TRANSAT A.T. Inc.
RESTATED SECOND QUARTERLY REPORT
Period ended April 30, 2019

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RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS

This restated Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the quarter ended April 30, 2019, compared with the quarter ended April 30, 2018, and should be read in conjunction with the restated audited consolidated financial statements for the year ended October 31, 2018 and the accompanying notes and the restated 2018 Annual Report, including the restated MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second-quarter update to the information contained in the MD&A section of our restated 2018 Annual Report. The risks and uncertainties set out in the MD&A of the restated 2018 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of June 12, 2019. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the quarter ended April 30, 2019 and the Annual Information Form for the year ended October 31, 2018.

The restated consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). We occasionally refer to non-IFRS financial measures in this restated MD&A. See the Non-IFRS financial measures section for more information. All dollar figures in this restated 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.

RESTATEMENT

On June 27, 2019, the Corporation announced that it needed to restate its consolidated financial statements and MD&A for the quarter ended April 30, 2019. Management has concluded that a restatement of its consolidated financial statements was necessary regarding the carrying amount of the non-controlling interest in the Trafictours Canada Inc. subsidiary.

The carrying amount of the non-controlling interest is related to the Trafictours Canada Inc. subsidiary and the right of the minority shareholder to require the Corporation to purchase the Trafictours Canada Inc. shares it holds at a price calculated in accordance with a pre-determined formula, subject to adjustment based on the circumstances, payable in cash. The estimated repurchase value of this option is taken into account in the carrying amount of the non-controlling interest. The difference results from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest. As a result, the liability for the non-controlling interest reported under Trade and other payables in the consolidated statements of financial position was undervalued by $20.5 million and $25.9 million as at April 30, 2019 and October 31, 2018, respectively. These under-valuations have no impact on the consolidated statements of income for the aforementioned periods as these adjustments are recorded as equity transactions in Retained earnings.

As part of the restatement of its consolidated financial statements as at October 31, 2018, the Corporation reviewed subsequent events up to September 11, 2019, the new date of authorization to publish the financial statements for the year ended October 31, 2018. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5.0 million [$6.7 million], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded as a subsequent event under Special items in the restated consolidated statement of income for the year ended October 31, 2018 and derecognized in the restated consolidated statements of income for the period ended April 30, 2019. This adjustment is included under Trade and other payables and Retained earnings in the consolidated statement of financial position as at October 31, 2018. No provision was recorded in the October 31, 2018 financial statements as initially disclosed since it was not possible to determine with certainty the impact of the financial liability that could arise from such proceedings if the defense of the Corporation was not retained.

For further information on the restatement, see note 3 to the restated interim condensed consolidated financial statements.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This restated 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.

The forward-looking statements contained in this restated MD&A, including the forward-looking statements under sections Overview and Outlook were made as at June 12, 2019 and have not been revised as part of the restatement of the consolidated financial statements. Forward-looking statements regarding the Corporation as at September 11, 2019 can be found in our MD&A for the quarter ended July 31, 2019 available on the SEDAR website at www.sedar.com.

Forward-looking statements, by their nature, 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, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of our restated 2018 Annual Report.

This restated MD&A also contains certain forward-looking statements about the Corporation concerning a potential transaction involving the acquisition of all the shares of the Corporation. These statements are based on certain assumptions deemed reasonable by the Corporation, but are subject to certain risks and uncertainties, several of which are outside the control of the Corporation, which may cause actual results to vary materially. In particular, the completion of a transaction will be subject to certain closing conditions, including regulatory approvals described in Transat's management information circular dated July 19, 2019, as well as other customary closing conditions. In addition, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is now expected that the transaction will be completed by the second quarter of the 2020 calendar year. In addition, statements regarding the results of a potential transaction will depend on the purchaser's plans following the completion of a potential transaction.

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 forward-looking statements in this restated MD&A are based on a number of assumptions relating to economic and market conditions as well as the Corporation's operations, financial position and transactions. Examples of such forward-looking statements include, but are not limited to, statements concerning:

- The outlook whereby Air Canada will acquire all of the shares of the Corporation.
- The outlook whereby if the required regulatory approvals are obtained and conditions are met, it is now expected that the potential transaction with Air Canada will be completed by the second quarter of the 2020 calendar year.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for summer 2019 on the transatlantic market, the impact of currency variations, combined with lower fuel costs in U.S. dollars, will not result in a significant increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.
- The outlook whereby the Corporation expects its results for the third quarter to be slightly higher than those of 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 year and that fuel prices, foreign exchange rates, selling prices and hotel and other costs will remain stable. If these assumptions prove incorrect, actual results and developments may differ materially from those contemplated by the forward-looking statements contained in this restated MD&A.

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

These statements reflect current expectations regarding future events and operating performance, speak only as of the date this restated 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 restated 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 intended to provide additional information and should not be considered in isolation or as a substitute for IFRS financial performance measures.

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30		Six-month periods ended April 30	
	2019 Restated[1] $	2018 Restated[1] $	2019 Restated[1] $	2018 Restated[1] $
Operating income (loss)	**(13,102)**	(3,180)	**(65,657)**	(46,708)
Depreciation and amortization	**16,225**	15,310	**31,142**	30,079
Premiums related to fuel-related derivatives and other derivatives matured during the period	**(77)**	—	**(167)**	—
Adjusted operating income (loss)	**3,046**	12,130	**(34,682)**	(16,629)
Income (loss) before income tax expense	**11,340**	13,304	**(55,014)**	458
Change in fair value of fuel-related derivatives and other derivatives	**(18,401)**	(10,935)	**291**	(9,072)
Gain on business disposals	**—**	(368)	**—**	(31,064)
Premiums related to fuel-related derivatives and other derivatives matured during the period	**(77)**	—	**(167)**	—
Adjusted pre-tax income (loss)	**(7,138)**	2,001	**(54,890)**	(39,678)
Net income (loss) attributable to shareholders	**7,214**	7,938	**(42,432)**	4,743
Change in fair value of fuel-related derivatives and other derivatives	**(18,401)**	(10,935)	**291**	(9,072)
Gain on business disposals	**—**	(368)	**—**	(31,064)
Premiums related to fuel-related derivatives and other derivatives matured during the period	**(77)**	—	**(167)**	—
Tax impact	**4,952**	2,909	**(33)**	2,741
Adjusted net income (loss)	**(6,312)**	(456)	**(42,341)**	(32,652)
Adjusted net income (loss)	**(6,312)**	(456)	**(42,341)**	(32,652)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,644**	37,579	**37,608**	37,528
Adjusted net income (loss) per share	**(0.17)**	(0.01)	**(1.13)**	(0.87)

1 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation also restated its interim condensed consolidated financial statements as at April 30, 2019. See Restatement section.

	As at April 30, 2019 $	As at October 31, 2018 $
Aircraft rent for the past four quarters	**140,632**	124,454
Multiple	**5**	5
Adjusted operating leases	**703,160**	622,270
Long-term debt	**—**	—
Adjusted operating leases	**703,160**	622,270
Total debt	**703,160**	622,270
Total debt	**703,160**	622,270
Cash and cash equivalents	**(796,322)**	(593,654)
Total net debt (Cash and cash equivalents, net of total debt)	**(93,162)**	28,616

FINANCIAL HIGHLIGHTS

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30				Six-month periods ended April 30			
	2019 Restated(2) $	2018 Restated(2) $	Difference $	Difference %	2019 Restated(2) $	2018 Restated(2) $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**897,413**	867,154	30,259	3.5	**1,544,979**	1,515,543	29,436	1.9
Operating income (loss)	**(13,102)**	(3,180)	(9,922)	(312.0)	**(65,657)**	(46,708)	(18,949)	(40.6)
Net income (loss) attributable to shareholders	**7,214**	7,938	(724)	(9.1)	**(42,432)**	4,743	(47,175)	(994.6)
Basic earnings (loss) per share	**0.19**	0.21	(0.02)	(9.5)	**(1.13)**	0.13	(1.26)	(969.2)
Diluted earnings (loss) per share	**0.19**	0.21	(0.02)	(9.5)	**(1.13)**	0.13	(1.26)	(969.2)
Adjusted operating income (loss)(1)	**3,046**	12,130	(9,084)	(74.9)	**(34,682)**	(16,629)	(18,053)	(108.6)
Adjusted net income (loss)(1)	**(6,312)**	(456)	(5,856)	(1,284.2)	**(42,341)**	(32,652)	(9,689)	(29.7)
Adjusted net income (loss) per share(1)	**(0.17)**	(0.01)	(0.16)	(1,600.0)	**(1.13)**	(0.87)	(0.26)	(29.9)
Consolidated Statements of Cash Flows								
Operating activities	**191,347**	173,933	17,414	10.0	**245,850**	281,707	(35,857)	(12.7)
Investing activities	**(18,937)**	(19,351)	414	2.1	**(48,330)**	149	(48,479)	N/A
Financing activities	**(401)**	(1,474)	1,073	72.8	**(60)**	(59)	(1)	(1.7)
Effect of exchange rate changes on cash and cash equivalents	**3,868**	850	3,018	355.1	**5,208**	1,597	3,611	226.1
Net change in cash and cash equivalents	**175,877**	153,958	21,919	14.2	**202,668**	283,394	(80,726)	(28.5)

	As at April 30, 2019 Restated(2) $	As at October 31, 2018 Restated(2) $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**796,322**	593,654	202,668	34.1
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**228,514**	338,919	(110,405)	(32.6)
	1,024,836	932,573	92,263	9.9
Total assets	**1,688,885**	1,566,790	122,095	7.8
Debt (current and non-current)	**—**	—	—	—
Total debt(1)	**703,160**	622,270	80,890	13.0
Total net debt (Cash and cash equivalents, net of total debt)(1)	**(93,162)**	28,616	(121,778)	(425.6)

1 See Non-IFRS Financial Measures section

2 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation also restated its consolidated financial statements as at April 30, 2019 and October 31, 2018. See Restatement section.

