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, 2015, compared with the year ended October 31, 2014, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 9, 2015. 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, 2015 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.

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

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 2016 objectives and continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues to increase and total travellers to be higher compared with fiscal 2015.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2016.
- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $60.0 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 operating income for the winter should improve over last year.

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 and hotel and other destination-based 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 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 the Corporation uses to assess operational performance include adjusted operating income (loss), adjusted pre-tax income (loss) and adjusted net income (loss).

Management also uses total debt and total net debt to assess the Corporation's debt level, cash position, future cash needs and financial leverage ratio. Management believes these measures to be useful in assessing the Corporation's capacity to discharge its current and future financial obligations.

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 and other significant unusual items.
Adjusted pre-tax income (loss)	Income (loss) before income tax expense before change in fair value of fuel-related derivatives and other derivatives, gain on investments in ABCP, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items.
Adjusted net income (loss)	Net income (loss) attributable to shareholders before change in fair value of fuel-related derivatives and other derivatives, gain on investments in ABCP, gain on disposal of a subsidiary, restructuring charge, impairment of goodwill and other significant unusual items, net of related taxes.
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.
Total net debt	Total debt (described above) less cash and cash equivalents.

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

(in thousands of Canadian dollars, except per share amounts)	2015 $	2014 $	2013 $
Operating income	49,954	46,840	75,514
Restructuring charge	—	6,387	5,740
Amortization	50,867	46,702	39,068
Adjusted operating income	100,821	99,929	120,322
Income before income tax expense	57,327	29,824	80,712
Change in fair value of fuel-related derivatives and other derivatives	528	23,822	493
Write-off and impairment of goodwill	—	369	—
Restructuring charge	—	6,387	5,740
Adjusted pre-tax income	57,855	60,402	86,945
Net income attributable to shareholders	42,565	22,875	57,955
Change in fair value of fuel-related derivatives and other derivatives	528	23,822	493
Write-off and impairment of goodwill	—	369	—
Restructuring charge	—	6,387	5,740
Tax impact	(150)	(8,211)	(1,621)
Adjusted net income	42,943	45,242	62,567
Adjusted net income	42,943	45,242	62,567
Adjusted weighted average number of outstanding shares used in computing earnings per share	38,558	39,046	38,472
Adjusted net income per share	1.11	1.16	1.63

	October 31, 2015 $	October 31, 2014 $	October 31, 2013 $
Aircraft rent	98,859	87,229	81,270
Multiple	5	5	5
Adjusted operating leases	494,295	436,145	406,350
Long-term debt	—	—	—
Adjusted operating leases	494,295	436,145	406,350
Total debt	494,295	436,145	406,350
Total debt	494,295	436,145	406,350
Cash and cash equivalents	(336,423)	(308,887)	(265,818)
Total net debt	157,872	127,258	140,532

FINANCIAL HIGHLIGHTS

				Change	
	2015	2014	2013	2015	2014
(in thousands of Canadian dollars, except per share amounts)	$	$	$	%	%
Consolidated Statements of Income					
Revenues	3,566,368	3,752,198	3,648,158	(5.0)	2.9
Adjusted operating income[(1)]	100,821	99,929	120,322	0.9	(16.9)
Net income attributable to shareholders	42,565	22,875	57,955	86.1	(60.5)
Basic earnings per share	1.11	0.59	1.51	88.1	(60.9)
Diluted earnings per share	1.10	0.59	1.51	86.4	(60.9)
Adjusted net income[(1)]	42,943	45,242	62,567	(5.1)	(27.7)
Adjusted net income per share[(1)]	1.11	1.16	1.63	(4.3)	(28.8)
Consolidated Statements of Cash Flows					
Operating activities	94,000	106,240	123,039	(11.5)	(13.7)
Investing activities	(58,009)	(61,100)	(28,289)	5.1	(116.0)
Financing activities	(12,672)	191	(1,817)	(6,734.6)	110.5
Effect of exchange rate changes on cash and cash equivalents	4,217	(2,262)	1,710	286.4	(232.3)
Net change in cash and cash equivalents	27,536	43,069	94,643	(36.1)	(54.5)

	As at October 31, 2015	As at October 31, 2014	As at October 31, 2013	Change 2015	Change 2014
	$	$	$	%	%
Consolidated Statements of Financial Position					
Cash and cash equivalents	336,423	308,887	265,818	8.9	16.2
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	412,099	380,184	403,468	8.4	(5.8)
	748,522	689,071	669,286	8.6	3.0
Total assets	1,513,764	1,375,030	1,290,073	10.1	6.6
Debt (current and non-current)	—	—	—	—	—
Total debt[(1)]	494,295	436,145	406,350	13.3	7.3
Total net debt[(1)]	157,872	127,258	140,532	24.1	(9.4)

[1] SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

HOLIDAY TRAVEL INDUSTRY

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

Generally, outgoing tour operators purchase the various components of a trip locally or abroad and sell them separately or in packages to consumers in their local markets, 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 tour operators and consumers. Air carriers sell seats through travel agencies or through tour operators that use them in building packages, or directly to consumers.

CORE BUSINESS, VISION AND STRATEGY

CORE BUSINESS

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

VISION

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

STRATEGY

To deliver on its vision, the Corporation intends to continue to maximize synergies from its vertical integration model in a targeted manner, according to tourism industry trends. In this respect, in recent years, the Corporation has considerably improved the effectiveness of its airline operations and launched a certain number of actions, including technological initiatives, to become more efficient and improve its performance as a distributor. The strategy also includes entry into new source markets and the launch of new destinations, targeting new markets for its traditional destinations and increasing its buying power for these routes. Alongside these initiatives, Transat intends to leverage targeted technology investments and efficiency gains from changes to its internal management structure and a cost reduction and unit margin improvement program to improve its operating income and maintain or grow market share in all its markets. Transat acknowledges the growing strategic importance of sustainable development in the holiday and air travel industries. Given this trend, Transat has undertaken to adopt avant-garde policies on corporate responsibility and sustainable tourism.

For fiscal 2016, Transat has set the following objectives:

1. Implement an integrated distribution and brand strategy, including an enhanced online shopping experience, higher controlled sales, deployment of the Transat brand and finalization of required technological projects.

2. Increase capacity and improve the competitiveness of our sun destination offering, strengthen our presence and increase our capacity in the transatlantic market, and continue deploying the Lookéa club offering.

