# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2017, compared with the year ended October 31, 2016, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 13, 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 year ended October 31, 2017 and Annual Information Form.

These 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.

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## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

- The outlook whereby the Corporation should have the resources it needs to meet its 2018 objectives and continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues and total travellers to increase compared with 2017.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2018.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $50.0 million.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby for the first six-month period of 2018, the Corporation expects to achieve better results than in the 2017 winter season.

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 aforementioned items 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 an investment, 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 aforementioned items 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 an investment, 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 aforementioned items 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 meet 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 relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet 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) | 2017<br>$ | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Operating income (loss) | **34,720** | (30,335) | 54,791 |
| Lump-sum payments related to collective agreements | **—** | 7,263 | — |
| Restructuring charge | **2,925** | 6,562 | — |
| Depreciation and amortization | **68,470** | 50,038 | 45,817 |
| Premiums related to fuel-related derivatives and other derivatives matured during the year | **(4,090)** | (7,752) | — |
| **Adjusted operating income** | **102,025** | 25,776 | 100,608 |

| | 2017<br>$ | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Income (loss) before income tax expense | **151,804** | (97,374) | 61,732 |
| Lump-sum payments related to collective agreements | **—** | 7,263 | — |
| Restructuring charge | **2,925** | 6,562 | — |
| Change in fair value of fuel-related derivatives and other derivatives | **(9,187)** | (6,901) | 1,391 |
| Loss (gain) on disposal of an investment | **(86,616)** | 843 | — |
| Foreign exchange gain realized on disposal of an investment | **(15,478)** | — | — |
| Asset impairment | **—** | 79,708 | — |
| Premiums related to fuel-related derivatives and other derivatives matured during the year | **(4,090)** | (7,752) | — |
| **Adjusted pre-tax income (loss)** | **39,358** | (17,651) | 63,123 |

| | 2017<br>$ | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Net income (loss) attributable to shareholders | **134,308** | (41,748) | 42,565 |
| Net loss (income) from discontinued operations | **—** | (49,772) | 2,355 |
| Lump-sum payments related to collective agreements | **—** | 7,263 | — |
| Restructuring charge | **2,925** | 6,562 | — |
| Change in fair value of fuel-related derivatives and other derivatives | **(9,187)** | (6,901) | 1,391 |
| Loss (gain) on disposal of an investment | **(86,616)** | 843 | — |
| Foreign exchange gain realized on disposal of an investment | **(15,478)** | — | — |
| Asset impairment | **—** | 79,708 | — |
| Premiums related to fuel-related derivatives and other derivatives matured during the year | **(4,090)** | (7,752) | — |
| Tax impact | **7,237** | (3,745) | (397) |
| **Adjusted net income (loss)** | **29,099** | (15,542) | 45,914 |

| | 2017<br>$ | 2016<br>$ | 2015<br>$ |
|---|---|---|---|
| Adjusted net income (loss) | **29,099** | (15,542) | 45,914 |
| Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share | **37,040** | 36,899 | 38,558 |
| **Adjusted net income (loss) per share** | **0.79** | (0.42) | 1.19 |

| | October 31, 2017 $ | October 31, 2016 $ | October 31, 2015 $ |
|---|---|---|---|
| Aircraft rent | **132,139** | 135,813 | 98,859 |
| Multiple | **5** | 5 | 5 |
| **Adjusted operating leases** | **660,695** | 679,065 | 494,295 |
| Long-term debt | **—** | — | — |
| Adjusted operating leases | **660,695** | 679,065 | 494,295 |
| **Total debt** | **660,695** | 679,065 | 494,295 |
| Total debt | **660,695** | 679,065 | 494,295 |
| Cash and cash equivalents | **(593,582)** | (363,664) | (336,423) |
| **Total net debt** | **67,113** | 315,401 | 157,872 |

## FINANCIAL HIGHLIGHTS

| | | | | Change | |
|---|---|---|---|---|---|
| (in thousands of Canadian dollars, except per share amounts) | 2017 $ | 2016 $ | 2015 $ | 2017 % | 2016 % |
| **Consolidated Statements of Income (Loss)** | | | | | |
| Revenues | **3,005,345** | 2,889,646 | 2,897,950 | 4.0 | (0.3) |
| Operating income (loss) | **34,720** | (30,335) | 54,791 | 214.5 | (155.4) |
| Net income (loss) attributable to shareholders | **134,308** | (41,748) | 42,565 | 421.7 | (198.1) |
| Basic earnings (loss) per share | **3.63** | (1.13) | 1.11 | 421.2 | (201.8) |
| Diluted earnings (loss) per share | **3.63** | (1.13) | 1.10 | 421.2 | (202.7) |
| Adjusted operating income[1] | **102,025** | 25,776 | 100,608 | 295.8 | (74.4) |
| Adjusted net income (loss)[1] | **29,099** | (15,542) | 45,914 | 287.2 | (133.9) |
| Adjusted net income (loss) per share[1] | **0.79** | (0.42) | 1.19 | 288.1 | (135.3) |
| **Consolidated Statements of Cash Flows** | | | | | |
| Operating activities | **161,487** | 43,561 | 108,992 | 270.7 | (60.0) |
| Investing activities | **97,901** | 5,093 | (53,854) | 1,822.3 | 109.5 |
| Financing activities | **(3,596)** | (9,823) | (12,672) | 63.4 | 22.5 |
| Effect of exchange rate changes on cash and cash equivalents | **450** | (12,132) | 3,402 | 103.7 | (456.6) |
| Net change in cash and cash equivalents | **256,242** | 26,699 | 45,868 | 859.7 | (41.8) |

| | As at October 31, 2017 $ | As at October 31, 2016 $ | As at October 31, 2015 $ | Change 2017 % | Change 2016 % |
|---|---|---|---|---|---|
| **Consolidated Statements of Financial Position** | | | | | |
| Cash and cash equivalents | **593,582** | 363,664 | 336,423 | 63.2 | 8.1 |
| Cash and cash equivalents in trust or otherwise reserved (current and non-current) | **309,064** | 338,581 | 412,099 | (8.7) | (17.8) |
| | **902,646** | 702,245 | 748,522 | 28.5 | (6.2) |
| Total assets | **1,453,216** | 1,277,420 | 1,513,764 | 13.8 | (15.6) |
| Debt (current and non-current) | **—** | — | — | — | — |
| Total debt[1] | **660,695** | 679,065 | 494,295 | (2.7) | 37.4 |
| Total net debt[1] | **67,113** | 315,401 | 157,872 | (78.7) | 99.8 |

[1] SEE NON-IFRS FINANCIAL MEASURES

# OVERVIEW

## THE HOLIDAY TRAVEL INDUSTRY

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

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, through travel agencies or via the Web. Incoming tour operators design travel packages or other travel products consisting of services they purchase in their local market for sale in foreign markets, generally through other tour operators or travel agencies. Destination service providers are based at destination and sell a range of optional services to travellers onsite for spontaneous consumption, such as excursions or sightseeing tours. These companies also provide outgoing tour operators with logistical support services, such as ground transfers between airports and hotels. Travel agencies, operating independently, in networks or online, are distributors serving as intermediaries between suppliers and consumers. Hotel operators sell accommodation, on an all-inclusive basis or not, either directly, through travel agencies or through tour operators. Air carriers sell seats through travel agencies or directly to tour operators that use them in building packages, or directly to consumers.

## CORE BUSINESS, VISION AND STRATEGY

### 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 to Canada, Mexico, the Dominican Republic and Jamaica. Transat holds an interest in a hotel business which owns and operates a property in Mexico.

### 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

As part of its 2018–2022 strategic plan, Transat set a two-pronged objective of building sustainable profitability: improve and strengthen its current business model, and pursue hotel development.

Hotel development will be achieved by creating a business unit to operate all-inclusive hotels in the Caribbean and Mexico, some wholly owned and some not. This hotel chain will strengthen Transat's profitability, particularly during winter, while enabling it to deliver a controlled end-to-end experience to its Canadian customers.

Furthermore, Transat will strengthen its current model by maintaining its focus on satisfying the expectations of leisure customers with user-friendly service at affordable prices. This will be made possible by greater synergy between the Corporation's various divisions in Canada, continued efforts to increase efficiency and reduce costs, continuous improvement in the Corporation's digital footprint and a special focus on the development of certain functions, such as revenue management or air network planning.

Lastly, corporate responsibility, whether in terms of the environment, customers, employees or partners, will remain a key part of Transat's strategy.

For fiscal 2018, Transat has set the following objectives:

1. Launch a wholly-owned Transat hotel chain: set up the team, develop the concept and select the brand, and initiate the first acquisitions of hotels and/or land.

2. Improve efficiency, in particular by improving revenue management, pricing and aircraft utilization and by pursuing its cost reduction policy.

3. Improve distribution by continuing to grow direct sales, refining channel management and strengthening our presence in mobile technologies.

4. Enhance customer proximity, particularly through centralized case management and satisfaction metrics.

5. Strengthen our commitment to corporate responsibility, particularly by obtaining Travelife certification and refining our employee satisfaction metrics.

## REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2017

The main objectives and achievements for fiscal 2017 were as follows:

**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.**

We continued to grow our controlled sales, with a 28% increase in the value of online sales in Canada and 18% worldwide. We strengthened our websites with the introduction of a new booking experience, complementing last year's significantly improved shopping experience.

We have also begun to improve our revenue management through increasingly automated decision-making and skills building by hiring external talent.

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

Major milestones were achieved this year in the optimization and future configuration of our fleet. First, the Corporation entered into lease agreements for ten Airbus A321neo LRs, to be commissioned gradually starting in spring 2019. Second, an agreement was entered into with Thomas Cook, under which it will lend Airbus A321ceos to Transat in the winter in exchange for one or two A330s.