OVERVIEW

CORE BUSINESS

Transat is a leading integrated international tourism company specializing in holiday travel, which operates and markets its services in the Americas and Europe. It develops and markets holiday travel services in packages, including air travel and hotel stays, and air-only formats. Transat operates under the Transat and Air Transat brands mainly in Canada, France, the United Kingdom and in ten other European countries, directly or through intermediaries, as part of a multi-channel strategy. Transat is also a retail distributor, both online and through travel agencies, some of which it owns. It offers destination services in Mexico, the Dominican Republic and Jamaica. Recently, Transat started setting up a division with a mission to own and operate hotels in the Caribbean and Mexico and to market them, particularly in the United States, in Europe and in Canada.

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 range of operations and mission to include the hotel business.

STRATEGY

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

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

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

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

For 2019, Transat has set the following objectives at the beginning of the reporting period:

1. Develop our hotel division: start construction work on the first hotel in Mexico, acquire a second parcel of land or a hotel in operation and finish setting up the team, subject to recent developments

2. Strengthen our air network: increase network density by increasing frequencies on our main routes and consider potential feeder/defeeder alliances to increase route density

3. Increase our revenues, by improving ancillary revenue streams and by finalizing the improvement of our level of expertise and the implementation of new practices within the revenue management department

4. Transform our fleet: complete the changes planned for this year, including the introduction of the first A321neoLRs, finalize fleet planning over 3–5 years, while improving reliability, and integrating new pilot fatigue rules and the passenger bill of rights

5. Reduce and control costs

6. Optimize distribution, namely by increasing our involvement in direct distribution channels

7. Increase customer satisfaction, measured by our Net Promoter Score

8. Expand our digital footprint with customers and digitize and automate business processes

9. Unite our teams and maintain their engagement

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

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

REVISITING OUR MARCH 13, 2019 OUTLOOK

In its MD&A as at January 31, 2019, the Corporation indicated that second-quarter adjusted operating income could be lower than the restated amount of $12.1 million for 2018. Adjusted operating income for the second quarter of 2019 amounted to $3.0 million, down $9.1 million from the same period last year.

RECENT DEVELOPMENTS

On August 23, 2019, a significant majority of the Corporation's shareholders voted in favour of the special resolution approving the previously announced plan of arrangement pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for a cash consideration of $18.00 per share.

On August 29, 2019, the Corporation announced that the Superior Court of Quebec issued a final order approving the plan of arrangement with Air Canada. The arrangement remains subject to certain closing conditions, including regulatory approvals described in Transat's management information circular dated July 19, 2019, as well as other customary closing conditions. In addition, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is now expected that the transaction will be completed by the second quarter of the 2020 calendar year.

The hotel development strategy and related objectives set out in the Strategy section are affected by the plan of arrangement as the Corporation has agreed to limit its commitments and expenses related to the execution of its hotel strategy in the period leading up to the closing of the potential transaction.

BUSINESS DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price totalled $48.9 million, of which $1.1 million was received in cash during the quarter ended January 31, 2019, bringing the total amount received in cash to $47.8 million, with the balance of $1.1 million receivable under certain contractual conditions prior to May 31, 2019. The Corporation received from H.I.S Co. Ltd. a notice claiming an amount of $0.6 million for uncollected trade receivables as at May 31, 2019. The Corporation contests this claim. During the six-month period ended April 30, 2018, the Corporation recognized a gain on business disposal of $31.3 million.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income (loss) from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the six-month period ended April 30, 2018.

OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels. Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1.5 million [$1.9 million] to US$149 million [$185.6 million]. During the six-month period ended April 30, 2018, as a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a downward adjustment of $0.2 million to the gain on business disposal.

CONSOLIDATED OPERATIONS

	Quarters ended April 30				Six-month periods ended April 30			
	2019 Restated(1)	2018 Restated(1)	Difference	Difference	2019 Restated(1)	2018 Restated(1)	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**897,413**	867,154	30,259	3.5	**1,544,979**	1,515,543	29,436	1.9
Operating expenses								
Costs of providing tourism services	**361,818**	371,590	(9,772)	(2.6)	**602,938**	638,067	(35,129)	(5.5)
Aircraft fuel	**118,911**	104,933	13,978	13.3	**211,480**	183,860	27,620	15.0
Salaries and employee benefits	**105,758**	96,638	9,120	9.4	**203,743**	190,428	13,315	7.0
Sales and distribution costs	**73,361**	73,385	(24)	(0.0)	**124,817**	126,637	(1,820)	(1.4)
Aircraft maintenance	**63,906**	54,665	9,241	16.9	**122,402**	107,832	14,570	13.5
Aircraft rent	**41,103**	33,352	7,751	23.2	**79,699**	63,521	16,178	25.5
Airport and navigation fees	**38,181**	33,830	4,351	12.9	**67,505**	60,844	6,661	10.9
Other airline costs	**62,442**	61,721	721	1.2	**113,339**	110,062	3,277	3.0
Other	**28,563**	25,023	3,540	14.1	**53,498**	51,271	2,227	4.3
Share of net loss (income) of a joint	**247**	(113)	360	318.6	**73**	(350)	423	120.9
Depreciation and amortization	**16,225**	15,310	915	6.0	**31,142**	30,079	1,063	3.5
	910,515	870,334	40,181	4.6	**1,610,636**	1,562,251	48,385	3.1
Operating income (loss)	**(13,102)**	(3,180)	(9,922)	(312.0)	**(65,657)**	(46,708)	(18,949)	(40.6)
Financing costs	**389**	619	(230)	(37.2)	**784**	1,080	(296)	(27.4)
Financing income	**(5,584)**	(4,841)	(743)	(15.3)	**(10,840)**	(8,582)	(2,258)	(26.3)
Change in fair value of fuel-related derivatives and other derivatives	**(18,401)**	(10,935)	(7,466)	(68.3)	**291**	(9,072)	9,363	103.2
Gain on business disposals	**—**	(368)	368	100.0	**—**	(31,064)	31,064	100.0
Foreign exchange loss (gain) on non-current monetary items	**(846)**	(959)	113	11.8	**(878)**	472	(1,350)	(286.0)
Income (loss) before income tax expense	**11,340**	13,304	(1,964)	(14.8)	**(55,014)**	458	(55,472)	(12,111.8)
Income taxes (recovery)								
Current	**4,588**	2,664	1,924	72.2	**1,057**	(2,287)	3,344	146.2
Deferred	**(2,044)**	898	(2,942)	(327.6)	**(16,208)**	(5,157)	(11,051)	(214.3)
	2,544	3,562	(1,018)	(28.6)	**(15,151)**	(7,444)	(7,707)	(103.5)
Net income (loss) for the period	**8,796**	9,742	(946)	(9.7)	**(39,863)**	7,902	(47,765)	(604.5)
Net income (loss) attributable to:								
Shareholders	**7,214**	7,938	(724)	(9.1)	**(42,432)**	4,743	(47,175)	(994.6)
Non-controlling interests	**1,582**	1,804	(222)	(12.3)	**2,569**	3,159	(590)	(18.7)
	8,796	9,742	(946)	(9.7)	**(39,863)**	7,902	(47,765)	(604.5)

1 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation also restated its interim condensed consolidated financial statements as at April 30, 2019. See Restatement section.

RESTATEMENT OF COMPARATIVE FIGURES

The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and the consolidated statement of income (loss) for the period ended April 30, 2018 has been restated. Total revenues for the period ended April 30, 2018 have been restated to present revenues on the same basis as for the period ended April 30, 2019. Costs of providing tourism services, sales and distribution costs, other costs and the change in fair value of fuel-related derivatives and other derivatives for the period ended on April 30, 2018 were also restated. The main changes related to the adoption of IFRS 9 and IFRS 15 are described in note 3 to the interim condensed consolidated financial statements for the period ended April 30, 2019.

REVENUES

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

Compared with 2018, revenues were up $30.3 million (3.5%) for the quarter ended April 30, 2019 and $29.4 million (1.9%) for the six-month period. The higher revenues recorded during the quarter was attributable to the increase in average selling prices across all of our markets, combined with a 2.3% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity in that market. The increase in revenues was offset by a greater proportion of flight-only sales, which generate lower unit revenues than packages.