3. Reduce winter financial losses and maintain summer profitability, in particular by continuing our cost reduction and unit margin improvement program, with gains of $30 million expected in 2016.

4. Enter a new market via acquisition and optimize our hotel strategy, particularly through our interest in Ocean Hotels.

5. Simplify the organizational structure and optimize the succession management plan.

6. Obtain Travelife Partner status.

REVIEW OF 2015 OBJECTIVES AND ACHIEVEMENTS

The main objectives and achievements for fiscal 2015 were as follows:

Transat remains committed to a cost-reduction and unit-margin-improvement program, under which it targeted savings of $20 million in fiscal 2015, compared with 2014. In 2015 the Corporation aims to improve its winter results and maintain its summer profitability, in particular through improved efficiency.

The Corporation estimates the savings from the cost-reduction and unit-margin-improvement program at $45 million for 2015—more than double the original objective. The cumulative savings targeted under the program amount to more than $100 million by 2017.

The key factors driving improvement are the insourcing of narrow-body aircraft and implementation of Air Transat's flexible fleet, under which varying numbers of narrow-body and wide-body aircraft operate depending on the season.

In 2015, the Corporation posted a modest increase in the margin on its North American operations in winter, which during that season are concentrated on Sun destination routes. The operating loss on that market was $32.0 million, versus $36.7 million in 2014. Owing to under-performance of Transat's France operations, due among other factors to events in North Africa, the operating loss related to European operations in winter was $25.3 million, compared with one of $9.9 million in 2014.

For the summer season, in spite of abundant supply and increased competition, which was direct in the case of several destinations, the Corporation posted an operating income of $107.2 million, compared with $93.5 million in 2014.

As a result, for the year, despite the under-performance in France, attributable to outside factors, and in spite of abundant supply and increased competition on all markets, Transat recorded in 2015 a slightly higher margin than in 2014.

Transat intends to develop new markets by launching new routes, entering new source markets, building out its existing source market offering and expanding its overall offering, including, where applicable, by marketing third-party products.

The Corporation has introduced two new Europe destinations, Prague in 2014 and Budapest in 2015, and announced that it will be adding Zagreb in 2016. A domestic feeder-flight program has also been introduced, which has considerably broadened the supply of transatlantic destinations out of certain Canadian cities (passengers change planes in either Montreal or Toronto).

Building on the successful launch of the Transat Travel banner as a Canadian distributor, Transat intends to improve its multi-channel distribution strategy, and particularly its online presence, to extend its customer reach and enhance customer loyalty.

By the end of the fiscal year, Transat had implemented the Transat Travel brand in 25 travel agencies across Canada, and expects to complete transition in its owned agencies during 2016. The results achieved since the launch of this initiative, whether measured in terms of customer acquisition, overall sales growth, or growth in sales of Transat products, are very satisfactory. At the same time, the Corporation successfully completed a restructuring of its distribution network with an eye to improving its profitability.

In Canada, the Corporation made significant changes to its online marketing strategy. Its product offerings, regardless of brand, are all sold through the Transat.com website, among others. This new orientation, implemented following introduction of the Transat Travel brand in the retail network, is in logical continuation with the brand strategy developed in 2010. It will contribute to optimization of marketing efforts and budgets, among other things.

Other projects are under way: the Corporation will improve its capacity to market its products via mobile devices, for example.

In fiscal 2015, Transat will begin structuring its sustainable-development project to secure a certification for its tour operator and travel agency businesses.

Transat is now firmly engaged in the certification process. The approach was structured during 2015, with implications including production of a gap analysis and development of an action plan. The Corporation plans to achieve Travelife Partner status in 2016, and full certification within the strategic plan period.

KEY PERFORMANCE DRIVERS

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

ADJUSTED OPERATING INCOME	Generate 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.
REVENUE GROWTH	Grow revenues by more than 3%, excluding acquisitions.

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 $336.4 million as at October 31, 2015. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels.
Credit facilities	We can also draw on credit facilities totalling approximately $64.4 million.

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	In recent years, we have intensified our efforts to build a unified corporate culture based on a clear vision and shared values. As a result, our employees work together as a team and are committed to ensuring overall customer satisfaction and contributing to improving the Corporation's effectiveness. Moreover, we believe the Corporation is managed by a seasoned leadership team.
Supplier relationships	We have exclusive access to certain hotels at sun destinations as well as over 25 years of privileged relationships with many hotels at these destinations and in Europe.

Transat has the resources it needs to meet its 2016 objectives and continue building on its long-term strategies.

CONSOLIDATED OPERATIONS

REVENUES

Revenues by geographic area				Change	
	2015	2014	2013	2015	2014
(in thousands of dollars)	$	$	$	%	%
Americas	2,840,004	2,921,811	2,893,353	(2.8)	1.0
Europe	726,364	830,387	754,805	(12.5)	10.0
	3,566,368	3,752,198	3,648,158	(5.0)	2.9

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

For the year ended October 31, 2015, the Corporation's revenues decreased $185.8 million (5.0%), owing primarily to our winter season during which total travellers were down 7.4% while our product offering for sun destinations, our main market for the period, was reduced by 6.3% compared with 2014. Our summer season product offering in the transatlantic market was 0.9% higher than in 2014, whereas average selling prices were lower than in summer 2014. Overall, during the year, total travellers were down 2.6%.

For 2016, we expect revenues and total travellers to increase compared with 2015, mainly as a result of the Corporation's decision to increase winter and summer season capacity.