Eventually, the fleet will be Airbus-only and include only two or three different types of aircraft: A330s and A320 family aircraft, most of which will be A321s. This configuration will simplify the implementation of Transat's unique flexible dual-fleet operating model, allowing its pilots to easily switch from one aircraft to another, with an immediate cost benefit, particularly in terms of training and maintenance. Customers will also enjoy the real benefit of a seamless offering, including Club seats on all Air Transat routes and aircraft. In addition, replacing A310s with A321neo LRs will have many advantages, from fuel consumption (which is environmentally and cost effective) to maintenance, to better suited seat capacity on certain routes, to the possibility for more frequent flights.

In terms of operational efficiency, controllable punctuality was improved to a higher level than in 2015, after a decrease of one to two points in 2016 (based on reported delays), while irregular operations costs (IRROPS) were reduced by more than a third compared with last year, despite growth of over 5% in the number of departures.

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

As part of our negotiations with H10 for the eventual acquisition of Ocean Hotels, we had the opportunity in 2017 to take stock of our 10-year presence in this hotel business and gain deeper knowledge of the market, financing channels and industry acquisition techniques. It also allowed us to lay the foundations to build the team that will lead our project. Lastly, the disposals in 2016 and 2017 (Transat France, Tourgreece, Ocean and Jonview) provided the cash required for our planned investment.

**Pursue our cost reduction and unit margin improvement efforts.**

The strategic plan's three-year target of $100 million in margin improvements and cost reductions was achieved, with an additional $30 million compared with last year, due in part to $19 million in additional cost reductions and $11 million in revenue growth, primarily from ancillary revenues.

**Continue working on employee engagement.**

The Corporation's 30th anniversary year was a wonderful opportunity to build on employees' sense of belonging, which is very strong at Transat. A series of events held throughout the year, in addition to our regular recognition, health and wellness and volunteer programs, have helped us engage our employees with our corporate spirit and history. We also deployed a pilot project to assess team wellness and engagement at the closest level, in order to improve our responsiveness to their needs and feedback.

This year, we also rolled out a new employer brand platform, modelled after our global brand platform, which will allow us to both enhance our attractiveness to potential hires and instill pride in our current employees.

## KEY PERFORMANCE DRIVERS

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

| | |
|---|---|
| ADJUSTED OPERATING INCOME | Obtain an adjusted operating income margin higher than 3% of revenues. |
| MARKET SHARE | Consolidate or increase market share in all regions in Canada and in Europe in our traditional markets and establish our first all-inclusive hotel banner in the Caribbean and Mexico. |
| REVENUE GROWTH | Grow revenues at the pace of the market, i.e. around 3% per year in our traditional markets, and operate 5,000 rooms within seven years in the hotel business. |

## ABILITY TO DELIVER ON OUR OBJECTIVES

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

Our financial resources are as follows:

| | |
|---|---|
| **Cash** | Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $593.6 million as at October 31, 2017. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels. |
| **Credit facilities** | A revolving credit facility agreement totalling $50.0 million, among others, is also available for operating purposes. |

Our non-financial resources include:

| | |
|---|---|
| **Brand** | The Corporation has taken the necessary steps to foster a distinctive brand image and raise its profile, including its sustainable tourism approach. |
| **Structure** | Our vertically integrated structure enables us to ensure better quality control over our products and services and facilitates implementing programs to achieve gains in efficiency. |
| **Employees** | Our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. In addition, we believe that the Corporation has strong management. |
| **Supplier relationships** | We have exclusive access to certain hotels at sun destinations as well as over 30 years of privileged relationships with many hotels at these destinations and in Europe. |

Transat has the resources it needs to meet its 2018 objectives and continue building on its long-term strategies.

## REVISITING OUR SEPTEMBER 6, 2017 OUTLOOK

| | What we said | What we did |
|---|---|---|
| **Fuel/foreign exchange effect – transatlantic market** | 1.3% decrease in operating expenses for the fourth quarter of 2017 | For the fourth quarter of 2017, the favourable fuel/foreign exchange effect resulted in a $8.1 million decrease in operating expenses (1.4%). Operating expenses were up 9.2% owing primarily to an 8.5% increase in capacity in the transatlantic market, our main market during that period. |
| **Fuel/foreign exchange effect – sun destination market** | 1.5% decrease in operating expenses for the fourth quarter of 2017 | |
| **Adjusted operating income[1]** | For the fourth quarter of 2017, adjusted operating income[1] similar to 2015, which was $70.8 million for continuing operations. | For the fourth quarter of 2017, adjusted operating income[1] amounted to $78.5 million, slightly higher than in 2015, mainly due to improved prices and load factors in the transatlantic market. |

[1] SEE NON-IFRS FINANCIAL MEASURES

## BUSINESS ACQUISITIONS AND DISPOSALS

On December 21, 2016, following the exercise of a put option by the minority shareholder in the subsidiary Jonview Canada Inc. ["Jonview"], the Corporation completed the purchase of 19.93% of the shares of its subsidiary Jonview, 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 with no impact on the consolidated statements of income (loss).

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. The expected selling price of $44.0 million, received in cash on that date, may be adjusted subsequent to the final closing of accounts and completion of their audit within 90 days following the closing of the sale due to a working capital adjustment.

As at October 31, 2017, the assets and liabilities of Jonview have been reported as held for sale in the consolidated statements of financial position. Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended October 31, 2017. The transaction had no other impact on the financial statements of the Corporation for the year ended October 31, 2017. For the year ended October 31, 2017, Jonview recorded a net income of $6.2 million, with a net loss of $3.8 million for the first six-month period and a net income of $10.0 million for the second six-month period.

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels, ahead of the anticipated November 2, 2017 closing date. As announced on July 19, 2017, the sale closed for US$150.5 million [$187.5 million], received in cash on October 4, 2017. The disposed interest had a carrying value of $97.3 million as at October 4, 2017. The Corporation recorded a gain on disposal of an investment of $86.6 million, net of transaction costs of $1.7 million, as well as a foreign exchange gain of $15.5 million realized on the reclassification of the cumulative exchange differences related to our investment. The selling price remains subject to certain adjustments, estimated to US$1,5 million [$1,9 million] as of October 31, 2017, which would reduce the selling price to US$149.0 million [$185.6 million]. 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 on Puerto Vallarta's 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 Mexican owner and operator, for a consideration of US$10.0 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 October 31, 2017. This amount is payable subject to certain conditions. This interest in a joint venture is accounted for using the equity method.

## 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.

For the year ended October 31, 2016, the tour operating businesses in France and Greece were identified as discontinued operations. For the year ended October 31, 2016, a gain on disposal of $49.7 million, net of transaction costs of $7.1 million, was also recognized in the consolidated statement of income (loss) and the proceeds from disposal amounting to $93.3 million, net of cash disposed of, are shown in the consolidated statement of cash flows. The gain on disposal and the net consideration received are detailed as follows:

| | Consolidated statements of income | Consolidated statements of cash flows |
|---|---|---|
| | $ | $ |
| Selling price | 93,254 | 93,254 |
| Transaction costs | (7,073) | (2,228) |
| Cash and cash equivalents disposed of | (22,978) | (22,978) |
| Net assets disposed of (excluding cash and cash equivalents) | (13,511) | — |
| | 49,692 | 68,048 |

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

## CONSOLIDATED OPERATIONS

| (in thousands of dollars) | 2017 $ | 2016 $ | 2015 $ | Change % | % |
|---|---|---|---|---|---|
| **Continuing operations** | | | | | |
| Revenues | **3,005,345** | 2,889,646 | 2,897,950 | 4.0 | (0.3) |
| **Operating expenses** | | | | | |
| Costs of providing tourism services | **1,268,832** | 1,309,430 | 1,260,250 | (3.1) | 3.9 |
| Salaries and employee benefits | **371,863** | 346,899 | 340,280 | 7.2 | 1.9 |
| Aircraft fuel | **358,558** | 329,784 | 440,804 | 8.7 | (25.2) |
| Aircraft maintenance | **203,669** | 178,317 | 146,006 | 14.2 | 22.1 |
| Aircraft rent | **132,139** | 135,813 | 98,859 | (2.7) | 37.4 |
| Airport and navigation fees | **134,665** | 128,695 | 117,862 | 4.6 | 9.2 |
| Commissions | **88,635** | 92,018 | 95,170 | (3.7) | (3.3) |
| Other airline costs | **225,512** | 221,540 | 191,383 | 1.8 | 15.8 |
| Other | **126,500** | 119,964 | 113,773 | 5.4 | 5.4 |
| Share of net income of an associate and a joint venture | **(11,143)** | (6,342) | (7,045) | 75.7 | (10.0) |
| Depreciation and amortization | **68,470** | 50,038 | 45,817 | 36.8 | 9.2 |
| Special items | **2,925** | 13,825 | — | (78.8) | N/A |
| | **2,970,625** | 2,919,981 | 2,843,159 | 1.7 | 2.7 |
| **Operating income (loss)** | **34,720** | (30,335) | 54,791 | 214.5 | (155.4) |
| Financing costs | **2,134** | 1,669 | 1,775 | 27.9 | (6.0) |
| Financing income | **(8,363)** | (6,996) | (7,576) | 19.5 | (7.7) |
| Change in fair value of fuel-related derivatives and other derivatives | **(9,187)** | (6,901) | 1,391 | 33.1 | (596.1) |
| Loss (gain) on disposal of an investment | **(86,616)** | 843 | — | 10,374.7 | N/A |
| Foreign exchange gain realized on disposal of an investment | **(15,478)** | — | — | N/A | N/A |
| Foreign exchange loss (gain) on non-current monetary items | **426** | (1,284) | (2,531) | (133.2) | (49.3) |
| Asset impairment | **—** | 79,708 | — | (100.0) | N/A |
| **Income (loss) before income tax expense** | **151,804** | (97,374) | 61,732 | 255.9 | (257.7) |
| **Income taxes (recovery)** | | | | | |
| Current | **18,684** | (17,188) | 14,041 | 208.7 | (222.4) |
| Deferred | **(5,252)** | 6,345 | (1,628) | (182.8) | 489.7 |
| | **13,432** | (10,843) | 12,413 | 223.9 | (187.4) |
| **Net income (loss) from continuing operations** | **138,372** | (86,531) | 49,319 | 259.9 | (275.5) |
| **Discontinued operations** | | | | | |
| Net income (loss) from discontinued operations | **—** | 49,772 | (2,355) | (100.0) | 2,213.5 |
| **Net income (loss) for the year** | **138,372** | (36,759) | 46,964 | 476.4 | (178.3) |
| **Net income (loss) attributable to:** | | | | | |
| Shareholders | **134,308** | (41,748) | 42,565 | 421.7 | (198.1) |
| Non-controlling interests | **4,064** | 4,989 | 4,399 | (18.5) | 13.4 |
| | **138,372** | (36,759) | 46,964 | 476.4 | (178.3) |
| Earnings (loss) per share from continuing operations | | | | | |
| Basic | **3.63** | (2.48) | 1.17 | 246.4 | (312.0) |
| Diluted | **3.63** | (2.48) | 1.16 | 246.4 | (313.8) |
| Earnings (loss) per share | | | | | |
| Basic | **3.63** | (1.13) | 1.11 | 421.2 | (201.8) |
| Diluted | **3.63** | (1.13) | 1.10 | 421.2 | (202.7) |

