(0.37)	(2.08)
Diluted	0.72	0.26	(0.37)	(2.08)

See accompanying notes to interim condensed consolidated financial statements

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Quarters ended July 31		Nine-month periods ended July 31	
	2017	2016	2017	2016
(in thousands of Canadian dollars)	$	$	$	$
Net income (loss) from continuing operations	27,168	8,813	(10,041)	(67,045)
Other comprehensive income (loss) from continuing operations				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	(20,764)	12,725	(17,171)	(48,763)
Reclassification to net income (loss)	(3,016)	(899)	(888)	25,363
Deferred taxes	6,426	(3,102)	4,837	6,334
	(17,354)	8,724	(13,222)	(17,066)
Foreign exchange loss on translation of financial statements of foreign subsidiaries	(10,252)	(200)	(8,205)	(11,262)
Total other comprehensive income (loss) from continuing operations	(27,606)	8,524	(21,427)	(28,328)
Comprehensive income (loss) from continuing operations	(438)	17,337	(31,468)	(95,373)
Net income (loss) from discontinued operations *[note 5]*	—	1,735	—	(5,645)
Other comprehensive income (loss) from discontinued operations	—	1,118	—	(288)
Comprehensive income (loss) from discontinued operations	—	2,853	—	(5,933)
Comprehensive income (loss) for the period	(438)	20,190	(31,468)	(101,306)
Attributable to:				
Shareholders	2,262	17,928	(32,706)	(105,063)
Non-controlling interests	(2,700)	2,262	1,238	3,757
	(438)	20,190	(31,468)	(101,306)

See accompanying notes to interim condensed consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

				Accumulated other comprehensive income (loss)					
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Reserve related to assets held for sale	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$	$
Balance as at October 31, 2015	218,134	17,105	263,812	14,960	23,241	—	537,252	—	537,252
Net income (loss) for the period	—	—	(76,668)	—	—	—	(76,668)	3,978	(72,690)
Other comprehensive income (loss)	—	—	—	(17,066)	(11,041)	(288)	(28,395)	(221)	(28,616)
Comprehensive income (loss) for the period	—	—	(76,668)	(17,066)	(11,041)	(288)	(105,063)	3,757	(101,306)
Issued from treasury	893	—	—	—	—	—	893	—	893
Exercise of options	577	(177)	—	—	—	—	400	—	400
Share-based payment expense	—	878	—	—	—	—	878	—	878
Repurchase of shares	(5,680)	—	(1,427)	—	—	—	(7,107)	—	(7,107)
Dividends	—	—	—	—	—	—	—	(3,056)	(3,056)
Discontinued operations	—	—	—	(777)	(538)	1,315	—	—	—
Other changes in non-controlling interest liabilities	—	—	(169)	—	—	—	(169)	169	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(1,091)	(1,091)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(221)	—	(221)	221	—
	(4,210)	701	(1,596)	(777)	(759)	1,315	(5,326)	(3,757)	(9,083)
Balance as at July 31, 2016	213,924	17,806	185,548	(2,883)	11,441	1,027	426,863	—	426,863
Net income (loss) for the period	—	—	34,920	—	—	—	34,920	1,011	35,931
Other comprehensive income (loss)	—	—	(2,360)	4,575	(3,264)	1,381	332	853	1,185
Comprehensive income (loss) for the period	—	—	32,560	4,575	(3,264)	1,381	35,252	1,864	37,116
Issued from treasury	326	—	—	—	—	—	326	—	326
Share-based payment expense	—	43	—	—	—	—	43	—	43
Dividends	—	—	—	—	—	—	—	(1,279)	(1,279)
Discontinued operations	—	—	(336)	519	2,225	(2,408)	—	—	—
Fair value changes in non-controlling interest liabilities	—	—	1,049	—	—	—	1,049	(1,049)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	1,317	1,317
Reclassification of non-controlling interest exchange difference	—	—	—	—	853	—	853	(853)	—
	326	43	713	519	3,078	(2,408)	2,271	(1,864)	407
Balance as at October 31, 2016	214,250	17,849	218,821	2,211	11,255	—	464,386	—	464,386
Net income (loss) for the period	—	—	(13,839)	—	—	—	(13,839)	3,798	(10,041)
Other comprehensive income (loss)	—	—	—	(13,222)	(5,645)	—	(18,867)	(2,560)	(21,427)
Comprehensive income (loss) for the period	—	—	(13,839)	(13,222)	(5,645)	—	(32,706)	1,238	(31,468)
Issued from treasury	784	—	—	—	—	—	784	—	784
Share-based payment expense	—	411	—	—	—	—	411	—	411
Dividends	—	—	—	—	—	—	—	(3,776)	(3,776)
Reclassification of assets held for sale	—	—	—	—	(14,291)	14,291	—	—	—
Fair value changes in non-controlling interest liabilities	—	—	(900)	—	—	—	(900)	—	(900)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	—	(22)	(22)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(2,560)	—	(2,560)	2,560	—
	784	411	(900)	—	(16,851)	14,291	(2,265)	(1,238)	(3,503)
Balance as at July 31, 2017	215,034	18,260	204,082	(11,011)	(11,241)	14,291	429,415	—	429,415