The higher revenues recorded during the six-month period is mainly attributable to the increase in average selling prices across all of our markets, combined with a 2.8% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity in that market. The increase in revenues was offset by a greater proportion of flight-only sales, which generate lower unit revenues than packages.

OPERATING EXPENSES

Total operating expenses were up $46.9 million (5.4%) for the quarter and $55.1 million (3.5%) for the six-month period, compared with 2018. The increases were mainly attributable to the higher number of travellers, driven by our decision to increase our capacity in the sun destinations market by 1.7% for the quarter and 2.2% for the six-month period, our main market for the period, combined with the weakening of the Canadian dollar against the U.S. dollar and higher fuel prices.

COSTS OF PROVIDING TOURISM SERVICES

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. Compared with 2018, these costs were down $9.8 million (2.6%) for the quarter and $35.1 million (5.5%) for the six-month period. For the quarter and six-month period, these decreases were mainly due to the lower number of packages sold than in 2018, partially offset by the unfavourable impact of the weakening of the dollar against the U.S. dollar.

AIRCRAFT FUEL

Aircraft fuel expense was up $14.0 million (13.3%) for the quarter and $27.6 million (15.0%) for the six-month period. These increases were mainly attributable to a rise in fuel price indices in financial markets combined with higher capacity compared with 2018, as well as the weakening of the dollar against the U.S. dollar.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $9.1 million (9.4%) for the quarter and $13.3 million (7.0%) for the six-month period, compared with 2018. The increases resulted primarily from annual salary reviews and the hiring of pilots and mechanics following the increased capacity in 2019 and to a lesser extent, adjustments to the provisions related to stock-based compensation plans subsequent to the significant rise in the share price.

SALES AND DISTRIBUTION COSTS

Sales and distribution costs include commissions, which are expenses paid by tour operators to travel agencies for their services as intermediaries between the tour operator and the consumer, credit card fees, distribution expenses and marketing expenses. Sales and distribution costs remained stable during the quarter but were down $1.8 million (1.4%) for the six-month period, compared with 2018. The decrease for the six-month period resulted primarily from lower commissions and marketing expenses, partially offset by higher distribution costs.

AIRCRAFT MAINTENANCE

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat for leased aircraft. These costs were up $9.2 million (16.9%) for the quarter and $14.6 million (13.5%) for the six-month period, compared with 2018. These increases were mainly attributable to the expansion of our fleet compared with 2018, our higher capacity and the weakening of the dollar against the U.S. dollar.

AIRCRAFT RENT

Aircraft rent was up $7.8 million (23.2%) for the quarter and $16.2 million (25.5%) for the six-month period. These increases were attributable to the increase in the number of seasonal aircraft and the expansion in our permanent fleet, compared with 2018, combined with the weakening of the dollar against the U.S. dollar.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. These fees were up $4.4 million (12.9%) for the quarter and $6.7 million (10.9%) for the six-month period, compared with 2018. These increases were attributable to the increase in the number of domestic flights and the higher capacity compared with 2018.

OTHER AIRLINE COSTS

Other airline costs consist mainly of handling, crew and catering costs. Other airline costs were up $0.7 million (1.2%) for the quarter and $3.3 million (3.0%) for the six-month period, compared with 2018. These increases were attributable to the higher capacity compared with 2018.

OTHER

Other costs were up $3.5 million (14.1%) for the quarter and $2.2 million (4.3%) for the six-month period, compared with 2018. The increases were primarily attributable to higher professional fees and pilot training costs.

SHARE OF NET INCOME (LOSS) OF A JOINT VENTURE

Our share of net income of a joint venture represents our share of the net income of Desarrollo Transimar, our hotel joint venture. Our share of net loss of a joint venture for the second quarter amounted to $0.2 million, compared with a share of net income of $0.1 million for the corresponding quarter of 2018. Our share of net loss of a joint venture for the six-month period amounted to $0.1 million, compared with a share of net income of $0.4 million for 2018.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment, intangible assets and deferred lease incentives. This expense was up $0.9 million (6.0%) for the second quarter and $1.1 million (3.5%) for the six-month period, compared with 2018. These increases were primarily attributable to software and to leasehold improvements made to aircraft commissioned since the second quarter of 2018, partially offset by the extension of the amortization periods of leasehold improvements of certain Airbus A330s in our fleet for which leases were renegotiated in 2018.

OPERATING RESULTS

Given the above, we recorded an operating loss of $13.1 million (1.5%) for the second quarter, compared with $3.2 million (0.4%) in 2018. We recognized an operating loss for the six-month period amounting to $65.7 million (4.2%) compared with $46.7 million (3.1%) in 2018. For the quarter and six-month period, the increase in our operating loss resulted primarily from the increase in fuel prices, combined with the weakening of the dollar against the U.S. dollar and the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total exceeded the increase in the average selling prices of packages.

The Corporation reported an adjusted operating income of $3.0 million (0.3%) for the quarter, compared with $12.1 million (1.4%) in 2018. For the six-month period, the Corporation reported an adjusted operating loss of $34.7 million (2.2%) compared with $16.6 million (1.1%) in 2018.

OTHER EXPENSES AND REVENUES

FINANCING COSTS

Financing costs include interest on long-term debt and other interest, standby fees, as well as financial expenses. Financing costs decreased $0.2 million (37.2%) for the second quarter and $0.3 million (27.4%) for the six-month period, compared with 2018.

FINANCING INCOME

Financing income increased by $0.7 million (15.3%) during the second quarter and $2.3 million (26.3%) for the six-month period, compared with 2018, as a result of rising interest rates since last year.

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

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. During the quarter, the fair value of fuel-related derivatives and other derivatives increased by $18.4 million compared with $10.9 million in 2018. This increase was due to the higher fair value of fuel-related derivatives, partially offset by the maturing of foreign exchange derivatives. For the six-month period, the fair value of fuel-related derivatives and other derivatives was down $0.3 million, compared with an increase in fair value of $9.1 million in 2018. This decrease was due to the maturing of foreign exchange derivatives and fuel-related derivatives, offset by the higher fair value of foreign exchange derivatives.

GAIN ON BUSINESS DISPOSALS

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview for a consideration of $48.9 million, of which $47.8 million was received in cash as of April 30, 2019. During the six-month period ended April 30, 2018, the Corporation recognized a gain on business disposal of $31.3 million. Following the sale of its 35% minority interest in Ocean Hotels on October 4, 2017, the Corporation recorded a downward adjustment to the gain on business disposal of $0.2 million during the six-month period ended April 30, 2018.

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

For the quarter, the Corporation posted a foreign exchange gain on non-current monetary items of $0.8 million compared with $1.0 million in 2018. For the six-month period, the Corporation recognized a $0.9 million foreign exchange gain on non-current monetary items, compared with a foreign exchange loss of $0.5 million in 2018. For the quarter and the six-month period, these changes were principally due to favourable exchange rates on foreign currency deposits, as a result of the strengthening of the U.S. dollar against the dollar, compared with the corresponding periods of 2018.

INCOME TAXES

Income tax expense for the second quarter totalled $2.5 million, compared with $3.6 million for the corresponding quarter of last year. Income tax recovery for the six-month period totalled $15.2 million, compared with $7.4 million in 2018. Excluding the gain on business disposals and the share of net loss (income) of an associate and a joint venture, the effective tax rate was 22.0% for the quarter and 27.6% for the six-month period, compared with 27.8% and 24.0%, respectively, for the corresponding periods of 2018. The changes in tax rates for the quarter and the six-month period were due to the differences in statutory tax rates by country applicable to the foreign subsidiaries' results.

NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Considering the items discussed in the Consolidated operations section, net income for the quarter ended April 30, 2019 amounted to $8.8 million, compared with $9.7 million in 2018. Net income attributable to shareholders amounted to $7.3 million or $0.19 per share (basic and diluted), compared with $7.9 million or $0.21 per share (basic and diluted), for the corresponding quarter of the previous year. For the second quarter of 2019, the weighted average number of outstanding shares used to compute per share amounts was 37,644,000 (basic and diluted), compared with 37,411,000 (37,579,000 for diluted earnings per share) for the corresponding quarter of 2018.

For the six-month period ended April 30, 2019, we reported a net loss of $39.9 million compared with net income of $7.9 million in 2018. Net loss attributable to shareholders amounted to $42.4 million or $1.13 per share (basic and diluted) compared with net income of $4.7 million or $0.13 per share (basic and diluted) for the corresponding six-month period of last year. For the first six-month period of 2019, the weighted average number of outstanding shares used to compute per share amounts was 37,608,000 (basic and diluted), compared with 37,294,000 (37,528,000 for diluted earnings per share) for the corresponding period of 2018.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the quarterly financial information shown in the table below for 2018. However, the analysis of the quarterly financial information for 2018 compared with 2017 was carried out on the results before restatement to ensure comparability.