## REVENUES

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

For the year ended October 31, 2017, our revenues were up $115.7 million (4.0%). This increase resulted mainly from our summer season, during which we recorded a higher volume in the transatlantic market, our main market during that season, following a 7.9% increase in capacity, as well as higher average selling prices across our markets. During the summer, total travellers increased by 14.3% across all our markets compared with 2016. The revenue increase during the year was partially offset by lower revenues in our winter season, owing primarily to a higher proportion of flight-only versus holiday package sales compared with 2016. During the winter, we recorded a 1.4% decrease in total travellers to sun destinations, our main market during that season, which resulted from our decision to reduce our product offering in that market by 2.3%. Overall, during the year, total travellers were up 8.2%.

For 2018, we expect revenues and total travellers to increase compared with 2017.

## OPERATING EXPENSES

Our total operating expenses increased $50.6 million (1.7%) during the year compared with 2016. The increase resulted primarily from our summer season which saw a rise in total travellers, driven by our decision to increase our product offering in the transatlantic market by 7.9%. This increase was partially offset by lower operating expenses in our winter season, during which we sold a higher proportion of flight-only versus holiday packages compared with 2016, despite an unfavourable exchange rate effect that resulted in higher costs.

### 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. The $40.6 million (3.1%) decrease was mainly due 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 a 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 rose $25.0 million (7.2%) to $371.9 million for the year ended October 31, 2017. The increase resulted from annual salary reviews, pilot and mechanic hires following the addition of Airbus A330s and Boeing 737s to our aircraft fleet and the rise in variable compensation compared with 2016.

### AIRCRAFT FUEL

Aircraft fuel expense for the year was up $28.8 million (8.7%), owing primarily to an increase in the number of flights compared with 2016. The higher fuel expense was also attributable to a rise in fuel price indices in financial markets.

### AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist of the expenses incurred by Air Transat, such as for engine and airframe maintenance on leased aircraft. Compared with 2016, these expenses rose $25.4 million (14.2%) during the year. This increase was driven primarily by the growth of our fleet compared with 2016 and, to a lesser extent, upward adjustments to certain planned maintenance costs.

### AIRCRAFT RENT

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 its flexible fleet, the Corporation had seasonal lease agreements for thirteen Boeing 737s compared with fifteen during winter 2016. During summer 2017, Air Transat's permanent fleet consisted of sixteen Airbus A330s, nine Airbus A310s and seven Boeing 737-800s. Of those aircraft, two Airbus A330s were commissioned in summer 2017 and two Airbus A310s were retired from the fleet at the end of the season.

The $3.7 million (2.7%) decrease in aircraft rent during the year resulted from the renegotiation of lease agreements for Airbus A330s, partially offset by the addition of two Airbus A330s compared with 2016.

### AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees rose $6.0 million (4.6%) compared with 2016. This increase resulted from 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. Commissions amounted to $88.6 million, down $3.4 million (3.7%) compared with fiscal 2016. As a percentage of revenues, commissions decreased and accounted for 2.9% of our revenues for the year compared with 3.2% in 2016. This decrease was attributable to the lower revenue base used in calculating commissions and higher direct sales.

### OTHER AIR COSTS

Other air costs consist mainly of handling, crew and catering costs. Other air costs were up $4.0 million (1.8%) for the year, compared with 2016. The increase was attributable to a higher number of flights compared with 2016, partly offset by lower crew costs.

### OTHER

Other expenses were up $6.4 million (5.3%) during the year, compared with 2016. The increase was driven by higher business volume compared with 2016.

### SHARE OF NET INCOME OF AN ASSOCIATE AND A JOINT VENTURE

Our share of net income of an associate and a joint venture represents our share of the net income of Caribbean Investments B.V. ["CIBV"], the sale of which closed on October 4, 2017, and Desarrollo, a hotel joint venture acquired in 2017. Our share of net income of an associate and a joint venture for the current fiscal year totalled $11.1 million compared with $6.3 million for 2016. The increase in our share resulted from CIBV's higher operating profitability, coupled with an unfavourable foreign exchange effect in 2016.

### DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment, intangible assets and deferred lease inducements. Depreciation and amortization expense was up $18.4 million in fiscal 2017. This increase was due to recent maintenance work on our Airbus A310s and improvements to our aircraft fleet.

### SPECIAL ITEMS

Special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the year ended October 31, 2107, a restructuring charge of $2.4 million was recognized for termination benefits. In 2016, lump-sum payments in the amount of $7.3 million were recognized in connection with the renewal of the collective agreement with cabin crews, in addition to a restructuring charge of $6.6 million, comprising mainly termination benefits related to the closure of call centres and a tour operator in the Netherlands.

## OPERATING RESULTS

In light of the foregoing, we recorded $34.7 million (1.2%) in operating income for the year compared with an operating loss of $30.3 million (1.0%) for the previous year. Operating results by season are summarized as follows:

| | | | | Change | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 |
| (in thousands of dollars) | $ | $ | $ | % | % |
| **Winter season** | | | | | |
| Revenues | **1,573,642** | 1,613,944 | 1,559,102 | (2.5) | 3.5 |
| Operating expenses | **1,639,374** | 1,668,187 | 1,596,641 | (1.7) | 4.5 |
| Operating loss | **(65,732)** | (54,243) | (37,539) | (21.2) | (44.5) |
| Operating loss (%) | **(4.2)** | (3.4) | (2.4) | (24.3) | (39.6) |
| **Summer season** | | | | | |
| Revenues | **1,431,703** | 1,275,702 | 1,338,848 | 12.2 | (4.7) |
| Operating expenses | **1,331,251** | 1,251,794 | 1,246,518 | 6.3 | 0.4 |
| Operating income | **100,452** | 23,908 | 92,330 | 320.2 | (74.1) |
| Operating income (%) | **7.0** | 1.9 | 6.9 | 274.4 | (72.8) |

We recognized an operating loss for the winter season amounting to $65.7 million (4.2%) compared with $54.2 million (3.4%) in 2016. The deterioration in our operating loss was due to a rise in air costs and to the unfavourable foreign exchange effect which, combined with an increase in fuel prices, resulted in a $39.3 million increase in operating expenses for the six-month period, that the higher average selling prices for sun destination packages could not offset.

During the summer, operating income totalled $100.5 million (7.0%) compared with $23.9 million (1.9%) for the previous year. The improvement in our operating income was driven primarily by higher average selling prices, capacity and load factors across our markets. The improvement in operating income was accentuated by the strengthening of the dollar against the U.S. dollar, which, when combined with higher fuel costs, reduced operating expenses by $10.9 million across our markets.

During the winter season, we reported an adjusted operating loss of $35.6 million (2.3%) compared with $36.7 million (2.3%) in 2016. For the summer season, we recorded adjusted net income of $137.6 million (9.6%) compared with $62.5 million (4.9%) in 2016. Overall, for the fiscal year, we reported adjusted operating income of $102.0 million (3.4%) compared with $25.8 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 were up $0.5 million in 2017, compared with 2016.

### FINANCING INCOME

Financing income increased by $1.4 million during the year compared with 2016, as a result of rising interest rates and higher 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 year, the fair value of fuel-related derivatives and other derivatives was up $9.1 million, compared with a $6.9 million increase in fair value in 2016. The increase was primarily driven by a favourable change in the dollar against the U.S. dollar in relation to outstanding foreign exchange derivatives.

### LOSS (GAIN) ON DISPOSAL OF AN INVESTMENT

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for a total cash consideration of US$150.5 million [$187.5 million], paid in cash on that date. The Corporation recognized a gain on disposal of an investment of $86.6 million.

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.

### FOREIGN EXCHANGE GAIN ON DISPOSAL OF AN INVESTMENT

The $15.5 million foreign exchange gain on disposal of an investment was realized on the reclassification of the cumulative exchange differences related to the sale of our 35% minority interest in Ocean Hotels to H10 Hotels.