See accompanying notes to interim condensed consolidated financial statements

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2017	2016	2017	2016
(in thousands of Canadian dollars)	$	$	$	$
OPERATING ACTIVITIES				
Net income (loss) from continuing operations	27,168	8,813	(10,041)	(67,045)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	18,077	12,111	49,435	35,335
Change in fair value of fuel-related derivatives and other derivatives	341	(13,922)	(3,533)	24,042
Foreign exchange (gain) loss on non-current monetary items	4,368	437	1,938	1,203
Loss on disposal of a subsidiary	—	—	—	843
Asset impairment	—	—	—	15,809
Share of net income of an associate and a joint venture	(1,555)	(2,456)	(11,001)	(10,643)
Deferred taxes	1,769	5,403	54	(3,739)
Employee benefits	688	670	2,066	2,010
Share-based payment expense	104	215	411	878
	50,960	11,271	29,329	(1,307)
Net change in non-cash working capital balances related to operations	(11,048)	23,733	262,694	210,747
Net change in other assets and liabilities related to operations	2,377	11,674	(588)	8,264
Net change in provision for overhaul of leased aircraft	(3,048)	5,484	2,806	109
Cash flows related to operating activities	39,241	52,162	294,241	217,813
INVESTING ACTIVITIES				
Additions to property, plant and equipment and intangible assets	(17,223)	(27,238)	(49,064)	(50,573)
Increase in cash and cash equivalents reserved	—	—	(3,650)	(1,550)
Consideration paid for an acquired company	(2,584)	—	(20,321)	—
Net proceeds from disposal of subsidiary	—	—	—	200
Dividend received from an associate	—	9,149	—	9,149
Cash flows related to investing activities	(19,807)	(18,089)	(73,035)	(42,774)
FINANCING ACTIVITIES				
Proceeds from issuance of shares	232	332	784	1,293
Dividends paid by a subsidiary to a non-controlling shareholder	(1,553)	(1,083)	(3,776)	(3,056)
Repurchase of shares	—	—	—	(7,107)
Cash flows related to financing activities	(1,321)	(751)	(2,992)	(8,870)
Effect of exchange rate changes on cash and cash equivalents	(3,662)	(3,815)	(1,139)	(10,091)
Net change in cash and cash equivalents related to continuing operations	14,451	29,507	217,075	156,078
Net cash flows related to discontinued operations *[note 5]*	—	19,872	—	11,759
Cash and cash equivalents, beginning of period	566,288	454,881	363,664	336,423
Cash and cash equivalents, end of period	580,739	504,260	580,739	504,260
Supplementary information (as reported in operating activities)				
Income taxes paid (recovered)	(741)	857	1,155	8,385
Interest paid	59	124	311	401

See accompanying notes to interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

Transat A.T. Inc. [the "Corporation"], headquartered at 300 Léo-Pariseau Street, Montréal, Québec, Canada, is incorporated under the Canada Business Corporations Act. Its Class A Variable Voting Shares and Class B Voting Shares are listed on the Toronto Stock Exchange and traded under a single ticker, namely "TRZ."

The Corporation 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 a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended July 31, 2017 were approved by the Corporation's Board of Directors on September 6, 2017.

The Corporation's operations are seasonal in nature; consequently, interim operating results do not necessarily proportionately reflect the operating results for a full year.

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These interim condensed consolidated financial statements of the Corporation and its subsidiaries have been prepared in accordance with International Financial Reporting Standards ["IFRS"], as issued by the International Accounting Standards Board ["IASB"] and as adopted by the Accounting Standards Board of Canada. These interim condensed consolidated financial statements were prepared in accordance with IAS 34, *Interim Financial Reporting*.