OPERATING EXPENSES

Operating expenses				% of revenues			Change	
	2015	2014	2013	2015	2014	2013	2015	2014
(in thousands of dollars)	$	$	$	%	%	%	%	%
Costs of providing tourism services	1,797,890	2,000,424	1,951,329	50.4	53.3	53.5	(10.1)	2.5
Aircraft fuel	440,804	462,942	417,891	12.4	12.3	11.5	(4.8)	10.8
Salaries and employee benefits	387,363	370,904	368,477	10.9	9.9	10.1	4.4	0.7
Aircraft maintenance	146,006	128,892	106,732	4.1	3.4	2.9	13.3	20.8
Commissions	136,506	170,724	163,606	3.8	4.5	4.5	(20.0)	4.4
Airport and navigation fees	117,862	105,440	95,635	3.3	2.8	2.6	11.8	10.3
Aircraft rent	98,859	87,229	81,270	2.8	2.3	2.2	13.3	7.3
Other	347,302	333,808	346,572	9.7	8.9	9.5	4.0	(3.7)
Share of net income of an associate	(7,045)	(8,094)	(3,676)	(0.2)	(0.2)	(0.1)	(13.0)	120.2
Amortization	50,867	46,702	39,068	1.4	1.2	1.1	8.9	19.5
Restructuring charge	—	6,387	5,740	—	0.2	0.2	(100.0)	11.3
Total	3,516,414	3,705,358	3,572,644	98.6	98.8	97.9	(5.1)	3.7

Our total operating expenses decreased $188.9 million (5.1%) during the year compared with 2014. This decrease resulted mainly from our winter season during which we reduced our sun destination product offering by 6.3%. Furthermore, the full effect of insourcing narrow-body aircraft operations to sun destinations as well as the shift toward a flexible fleet at Air Transat, maximizing the use of narrow-body aircraft to service sun destinations with more aircraft in winter while minimizing fixed costs of wide-body aircraft, was felt during the year. These cost savings were partially offset by the dollar's depreciation against the U.S. dollar. In addition to the anticipated cost savings, insourcing narrow-body aircraft operations resulted in lower costs of providing tourism services (those flights were previously operated by an external air carrier), and higher other operating expenses, excluding commissions.

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 $202.5 million (10.1%) decrease resulted primarily from a reduction in our flight purchases from air carriers other than Air Transat, owing to the addition of narrow-body Boeing 737s to our aircraft fleet and a reduction in our sun destination product offering during the winter season, partially offset by the dollar's weakening against the U.S. currency and, to a lesser extent, higher hotel room costs.

AIRCRAFT FUEL

Aircraft fuel expense was down $22.1 million (4.8%) during the year, mainly as a result of lower fuel price indicators in financial markets. However, the Corporation was unable to fully benefit from this decrease due to the fuel price hedging program it has in place. The dollar's weakening against the U.S. dollar (fuel is paid mainly in U.S. dollars) and the commissioning of our narrow-body Boeing 737-800s also contributed to mitigate the decrease in aircraft fuel prices.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits rose $16.5 million (4.4%) to $387.4 million for the year ended October 31, 2015. The increase resulted mainly from pilot and cabin crew hires following the insourcing of narrow-body aircraft operations and annual salary reviews.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat. Compared with 2014, these expenses rose $17.1 million (13.3%) during the year. The increase resulted from the beginning of narrow-body operations and the dollar's weakening against the U.S. dollar.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commissions amounted to $136.5 million, down $34.2 million (20.0%) compared with fiscal 2014. As a percentage of revenues, commissions decreased and accounted for 3.8% of revenues for the year compared with 4.5% in 2014. This decrease is attributable to the lower revenue base used in calculating commissions.

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 $12.4 million (11.8%) compared with 2014. The increase was driven by the addition of narrow-body aircraft to our fleet and the dollar's weakening against the U.S. dollar.

AIRCRAFT RENT

Aircraft rent rose $11.6 million (13.3%) during the year, as a result of the addition to our permanent fleet of four Boeing 737s and, eight 737s which were integrated gradually into the fleet for the winter season only, as well as the dollar's weakening against the U.S. dollar.

OTHER

Other expenses rose $13.5 million (4.0%) during the year, compared with 2014. The increase was mainly due to higher other air costs following the commissioning of our Boeing 737s.

SHARE OF NET INCOME OF AN ASSOCIATE

Our share of net income of an associate represents our share of the net income of our hotel business, Caribbean Investments B.V. ["CIBV"]. Our share of net income of an associate for the current fiscal year totalled $7.0 million compared with $8.1 million for 2014. The decrease in our share of net income was attributable to the reversal, in 2014, of deferred tax liabilities following amendments to Mexican tax legislation in 2014. The deferred tax liabilities had been recognized as of the coming into force, in 2008, of a piece of tax legislation in Mexico.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes the depreciation of property, plant and equipment, and the amortization of intangible assets subject to amortization and deferred incentive benefits. Depreciation and amortization expense rose $4.2 million during fiscal 2015. The increase resulted from additions and improvements made to our aircraft fleet, mainly involving the reconfiguration of our Airbus A330s.

RESTRUCTURING

During fiscal 2014, the restructuring charge amounted to $6.4 million including $5.4 million in termination benefits, $0.6 million in intangible assets written off and $0.4 million in other expenses. In 2014, restructuring also resulted in a $0.4 million write-off of goodwill, discussed in the *Other expenses and revenues* section, following the closure of our French Affair division, which specialized in villa rentals in certain areas of Europe.

OPERATING RESULTS

In light of the foregoing, we recorded $50.0 million (1.4%) in operating income for the year compared with $46.8 million (1.2%) for the previous fiscal year. The growth in our operating income resulted from a $24.1 million improvement in operating results in the Americas, partially offset by a $21.0 million adverse change in operating results in Europe. In addition, our cost reduction initiatives combined with the decrease in fuel prices more than offset the dollar's weakening against the U.S. dollar which increased operating expenses for the year by $102.0 million, compared to 2014.

During the year, we reported $100.8 million (2.8%) in adjusted operating income, compared with $99.9 million (2.7%) in 2014.

GEOGRAPHIC AREAS

AMERICAS

Americas				Change	
	2015	2014	2013	2015	2014
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	1,548,644	1,662,652	1,635,128	(6.9)	1.7
Operating expenses	1,580,625	1,699,367	1,655,109	(7.0)	2.7
Operating loss	(31,981)	(36,715)	(19,981)	12.9	(83.7)
Operating loss (%)	(2.1)	(2.2)	(1.2)	6.5	(80.7)
Summer season					
Revenues	1,291,360	1,259,159	1,258,225	2.6	0.1
Operating expenses	1,208,839	1,195,973	1,170,407	1.1	2.2
Operating income	82,521	63,186	87,818	30.6	(28.0)
Operating income (%)	6.4	5.0	7.0	27.3	(28.1)

Winter-season revenues of our North American subsidiaries from sales in Canada and abroad were down $114.0 million (6.9%) compared with 2014. The decrease resulted from our decision to reduce our sun destination product offering by 6.3% and transatlantic routes by 3.2%, which lowered traveller volumes by 7.4% across our markets while average selling prices were slightly higher. For the winter season, we reported an operating loss of $32.0 million (2.1%), compared with an operating loss of $36.7 million (2.2%) in 2014. The decrease in our operating loss was mainly due to our cost reduction initiatives which resulted in a decrease in operating expenses, and to a lesser extent, an increase in selling prices. Furthermore, the decrease in operating loss was partially offset by the dollar's weakening against the U.S. dollar, which, even combined with the decrease in fuel prices, led to a $21.0 million rise in operating expenses across our markets.