### FOREIGN EXCHANGE LOSS (GAIN) ON NON-CURRENT MONETARY ITEMS

The foreign exchange loss on non-current monetary items, amounting to $0.4 million for the year compared with a $1.3 million gain in 2016, resulted mainly from an unfavourable foreign exchange effect on our foreign currency deposits.

### ASSET IMPAIRMENT

During the fiscal year ended October 31, 2016, the Corporation recognized a $79.7 million asset impairment charge consisting of $15.8 million in impairment of trademarks and $63.9 million in impairment of goodwill.

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, 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. After performing the test, the Corporation recognized a $15.8 million asset impairment charge in respect of its trademarks. The impairment resulted 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.

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the deterioration in results of the 2016 summer season led management to review its assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63.9 million, representing the balance of goodwill of its sole CGU.

## INCOME TAXES

For the year ended October 31, 2017, income tax expense amounted to $13.4 million compared with an income tax recovery of $10.8 million for the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 9.5% for the fiscal year ended October 31, 2017 and 10.5% for the preceding fiscal year. The change in tax rates between fiscal 2017 and 2016 resulted mainly 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, net income for the year ended October 31, 2017 amounted to $138.4 million, compared with a net loss from continuing operations of $86.5 million in 2016.

For the year ended October 31, 2017, adjusted net income amounted to $29.1 million ($0.79 per share) compared with an adjusted net loss of $15.5 million ($0.42 per share) in 2016.

## NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS

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

For the year ended October 31, 2016, net income from discontinued operations amounted to $49.8 million.

## NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Net income attributable to shareholders amounted to $134.3 million or $3.63 per share, basic and diluted, compared with a net loss attributable to shareholders of $41.8 million or $1.13 per share (basic and diluted) for the previous fiscal year. The weighted average number of outstanding shares used to compute basic per share amounts was 36,995,000 for fiscal 2017 and 36,899,000 for fiscal 2016 (37,040,000 and 36,899,000, respectively, for diluted per share amounts).

## 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. Compared with the corresponding quarters of the previous year, quarterly revenues were lower in the winter season, yet higher in the summer season. For winter season, following our decision to reduce our product offering in the sun destination market, total travellers decreased and average selling prices increased. In the transatlantic market, we increased our product offering while average selling prices were down. For the summer season, total travellers and average selling prices were up across our markets compared with the previous year.

In terms of operating results, increases in average selling prices for sun destination 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 summer season, the improvement in our operating income was driven by an increase in total travellers, combined with higher average selling prices and load factors across our markets. 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) | Q1-2016<br>$ | Q2-2016<br>$ | Q3-2016<br>$ | Q4-2016<br>$ | **Q1-2017**<br>**$** | **Q2-2017**<br>**$** | **Q3-2017**<br>**$** | **Q4-2017**<br>**$** |
| Revenues | 725,723 | 888,221 | 663,591 | 612,111 | **689,332** | **884,310** | **733,152** | **698,551** |
| Aircraft rent | 32,275 | 38,749 | 31,946 | 32,843 | **36,103** | **37,361** | **32,390** | **26,285** |
| Operating income (loss) | (40,542) | (13,701) | (2,990) | 26,898 | **(50,671)** | **(15,061)** | **40,952** | **59,500** |
| Net income (loss) | (59,803) | (23,817) | 10,548 | 36,313 | **(31,054)** | **(6,155)** | **27,168** | **148,413** |
| Net income (loss) attributable to shareholders | (61,155) | (24,952) | 9,439 | 34,920 | **(32,073)** | **(8,354)** | **26,588** | **148,147** |
| Basic earnings (loss) per share | (1.64) | (0.68) | 0.26 | 0.95 | **(0.87)** | **(0.23)** | **0.72** | **4.00** |
| Diluted earnings (loss) per share | (1.64) | (0.68) | 0.26 | 0.95 | **(0.87)** | **(0.23)** | **0.72** | **3.97** |
| Net income (loss) from continuing operations attributable to shareholders | (53,394) | (25,333) | 7,704 | (20,497) | **(32,073)** | **(8,354)** | **26,588** | **148,147** |
| Basic earnings (loss) per share from continuing operations | (1.44) | (0.69) | 0.21 | (0.56) | **(0.87)** | **(0.23)** | **0.72** | **4.00** |
| Diluted earnings (loss) per share from continuing operations | (1.44) | (0.69) | 0.21 | (0.56) | **(0.87)** | **(0.23)** | **0.72** | **3.97** |
| Adjusted operating income (loss)[1] | (31,683) | (5,002) | 15,964 | 46,497 | **(37,079)** | **1,508** | **59,055** | **78,541** |
| Adjusted net income (loss)[1] | (30,380) | (11,868) | 2,523 | 24,183 | **(36,039)** | **(8,100)** | **26,857** | **46,381** |
| Adjusted net income (loss) per share[1] | (0.82) | (0.32) | 0.07 | 0.66 | **(0.98)** | **(0.22)** | **0.73** | **1.24** |

1 SEE NON-IFRS FINANCIAL MEASURES

### FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $698.6 million in revenues, up $86.4 million (14.1%), from $612.1 million for the corresponding period of 2016. This increase was mainly due to an 8.7% increase in total travellers in the transatlantic market, our main market for that period, while average selling prices were up 4.0%. In this market, the Corporation increased capacity by 8.5% compared with 2016, while overall capacity was up nearly 5%. In the sun destination market, our capacity was down 3.8% compared with 2016 due to hurricanes Irma and Maria, which resulted in the repatriation of passengers particularly in Cuba and the Dominican Republic and the cancellation of certain flights. As a result, total passengers were down 2.7% in that market, while average selling prices rose 7.2%. Our operations generated operating income of $59.5 million, including a restructuring charge of $1.6 million, compared with operating income from continuing operations of $26.9 million in 2016, which reflected a restructuring charge of $5.9 million. The improvement in operating income was driven primarily by higher average selling prices across our markets, as well as by higher capacity and load factors in the transatlantic market.

For the fourth quarter of 2016, net income from discontinued operations from tour operator businesses in France and Greece amounted to $55.4 million, including a $49.7 million gain on disposal of subsidiaries Transat France and Tourgreece.

Fourth-quarter net income amounted to $148.4 million, compared with $35.9 million in 2016. Net income attributable to shareholders stood at $148.1 million ($4.00 per share, basic and $3.97 per share, diluted), compared with $34.9 million ($0.95 per share, basic and diluted) in 2016.

Fourth-quarter adjusted net income amounted to $46.4 million ($1.24 per share) compared with $24.2 million ($0.66 per share) in 2016.

## FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2017, cash and cash equivalents totalled $593.6 million, compared with $363.7 million as at October 31, 2016. Cash and cash equivalents in trust or otherwise reserved amounted to $309.1 million as at the end of fiscal 2017, compared with $338.6 million as at the end of fiscal 2016. The Corporation's statement of financial position reflected $386.6 million in working capital, for a ratio of 1.51, compared with $192.5 million and a ratio of 1.28 as at October 31, 2016.

Total assets increased by $175.8 million (13.8%) from $1,277.4 million as at October 31, 2016 to $1,453.2 million as at October 31, 2017. This increase was mainly attributable to higher cash and cash equivalents in trust or otherwise reserved as a result of the sale of our 35% minority interest in Ocean Hotels and positive cash flows generated from our operations. Equity increased $113.5 million from $464.4 million as at October 31, 2016 to $577.9 million as at October 31, 2017. This increase resulted primarily from our net income of $138.4 million, partially offset by the reversal of $15.5 million in cumulative exchange differences related to our 35% minority interest in Ocean Hotels following the sale of our interest and the $6.8 million foreign exchange loss on translation of the financial statements of our foreign subsidiaries.

## CASH FLOWS

| | | | | Change | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 |
| (in thousands of dollars) | $ | $ | $ | % | % |
| Cash flows related to operating activities | **161,487** | 43,561 | 108,992 | 270.7 | (60.0) |
| Cash flows related to investing activities | **97,901** | 5,093 | (53,854) | 1,822.3 | 109.5 |
| Cash flows related to financing activities | **(3,596)** | (9,823) | (12,672) | 63.4 | 22.5 |
| Effect of exchange rate changes on cash | **450** | (12,132) | 3,402 | 103.7 | (456.6) |
| **Net change in cash and cash equivalents related to continuing operations** | **256,242** | 26,699 | 45,868 | 859.7 | (41.8) |
| **Net cash flows related to discontinued operations** | **—** | 542 | (18,332) | (100.0) | 103.0 |

### OPERATING ACTIVITIES

Operating activities generated $161.5 million in cash flows, compared with $43.6 million in 2016. This favourable difference was attributable to increases of $64.1 million in the net change in non-cash working capital balances related to operations, $43.2 million in our profitability, and $9.2 million in the net change in provision for overhaul of leased aircraft.

We expect to continue to generate positive cash flows from our operating activities in 2018.

### INVESTING ACTIVITIES

Cash flows generated by investing activities totalled $97.9 million for the year, up $92.8 million compared with 2016. During the year, following the sale of our 35% minority interest in Ocean Hotels to H10 Hotels, we received proceeds of $187.5 million. We also invested $15.3 million to acquire 50% of the shares of Desarrollo and paid $5.0 million to acquire all of the shares of our subsidiary Jonview Canada Inc. In 2017, our additions to property, plant and equipment and intangible assets totalled $69.5 million and consisted primarily of aircraft improvements resulting from the growth in our aircraft fleet and computer hardware and software. In 2016, the proceeds from the disposal of subsidiaries, net of cash disposed of, amounted to $68.0 million.