These interim condensed consolidated financial statements are presented in Canadian dollars, the Corporation's functional currency, except where otherwise indicated. Each entity of the Corporation determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2016.

These interim condensed consolidated financial statements have been prepared on a going concern basis, at historical cost, except for financial assets and liabilities classified as financial assets/liabilities at fair value through profit or loss and measured at fair value.

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

Standards issued but not yet effective are discussed below. The Corporation has not early adopted these new standards.

IFRS 9, *FINANCIAL INSTRUMENTS*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected-loss impairment model as well as a substantially-reformed approach to hedge accounting.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income rather than in the statement of income.

IFRS 9 also introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a more timely basis.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing of revenue recognition as well as requiring them to provide more relevant and comprehensive disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. The application of IFRS 15 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation is currently assessing the impact of adopting this standard on its financial statements.

IFRS 16, *LEASES*

In January 2016, the IASB issued IFRS 16, *Leases*, which supersedes IAS 17, *Leases*. Leasing is an important and flexible source of financing for many companies. However, under current standard IAS 17, it is difficult to obtain a clear picture of the assets and liabilities related to the leasing agreements of an entity. IFRS 16 introduces a single lessee accounting model under which the vast majority of lease-related assets and liabilities are recognized in the statement of financial position. For the lessor, substantially all the current accounting requirements remain unchanged.

The application of IFRS 16 is mandatory and will be effective from the Corporation's fiscal year beginning on November 1, 2019, with earlier adoption permitted if the new IFRS 15 standard on revenue has also been applied. The Corporation is currently assessing the impact of adopting IFRS 16 on its financial statements.

Note 4 BUSINESS ACQUISITIONS AND DISPOSALS

On April 3, 2017, the Corporation acquired a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo"], a Mexican company operating a hotel, for a consideration of US$10,000 [$13,425], of which US$9,500 [$12,754] was paid in cash and US$500 [$622] was included in trade and other payables as at July 31, 2017. This amount is payable subject to certain conditions. This interest in a joint venture is accounted for using the equity method *[note 9].*

On December 21, 2016, upon exercise of a put option by the minority shareholder in the subsidiary Jonview Canada Inc., the Corporation completed the purchase of 19.93% of the shares of its subsidiary Jonview Canada Inc., which has an incoming tour operator business in Canada, thereby bringing its interest in the subsidiary to 100%. The cash consideration totalled $4,983, being the fair value of the put option at the time of the transaction. Also, the non-controlling interest was derecognized without any impact being recognized in the consolidated statements of loss.

On April 1, 2016, the Corporation concluded the sale of its subsidiary Travel Superstore, which operates the website tripcentral.ca and 27 travel agencies. The cash consideration totalled $300 and the carrying amount of net assets transferred stood at $1,312, which resulted in a reversal of retained earnings of $169 and a loss on disposal of a subsidiary of $843.

Note 5 DISCONTINUED OPERATIONS

On October 31, 2016, the Corporation completed the sale of its tour operating businesses in France (Transat France) and Greece (Tourgreece) for an amount of €63,428 [$93,254] to TUI AG, a multinational tourism company. On January 27, 2017, TUI AG confirmed that the purchase price will not be subject to any working capital adjustments after the final closing and audit of accounts.

As at July 31, 2016, the tour operating businesses in France and Greece were identified as discontinued operations and their assets as held for sale.

The net income (loss) from discontinued operations is entirely attributable to common shareholders of the Corporation and is detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2017 $	2016 $	2017 $	2016 $
Revenues	—	213,607	—	498,377
Operating expenses and other expenses	—	209,645	—	504,611
Income (loss) before income tax expense	—	3,962	—	(6,234)
Income tax expense (recovery)	—	2,227	—	(589)
Net income (loss) from discontinued operations	—	1,735	—	(5,645)

Basic and diluted earnings (loss) per share from discontinued operations are detailed as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2017 $	2016 $	2017 $	2016 $
Earnings (loss) per share from discontinued operations				
Basic	—	0.05	—	(0.15)
Diluted	—	0.05	—	(0.15)

The net change in cash flows related to discontinued operations is as follows:

	Quarters ended July 31		Nine-month periods ended July 31	
	2017 $	2016 $	2017 $	2016 $
Cash flows related to operating activities	—	20,768	—	15,096
Cash flows related to investing activities	—	(1,319)	—	(3,443)
Effect of exchange rate changes on cash and cash equivalents	—	423	—	106
Net cash flows related to discontinued operations	—	19,872	—	11,759

Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at July 31, 2017, cash and cash equivalents in trust or otherwise reserved included $162,085 [$254,311 as at October 31, 2016] in funds received from customers, consisting primarily of Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $73,004, of which $50,100 was recorded as non-current assets [$84,270 as at October 31, 2016, of which $46,450 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 ASSETS HELD FOR SALE

On July 19, 2017, the Corporation entered into an agreement with H10 Hotels to sell its 35% minority interest in Ocean Hotels for an anticipated amount of US$150,500 ($183,600).