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues decreased compared with the corresponding quarters, with the exception of the second quarter. The higher revenues recorded during the winter season (Q1 and Q2) is mainly attributable to the increase in average selling prices across all of our markets, combined with a 2.8% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity in that market. The increase in revenues was offset by a greater proportion of flight-only sales, which generate less revenues than packages. For the summer season, the decrease in revenues was due to the sale of our subsidiary Jonview, partially offset by an increase in business volume in the transatlantic market, our main market for the period.

In terms of our operating results, for the winter season (Q1 and Q2), the increase in our operating loss resulted primarily from the increase in fuel prices, combined with the weakening of the dollar against the U.S. dollar, and the additional costs incurred for the transition and optimization of the Corporation's fleet, which in total were higher than the increase in the average selling prices of packages. For the summer season, the deterioration in our operating results was mainly attributable to higher fuel prices, combined with the foreign exchange effect. The decrease in our operating results during the summer was accentuated by the disposal of our wholly owned subsidiary Jonview and our minority interest in Ocean Hotels. 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)	Q3-2017	Q4-2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	Q1-2019	Q2-2019
				Restated[(2)]				Restated[(2)]
	$	$	$	$	$	$	$	$
Revenues	733,152	698,551	648,389	867,154	664,569	668,843	647,566	897,413
Aircraft rent	32,390	26,285	30,169	33,352	32,090	28,843	38,596	73,361
Operating income (loss)	40,952	59,500	(43,528)	(3,179)	(10,736)	6,851	(52,555)	(13,102)
Net income (loss)	27,168	148,413	(1,840)	9,743	(4,693)	6,784	(48,659)	8,796
Net income (loss) attributable to shareholders	26,588	148,147	(3,195)	7,939	(5,046)	6,754	(49,646)	7,214
Basic earnings (loss) per share	0.72	4.00	(0.09)	0.21	(0.13)	0.18	(1.32)	0.19
Diluted earnings (loss) per share	0.72	3.97	(0.09)	0.21	(0.13)	0.18	(1.32)	0.19
Adjusted operating income (loss)[(1)]	59,055	78,541	(28,759)	12,130	2,350	31,474	(37,728)	3,046
Adjusted net income (loss)[(1)]	26,857	46,381	(32,196)	(456)	(5,040)	13,659	(36,029)	(6,312)
Adjusted net income (loss) per share[(1)]	0.73	1.24	(0.87)	(0.01)	(0.13)	0.36	(0.96)	(0.17)

1 See Non-IFRS Financial Measures section

2 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation also restated its consolidated financial statements as at April 30, 2019 and October 31, 2018. See Restatement section.

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2019, cash and cash equivalents totalled $796.3 million compared with $593.7 million as at October 31, 2018. Cash and cash equivalents in trust or otherwise reserved amounted to $228.5 million at the end of the second quarter of 2019, compared with $338.9 million as at October 31, 2018. The Corporation's statement of financial position reflected $215.5 million in working capital, for a ratio of 1.21, compared with $287.5 million and a ratio of 1.33 as at October 31, 2018.

Total assets increased by $122.1 million (7.8%), from $1,566.8 million as at October 31, 2018 to $1,688.9 million as at April 30, 2019. This increase is explained in the financial position table provided below. Equity decreased by $34.6 million, from $571.6 million as at October 31, 2018 to $537.1 million as at April 30, 2019. This decrease resulted from a $42.4 million net loss attributable to shareholders, combined with a $3.1 million unrealized loss on cash flow hedges, partially offset by a $3.8 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
	2019	2018 Restated[(1)]	Difference	2019	2018 Restated[(1)]	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	**191,347**	173,933	17,414	**245,850**	281,707	(35,857)
Cash flows related to investing activities	**(18,937)**	(19,351)	414	**(48,330)**	149	(48,479)
Cash flows related to financing activities	**(401)**	(1,474)	1,073	**(60)**	(59)	(1)
Effect of exchange rate changes on cash	**3,868**	850	3,018	**5,208**	1,597	3,611
Net change in cash and cash equivalents	**175,877**	153,958	21,919	**202,668**	283,394	(80,726)

1 The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section.

OPERATING ACTIVITIES

Operating activities generated cash flows of $191.3 million during the second quarter, compared with $173.9 million in 2018. The $17.4 million increase resulted primarily from a $35.4 million increase in the net change in non-cash working capital balances related to operations, partially offset by a $9.6 million decrease in net income before operating items not involving an outlay (receipt) of cash, and an $8.4 million decrease in the net change in other assets and liabilities related to operations.

For the six-month period, cash flows from operating activities decreased by $35.9 million, from $281.7 million in 2018 to $245.9 million in 2019. The decrease resulted from an $18.2 million reduction in net income before operating items not involving an outlay (receipt) of cash combined with a $13.3 million decrease in the net change in other assets and liabilities related to operations, partially offset by a $7.2 million decrease in the net change in the provision for overhaul of leased aircraft.

Adoption of IFRS 15 has led to a change in how the balance of Cash and cash equivalents in trust or otherwise reserved is calculated from November 1, 2018 onwards. The impact of this change is an increase of $13.3 million in the balance of Cash and cash equivalents in trust or otherwise reserved as at April 30, 2019 and an equivalent decrease in the balance of Cash and cash equivalents.

INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $18.9 million for the second quarter compared with $19.4 million in 2018, representing a decrease of $0.4 million. Additions to property, plant and equipment and intangible assets amounted to $18.9 million during the quarter, compared with $15.5 million in 2018. The $3.4 million increase resulted primarily from acquisitions related to fleet expansion and software. During the second quarter of 2018, the Corporation paid an amount of $2.6 million as a selling price adjustment in connection with the sale of its interests in Ocean Hotels and Jonview.

Cash flows used in investing activities amounted to $48.3 million for the six-month period compared with cash inflows of $0.1 million in 2018, representing a decrease of $48.5 million. Additions to property, plant and equipment and other intangible assets increased by $24.1 million compared with 2018, due to the acquisition on November 28, 2018 of a second parcel of land in Puerto Morelos, Mexico, adjacent to the first land acquired in 2018, for an amount of $15.8 million, and to acquisitions related to fleet expansion and software. During the first quarter of 2018, the Corporation received consideration, net of cash disposed of $28.6 million, following the disposal of the Jonview subsidiary.

FINANCING ACTIVITIES

Cash flows used in financing activities were down $1.1 million from $1.5 million for the second quarter of 2018 to $0.4 million in 2019. Cash flows used in financing activities amounted to $0.1 million for the six-month period compared with $0.1 million in 2018. For the quarter, this decrease was due primarily to a $1.1 million reduction in the dividend paid by a subsidiary to a non-controlling shareholder.

RESTATED CONSOLIDATED FINANCIAL POSITION

	April 30, 2019 Restated[(1)] $	October 31, 2018 Restated[(1)] $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**796,322**	593,654	202,668	See Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**228,514**	338,919	(110,405)	Seasonal nature of operations
Trade and other receivables	**151,659**	139,979	11,680	Seasonal nature of operations
Income taxes receivable	**28,429**	26,505	1,924	Increase in income taxes recoverable given deductible losses
Inventories	**12,032**	14,464	(2,432)	Seasonal nature of operations
Prepaid expenses	**60,532**	68,890	(8,358)	Decrease in prepayments to hotel operators due to seasonal nature of operations
Deposits	**56,095**	61,992	(5,897)	Decrease in deposits paid to hotel operators due to seasonal nature of operations
Deferred tax assets	**31,207**	14,954	16,253	Increase in deferred non-capital losses
Property, plant and equipment	**224,115**	201,478	22,637	Acquisition of land in Puerto Morelos, Mexico, partially offset by depreciation for the period
Intangible assets	**40,086**	42,689	(2,603)	Amortization for the period, partially offset by additions
Derivative financial instruments	**15,288**	20,497	(5,209)	Maturing of foreign exchange derivatives and fuel-related derivatives during the period
Investment	**16,360**	16,084	276	No significant difference
Other assets	**28,246**	26,685	1,561	Increase in deferred rent
Liabilities				
Trade and other payables	**363,939**	320,732	43,207	Seasonal nature of operations
Provision for overhaul of leased aircraft	**56,245**	57,228	(983)	Aircraft maintenance, partially offset by the increase in the number of aircraft
Income taxes payable	**588**	1,117	(529)	Settlement of balances due
Derivative financial instruments	**2,391**	3,445	(1,054)	Maturing of foreign exchange derivatives and impact of favourable changes in the dollar against the U.S. dollar on contracted derivatives
Customer deposits and deferred revenues	**629,683**	517,352	112,331	Seasonal nature of operations
Other liabilities	**96,778**	92,025	4,753	Increase in deferred lease incentives related to aircraft
Deferred tax liabilities	**2,204**	3,252	(1,048)	Increase in deferred non-capital losses
Equity				
Share capital	**220,425**	219,684	741	Shares issued from treasury
Share-based payment reserve	**19,055**	18,017	1,038	Share-based payment expense
Retained earnings	**303,713**	340,766	(37,053)	Net loss
Unrealized gain (loss) on cash flow hedges	**(1,116)**	1,971	(3,087)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(5,020)**	(8,799)	3,779	Foreign exchange gain on translation of financial statements of foreign subsidiaries

[1] The Corporation adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, on November 1, 2018, and restated the 2018 figures. See Changes in Accounting Policies section. The Corporation also restated its consolidated financial statements as at April 30, 2019 and October 31, 2018. See Restatement section.