In 2018, additions to property, plant and equipment and intangible assets could amount to approximately $50.0 million.

### FINANCING ACTIVITIES

Cash flows used in financing activities totalled $3.6 million, compared with $9.8 million in 2016. 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

In 2016, discontinued operations generated $0.5 million in cash flows, primarily due to $4.8 million in cash flows generated by operations, partially offset by $4.3 million in cash flows used in investing activities.

## CONSOLIDATED FINANCIAL POSITION

| | October 31, 2017 $ | October 31, 2016 $ | Difference $ | Main reasons for significant differences |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | **593,582** | 363,664 | 229,918 | See the *Cash flows* section |
| Cash and cash equivalents in trust or otherwise reserved | **309,064** | 338,581 | (29,517) | Decrease in funds received from clients to be held in trust or otherwise reserved |
| Trade and other receivables | **121,618** | 105,003 | 16,615 | Increase in receivables from lessors due to aircraft maintenance |
| Income taxes receivable | **17,418** | 39,858 | (22,440) | Receipt of recoverable balances |
| Inventories | **12,790** | 12,354 | 436 | No significant difference |
| Prepaid expenses | **64,245** | 58,657 | 5,588 | Increase in prepaid amounts to hotel operators |
| Deposits | **52,129** | 42,044 | 10,085 | Increase in deposits related to aircraft and hotel operators |
| Assets held for sale | **47,472** | — | 47,472 | Signing of an agreement for the disposal of Jonview |
| Deferred tax assets | **16,286** | 15,055 | 1,231 | Increase in non-capital losses carried forward |
| Property, plant and equipment | **134,672** | 134,959 | (287) | No significant difference |
| Intangible assets | **49,604** | 50,327 | (723) | Amortization for the year, offset by acquisitions |
| Derivative financial instruments | **18,058** | 18,517 | (459) | No significant difference |
| Investments | **15,888** | 97,668 | (81,780) | Sale of our interest in Ocean Hotels, partially offset by the acquisition of an investment in a hotel business |
| Other assets | **390** | 733 | (343) | No significant difference |
| **Liabilities** | | | | |
| Trade and other payables | **245,013** | 247,795 | (2,782) | Reclassification of Jonview's liabilities as held for sale, partially offset by higher salaries payable due to the cut-off |
| Provision for overhaul of leased aircraft | **47,917** | 40,861 | 7,056 | Additions to aircraft and impact of maintenance schedule |
| Income taxes payable | **8,102** | 976 | 7,126 | Taxable income of subsidiaries |
| Derivative financial instruments | **8,278** | 21,358 | (13,080) | Maturity of foreign exchange derivatives and favourable change in the dollar against the U.S. currency relating to outstanding forward contracts |
| Liabilities related to assets held for sale | **33,109** | — | 33,109 | Signing of an agreement for the disposal of Jonview |
| Customer deposits and deferred revenues | **433,897** | 409,045 | 24,852 | Increases in reservations and selling prices |
| Other liabilities | **96,813** | 88,011 | 8,802 | Increase in deferred aircraft lease inducements |
| Deferred tax liabilities | **2,217** | 4,988 | (2,771) | Increase in non-capital losses carried forward |
| **Equity** | | | | |
| Share capital | **215,444** | 214,250 | 1,194 | Shares issued from treasury and options exercised |
| Share-based payment reserve | **17,817** | 17,849 | (32) | Share-based payment expense, net of options exercised and PSUs vested |
| Retained earnings | **351,138** | 218,821 | 132,317 | Net income for the year |
| Unrealized gain on cash flow hedges | **4,532** | 2,211 | 2,321 | Net gain on financial instruments designated as cash flow hedges |
| Cumulative exchange differences | **(11,061)** | 11,255 | (22,316) | Sale of our interest in Ocean Hotels and foreign exchange loss on translation of financial statements of foreign subsidiaries |

## FINANCING

As at December 13, 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 October 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 liquidity, some of which are reflected as liabilities in the consolidated financial statements and others in the notes to the financial statements. As at October 31, 2017 and October 31, 2016, no obligations were reported by the Corporation in the statements of financial position.

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

- Guarantees (see notes 18 and 27 to the audited consolidated financial statements)
- Operating leases (see note 26 to the audited consolidated financial statements)
- Purchase obligations (see note 26 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $1,745.2 million as at October 31, 2017 ($710.3 million as at October 31, 2016) and are detailed as follows:

| OFF-BALANCE SHEET ARRANGEMENTS<br>(in thousands of dollars) | 2017<br>$ | 2016<br>$ |
|---|---|---|
| **Guarantees** | | |
| Irrevocable letters of credit | **27,137** | 17,723 |
| Collateral security contracts | **701** | 721 |
| **Operating leases** | | |
| Obligations under operating leases | **1,717,383** | 691,841 |
| | **1,745,221** | 710,285 |
| **Agreements with suppliers** | **94,640** | 109,845 |
| | **1,839,861** | 820,130 |

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 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 October 31, 2017, $54.8 million had been drawn down under the facility, of which $50.1 million was to secure obligations under senior executive 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 secure obligations under senior executive 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 the outstanding letters of credit. As at October 31, 2017, $27.1 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 £8.2 million [$14.0 million], which has been fully drawn down.

As at October 31, 2017, off-balance sheet arrangements, excluding agreements with suppliers and other obligations, were $1,034.9 million higher than as at October 31, 2016. This increase resulted primarily from the agreements entered into during the year to lease ten Airbus A321neo LRs, to be gradually integrated into our fleet starting in spring 2019, as our A310s are retired, and the agreements entered into for four Airbus A330s and renegotiations of agreements for Airbus A330s already in our fleet. 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.

| CONTRACTUAL OBLIGATIONS BY YEAR | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 and beyond | Total |
|---|---|---|---|---|---|---|---|
| Year ending October 31 | $ | $ | $ | $ | $ | $ | $ |
| **Contractual obligations** | | | | | | | |
| Long-term debt | — | — | — | — | — | — | — |
| Leases (aircraft) | 139,804 | 130,839 | 155,482 | 161,541 | 147,389 | 835,665 | 1,570,720 |
| Leases (other) | 25,489 | 21,278 | 18,350 | 15,924 | 11,053 | 54,569 | 146,663 |
| Agreements with suppliers and other obligations | 95,598 | 2,496 | 2,486 | 2,480 | 2,523 | 29,821 | 135,404 |
| | **260,891** | **154,613** | **176,318** | **179,945** | **160,965** | **920,055** | **1,852,787** |

### DEBT LEVELS

The Corporation did not report any debt on its statement of financial position.

The Corporation's total debt fell $18.4 million to $660.7 million compared with 2016, owing primarily to the renegotiation of lease agreements for Airbus A330s.

Total net debt fell $248.3 million to $67.1 million as at October 31, 2017 from $315.4 million as at October 31, 2016. The decrease in total net debt resulted primarily from higher cash and cash equivalent balances at year-end than as at October 31, 2016.

#### OUTSTANDING SHARES

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

As at December 8, 2017, there were 37,086,283 total voting shares outstanding.

Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single symbol: "TRZ."

#### STOCK OPTIONS

As at December 8, 2017, there were a total of 2,241,328 stock options outstanding, 1,909,981 of which were exercisable.

## OTHER

### FLEET

As of December 13, 2017, Air Transat's fleet consisted of seventeen Airbus A330s (332, 345 or 375 seats), two of which were commissioned in the summer of 2017 and two will be commissioned in the winter of 2018, seven Airbus A310s (250 seats), following the retirement of two aircraft at the end of the 2017 summer season, 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). Under current agreements, fourteen Boeing 737s will be added to the fleet for the 2018 winter season.

During the year ended October 31, 2017, the Corporation entered into agreements to lease ten Airbus A321neo LRs, to be commissioned gradually starting in spring 2019.

## ACCOUNTING

### CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. We periodically review these estimates, which are based on historical experience, changes in the business environment and other factors, including expectations of future events, that management considers reasonable under the circumstances. Our estimates involve judgments we make based on the information available to us. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are described below. The Corporation based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. However, existing circumstances and assumptions about future developments may change due to market events or to circumstances beyond the Corporation's control. Such changes are reflected in the assumptions when they occur.

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

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

GOODWILL

Material amounts recorded under goodwill and intangible assets in the statement of financial position are calculated using the historical cost method. We are required to perform impairment tests on goodwill and intangible assets with indefinite lives, such as trademarks, annually or when events or circumstances indicate that the carrying amount may be impaired.

Impairment exists when the carrying amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are generally derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. These analyses require us to make a variety of judgments concerning our future operations. The cash flow forecasts used to determine the values of assets of CGUs may change in the future due to market conditions, competition and other risk factors (see the *Risks and uncertainties* section).

As at October 31, 2016, important changes in the environment in which the Corporation operates, such as significant capacity increases in markets served by the Corporation and their effect on selling prices and load factors, volatile exchange rates and fuel prices and the deterioration in results of the 2016 summer season have led management to review the assumptions for future cash flows and to perform a new impairment test. Following this impairment test, the Corporation recognized a goodwill impairment charge of $63.9 million which corresponds to the balance of goodwill of its sole CGU as at October 31, 2016.

INTANGIBLE ASSETS

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.

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 ranged from 10.0% 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 resulted in 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 resulted in any impairment charge.

As at October 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.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

Property, plant and equipment reported in the statement of financial position represent material amounts based on historical costs. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft and aircraft components account for a major class of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal. The amortization period is determined based on the fleet renewal schedule. The estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal is supported by periodically reviewed external valuations. Our fleet renewal schedule and the realizable value of our aircraft obtainable upon fleet renewal depend on numerous factors such as supply and demand for aircraft at the scheduled fleet renewal date. Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. Generally speaking, the main assumptions would have to be reduced by 10% to produce a loss in value and have a material impact on our results and financial position. However, reducing these assumptions would not result in cash outflows and would not affect our cash flows.