As at July 31, 2017, this interest represented an investment of $100,726 which was presented as an asset held for sale in the statement of financial position. No losses resulted from the remeasurement of the assets held for sale. The agreement entered into with H10 Hotels, which already owns 65% of the company formed in 2007, is enforceable and subject to certain customary conditions. The selling price is subject to adjustments upon closing, expected to take place by November 2, 2017, and afterwards, if necessary.

Note 8 IMPAIRMENT TEST

In compliance with the accounting policies adopted by the Corporation, annual impairment testing for intangible assets with indefinite lives is required on April 30 and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of an asset, cash-generating unit (”CGU”) or group of CGUs. Where the recoverable amount of the asset, CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized.

The Corporation performed an impairment test as at April 30, 2017 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following the impairment test, the Corporation did not identify any impairment of its trademarks, which total $4,430 as at July 31, 2017.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each asset, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on nil growth rates. The cash flow forecasts used also reflect the effects of implementing the Corporation’s integrated distribution and brand strategy aiming to further expand the Transat brand, therefore decreasing the use of certain trademarks held by the Corporation.

As at April 30, 2017, after-tax discount rates used for impairment testing for trademarks range from 10.3% to 18.0% [between 10.3% and 18.0% as at April 30, 2016].

On April 30, 2017, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all other variables had remained the same, would not have required any impairment charge.

On April 30, 2017, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would not have required any impairment charge.

As at July 31, 2017, there was no indication that could lead us to believe that the conclusions of the test might have changed since April 30, 2017.

Note 9 INVESTMENTS

The change in the 35% investment in an associate, Caribbean Investments B.V. ["CIBV'], and the change in the 50% investment in a joint venture, Desarrollo, are detailed as follows:

	CIBV	Desarrollo	Total
	$	$	$
Balance as at October 31, 2016	97,668	—	97,668
Acquisition	—	13,425	13,425
Capital contribution	—	2,584	2,584
Share of net income	10,896	105	11,001
Translation adjustment	(7,838)	(1,095)	(8,933)
Balance as at July 31, 2017	100,726	15,019	115,745

The investments were translated at the CAD/USD rate of 1.2433 as at July 31, 2017 [1.3403 as at October 31, 2016].

Note 10 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases. The change in the provision for overhaul of leased aircraft for the quarter ended July 31 is detailed as follows:

	$
Balance as at October 31, 2016	40,861
Additional provisions	11,215
Utilization of provisions	(5,361)
Balance as at April 30, 2017	46,715
Additional provisions	1,194
Utilization of provisions	(4,242)
Balance as at July 31, 2017	43,667
Current provisions	14,416
Non-current provisions	29,251
Balance as at July 31, 2017	43,667

Note 11 LONG-TERM DEBT

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2020, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year at each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the 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. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries subject to certain exceptions and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at July 31, 2017, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at July 31, 2017, $54,813 had been drawn down under the facility [$66,220 as at October 31, 2016], of which $50,100 is to insure the benefits to participants under senior executives defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

Note 12 OTHER LIABILITIES

	As at July 31, 2017 $	As at October 31, 2016 $
Employee benefits	41,829	40,400
Deferred lease inducements	28,220	22,611
Non-controlling interests	23,361	29,984
	93,410	92,995
Less: Non-controlling interests included in Trade and other payables	—	(4,984)
	93,410	88,011

Note 13 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 shareholders' meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the CTA) of the total number of votes that may be cast at such meeting.