Summer-season revenues were up $32.2 million (2.6%). Summer-season capacity in our transatlantic segment, our main summer-season market, was 0.9% higher than in 2014. In the transatlantic market, average selling prices were down 2.0% while total travellers increased 0.3%. Our sun destination capacity was 12.6% higher than in 2014. Traveller volumes and selling prices were up 10.9% and 1.0%, respectively. Revenue growth was also driven by the introduction of a new reservation platform, which for European travellers, favours purchasing seats directly from our Air Transat subsidiary instead of through our European subsidiaries. Our operating margin was $82.5 million (6.4%), compared with $63.2 million (5.0%) in 2014. The improvement in operating income was accentuated by lower fuel costs, which, even combined with the dollar's weakening against the U.S. currency, decreased operating expenses by $35.0 million across our markets. In the aggregate, for our transatlantic market, we recorded a smaller increase in costs than growth in revenues.

EUROPE

Europe				Change	
	2015	2014	2013	2015	2014
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	258,435	303,190	277,410	(14.8)	9.3
Operating expenses	283,689	313,118	293,866	(9.4)	6.6
Operating loss	(25,254)	(9,928)	(16,456)	(154.4)	39.7
Operating loss (%)	(9.8)	(3.3)	(5.9)	(198.4)	44.8
Summer season					
Revenues	467,929	527,197	477,395	(11.2)	10.4
Operating expenses	443,261	496,900	453,262	(10.8)	9.6
Operating income	24,668	30,297	24,133	(18.6)	25.5
Operating income (%)	5.3	5.7	5.1	(8.3)	13.7

Winter-season revenues at our European subsidiaries from sales in Europe and Canada were down $44.8 million (14.8%) in 2015. The decrease resulted from lower total travellers. In local currency terms, revenues at our European entities decreased. This was due to a decrease in sales to destinations in North Africa and Senegal, which contributed to the 11.8% decrease in total travellers for the winter season, compared to 2014, while our average selling prices were similar to the same period of 2014. Our European operations reported an operating loss of $25.3 million (9.8%) for the winter season, compared with an operating loss of $9.9 million (3.3%) in 2014. The higher operating loss was mainly attributable to the decrease in total travellers and, to a lesser extent, slimmer margins in tour revenues.

Summer-season revenues at our European subsidiaries were down $59.3 million (11.2%). On one hand, the decrease in revenues resulted in large part from the introduction of a new reservation platform, which for European travellers, favours purchasing seats directly from our Air Transat subsidiary instead of through our European subsidiaries, which resulted in a 13.8% decrease in total travellers. The decrease in revenues is also attributable to lower sales to North African destinations and of North American tours, and the demand was affected by the decrease of the euro. Our average selling prices were slightly higher than in summer season of 2014, owing in part to a different product mix. In local currency terms, revenues at our European entities decreased. Our European operations reported $24.7 million (5.3%) in operating income, compared with $30.3 million (5.7%) in 2014. The lower operating income was primarily due to France, where market conditions were very difficult, as well as to lower tour margins and, to a lesser extent, a decrease in total travellers.

OTHER EXPENSES AND REVENUES

				Change	
	2015	2014	2013	2015	2014
(in thousands of dollars)	$	$	$	%	%
Financing costs	2,229	1,939	2,512	15.0	(22.8)
Financing income	(7,606)	(8,107)	(7,357)	(6.2)	10.2
Change in fair value of fuel-related derivatives and other derivatives	528	23,822	493	(97.8)	4,732.0
Foreign exchange gain on non-current monetary items	(2,524)	(1,007)	(846)	150.6	19.0
Write-off and impairment of goodwill	—	369	—	(100.0)	N/A

FINANCING COSTS

Financing costs comprise interest on long-term debt and other interest, standby fees, and financial expenses. Financing costs rose $0.3 million in 2015, compared with 2014.

FINANCING INCOME

Financing income decreased $0.5 million during the year, compared with 2014.

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 rose $0.5 million, compared with a $23.8 million decrease in fair value in 2014.

FOREIGN EXCHANGE GAIN ON NON-CURRENT MONETARY ITEMS

The foreign exchange gain on non-current monetary items, amounting to $2.5 million for the year compared with $1.0 million in 2014, resulted mainly from a favourable foreign exchange effect on our foreign currency deposits.

WRITE-OFF AND IMPAIRMENT OF GOODWILL

In 2014, following the closure of its French Affair division, the Corporation wrote off $0.4 million in related goodwill.

INCOME TAXES

For the year ended October 31, 2015, income tax expense amounted to $10,4 million compared with $3.8 million for the previous fiscal year. Excluding the share of net income of an associate, the effective tax rate stood at 20.6% for the fiscal year ended October 31, 2015 and 17.3% for the preceding fiscal year. The change in tax rates between fiscal 2015 and 2014 resulted mainly from differences between countries in the statutory tax rates applied to taxable income or losses.

NET INCOME AND NET INCOME ATTRIBUTABLE TO SHAREHOLDERS

In light of the items discussed in the *Consolidated operations* section, our net income for the year ended October 31, 2015 amounted to $47.0 million, compared with a net income of $26.1 million in 2014. Net income attributable to shareholders stood at $42.6 million or $1.11 per share basic ($1,10 per share on a diluted basis), compared with $22.9 million or $0.59 per share (basic and diluted) during the previous fiscal year. The weighted average number of outstanding shares used to compute basic per share amounts was 38,442,000 for fiscal 2015 and 38,644,000 for fiscal 2014 (38,558,000 and 39,046,000, respectively, for diluted earnings per share).