No event or change in situation arising during the year ended October 31, 2017 could have required an impairment of property, plant and equipment and intangible assets with finite lives.

### FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

The fair value of derivative financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The Corporation determines the fair value of its derivative financial instruments using the purchase or selling price, as appropriate, in the most advantageous active market to which the Corporation has immediate access. The Corporation also takes into account its own credit risk and the credit risk of the counterparty in determining fair value for its derivative financial instruments based on whether they are financial assets or financial liabilities. When the market for a derivative financial instrument is not active, the Corporation determines the fair value by applying valuation techniques, such as using available information on market transactions involving other instruments that are substantially the same, discounted cash flow analysis or other techniques, where appropriate. The Corporation ensures, to the extent practicable, that its valuation technique incorporates all factors that market participants would consider in setting a price and that it is consistent with accepted economic methods for pricing financial instruments, including the credit risk of the party involved.

### PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, and other facts and reasonable assumptions in the circumstances. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by 5% to 15% to result in additional expenses that could have a material impact on our results, financial position and cash flows.

### NON-CONTROLLING INTERESTS

Non-controlling interests in respect of which the shareholders may require the Corporation to buy back their shares are reclassified as liabilities at their estimated redemption value, deeming exercise of this option. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. Generally speaking, the main assumptions used to calculate this provision would have to be adversely changed by over 15% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

### EMPLOYEE FUTURE BENEFITS

The Corporation offers defined benefit pension arrangements to certain senior executives. The pension expense for these employees is determined from annual actuarial calculations using the projected unit credit method and management's best estimate assumptions for the increase in eligible earnings and the retirement age of employees. Plan obligations are discounted using current market interest rates. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

A 0.25 percentage point increase in the actuarial assumptions below would have the following impacts, all other actuarial assumptions remaining the same:

| | Cost of retirement benefits for the year ended October 31, 2017 | Retirement benefit obligations as at October 31, 2017 |
|---|---|---|
| Increase (decrease) | $ | $ |
| Discount rate | (3) | (1,223) |
| Rate of increase in eligible earnings | 13 | 65 |

### TAXES

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the fiscal treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment in this regard were received during the year ended October 31, 2015. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this resulted in outflows of $15.1 million during the year ended October 31, 2016. As there was no change in circumstances during fiscal 2017, this amount is recognized as income taxes receivable as at October 31, 2017.

## FINANCIAL INSTRUMENTS

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

### FOREIGN EXCHANGE RISK MANAGEMENT

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 61% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 16% of revenues are incurred in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

The Corporation documents certain foreign exchange derivatives as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These foreign exchange derivatives are designated as cash flow hedges.

All derivative financial instruments are recorded at fair value in the consolidated statement of financial position. For the derivative financial instruments designated as cash flow hedges, changes in value of the effective portion are recognized in Other comprehensive income in the consolidated statement of comprehensive income. Any ineffectiveness within a cash flow hedge is recognized through profit or loss as it arises in the account Change in fair value of fuel-related derivatives and other derivatives. Should the hedging of a cash flow hedge relationship become ineffective, previously unrealized gains and losses remain within Unrealized gain (loss) on cash flow hedges until the hedged item is settled and future changes in value of the derivative are recognized in income prospectively. The change in value of the effective portion of a cash flow hedge remains in Accumulated other comprehensive income (loss) until the related hedged item is settled, at which time amounts recognized in Unrealized gain (loss) on cash flow hedges are reclassified to the same income statement account in which the hedged item is recognized.

#### MANAGEMENT OF FUEL PRICE RISK

The Corporation is particularly exposed to fluctuations in fuel prices. Due to competitive pressures in the industry, there can be no assurance that the Corporation would be able to pass along any increase in fuel prices to its customers by increasing prices, or that any eventual price increase would fully offset higher fuel costs, which could in turn adversely impact its business, financial position or operating results. To mitigate fuel price fluctuations, the Corporation has implemented a fuel price risk management policy that authorizes using foreign exchange forward contracts, and other types of derivative financial instruments, expiring in generally less than 18 months.

The derivative financial instruments used for fuel purchases are measured at fair value at the end of each period, and the unrealized gains or losses arising from remeasurement are recorded and reported under Change in fair value of fuel-related derivatives and other derivatives in the consolidated statement of income. When realized, at maturity of fuel-related derivative financial instruments, any gains or losses are reclassified to Aircraft fuel.

#### CREDIT AND COUNTERPARTY RISK

Credit risk is primarily attributable to the potential inability of customers, service providers, aircraft and engine lessors and financial institutions, including the other counterparties to cash equivalents and derivative financial instruments, to discharge their obligations.

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $39.6 million as at October 31, 2017. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2017, approximately 4% of accounts receivable were over 90 days past due, whereas approximately 84% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2017, these deposits totalled $24.1 million and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $28.0 million as at October 31, 2017 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation following receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2017, the cash security deposits with lessors that had been claimed totalled $46.5 million and were included under *Trade and other receivables*. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2017 related to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2017.

#### LIQUIDITY RISK

The Corporation is exposed to the risk of being unable to honour its financial commitments by the deadlines set out under the terms of such commitments and at a reasonable price. The Corporation has a Treasury Department in charge, among other things, of ensuring sound management of available cash resources, financing and compliance with deadlines within the Corporation's scope of consolidation. With senior management's oversight, the Treasury Department manages the Corporation's cash resources based on financial forecasts and anticipated cash flows. The Corporation has implemented an investment policy designed to safeguard its capital and instrument liquidity and generate a reasonable return. The policy sets out the types of allowed investment instruments, their concentration, acceptable credit rating and maximum maturity.

#### INTEREST RATE RISK

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

Furthermore, interest rate fluctuations could have an effect on the Corporation's interest income derived from its cash and cash equivalents.

## RELATED PARTY TRANSACTIONS AND BALANCES

In the normal course of business, the Corporation enters into transactions with related companies. These transactions are carried out at arm's length. During the fiscal year, the Corporation recorded $24.8 million in person-nights purchased at hotels belonging to CIBV, an associate of the Corporation until October 4, 2017, compared with $32.3 million in 2016. As at October 31, 2017, following the sale of our interest in CIBV, no balance payable to CIBV was included in trade and other payables, compared with $0.9 million as at October 31, 2016.

## CHANGE IN ACCOUNTING POLICY

### IFRS, *SHARE-BASED PAYMENT*

In June 2016, the International Accounting Standards Board ["IASB"] issued amendments included in IFRS 2, *Share-based Payment*. The amendments are intended to provide changes that relate, in particular, to the accounting for share-based payment transactions that include net settlement terms to satisfy withholding tax obligations. The amendments to IFRS 2 will be effective for the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. The Corporation elected to early adopt the amendments to IFRS 2 for the year ended October 31, 2017. Early adoption of the amendments to IFRS 2 had no significant impact.

## 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. The IFRS 9 transition rules include an exemption allowing companies to continue to apply current hedge accounting under IAS 39 until the final hedge model is effective.

Application of IFRS 9 will be effective from the Corporation's fiscal year beginning on November 1, 2018, with earlier adoption permitted. Other than the potential impact of adopting optional hedge accounting in accordance with IFRS 9, the Corporation does not expect the adoption of IFRS 9 to have a material impact on its financial statements. The Corporation continues to assess the impact of the adoption of IFRS 9 on its financial statements, including the hedge accounting transition decision.

### 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 for issuers to recognize revenue 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 for 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 and expects to complete its analysis in the coming quarters.

### 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 the current IAS 17 standard, 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 most 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. Certain exemptions will apply to short-term and low-value leases.

Considering that the Corporation is committed under numerous operating leases in accordance with IAS 17, the Corporation expects that the adoption of IFRS 16 will have a significant impact on its financial statements. The Corporation will be required to recognize an asset related to the right of use and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

The application of IFRS 16 is mandatory and will be effective for 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 continues to assess the impact of the adoption of this new standard on its financial statements and has not determined which transition method it will use.

## RISKS AND UNCERTAINTIES

This section provides an overview of the general risks as well as specific risks to which Transat and its subsidiaries are exposed, and which are likely to have a significant impact on the Corporation's financial position, operating results and activities. It does not purport to cover all contingencies or to describe all factors that are likely to affect the Corporation or its activities. Moreover, the risks and uncertainties described may or may not materialize, and may develop differently or have consequences other than those contemplated in this MD&A. Additional risks and uncertainties not currently known to the Corporation or that are currently considered immaterial could also materialize in the future and adversely affect the Corporation.

To improve its risk management capacities, the Corporation has set up a framework for identifying, assessing and managing the different risks applicable to its industry and to companies in general. This framework is based on the following principles:

- Promote a culture of risk awareness at the head office and in subsidiaries; and
- Integrate risk management into strategic, financial and operating objectives.

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which he or she is responsible, and/or limit the likelihood of these risks materializing.

In addition, the Corporation has adopted an on-going risk management process that includes a quarterly assessment of risk exposures for the Corporation and its subsidiaries, under the oversight of the Audit Committee (financial risks), the Human Resources and Compensation Committee (human resource risks) and the Risk Management and Corporate Governance Committee (strategic and operational risks).