FINANCING

As at June 12, 2019, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

The Corporation has a $50 million revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year on 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 ratios and conditions. As at April 30, 2019, all financial ratios and conditions were met and the credit facility was undrawn.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and cash flows, some of which are reported as liabilities in the restated interim condensed consolidated financial statements and others are disclosed in the notes to the restated consolidated financial statements. The Corporation did not report any obligations in the statement of financial position as at April 30, 2019 and October 31, 2018.

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

- Guarantees
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $2,454.2 million as at April 30, 2019 ($2,506.9 million as at October 31, 2018) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at April 30, 2019 $	As at October 31, 2018 $
Guarantees		
Irrevocable letters of credit	**26,985**	31,221
Collateral security contracts	**428**	419
Operating leases		
Obligations under operating leases	**2,426,793**	2,475,276
	2,454,206	2,506,916

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at April 30, 2019, $55.8 million had been drawn down under the facility, of which $51.2 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

The Corporation also has a guarantee facility renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at April 30, 2019, $26.0 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £3.8 million ($6.6 million), which has been fully drawn down.

As at April 30, 2019, the off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had decreased by $52.7 million compared with October 31, 2018. This decrease resulted primarily from repayments made during the six-month period, partially offset by the weakening of the dollar against the U.S. dollar.

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

DEBT LEVELS

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

The Corporation's total debt stood at $703.2 million as at April 30, 2019, up $80.9 million from October 31, 2018. The increase was mainly due to the addition of aircraft to our fleet during the past twelve months, partially offset by the renegotiation of lease agreements for Airbus A330s.

Total net debt decreased by $121.8 million from $28.6 million as at October 31, 2018 to cash and cash equivalents net of total debt of $93.2 million as at April 30, 2019. The decrease in total net debt resulted from higher cash and cash equivalent balances than as at October 31, 2018, partially offset by the increase in total debt.

OUTSTANDING SHARES

On May 8, 2019, the Superior Court of Québec approved an amendment to the Corporation's articles of incorporation to align the permitted levels of foreign ownership and control of its voting shares within its articles with those prescribed by the new definition of "Canadian" in the *Canada Transportation Act* (the "CTA"), as amended in June 2018. With these amendments to the CTA, the permitted limit on foreign ownership of Canadian air carriers is increased from 25% to 49%. The CTA amendments also introduced two new limitations on voting ownership and control, by capping the voting interests of single non-Canadians and of the aggregate of non-Canadian air carriers at 25%.

As at April 30, 2019, 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 September 6, 2019, there were 37,747,090 total voting shares outstanding.

STOCK OPTIONS

As at September 6, 2019, there were a total of 1,748,570 stock options outstanding, 1,428,716 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), six Airbus A310s (250 seats), five Boeing 737-800s (189 seats) and four Airbus A321ceos (199 seats), two of which were commissioned in the second quarter of 2019.

During winter 2019, the Corporation also had seasonal rentals for nine Boeing 737-800s (189 seats), eight Airbus A321ceos (190 seats), three Boeing 737-700s (149 seats) and two Airbus A320s (199 seats).

On May 3, 2019, the Corporation took delivery of its first Airbus A321neoLR, one of 15 new aircraft that will be added to its fleet by 2022.

CHANGES IN ACCOUNTING POLICIES

The accounting policies and methods of computation used by the Corporation are the same as those used in the annual consolidated financial statements for the year ended October 31, 2018. There have been no significant changes to the Corporation's accounting policies since that date, except for the adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*.

IFRS 9, *FINANCIAL INSTRUMENTS*

IFRS 9, *Financial Instruments*, 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, and supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation adopted IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The Corporation applies the new hedge accounting model and foreign exchange risk management disclosure requirements with prospective application as of November 1, 2018. For hedging relationships including options that existed as at November 1, 2017 or those that have been designated since then, the Corporation accounts for the changes related to the time value of the options retrospectively, with restatement of comparative figures. The accounting policies and the main changes related to the adoption of IFRS 9 are explained in notes 2 and 3, respectively, to the restated interim condensed consolidated financial statements for the period ended April 30, 2019.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers, and requires the provision of more informative and relevant 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 was applied retrospectively on November 1, 2018 with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of loss for the quarter and six-month period ended on April 30, 2018. The accounting policies and the main changes related to the adoption of IFRS 15 are explained in notes 2 and 3, respectively, to the restated interim condensed consolidated financial statements for the period ended April 30, 2019.

FUTURE CHANGES IN ACCOUNTING POLICIES

A standard issued but not yet effective is described below. The Corporation has not early adopted this standard.

IFRS 16, *LEASES*

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

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

For leased aircraft, the right-of-use assets will be broken down and eligible maintenance work will be incorporated into the cost of the asset and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft is expected to decrease and the depreciation expense is expected to increase following the adoption of IFRS 16.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation intends to apply the retrospective method with restatement for each prior reporting period presented. The Corporation intends to apply the practical expedient relating to the accounting for short-term leases and to reassess its previous conclusions to determine whether its contracts contain leases at the date of initial application, as it does not expect to use the practical expedient described in IFRS 16 paragraph C3. The Corporation continues to assess the impact of the adoption of this new standard on its consolidated financial statements.

IFRIC 23, *Uncertainty over Income Tax Treatments*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to consider in the assessment of an uncertain tax treatment to determine whether it is probable that a taxation authority will accept the treatment. The application of IFRIC 23 will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation is currently assessing the impact of the adoption of this new IFRIC interpretation on its consolidated financial statements.

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer. In light of the restatement of the consolidated financial statements as discussed above in the Restatement section, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have concluded that the Corporation's ICFR were ineffective as at April 30, 2019 owing to a material weakness in ICFR that required a restatement of its quarterly consolidated financial statements.

Material Weakness

The material weakness in the Corporation's ICFR as at April 30, 2019 had an impact on the accounting treatment for the non-controlling interest of the Trafictours Canada Inc. subsidiary. In June 2019, the Corporation identified a difference resulting from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest, which led to an undervaluation of $20.5 million as at April 30, 2019, as discussed in the Restatement section.

Although the ICFR relating to the accounting treatment for the non-controlling interest in question was designed such that it operates as intended, the observed deficiency prevented the ICFR from detecting in a timely manner a material misstatement in an amount reported in the Corporation's quarterly financial statements as at April 30, 2019 and accordingly, this ICFR is considered deficient in its design, as defined in this Instrument.

Remedial Actions

Following the identification of this weakness, remedial actions were taken as of June 2019 to remediate this material weakness and also to strengthen the Corporation's DC&P and ICFR, as referred to the Section "Controls and Procedures" of the restated financial statements as of October 31, 2018.

Excluding the material weakness identified, the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer have not identified other significant changes in ICFR occurred during the quarter ended April 30, 2019 that have materially affected or are reasonably likely to materially affect the Corporation's ICFR.

OUTLOOK

Summer 2019 – The transatlantic market outbound from Canada and Europe accounts for a substantial portion of Transat's business during the summer season. For the period from May to October 2019, the Corporation's capacity is higher by 1%. To date, 64% of the capacity has been sold, the load factors are higher by 0.7% compared with summer 2018 and selling prices of bookings taken are similar to those recorded at the same date in 2018. The impact of currency variations, combined with lower fuel costs in U.S. dollars, will not result in a significant increase in operating costs if aircraft fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.

On the sun destinations market outbound from Canada, for which summer is low season, Transat's capacity is similar to the one deployed on the same date last year. To date, 60% of the capacity has been sold and load factors are comparable to those of 2018. Unit margins are currently higher compared with those recorded on the same date last year.

If the current trends hold, Transat expects its results for the third quarter to be slightly higher than those of last year. However, the Corporation believes it is still too early on in the season to draw conclusions regarding the fourth quarter given the number of seats and packages sold at this stage of the season.