For the year, adjusted net income amounted to $42.9 million ($1.11 per share), compared with $45.2 million ($1.16 per share) for fiscal 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues decreased compared with the corresponding quarters. Average selling prices were up while total travellers were down for the winter season (Q1 and Q2). For the summer season (Q3 and Q4), average selling prices were lower in 2015 due to the decline in fuel prices while total travellers were higher. In terms of operating results, increases in average selling prices in winter combined with cost reduction and margin improvement initiatives were insufficient to offset the foreign exchange effect arising from the strength of the U.S. dollar. For the summer season, the decline in fuel prices more than offset the stronger U.S. dollar. 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)	Q1-2014 $	Q2-2014 $	Q3-2014 $	Q4-2014 $	Q1-2015 $	Q2-2015 $	Q3-2015 $	Q4-2015 $
Revenues	847,222	1,118,620	941,702	844,654	788,581	1,018,498	920,123	839,166
Aircraft rent	19,170	19,853	23,350	24,856	23,167	24,684	24,702	26,306
Operating income (loss)	(33,614)	(13,029)	36,091	57,392	(47,491)	(9,744)	34,913	72,276
Adjusted operating income (loss)	(23,892)	4	47,789	76,028	(35,753)	3,395	46,472	86,707
Net income (loss)	(24,860)	(6,606)	26,296	31,236	(63,088)	26,267	13,820	69,965
Net income (loss) attributable to shareholders	(25,649)	(7,903)	25,820	30,607	(64,314)	24,704	13,067	69,108
Basic earnings (loss) per share	(0.67)	(0.20)	0.67	0.79	(1.66)	0.64	0.34	1.82
Diluted earnings (loss) per share	(0.67)	(0.20)	0.66	0.79	(1.66)	0.64	0.34	1.82
Adjusted net income (loss)	(23,288)	(7,553)	26,730	49,353	(32,447)	(6,623)	27,216	54,797
Adjusted net income (loss) per share	(0.60)	(0.19)	0.69	1.27	(0.84)	(0.17)	0.71	1.44

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $839.2 million in revenues, down $5.5 million (0.6%) from $844.7 million for the corresponding period of 2014. This decrease is due primarily to the decrease in average selling prices. Fourth-quarter total travellers increased 3.9% in 2015 compared with the same period in 2014.

In the Americas, revenues of subsidiaries were up $17.1 million (2.9%), compared with the same period in 2014. On the transatlantic routes, our main market, the capacity deployed increased 3.6% compared with 2014. Average selling prices were down 1.7%, whereas total travellers were 1.8% higher. Our sun destination capacity was 10.8% higher than in 2014. Revenue growth was also attributable to the introduction of a new reservation platform, which for European travellers, favours purchasing seats directly from our Air Transat subsidiary instead of through our European subsidiaries. Traveller volumes were up 10.7% while selling prices increased by 3.5%. North American operations generated operating income of $56.2 million, compared with $42.4 million, which also took into account a $4.2 million restructuring charge in 2014. The improvement in operating income was accentuated by a decline in fuel costs, which, even combined with the dollar's weakening against the U.S. currency, decreased operating expenses by $18.0 million across our markets.

Compared with 2014, revenues at our European subsidiaries were down $22.6 million (9.2%). On one hand, the decrease in revenues resulted from the introduction of a new reservation platform, which for European travellers, favours purchasing seats directly from our Air Transat subsidiary instead of through our European subsidiaries, resulting in a 13.3% decrease in total travellers. The decrease in revenues is also attributable to lower sales to North African destinations and of North American tours. Average selling prices were slightly higher than in the same period of 2014, due partly to a different product mix. Our European operations reported $16.1 million in operating income, compared with $15.0 million in 2014. The improvement in our operating income resulted primarily from sound management of our product offering combined with cost reduction initiatives.

The Corporation's fourth-quarter operating income amounted to $72.3 million (8.6%), compared with $54.2 million (6.4%) in 2014. The increase in operating income resulted from, among other factors, the decline in fuel costs and cost reduction initiatives.

The Corporation recorded fourth-quarter net income amounting to $70.0 million, compared with $31.2 million in 2014. Net income attributable to shareholders amounted to $69.1 million ($1.82 per share basic and diluted) compared with $30.6 million ($0.79 per share basic and diluted) in 2014.

The Corporation's fourth-quarter net adjusted income amounted to $54.8 million ($1.44 per share) compared with $49.4 million ($1.27 per share) in 2014.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2015, cash and cash equivalents totalled $336.4 million compared with $308.9 million as at October 31, 2014. Cash and cash equivalents held in trust or otherwise reserved amounted to $412.1 million as at the end of fiscal 2015, compared with $380.2 million in 2014. The Corporation's statement of financial position reflected $80.4 million in working capital, for a ratio of 1.09, compared with $96.0 million in working capital and a ratio of 1.12 as at October 31, 2014.

Total assets increased by $138.7 million (10.1%) from $1,375.0 million as at October 31, 2014 to $1,513.8 million as at October 31, 2015. This increase is mainly attributable to a $31.9 million increase in cash and cash equivalents in trust or otherwise reserved, a $27.5 million increase in cash and cash equivalents, a $15.0 million increase in deposits and a $13.9 million increase in investments and other assets. Equity increased $54.3 million, from $482.9 million as at October 31, 2014 to $537.3 million as at October 31, 2015. This increase resulted essentially from the $47.0 million net income and a $20.0 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries, partiallly offset by the repurchase of shares totalling $9.4 million and by other changes in non-controlling liabilities in the amount of $4.2 million.

CASH FLOWS

				Change	
	2015	2014	2013	2015	2014
(in thousands of dollars)	$	$	$	%	%
Cash flows related to operating activities	94,000	106,240	123,039	(11.5)	(13.7)
Cash flows related to investing activities	(58,009)	(61,100)	(28,289)	5.1	(116.0)
Cash flows related to financing activities	(12,672)	191	(1,817)	(6,734.6)	110.5
Effect of exchange rate changes on cash	4,217	(2,262)	1,710	286.4	(232.3)
Net change in cash	27,536	43,069	94,643	(36.1)	(54.5)

OPERATING ACTIVITIES

Operating activities generated $94.0 million in cash flows, compared with $106.2 million in 2014. This $12.2 million decrease during the fiscal year resulted from a $17.8 million decrease in the net change in non-cash working capital balances related to operations, partially offset by a $6.9 million increase in profitability.

We expect to continue to generate positive cash flows from our operating activities in fiscal 2016.