All business risks are also presented to the members of the Board of Directors using consistent mapping and language. Business risks are thus classified to facilitate an overall understanding of risks to which the Corporation is exposed. The different types of business risks are discussed below:

## ECONOMIC AND GENERAL RISKS

The holiday travel industry is sensitive to global, national, regional and local economic conditions. Economic factors such as a significant downturn in the economy, a recession or a decline in consumer purchasing power or the employment rate in North America, Europe or key international markets could have a negative impact on our business and operating results by affecting demand for our products and services. Although there are signs of economic recovery in certain tourist areas served by the Corporation, financial markets could slide back into negative economic growth.

Seasonal planning of flight and person-night capacity is a risk in the tourism industry. For the Corporation, it entails forecasting traveller demand in advance and anticipating trends in future preferred destinations. Poor planning for those needs could unfavourably impact our business, financial situation and operating results.

Our operating results could also be adversely affected by factors beyond Transat's control, including the following: extreme weather conditions, climate-related or geological disasters, war, political instability, terrorism whether actual or apprehended, epidemics or disease outbreaks, consumer preferences and spending patterns, consumer perceptions of destination-based service and airline safety, demographic trends, disruptions to air traffic control systems, and costs of safety, security and environmental measures. Furthermore, our revenues are sensitive to events affecting domestic and international air travel as well as the level of car rentals and hotel and cruise reservations.

## COMPETITION RISKS

Transat operates in an industry in which competition has been intense for several years. Air carriers and tour operators have expanded their presence in markets long served by Transat. Some of them are larger, with strong brand name recognition and an established presence in specific geographic areas, substantial financial resources and preferred relationships with travel suppliers. We also face competition from travel suppliers selling directly to travellers at very competitive prices. The Corporation could thus be unable to compete successfully against existing or potential competitors, and intense competition could have a material adverse effect on its operations, prospects, revenues and profit margin.

In addition, traveller needs dictate how our industry evolves. In recent years, travellers have demanded higher value, better product selection and personalized service, all at competitive prices. Widespread adoption of the Internet now makes it easier for travellers to access information on travel products and services directly from suppliers, thus bypassing not only tour operators such as Transat, but also retail travel agents through whom we generate a portion of our revenues. Since our available seat capacity and person-nights are also influenced by market forces, our business model is called into question in some respects. The Corporation's inability to rapidly meet those expectations in a proactive manner could adversely impact its competitive positioning while reducing profitability of its products.

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

These competitive pressures could adversely impact our revenues and margins since we would likely have to match competitors' prices. The Corporation's performance in all of the countries in which it operates will depend on its continued ability to offer quality products at competitive prices.

## REPUTATION RISK

The ability to maintain favourable relationships with its existing customers and attract new customers greatly depends on Transat's service offering and its reputation. While the Corporation has already implemented sound governance practices, including a code of ethics, and developed certain mechanisms over the years to prevent its reputation from being adversely affected, there can be no assurance that Transat will continue to enjoy a good reputation or that events beyond its control will not tarnish its reputation. The loss or tarnishing of its reputation could have a material unfavourable effect on the Corporation's operations, prospects, financial position and operating results.

## FINANCIAL RISKS

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

While Transat has substantial cash on hand to respond to competitive pressures or capitalize on growth opportunities, the availability of financing under our existing credit facilities is subject to compliance with certain criteria and financial ratios. There can be no guarantee that, in the future, our ability to use our existing credit facilities or to obtain additional financing will not be jeopardized. Moreover, financial market volatility could limit access to credit and raise borrowing costs, hampering access to additional funding under satisfactory terms and conditions. Our business, financial position and operating results could thus be adversely affected.

Transat is particularly exposed to fluctuations in fuel costs. Due to competitive pressures in the industry, there can be no assurance that we would be able to pass along any increase in fuel prices to our customers by increasing fares, or that any such fare increase would offset higher fuel costs, which could in turn adversely impact our business, financial position or operating results.

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

Transat is exposed, due to its many arrangements with foreign-based suppliers, to fluctuations in exchange rates mainly concerning the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro. These exchange rate fluctuations could increase our operating costs or decrease our revenues. Changes in interest rates could also impact interest income from our cash and cash equivalents as well as interest expenses on our variable-rate debt instruments, which in turn could affect our interest income and interest expenses.

In the normal course of business, we receive customer deposits and advance payments. If funds from advance payments were to diminish or be unavailable to pay our suppliers, we would be required to secure alternative capital funding. There could be no assurance that additional funding would be available under terms and conditions suitable to the Corporation, which could adversely affect our business. Moreover, these advance payments generate interest income for Transat. In accordance with our investment policy, we are required to invest these deposits and advance payments exclusively in investment-grade securities. Any failure of these investment securities to perform at historical levels could reduce our interest income.

As a Corporation that processes information with respect to credit cards used by our customers, we must comply with the regulatory requirements of our credit card processors. Failure to comply with certain financial ratios or certain rules regarding deposits or bank card data security may result in penalties or in the suspension of service by credit card processors. The inability to use credit cards could have a significant negative impact on our reservations and consequently on our operating results and profitability.

Last, it is sometimes difficult to foresee how certain Canadian or international tax laws will be interpreted by the appropriate tax authorities. Subsequent to interpretation of these laws by the different authorities, the Corporation may have to review its own interpretations of tax laws, which in turn could have an adverse impact on our profit margin.

## KEY SUPPLIES AND SUPPLIER RISKS

Despite being well positioned due to our vertical integration, we depend on third parties who supply us with certain components of our packages. Any significant interruption in the flow of goods and services from these suppliers, which may be outside our control, could have a significant adverse impact on our business, financial position and operating results.

Our dependence, among others, on Airbus, Boeing, Rolls-Royce, General Electric, Lufthansa Technik and Safran means that we could be adversely affected by problems connected with Airbus and Boeing aircraft and Rolls-Royce or General Electric engines, including defective material, mechanical problems or negative perceptions among travellers. The Corporation also relies on certain suppliers for its information system security and maintenance. See the *Technological risks* section.

We are also dependent on non-group airlines and a large number of hotels, several of which are exclusive to the Corporation. In general, these suppliers can terminate or modify existing agreements with us on relatively short notice. The potential inability to replace these agreements, to find similar suppliers, or to renegotiate agreements at reduced rates could have an adverse effect on our business, financial position and operating results.

Furthermore, any decline in the quality of travel products or services provided by these suppliers, or any perception by travellers of such a decline, could adversely affect our reputation. Any loss of contracts, changes to our pricing agreements, access restrictions to travel suppliers' products and services or negative shifts in public opinion regarding certain travel suppliers resulting in lower demand for their products and services could have a significant effect on our results.

## AVIATION RISKS

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

Our focus on three types of aircraft could result in significant downtime for part of our fleet if mechanical problems arise or if the regulator releases any mandatory inspection or maintenance directives applicable to our types of aircraft. If our operations are disrupted due to aircraft unavailability, the loss of associated revenues could have an adverse impact on our business, financial position and operating results.

An incident involving one of our aircraft during our operations could give rise to repair costs or major replacement costs for the damaged aircraft, service interruption, and claims. Consequently, such an event could have an unfavourable impact on the Corporation's reputation.

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

With the privatization of airports and air navigation authorities in Canada, airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees, particularly since some of these airports are located in U.S. border towns and are not subject to such fees. If these user and navigation fees were to increase substantially, our business, financial position and operating results could be adversely affected, which would result in certain routes being conceded to our U.S. competitors.

## TECHNOLOGICAL RISKS

Transat relies heavily on various information and telecommunications technologies to operate its business, increase its revenues and reduce its operating expenses. Our business depends on our ability to manage reservation systems, including handling high telephone call volumes on a daily basis, monitor product profitability and inventory, adjust prices quickly, access and protect information, distribute our products to retail travel agents and other travel intermediaries, and stave off information system intrusions. Rapid changes in these technologies and growing demand for web-based or mobile reservations could require higher-than-anticipated capital expenditures to improve customer service, which could impact our operating results.

These technology systems may be vulnerable to a variety of sources of failure, interruption or misuse, including by reason of third-party suppliers' acts or omissions, natural disasters, terrorist attacks, telecommunication systems failures, power failures, computer viruses, computer hacking, unauthorized or fraudulent users, and other operational and security issues. Furthermore, the exploitation of system vulnerabilities through cyberattacks is increasingly sophisticated and frequent and requires constant management of and developments in the measures taken. While Transat continues to invest in initiatives, including security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly. Any systems failures or outages could materially and adversely affect the Corporation's operations and its customer relationships and could have an adverse effect on its operating results and financial position.

Furthermore, several of those information technology systems depend on third-party providers, such as Softvoyage, Datalex and Radixx. Those suppliers sell more external solutions (through partnerships or cloud services) requiring additional control measures. If these providers were to become incapable of maintaining or improving efficient technology solutions in a profitable and timely manner, the Corporation would be unable to react effectively to information security attacks, obtain new systems to meet growth in its customer base or support new products offered by the Corporation. Consequently, such situations could generate additional expenses, which would unfavourably impact the Corporation's financial position.

## REGULATORY RISKS

The industry in which Transat operates is subject to extensive Canadian and foreign government regulations. These relate to, among other things, security, safety, consumer rights, permits, licensing, intellectual property rights, privacy, competition, pricing and the environment. Consequently, Transat's future results may vary depending on the actions of government authorities with jurisdiction over our operations. These actions include the granting and timing of certain government approvals or licenses; the adoption of regulations impacting customer service standards (such as new passenger security standards); the adoption of more stringent noise restrictions or curfews; and the adoption of provincial regulations impacting the operations of retail and wholesale travel agencies. In addition, the adoption of new or different regulatory frameworks or amendments to existing legislation or regulations and tax policy changes could affect our operations, particularly as regards hotel room taxes, car rental taxes, airline taxes and airport fees.