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

(in thousands of Canadian dollars)	Notes	As at April 30, 2019 Restated [note 3] $	As at October 31, 2018 Restated [note 3] $
ASSETS			
Cash and cash equivalents		**796,322**	593,654
Cash and cash equivalents in trust or otherwise reserved	6	**177,290**	287,735
Trade and other receivables		**151,659**	139,979
Income taxes receivable		**13,329**	11,405
Inventories		**12,032**	14,464
Prepaid expenses		**60,532**	68,890
Derivative financial instruments		**15,288**	20,413
Current portion of deposits		**9,679**	20,250
Current assets		**1,236,131**	1,156,790
Cash and cash equivalents reserved	6	**51,224**	51,184
Deposits		**46,416**	41,742
Income taxes receivable		**15,100**	15,100
Deferred tax assets		**31,207**	14,954
Property, plant and equipment		**224,115**	201,478
Intangible assets		**40,086**	42,689
Derivative financial instruments		**—**	84
Investment	7	**16,360**	16,084
Other assets		**28,246**	26,685
Non-current assets		**452,754**	410,000
		1,688,885	1,566,790
LIABILITIES			
Trade and other payables		**363,939**	320,732
Current portion of provision for overhaul of leased aircraft	8	**24,590**	27,313
Income taxes payable		**588**	1,117
Customer deposits and deferred revenues		**629,683**	517,352
Derivative financial instruments		**1,805**	2,766
Current liabilities		**1,020,605**	869,280
Provision for overhaul of leased aircraft	8	**31,655**	29,915
Other liabilities	10	**96,778**	92,025
Derivative financial instruments		**586**	679
Deferred tax liabilities		**2,204**	3,252
Non-current liabilities		**131,223**	125,871
EQUITY			
Share capital	11	**220,425**	219,684
Share-based payment reserve		**19,055**	18,017
Retained earnings		**303,713**	340,766
Unrealized gain (loss) on cash flow hedges		**(1,116)**	1,971
Cumulative exchange differences		**(5,020)**	(8,799)
		537,057	571,639
		1,688,885	1,566,790

See accompanying notes to restated unaudited interim condensed consolidated financial statements

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

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

		Quarters ended April 30		Six-month periods ended April 30	
		2019	2018	2019	2018
		Restated	Restated	Restated	Restated
		[note 3]	[note 3]	[note 3]	[note 3]
(in thousands of Canadian dollars, except per share amounts)	Notes	$	$	$	$
Revenues		**897,413**	867,154	**1,544,979**	1,515,543
Operating expenses					
Costs of providing tourism services		**361,818**	371,590	**602,938**	638,067
Aircraft fuel		**118,911**	104,933	**211,480**	183,860
Salaries and employee benefits		**105,758**	96,638	**203,743**	190,428
Sales and distribution costs		**73,361**	73,385	**124,817**	126,637
Aircraft maintenance		**63,906**	54,665	**122,402**	107,832
Aircraft rent		**41,103**	33,352	**79,699**	63,521
Airport and navigation fees		**38,181**	33,830	**67,505**	60,844
Other airline costs		**62,442**	61,721	**113,339**	110,062
Other		**28,563**	25,023	**53,498**	51,271
Share of net loss (income) of a joint venture		**247**	(113)	**73**	(350)
Depreciation and amortization		**16,225**	15,310	**31,142**	30,079
		910,515	870,334	**1,610,636**	1,562,251
Operating income (loss)		**(13,102)**	(3,180)	**(65,657)**	(46,708)
Financing costs		**389**	619	**784**	1,080
Financing income		**(5,584)**	(4,841)	**(10,840)**	(8,582)
Change in fair value of fuel-related derivatives and other derivatives		**(18,401)**	(10,935)	**291**	(9,072)
Gain on business disposals	5	**—**	(368)	**—**	(31,064)
Foreign exchange loss (gain) on non-current monetary items		**(846)**	(959)	**(878)**	472
Income (loss) before income tax expense		**11,340**	13,304	**(55,014)**	458
Income taxes (recovery)					
Current		**4,588**	2,664	**1,057**	(2,287)
Deferred		**(2,044)**	898	**(16,208)**	(5,157)
		2,544	3,562	**(15,151)**	(7,444)
Net income (loss) for the period		**8,796**	9,742	**(39,863)**	7,902
Net income (loss) attributable to:					
Shareholders		**7,214**	7,938	**(42,432)**	4,743
Non-controlling interests		**1,582**	1,804	**2,569**	3,159
		8,796	9,742	**(39,863)**	7,902
Earnings (loss) per share	11				
Basic		**0.19**	0.21	**(1.13)**	0.13
Diluted		**0.19**	0.21	**(1.13)**	0.13

See accompanying notes to restated unaudited interim condensed consolidated financial statements

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

	Quarters ended April 30		Six-month periods ended April 30	
	2019	**2018**	**2019**	**2018**
	Restated	**Restated**	**Restated**	**Restated**
	[note 3]	*[note 3]*	*[note 3]*	*[note 3]*
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**
Net income (loss) for the period	**8,796**	9,742	**(39,863)**	7,902
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	**(5,096)**	29,679	**(12,944)**	9,093
Reclassification to net income (loss)	**4,772**	(9,842)	**8,749**	(8,714)
Deferred taxes	**47**	(5,280)	**1,108**	(111)
	(277)	14,557	**(3,087)**	268
Foreign exchange gain on translation of financial statements of foreign subsidiaries	**2,198**	236	**3,779**	3,985
Total other comprehensive income	**1,921**	14,793	**692**	4,253
Comprehensive income (loss) for the period	**10,717**	24,535	**(39,171)**	12,155
Comprehensive income (loss) attributable to:				
Shareholders	**8,246**	22,975	**(42,651)**	9,240
Non-controlling interests	**2,471**	1,560	**3,480**	2,915
	10,717	24,535	**(39,171)**	12,155

See accompanying notes to restated unaudited interim condensed consolidated financial statements

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

	Share capital	Share-based payment reserve	Retained earnings (deficit) Restated *[note 3]*	Accumulated other comprehensive income (loss): Unrealized gain (loss) on cash flow hedges Restated *[note 3]*	Accumulated other comprehensive income (loss): Cumulative exchange differences Restated *[note 3]*	Total Restated *[note 3]*	Non-controlling interests Restated *[note 3]*	Total equity Restated *[note 3]*
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2017	215,444	17,817	330,856	3,849	(10,385)	557,581	—	557,581
Net income for the period	—	—	4,743	—	—	4,743	3,159	7,902
Other comprehensive income (loss)	—	—	—	268	4,229	4,497	(244)	4,253
Comprehensive income for the period	—	—	4,743	268	4,229	9,240	2,915	12,155
Issued from treasury	766	—	—	—	—	766	—	766
Exercise of options	2,627	(794)	—	—	—	1,833	—	1,833
Vesting of PSUs	—	(1,155)	—	—	—	(1,155)	—	(1,155)
Share-based payment expense	—	1,114	—	—	—	1,114	—	1,114
Dividends	—	—	—	—	—	—	(2,119)	(2,119)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(1,040)	(1,040)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(244)	(244)	244	—
	3,393	(835)	—	—	(244)	2,314	(2,915)	(601)
Balance as at April 30, 2018	218,837	16,982	335,599	4,117	(6,400)	569,135	—	569,135
Net income for the period	—	—	1,708	—	—	1,708	383	2,091
Other comprehensive income (loss)	—	—	1,624	(2,146)	(3,638)	(4,160)	1,239	(2,921)
Comprehensive income (loss) for the period	—	—	3,332	(2,146)	(3,638)	(2,452)	1,622	(830)
Issued from treasury	789	—	—	—	—	789	—	789
Exercise of options	58	(18)	—	—	—	40	—	40
Vesting of PSUs	—	(43)	—	—	—	(43)	—	(43)
Share-based payment expense	—	1,096	—	—	—	1,096	—	1,096
Dividends	—	—	—	—	—	—	(1,183)	(1,183)
Fair value changes of non-controlling interest exchange difference	—	—	1,835	—	—	1,835	(1,835)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	2,635	2,635
Reclassification of non-controlling interest exchange difference	—	—	—	—	1,239	1,239	(1,239)	—
	847	1,035	1,835	—	1,239	4,956	(1,622)	3,334
Balance as at October 31, 2018	219,684	18,017	340,766	1,971	(8,799)	571,639	—	571,639
Net income (loss) for the period	—	—	(42,432)	—	—	(42,432)	2,569	(39,863)
Other comprehensive income (loss)	—	—	—	(3,087)	2,868	(219)	911	692
Comprehensive income (loss) for the period	—	—	(42,432)	(3,087)	2,868	(42,651)	3,480	(39,171)
Issued from treasury	741	—	—	—	—	741	—	741
Vesting of PSUs	—	(19)	—	—	—	(19)	—	(19)
Share-based payment expense	—	1,057	—	—	—	1,057	—	1,057
Dividends	—	—	—	—	—	—	(801)	(801)
Fair value changes of non-controlling interest exchange difference	—	—	5,379	—	—	5,379	(5,379)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	3,611	3,611
Reclassification of non-controlling interest exchange difference	—	—	—	—	911	911	(911)	—
	741	1,038	5,379	—	911	8,069	(3,480)	4,589
Balance as at April 30, 2019	**220,425**	**19,055**	**303,713**	**(1,116)**	**(5,020)**	**537,057**	**—**	**537,057**

See accompanying notes to restated unaudited interim condensed consolidated financial statements