INVESTING ACTIVITIES

Cash flows used in investing activities totalled $58.0 million for the fiscal year, down $3.1 million from 2014. Compared with 2014, additions to property, plant and equipment and other intangible assets decreased $5.7 million to $59.3 million and consisted mainly of purchases of computer hardware and software and aircraft enhancements. The cash and cash equivalents reserved (non-current) balance rose by $5.4 million and we received a $6.7 million dividend from our associate. In 2014, we also received a $3.0 million balance of sale price receivable related to the disposal of a subsidiary in 2012.

In 2016, additions to property, plant and equipment and intangible assets could amount to approximately $60.0 million.

FINANCING ACTIVITIES

Cash flows used in financing activities totalled $12.7 million, compared with $0.2 million in cash flows generated in 2014. Higher utilization of cash flows than in 2014 resulted from the $9.4 million repurchase of shares during the period, and a $1.4 million increase in dividends (totalling $4.2 million) paid to a non-controlling interest. Proceeds from share issuances amounted to $1.0 million in 2015, down $2.0 million compared with 2014.

CONSOLIDATED FINANCIAL POSITION

	October 31, 2015 $	October 31, 2014 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	336,423	308,887	27,536	See the Cash flows section
Cash and cash equivalents in trust or otherwise reserved	412,099	380,184	31,915	Increase in funds received from clients
Trade and other receivables	129,223	123,489	5,734	Increase in amounts receivable from government
Income taxes receivable	16,900	3,329	13,571	Increase due to payment of notices of assessment related to ABCPs
Inventories	9,079	10,434	(1,355)	No significant difference
Prepaid expenses	80,318	74,932	5,386	Increase in prepaid amounts to hotel operators
Derivative financial instruments	25,573	16,596	8,977	Favourable change in the dollar compared with the U.S. currency with respect to forward contracts entered into
Deposits	58,901	43,932	14,969	Increase in deposits paid to certain service providers and foreign exchange difference
Deferred tax assets	32,939	30,051	2,888	Increase in differed tax related to non-deductible provisions
Property, plant and equipment	133,502	128,560	4,942	Additions during the year, partially offset by depreciation
Goodwill	99,527	95,601	3,926	Foreign exchange difference
Intangible assets	79,863	72,769	7,094	Additions during the year, partially offset by depreciation
Investment in an associate	97,897	83,949	13,948	Share of net income of an associate and foreign exchange difference, partially offset by dividend received
Other assets	1,520	2,317	(797)	No significant difference
Liabilities				
Trade and other payables	355,656	338,633	17,023	Foreign exchange difference
Provision for overhaul of leased aircraft	42,962	36,312	6,650	Additions to aircraft fleet, foreign exchange difference and impact of maintenance schedule
Income taxes payable	1,431	1,721	(290)	No significant difference
Customer deposits and deferred revenues	489,622	424,468	65,154	Increase in reservations and average selling prices
Derivative financial instruments	23,203	24,679	(1,476)	Favourable change in fuel prices with respect to forward contracts entered into
Other liabilities	52,026	53,926	(1,900)	Decrease in deferred incentive benefits, partially offset by the increase in value of defined benefit obligation
Deferred tax liabilities	11,612	12,345	(733)	No significant difference
Equity				
Share capital	218,134	224,679	(6,545)	Repurchase of shares, net of shares issued from treasury
Share-based payment reserve	17,105	15,444	1,661	Share-based payment expense
Retained earnings	263,812	227,872	35,940	Net income
Unrealized gain on cash flow hedges	14,960	11,712	3,248	No significant difference
Cumulative exchange differences	23,241	3,239	20,002	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at December 9, 2015, the Corporation had several types of financing, consisting primarily of a revolving term credit facility as well as lines of credit for issuing letters of credit.

On November 14, 2014, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2019, 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, 2015, all the financial ratios and criteria were met and the credit facility was undrawn.

With regard to our French operations, we also have access to undrawn lines of credit totalling €10.0 million [$14.4 million].

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and liquidity, some of which are reflected as liabilities in the consolidated financial statements and others in the notes to the financial statements. The Corporation did not report any obligations in the statements of financial position as at October 31, 2015 and October 31, 2014.

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 15 and 24 to the audited consolidated financial statements)
- Operating leases (see note 23 to the audited consolidated financial statements)
- Purchase obligations (see note 23 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated amounted to approximately $998.6 million as at October 31, 2015 ($936.3 million as at October 31, 2014), and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	2015 $	2014 $
Guarantees		
Irrevocable letters of credit	36,838	31,267
Collateral security contracts	1,490	1,361
Operating leases		
Obligations under operating leases	675,385	657,639
	713,713	690,267
Agreements with suppliers	284,878	246,056
	998,591	936,323

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, 2015, $66.9 million had been drawn down, of which $44.9 million is to insure the benefits to participants under senior executives defined benefit pension agreements; such irrevocable letters of credit are held by a third party trustee. In the event of a change of control, the irrevocable letters of credit issued to insure the benefit to the participants under the senior executives defined benefit pension agreements will be drawn down.

In addition, the Corporation has a $35.0 million guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2015, $22.0 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its French operations, the Corporation has guarantee lines of credit amounting to €17.6 million [$25.4 million], of which €9.9 million had been drawn down [$14.3 million].

For its French operations, the Corporation also has access to bank lines of credit for issuing letters of credit secured by deposits. As at October 31, 2015, €2.7 million had been drawn down [$3.8 million].

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £14.8 million [$29.9 million], which has been fully drawn down.

As at October 31, 2015, off-balance sheet arrangements were up $62.3 million. This increase resulted from the seasonal lease agreements entered into for six additional Boeing 737-800s and the dollar's weakening against the U.S. dollar, partially offset by repayments made during the fiscal year.

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	2016	2017	2018	2019	2020	2021 and beyond	Total
Year ending October 31	$	$	$	$	$	$	$
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	130,576	115,716	112,939	86,236	34,781	28,056	508,304
Leases (other)	31,126	26,520	21,583	15,087	12,161	60,604	167,081
Agreements with suppliers and other obligations	201,304	66,053	22,840	2,327	2,327	29,292	324,143
	363,006	208,289	157,362	103,650	49,269	117,952	999,528

DEBT LEVELS

The Corporation did not report any debt on its statement of financial position while our off-balance sheet arrangements, excluding agreements with suppliers and other obligations, increased by $23.4 million, from $690.3 million as at October 31, 2014 to $713.7 million as at October 31, 2015. This increase was due to entering into aircraft lease agreements during the year and the dollar's weakening against the U.S. dollar, offset by repayments made during the year.