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

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

	Number of shares	$
Balance as at October 31, 2015	37,590,747	218,134
Issued from treasury	131,194	893
Exercise of options	59,890	577
Repurchase and cancellation of shares	(978,831)	(5,680)
Balance as at July 31, 2016	36,803,000	213,924
Issued from treasury	56,165	326
Balance as at October 31, 2016	36,859,165	214,250
Issued from treasury	155,670	784
Balance as at July 31, 2017	37,014,835	215,034

On March 4, 2016, the Corporation completed its normal course issuer bid for a 12-month period launched on April 10, 2015; as of that date, the Corporation had repurchased a total of 2,274,921 Class B Shares for a cash consideration of $16,531. During the nine-month period ended July 31, 2016, the Corporation repurchased 978,831 Class B Shares for a cash consideration of $7,107.

As at July 31, 2017, the number of Class A Shares and Class B Shares stood at 2,378,391 and 34,636,444, respectively [2,476,020 and 34,383,145 as at October 31, 2016].

SUBSCRIPTION RIGHTS PLAN

At the Annual General Meeting ["AGM"] held on March 16, 2017, the shareholders approved the update and renewal of the shareholders' subscription rights plan [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 alternatives, thus allowing shareholders to receive full and fair value for their shares. Besides the cosmetic changes relating to dates, the new rights plan contains amendments such as the extension in the time limit for a permitted bid from 60 days to 105 days and the change in the definition of a competing permitted bid. The rights plan will terminate on the day after the 2020 AGM, unless terminated prior to said AGM.

STOCK OPTIONS

	Number of options	Weighted average price ($)
Balance as at October 31, 2016	2,611,891	11.94
Cancelled	(332,178)	11.23
Balance as at July 31, 2017	2,279,713	12.04
Options exercisable as at July 31, 2017	2,081,068	12.21

EARNINGS (LOSS) PER SHARE

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

	Quarters ended July 31		Nine-month periods ended July 31	
	2017	2016	2017	2016
(in thousands of dollars, except per share data)	$	$	$	$
NUMERATOR				
Net income (loss) attributable to shareholders	26,588	9,439	(13,839)	(76,668)
Net income (loss) from discontinued operations	—	1,735	—	(5,645)
Net income (loss) from continuing operations attributable to shareholders	26,588	7,704	(13,839)	(71,023)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	36,991	36,571	36,937	36,925
Effect of dilutive securities				
Stock options	6	107	—	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	36,997	36,678	36,937	36,925
Earnings (loss) per share				
Basic	0.72	0.26	(0.37)	(2.08)
Diluted	0.72	0.26	(0.37)	(2.08)
Earnings (loss) per share from continuing operations				
Basic	0.72	0.21	(0.37)	(1.92)
Diluted	0.72	0.21	(0.37)	(1.92)

For the purpose of calculating diluted earnings per share for the quarter ended July 31, 2017, 1,805,765 outstanding stock options were excluded from the calculation [2,112,538 stock options for the quarter ended July 31, 2016], as their exercise price exceeded the Corporation's average market share price.

In light of the net loss recognized for the nine-month periods ended July 31, 2017 and 2016, respectively, all 2,279,713 and 2,652,377 outstanding stock options were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 14 SPECIAL ITEMS

The special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the quarter ended July 31, 2017, a restructuring charge of $1,350, comprising termination benefits, was recognized. During the quarter ended July 31, 2016, lump-sum payments in the amount of $4,200 were recognized in connection with the renewal of the collective agreement with the cabin crews, in addition to the restructuring charge of $3,700, comprising termination benefits, mainly related to the closure of call centres.

Note 15 GUARANTEES

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

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

Notes 5, 7, 16, 23, 24 and 25 to the financial statements for the fiscal year ended October 31, 2016 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 expire 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; moreover, the Corporation and its subsidiaries have liability insurance coverage in such circumstances.

COLLATERAL SECURITY CONTRACTS

The Corporation has entered into collateral security contracts with certain suppliers. Under these contracts, the Corporation guarantees the payment of certain services rendered that it undertook to pay. These contracts typically cover a one-year period and are renewable.

The Corporation has entered into collateral security contracts whereby it guarantees 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 operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at July 31, 2017, the total amount of these guarantees unsecured by deposits totalled $688. Historically, the Corporation has not made any significant payments under such agreements. As at July 31, 2017, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

The Corporation has a $35,000 guarantee facility renewable annually in February. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at July 31, 2017, $26,410 had been drawn down under the facility.

Note 16 SEGMENTED DISCLOSURE

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation's continuing operations are mainly in the Americas. Revenues and non-current assets outside the Americas are not material. Therefore, the consolidated statements of income (loss) and consolidated statements of financial position include all the required information.

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