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

	Quarters ended April 30		Six-month periods ended April 30	
	2019 Restated *[note 3]*	2018 Restated *[note 3]*	2019 Restated *[note 3]*	2018 Restated *[note 3]*
(in thousands of Canadian dollars)	$	$	$	$
OPERATING ACTIVITIES				
Net income (loss) for the period	**8,796**	9,742	**(39,863)**	7,902
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	**16,225**	15,310	**31,142**	30,079
Change in fair value of fuel-related derivatives and other derivatives	**(18,401)**	(10,935)	**291**	(9,072)
Gain on business disposals	**—**	(368)	**—**	(31,064)
Foreign exchange loss (gain) on non-current monetary items	**(846)**	(959)	**(878)**	472
Share of net loss (income) of a joint venture	**247**	(113)	**73**	(350)
Deferred taxes	**(2,044)**	898	**(16,208)**	(5,157)
Employee benefits	**748**	700	**1,482**	1,400
Share-based payment expense	**513**	607	**1,057**	1,114
	5,238	14,882	**(22,904)**	(4,676)
Net change in non-cash working capital balances related to operations	**178,389**	142,956	**271,829**	268,901
Net change in provision for overhaul of leased aircraft	**2,912**	2,865	**(983)**	6,260
Net change in other assets and liabilities related to operations	**4,808**	13,230	**(2,092)**	11,222
Cash flows related to operating activities	**191,347**	173,933	**245,850**	281,707
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	**(18,897)**	(15,499)	**(49,390)**	(25,260)
Increase in cash and cash equivalents reserved	**(40)**	(1,084)	**(40)**	(1,084)
Proceeds from the disposal of a business, net of cash disposed of	**—**	(2,768)	**1,100**	26,493
Cash flows related to investing activities	**(18,937)**	(19,351)	**(48,330)**	149
FINANCING ACTIVITIES				
Proceeds from issuance of shares	**400**	454	**741**	2,599
Repurchase of shares related to stock-based compensation	**—**	—	**—**	(539)
Dividends paid by a subsidiary to a non-controlling shareholder	**(801)**	(1,928)	**(801)**	(2,119)
Cash flows related to financing activities	**(401)**	(1,474)	**(60)**	(59)
Effect of exchange rate changes on cash and cash equivalents	**3,868**	850	**5,208**	1,597
Net change in cash and cash equivalents	**175,877**	153,958	**202,668**	283,394
Cash and cash equivalents held for sale, beginning of period	**—**	—	**—**	26,324
Cash and cash equivalents, beginning of period	**620,445**	749,342	**593,654**	593,582
Cash and cash equivalents, end of period	**796,322**	903,300	**796,322**	903,300
Supplementary information (as reported in operating activities)				
Net income taxes paid (recovered)	**1,962**	2,502	**2,306**	9,981
Interest paid	**249**	53	**435**	170

See accompanying notes to restated unaudited interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

Transat A.T. Inc. is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. The core of its business consists of a tour operator based in Canada which is vertically integrated with its other services of air transportation, distribution through a dynamic travel agency network, value-added services at travel destinations and accommodations.

The restated interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended April 30, 2019 were approved by the Corporation's Board of Directors on June 12, 2019.

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

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

The same accounting policies and methods of computation are followed in these restated interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements with the exception of the adoption of IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, for which the effects are described in note 3. The interim condensed consolidated financial statements should be read in conjunction with the restated audited annual consolidated financial statements and notes included in the Corporation's restated Annual Report for the year ended October 31, 2018.

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

REVENUE RECOGNITION

The Corporation recognizes revenue when it satisfies the performance obligation, that is, when the service is transferred to the customer and the customer obtains control of that service. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred revenues.

Revenue from contracts with customers includes revenue from passenger air transportation, revenue from the land portion of holiday packages and commission revenue from travel agencies. Revenue from passenger air transportation is recognized when such transportation is provided. Revenue from the land portion of holiday packages includes hotel services, among others, and the related costs are recognized when the corresponding services are rendered over the course of the stay. Commission revenue from travel agencies is recognized when passengers depart.

Other revenue includes, among others, aircraft subleasing, cargo and franchising revenue.

Revenue for which the Corporation provides multiple services, such as air transportation, hotel and travel agency services, is recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. These different services are considered as separate units of accounting, as each service has value to the customer on a stand-alone basis, and the selling price is allocated using the expected cost plus a reasonable market margin approach.

BREAKDOWN OF REVENUE FROM CONTRACTS WITH CUSTOMERS

The Corporation has determined that it conducts its activities in a single industry segment, namely holiday travel. With respect to geographic areas, the Corporation operates mainly in the Americas, and serves two main markets that also represent its two main product lines: the transatlantic market and the Americas market, which includes the sun destinations market. Revenue from contracts with customers is broken down as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2019	**2018** Restated *[note 3]*	**2019**	**2018** Restated *[note 3]*
	$	$	**$**	$
Customers				
Transatlantic	**89,151**	82,023	**157,998**	149,981
Americas	**787,690**	766,794	**1,348,077**	1,327,310
Other	**20,572**	18,337	**38,904**	38,252
Total revenues	**897,413**	867,154	**1,544,979**	1,515,543

CONTRACT BALANCES

Contract balances with customers are included in Trade and other receivables, Prepaid expenses and Customer deposits and deferred revenues in the consolidated statement of financial position. Trade accounts receivable included under Trade and other receivables comprise receivables related to passenger air transportation, the land portion of holiday packages and commissions. Payment is generally received before services are provided, but some tour operators make payments after services are provided. Contract assets in Prepaid expenses include additional costs incurred to earn revenue from contracts with customers, consisting of hotel room costs, costs related to the worldwide distribution system and credit card fees, which are capitalized upon payment and expensed when the related revenue is recognized. Customer deposits and deferred revenues represent amounts received from customers for services not yet provided.

Given that contracts with customers have a duration of one year or less, the Corporation applies the practical expedient set forth in paragraph 121 of IFRS 15 under which no information is disclosed about the remaining performance obligations that are part of a contract that has a duration of one year or less.

Contract balances with customers are detailed as follows:

	April 30, 2019	October 31, 2018 Restated *[note 3]*	October 31, 2017 Restated *[note 3]*
	$	$	$
Trade accounts receivable, included in Trade and other receivables	**39,279**	30,831	33,486
Contract costs, inlcuded in Prepaid expenses	**29,226**	38,414	43,537
Customer deposits and deferred revenues	**629,683**	517,352	440,411

Note 3 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS AND CHANGES IN ACCOUNTING POLICIES

RESTATEMENT OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On June 27, 2019, the Corporation announced that it needed to restate its consolidated financial statements and MD&A for the quarter ended April 30, 2019. Management has concluded that a restatement of its consolidated financial statements was necessary regarding the carrying amount of the non-controlling interest in the Trafictours Canada Inc. subsidiary.

The carrying amount of the non-controlling interest is related to the Trafictours Canada Inc. subsidiary and the right of the minority shareholder to require the Corporation to purchase the Trafictours Canada Inc. shares it holds at a price calculated in accordance with a predetermined formula, subject to adjustment based on the circumstances, payable in cash. The estimated repurchase value of this option is taken into account in the carrying amount of the non-controlling interest. The difference results from the application of a different formula than as per the contract for the calculation of the purchase price of the minority interest. As a result, the liability for the non-controlling interest reported under Trade and other payables in the consolidated statements of financial position was undervalued by $20,521 and $25,900 as at April 30, 2019 and October 31, 2018, respectively. These under-valuations have no impact on the consolidated statements of income for the aforementioned periods as these adjustments are recorded as equity transactions in Retained earnings.

As part of the restatement of its consolidated financial statements as at October 31, 2018, the Corporation reviewed subsequent events up to September 11, 2019, the new date of authorization to publish the financial statements for the year ended October 31, 2018. On June 5, 2019, the Corporation settled, without admission of liability, for an amount of US$5,000 [$6,700], a litigation whereby plaintiffs alleged misappropriation of confidential information and solicitation of employees; this amount was recorded as a subsequent event under Special items in the restated consolidated statement of income for the year ended October 31, 2018 and derecognized in the restated consolidated statements of income for the period ended April 30, 2019. This adjustment is included under Trade and other payables and Retained earnings in the consolidated statement of financial position as at October 31, 2018. No provision was recorded in the October 31, 2018 financial statements as initially disclosed since it was not possible to determine with certainty the impact of the financial liability that could arise from such proceedings if the defense of the Corporation was not retained.

IFRS 9, *FINANCIAL INSTRUMENTS*

IFRS 9, *Financial Instruments*, 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, and supersedes IAS 39, *Financial Instruments: Recognition and Measurement*. The Corporation adopted IFRS 9 on November 1, 2018 with retrospective application and restatement of comparative figures. The main changes are explained below.

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. Financial assets previously classified as “loans and receivables” are now included in the “amortized cost” category. With respect to financial liabilities, trade and other payables that were formerly classified as “other financial liabilities” are now included in the “amortized cost” category. The Corporation has determined that this change has no other impact on its consolidated financial statements, particularly with respect to the measurement of financial assets and financial liabilities.