The Corporation's total debt amounts to $494.3 million, up $58.2 million compared with 2014 due primarily to the strength of the U.S. dollar and higher aircraft rent following the addition of Boeing 737s to our aircraft fleet.

Total net debt increased by $30.6 million, from $127.3 million as at October 31, 2014 to $157.9 million as at October 31, 2015. The increase in total net debt results from higher aircraft rent following the addition of Boeing 737s to our aircraft fleet, partially offset by higher cash and cash equivalent balances than in 2014.

OUTSTANDING SHARES

As at October 31, 2015, 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 4, 2015, there were 37,351,176 total voting shares outstanding.

Since November 16, 2015 Class A Variable Voting Shares and Class B Voting Shares of the Corporation are traded on the Toronto Stock Exchange under a single symbol, namely "TRZ."

STOCK OPTIONS

As at December 4, 2015, there were a total of 2,740,523 stock options outstanding, 1,877,384 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of twelve Airbus A330s (345 or 375 seats), nine Airbus A310s (249 seats) and four Boeing 737-800s (189 seats).

The Corporation also had lease agreements, during the 2015 winter season, for six Boeing 737-800s (189 seats) and two Boeing 737-700s (149 seats). Under current agreements, 15 Boeing 737s will be added to the fleet for the 2016 winter season.

NORMAL COURSE ISSUER BID

On April 10, 2015, the Corporation announced that it had received the required regulatory approvals to go forward with a normal course issuer bid for a 12-month period.

Pursuant to its normal course issuer bid, the Corporation is authorised to purchase for cancellation up to a maximum of 2,274,921 Class A Variable Voting Shares and Class B Voting Shares, representing approximately 10% of the public float of Class A Variable Voting Shares and Class B Voting Shares.

The normal course issuer bid is designed to allow the Corporation proper utilization, depending on the circumstances and in a wise manner, of a portion of the Corporation's excess cash.

Purchases under the Corporation's normal course issuer bid will be made on the open market through the TSX in accordance with its policy on normal course issuer bids. The price paid by the Corporation for repurchased shares will be the market price at the time of acquisition plus brokerage fees, where applicable. Purchases began as of April 15, 2015 and will terminate no later than April 14, 2016.

During the year ended October 31, 2015, the Corporation repurchased 1,296,090 Class B Voting Shares for a cash consideration of $9.4 million.

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 AND INTANGIBLE ASSETS

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 *Risks and uncertainties*).

The Corporation performed an impairment test as at April 30, 2015 to determine whether the carrying amount of CGUs was higher than their recoverable amount. No impairment was identified. The Corporation prepares cash flow forecasts derived from the most recently approved annual budgets and strategic plans of the relevant businesses. The cash flow forecasts reflect the risk associated with each asset or CGU. Cash flow forecasts beyond three years are extrapolated based on estimated growth rates that do not exceed the average long-term growth rates for the relevant markets.

As at April 30, 2015, an after-tax discount rate of 10.3% was used for testing the various CGUs for impairment [10.3% as at October 31, 2014]. The perpetual growth rate used for impairment testing was 1% as at April 30, 2015 [1% as at October 31, 2014].

On April 30, 2015, a 1% increase in the after-tax discount rate used for the impairment testing, assuming that all other variables had remained the same, would not have required any impairment charge.

On April 30, 2015, a 1% decrease in the long-term growth rate used for the impairment testing, assuming that all other variables had remained the same, would not have required any impairment charge.

On April 30, 2015, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would not have required any impairment charge.

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, currently slated for completion by 2018. 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, 2015 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, 2015	Retirement benefit obligations as at October 31, 2015
Increase (decrease)	$	$
Discount rate	(12)	(1,064)
Rate of increase in eligible earnings	13	47

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. 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 situation resulted in outflows of $15.1 million during the year ended October 31, 2015. This amount is recognized as income taxes receivable as at October 31, 2015.

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 45% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas less than 10% 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 derivative financial instruments related to foreign currencies as hedging instruments and regularly demonstrates that these instruments are sufficiently effective to continue using hedge accounting. These derivative financial instruments are designated as cash flow hedges.

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 $68.7 million as at October 31, 2015. Trade accounts receivable consist of a large number of customers, including travel agencies and other service providers. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable. As at October 31, 2015, approximately 3% of accounts receivable were over 90 days past due, whereas approximately 82% 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. These deposits totalled $42.4 million as at October 31, 2015, 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 $16.5 million as at October 31, 2015 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, 2015, the cash security deposits with lessors that had been claimed totalled $21.6 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, 2015 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, 2015.

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 year, the Corporation recorded $18.4 million in person-nights purchased at hotels belonging to its associate CIBV, compared with $13.7 million in 2014. As at October 31, 2015, a $0.3 million amount payable to CIBV was included under Trade and other payables, compared to $0.2 million as at October 31, 2014.

CHANGES IN ACCOUNTING POLICIES

PRESENTATION OF THE SHARE OF NET INCOME OF AN ASSOCIATE

During the first quarter of 2015, the Corporation modified the presentation of the share of net income of an associate to include it under operating results in the consolidated statements of income. In the past, operating results did not include the share of net income of an associate, i.e. CIBV, which operates hotels in Mexico, the Dominican Republic and Cuba. Hotel operations are part of the Corporation's activities. By including the share of net income of an associate, operating results more accurately reflect the Corporation's ongoing activities. The retrospective application of this policy change had no impact on the Corporation's net income.

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

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

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

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

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing 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.

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).

Business risks are 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 where competition is intense. In recent years, a number of tour operators and air carriers have entered or expanded their presence into markets 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 increased 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. The widespread popularity of the Internet has resulted in travellers being able to access information about travel products and services and purchase such products and services directly from suppliers, thus bypassing not only vacation providers such as Transat, but also retail travel agents through whom we generate a substantial 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 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 be adversely affected as a result.

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 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 and General Electric means that we could be adversely affected by problems connected with Airbus and Boeing aircraft and Rolls-Royce or General Electric engines or components, 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 Technological risks.