In the fight against climate change, the International Civil Aviation Organization (ICAO) has established an international model whereby taxes would be imposed on greenhouse gas emissions to offset emissions. For domestic air travel, the federal government plans to introduce new legislation that would be accompanied by regulations to implement a carbon pricing system. The impact of this new legislation on the aviation industry is not clear at this time, nor the potential financial implications for Air Transat. However, if this legislation does materialize, additional costs could result, which the Corporation might be unable to fully pass on through its product selling prices. In such a scenario, its margin would be adversely affected.

In the course of our business in the air carrier and travel industry, the Corporation is exposed to claims and legal proceedings, including class action suits. Litigation and claims could adversely affect our business and operating results.

## HUMAN RESOURCE RISKS

Labour costs constitute one of Transat's largest operating cost items. There can be no assurance that Transat will be able to maintain such costs at levels that do not negatively affect its business, results from operations and financial position.

The Corporation's ability to achieve its business plan is a function of the experience of its key executives and employees, and their expertise in the tourism, travel and air carrier industries. The loss of key employees could adversely affect our business and operating results. Further, our recruitment program, salary structure, performance management programs, succession plan, as well as our training plan carry risks that could have adverse effects on our ability to attract and retain the skilled resources needed to sustain the Corporation's growth and success.

As at October 31, 2017, the Corporation had approximately 5,000 employees, almost 50% of whom are unionized personnel covered by six collective agreements. As at October 31, 2017, only one of the six collective agreements had not been renewed. Negotiations to renew this collective agreement could give rise to work stoppages or slowdowns or higher labour costs that could unfavourably impact our operations and operating income.

## INSURANCE COVERAGE RISKS

The airline insurance market for risks associated with war and terrorist acts has undergone various changes. Our liability insurance for airline operations covers liability related to damages resulting from injury or death of passengers, as well as to damage suffered by third parties. The limit for any single event is US$1.25 billion with the exception of War Risk Bodily Injury/Property Damage to Third Parties excluding passengers where the limit is US$250 million for any single event and in the aggregate.

In this latter regard, additional insurance is carried and maintained for War Risk Bodily Injury/Property Damage to Third Parties excluding passengers covering the excess of US$250 million up to the limit of US$1 billion any single event and in the aggregate. Through our Audit Committee and our Risk Management and Corporate Governance Committee, our Board of Directors identifies and evaluates at least once annually the principal risk factors related to our business and approves strategies and systems proposed to manage such risks, including those specifically related to the aviation industry.

However, there can be no assurance of all risks being covered in this manner or our ability to secure coverage providing favourable levels and conditions at an acceptable cost.

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

## CONTROLS AND PROCEDURES

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

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

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have designed DC&P or caused them to be designed under their supervision to provide reasonable assurance that material information relating to the Corporation has been made known to them and that information required to be disclosed in the Corporation's filings is recorded, processed, summarized and reported within the prescribed time periods under securities legislation.

Also, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have designed ICFR or have caused it to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for financial reporting purposes in accordance with IFRS.

### EVALUATION OF DC&P AND ICFR

An evaluation of the design and operating effectiveness of DC&P and ICFR was carried out under the supervision of the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. This evaluation consisted of a review of documentation, audits and other procedures that management considered appropriate in the circumstances. Among other things, the evaluation took into consideration the Corporate Disclosure Policy, the code of professional ethics, the sub-certification process and the operation of the Corporation's Disclosure Committee.

Based on this evaluation and using the criteria set by the *Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework* (COSO-Framework 2013) and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2017.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2017 that materially affected the Corporation's ICFR.

## OUTLOOK

***For the first six-month period*** - In the sun destination market outbound from Canada, the Corporation's main market segment during the winter, Transat's capacity is up 8% compared with last year. To date, 50% of that capacity has been sold, bookings are ahead by 9.2%, and load factors are similar. Due to the strengthening of the Canadian dollar, offset by rising fuel costs, operating expenses are currently down 2.1%. Margins are currently up 2.0% from the same date last year.

In the transatlantic market, where it is low season, Transat's capacity is up 20% from last winter. To date, 47% of that capacity has been sold, bookings are ahead by 15% and load factors are down 2%.Margins are currently down 1.6% from the same date last year.

If these trends continue, Transat expects to achieve better results than in the 2017 winter season.

## MANAGEMENT'S REPORT

The consolidated financial statements and MD&A of Transat A.T. Inc., and all other information in the financial report, are the responsibility of management and have been reviewed and approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with IFRS issued by the International Accounting Standards Board. The MD&A has been prepared in accordance with the requirements of the Canadian Securities Administrators. Management's responsibility in these respects includes the selection of appropriate accounting principles as well as the exercise of sound judgment in establishing reasonable and fair estimates in accordance with IFRS and the requirements of the Canadian Securities Administrators, and which are adequate in the circumstances. The financial information presented throughout the MD&A and elsewhere in this Annual Report is consistent with that appearing in the financial statements.

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

The Board of Directors is responsible for the financial information presented in the consolidated financial statements and the MD&A, primarily through its Audit Committee. The Audit Committee, which is appointed by the Board of Directors and comprised entirely of independent and financially literate directors, reviews the annual consolidated financial statements and the MD&A and recommends their approval to the Board of Directors. The Audit Committee is also responsible for analyzing, on an ongoing basis, the results of the audits by the external auditors, the accounting methods and policies used as well as the internal control systems set up by the Corporation. These consolidated financial statements have been audited by Ernst & Young LLP. Their report on the consolidated financial statements appears on the next page.

Chairman of the Board,
President and Chief Executive Officer

Jean-Marc Eustache

Vice-President, Finance and Administration
and Chief Financial Officer

Denis Pétrin

[in thousands of Canadian dollars, except per share amounts]

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **Consolidated statements of income (loss)** | | | | | |
| **Continuing operations** | | | | | |
| Revenues | **3,005,345** | 2,889,646 | 2,897,950 | 2,996,106 | 2,969,642 |
| Operating expenses | **2,899,230** | 2,856,118 | 2,797,342 | 2,909,737 | 2,855,340 |
| Depreciation and amortization | **68,470** | 50,038 | 45,817 | 43,581 | 36,423 |
| Special items | **2,925** | 13,825 | — | 6,387 | 5,740 |
| **Operating income (loss)** | **34,720** | (30,335) | 54,791 | 36,401 | 72,139 |
| Financing costs | **2,134** | 1,669 | 1,775 | 1,541 | 2,091 |
| Financing income | **(8,363)** | (6,996) | (7,576) | (7,872) | (7,233) |
| Change in fair value of derivative financial instruments used for aircraft fuel purchases | **(9,187)** | (6,901) | 1,391 | 21,978 | 732 |
| Foreign exchange gain | **(15,052)** | (1,284) | (2,531) | (1,123) | (566) |
| Impairment of assets | **—** | 79,708 | — | 369 | — |
| Loss (gain) on disposal of an investment | **(86,616)** | 843 | — | — | — |
| **Income (loss) before income tax expense** | **151,804** | (97,374) | 61,732 | 21,508 | 77,115 |
| Income taxes (recovery) | **13,432** | (10,843) | 12,413 | 1,724 | 18,046 |
| Net income (loss) from continuing operations | **138,372** | (86,531) | 49,319 | 19,784 | 59,069 |
| **Discontinued operations** | | | | | |
| Net income (loss) from discontinued operations | **—** | 49,772 | (2,355) | 6,282 | 2,133 |
| Net income (loss) for the year | **138,372** | (36,759) | 46,964 | 26,066 | 61,202 |
| Non-controlling interest in subsidiaries' results | **4,064** | 4,989 | 4,399 | 3,191 | 3,247 |
| **Net income (loss) for the year attributable to shareholders** | **134,308** | (41,748) | 42,565 | 22,875 | 57,955 |
| **Basic earnings (loss) per share** | **3.63** | (1.13) | 1.11 | 0.59 | 1.51 |
| **Diluted earnings (loss) per share** | **3.63** | (1.13) | 1.10 | 0.59 | 1.51 |
| **Cash flows related to:** | | | | | |
| Operating activities | **161,487** | 43,561 | 108,992 | 90,009 | 102,179 |
| Investing activities | **97,901** | 5,093 | (53,854) | (52,683) | (21,092) |
| Financing activities | **(3,596)** | (9,823) | (12,672) | 191 | (1,817) |
| Effect of exchange rate changes on cash and cash equivalents | **450** | (12,132) | 3,402 | (2,262) | 1,710 |
| **Net change in cash and cash equivalents** | **256,242** | 26,699 | 45,868 | 35,255 | 80,980 |
| **Cash and cash equivalents, end of year** | **593,582** | 363,664 | 336,423 | 308,887 | 171,175 |
| Total assets | **1,453,216** | 1,277,420 | 1,513,764 | 1,375,030 | 1,290,073 |
| Long-term debt (including current portion) | **—** | — | — | — | — |
| Equity | **577,870** | 464,386 | 537,252 | 482,946 | 441,393 |
| Debt ratio[(1)] | **0.60** | 0.64 | 0.65 | 0.65 | 0.66 |
| Book value per share[(2)] | **15.59** | 12.60 | 14.29 | 12.47 | 11.47 |
| **Shareholding statistics (in thousands)** | | | | | |
| Outstanding shares, end of year | **37,064** | 36,859 | 37,591 | 38,742 | 38,468 |
| Weighted average number of shares outstanding: | | | | | |
| Undiluted | **36,995** | 36,899 | 38,442 | 38,644 | 38,390 |
| Diluted | **37,040** | 36,899 | 38,558 | 39,046 | 38,472 |

[1] Total liabilities divided by total assets.
[2] Total equity divided by the number of outstanding shares.