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 potential 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 over the past decade in Canada, new airports and air navigation authorities have imposed significant increases in airport user fees and air navigation fees. This is particularly the case given that some of those airports are located in U.S. cities in close proximity to the Canadian border 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 access information, manage reservation systems, including handling high telephone call volumes on a daily basis, monitor product profitability and inventory, adjust prices quickly, protect such information, stave off information system intrusions and distribute our products to retail travel agents and other travel intermediaries. Rapid changes in these technologies could require higher-than-anticipated capital expenditures to improve customer service; this 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. 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. If those providers were to become incapable of maintaining or improving the efficient technology solutions in a profitable and timely manner, the Corporation would be unable to react effectively to the 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.

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

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, 2015, the Corporation had approximately 5,500 employees, almost 50% of whom are unionized personnel covered by six collective agreements. As at October 31, 2015, four of the six collective agreements had expired. Negotiations to renew these collective agreements could give rise to work stoppages or slowdowns or higher labour costs that could unfavourably impact our operations and operating income.

INSURANCE COVERAGE RISKS

In the wake of the terrorist attacks of September 11, 2001, the airline insurance market for risks associated with war and terrorist acts has undergone several changes. The per event limit on third-party civil liability coverage related to damages resulting from injury or death of passengers, 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$150 million for any single event and in the aggregate. As a result, governments are still required to cover air carriers above this US$150 million limit until commercial insurers do so at a reasonable cost. The Canadian government covers domestic air carriers accordingly. In addition, some insurers that could provide coverage in excess of US$150 million are not licensed to transact business in Canada, which further limits availability.

The Canadian government continues to cover its air carriers, due to the licensing situation and by the U.S. government's decision to continue covering its own carriers against such risks. However, there can be no assurance that the Canadian government will not withdraw its coverage, particularly if the U.S. government were to change its position. If that were to happen, we would be required to deal with private insurers to attempt to secure such coverage, and there could be no assurance that we would be able to secure coverage 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, 2015.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2015 that materially affected, or are likely to materially affect, the Corporation's ICFR.

OUTLOOK

Globally, Transat’s bookings for the first half are ahead by 15% over 2014 at the same date.

On the Sun destinations market outbound from Canada, the Corporation’s main market segment in the winter, Transat's capacity is approximately 7% higher than that offered last year and 45% of that capacity has been sold. Bookings are ahead by 12% and load factors are up 2.1%. The impact of the weaker Canadian dollar, net from lower fuel costs, will be a 4.0% increase in operating costs if the dollar and fuel costs stay at their current level. At this moment, margins are similar to last year at the same date.

On the transatlantic market, where it is low season, Transat’s capacity is up 19% compared to that offered last winter. To date, 46% of that capacity has been sold, and bookings are ahead by 15%. Load factors are down 1.2% and selling prices are 6.0% lower. The impact of lower fuel costs will be a 3.0% decrease in operating costs if they stay at their current level.

In France, also in low season in winter, market conditions in 2015 were very difficult. Bookings are up 21% and selling prices are 1.5% higher, compared with last year at the same date.

In light of the above, operating income for the winter should improve over last year.

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.

Jean-Marc Eustache
Chairman of the Board,
President and Chief Executive Officer

Denis Pétrin
Vice-President, Finance and Administration
and Chief Financial Officer

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

	2015 IFRS	2014 IFRS	2013 IFRS	2012 IFRS	2010[4] (restated) GAAP
Consolidated statements of income					
Revenues	3,566,368	3,752,198	3,648,158	3,714,219	3,654,167
Operating expenses	3,465,547	3,652,269	3,527,836	3,693,769	3,620,314
Amortization	50,867	46,702	39,068	40,793	43,814
Restructuring	—	6,387	5,740	—	16,543
Operating income (loss)	49,954	46,840	75,514	(20,343)	(26,504)
Financing costs	2,229	1,939	2,512	2,962	3,499
Financing income	(7,606)	(8,107)	(7,357)	(6,693)	(7,395)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	528	23,822	493	(701)	1,278
Foreign exchange (gain) loss on non current monetary items	(2,524)	(1,007)	(846)	(370)	1,654
Write-off and impairment of goodwill	—	369	—	15,000	—
Gain on investments in ABCP	—	—	—	(7,936)	(8,113)
Gain on disposal of a subsidiary and repurchase of preferred shares of a subsidiary	—	—	—	(5,655)	—
Income (loss) before income tax expense	57,327	29,824	80,712	(16,950)	(17,427)
Income taxes (recovery)	10,363	3,758	19,510	(3,414)	(5,775)
Non-controlling interest in subsidiaries' results	(4,399)	(3,191)	(3,247)	(3,133)	(3,059)
Net income (loss) for the year attributable to shareholders	42,565	22,875	57,955	(16,669)	(14,711)
Basic earnings (loss) per share	1.11	0.59	1.51	(0.44)	(0.39)
Diluted earnings (loss) per share	1.10	0.59	1.51	(0.44)	(0.39)
Cash flows related to:					
Operating activities	94,000	106,240	123,039	8,872	90,673
Investing activities	(58,009)	(61,100)	(28,289)	(11,024)	(56,683)
Financing activities	(12,672)	191	(1,817)	(4,361)	(29,470)
Effect of exchange rate changes on cash and cash equivalents	4,217	(2,262)	1,710	(3,888)	(3,571)
Net change in cash and cash equivalents	27,536	43,069	94,643	(10,401)	949
Cash and cash equivalents, end of year	336,423	308,887	265,818	171,175	181,576
Total assets	1,513,764	1,375,030	1,290,073	1,165,301	1,226,570
Long-term debt (including current portion)	—	—	—	—	—
Equity	537,252	482,946	441,393	366,326	384,241
Debt ratio[1]	0.65	0.65	0.66	0.69	0.69
Book value per share[2]	14.29	12.47	11.47	9.57	10.11
Return on average equity[3]	8.3%	4.9%	14.4%	(4.4%)	(3.7%)
Shareholding statistics (in thousands)					
Outstanding shares, end of year	37,591	38,742	38,468	38,296	38,022
Weighted average number of shares outstanding:					
Undiluted	38,442	38,644	38,390	38,142	37,930
Diluted	38,558	39,046	38,472	38,142	37,930

(1) Total liabilities divided by total assets.
(2) Total equity divided by the number of outstanding shares.
(3) Net income (loss) divided by average equity.
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