IFRS 9 also introduces a new expected loss impairment model requiring timely recognition of expected credit losses. Specifically, entities are required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis. The Corporation has determined that this change had no impact on its consolidated financial statements.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosure requirements regarding risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that allows entities to better reflect their risk management activities in their consolidated financial statements.

The Corporation has applied the new hedge accounting model and foreign exchange risk management disclosure requirements prospectively as of November 1, 2018. The Corporation enters into foreign currency contract options and designates the intrinsic value of these contracts as cash flow hedging on future purchases of foreign currencies. Applying the new hedge accounting model will give rise to the recognition of the time value of the options, including premiums paid, in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss) for the effective hedging relationships. The time value of these options, including premiums paid, remains in Other comprehensive income (loss) as "Unrealized Gain (Loss) on Cash Flow Hedges" until the settlement of the underlying hedged item, at which time the premiums paid accounted for under "Unrealized Gain (Loss) on Cash Flow Hedges" are reclassified under the same account in the consolidated statement of income (loss) than the underlying hedged item. The Corporation's hedging policy remains unchanged with the exception of the above-mentioned modifications

The Corporation separates the intrinsic value and time value of an option and designates as the hedging instrument only the change in intrinsic value of an option; this method was also applied under IAS 39. Accordingly, for effective hedging relationships in existence as at November 1, 2017 or designated thereafter, the Corporation is required to account for the time value of the options retrospectively in Other comprehensive income (loss) in the consolidated statement of comprehensive income (loss). The cumulative effect of the adoption of IFRS 9 on the consolidated statement of financial position and the consolidated statement of income (loss) is disclosed below. The Corporation has determined that this change had no other impact on its consolidated financial statements.

IFRS 15, *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15, *Revenue from Contracts with Customers*, supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. IFRS 15 specifies the steps and timing of revenue recognition for issuers, and requires the provision of more informative and relevant 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 was applied retrospectively on November 1, 2018 with an adjustment to the opening consolidated statement of financial position as at November 1, 2017 and the consolidated statement of income (loss) for the quarter and six-month period ended April 30, 2018. The main changes are explained below.

The practical expedient of paragraph C5(d) of IFRS 15 was applied. For the periods before the date of initial application, the Corporation does not need to disclose the amount of the transaction price allocated to the remaining performance obligations nor an explanation of when it expects to recognize that amount as revenue.

REVENUE FROM PASSENGER AIR TRANSPORTATION

Revenue from passenger air transportation is recognized when such transportation is provided. The adoption of IFRS 15 had no impact on the recognition of revenue from passenger air transportation.

REVENUE FROM THE LAND PORTION OF HOLIDAY PACKAGES

Revenue from the land portion of holiday packages, which includes, among others, hotel services, and the related costs are recognized when the corresponding services are rendered over the course of the stay. Prior to the adoption of IFRS 15, revenue was recognized when passengers depart. This change in accounting policy affects the timing of the recognition of revenue and related expenses.

REVENUE FROM TRAVEL AGENCY COMMISSIONS

Revenue from travel agency commissions is recognized when passengers depart. Prior to the adoption of IFRS 15, revenue was recognized at the time of booking. This change in accounting policy affects the timing of revenue recognition.

REPORTING REVENUE GROSS OR NET

All airport taxes are reported net as a result of new criteria set out in IFRS 15. Prior to the adoption of IFRS 15, revenue from certain airport taxes was reported gross. The impact on the consolidated statement of income (loss) for the quarter and six-month period ended April 30, 2018 consisted of decreases of $61,622 and $108,108, respectively, in revenue and the corresponding costs. For the year ended October 31, 2018, the impact on the consolidated statement of income consisted of a $156,430 decrease in revenue and the corresponding costs.

Prior to the adoption of IFRS 15, some revenues were reported net of commission costs. These revenues are now reported on a gross basis, with the corresponding commission costs reported under Selling and distribution costs. The impact on the consolidated statement of income (loss) for the quarter- and six-month period ended April 30, 2018 consisted of increases of $2,926 and $5,826, respectively, in revenue and the corresponding costs. For the year ended October 31, 2018, the impact on the consolidated statement of income consisted of a $12,955 increase in revenue and the corresponding costs. This reclassification had no impact on operating results.

STATEMENT OF INCOME (LOSS) PRESENTATION

Statement of income (loss) presentation was also modified to better reflect the nature of operation expenses. Commissions, credit card fees, distribution costs and marketing costs have been combined under Selling and distribution costs. Credit card fees and distribution costs were formerly reported under Costs of providing tourism services and marketing costs were reported under Other costs. This change in consolidated statement of income (loss) presentation had no impact on operating results.

RECOGNIZING THE COSTS OF OBTAINING A CONTRACT

Certain additional costs incurred to earn income from air transportation services, such as costs related to the worldwide distribution system and credit card fees, are capitalized at the time of booking and expensed when revenue is recognized. Prior to the adoption of IFRS 15, some costs were expensed at the time of booking. This change in accounting policy affects the timing of expense recognition.

IMPACT ON PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

The effect of the restatement of consolidated financial statements and the cumulative effect of the adoption of IFRS 9 and IFRS 15 on the consolidated statement of financial position and the consolidated statement of income (loss) is detailed in the following tables. The cumulative effect on the consolidated statement of cash flows was not material:

					As at October 31, 2017
	Before adjustments	**Restatement**	**IFRS 9**	**IFRS 15**	**After adjustments**
Consolidated statement of financial position	**$**	**$**	**$**	**$**	**$**
Trade and other receivables	121,618	—	—	(30)	**121,588**
Prepaid expenses	64,245	—	—	3,918	**68,163**
Deferred tax assets	16,286	—	—	(404)	**15,882**
Total assets	**1,453,216**	**—**	**—**	**3,484**	**1,456,700**
Trade and other payables	245,013	—	—	(6,183)	**238,830**
Customer deposits and deferred revenues	433,897	—	—	6,514	**440,411**
Other liabilities	96,813	22,900	—	—	**119,713**
Deferred tax liabilities	2,217	—	—	542	**2,759**
Total liabilities	875,346	22,900	—	873	**899,119**
Retained earnings	351,138	(23,576)	683	2,611	**330,856**
Unrealized gain (loss) on cash flow hedges	4,532	—	(683)	—	**3,849**
Cumulative exchange differences	(11,061)	676	—	—	**(10,385)**
Total equity	577,870	(22,900)	—	2,611	**557,581**
Total liabilities and equity	**1,453,216**	**—**	**—**	**3,484**	**1,456,700**

					As at October 31, 2018
	Before adjustments	Restatement	IFRS 9	IFRS 15	After adjustments
Consolidated statement of financial position	**$**	**$**	**$**	**$**	**$**
Trade and other receivables	140,009	—	—	(30)	**139,979**
Prepaid expenses	63,789	—	—	5,101	**68,890**
Deferred tax assets	13,095	1,755	—	104	**14,954**
Total assets	**1,559,860**	**1,755**	**—**	**5,175**	**1,566,790**
Trade and other payables	294,021	32,600	—	(5,889)	**320,732**
Customer deposits and deferred revenues	510,631	—	—	6,721	**517,352**
Deferred tax liabilities	2,019	—	—	1,233	**3,252**
Total liabilities	960,486	32,600	—	2,065	**995,151**
Retained earnings	361,098	(31,203)	7,761	3,110	**340,766**
Unrealized gain (loss) on cash flow hedges	9,732	—	(7,761)	—	**1,971**
Cumulative exchange differences	(9,157)	358	—	—	**(8,799)**
Total equity	599,374	(30,845)	—	3,110	**571,639**
Total liabilities and equity	**1,559,860**	**1,755**	**—**	**5,175**	**1,566,790**

					Retained earnings
	Before adjustments	Restatement	IFRS 9	IFRS 15	After adjustments
(in thousands of Canadian dollars)	**$**	**$**	**$**	**$**	**$**
Balance as at October 31, 2017	351,138	(23,576)	683	2,611	**330,856**
Net income (loss) for the year	3,819	(4,945)	7,078	499	**6,451**
Other comprehensive income (loss)	1,624	—	—	—	**1,624**
Comprehensive income (loss) for the year	5,443	(4,945)	7,078	499	**8,075**
Fair value changes in non-controlling interest liabilities	4,517	(2,682)	—	—	**1,835**
Balance as at October 31, 2018	361,098	(31,203)	7,761	3,110	**340,766**
Net income (loss) for the period	(47,377)	4,945	—	—	**(42,432)**
Comprehensive income (loss) for the period	(47,377)	4,945	—	—	**(42,432)**
Fair value changes in non-controlling interest liabilities	—	5,379	—	—	**5,379**
Balance as at April 30, 2019	313,721	(20,879)	7,761	3,110	**303,713**

	Quarter ended April 30, 2018				
	Before adjustments	IFRS 9	IFRS 15	Presentation	After adjustments
Consolidated statement of income (loss)	$	$	$	$	$
Revenues	901,981	—	(34,827)	—	**867,154**
Costs of providing tourism services	438,678	—	(40,090)	(26,998)	**371,590**
Sales and distribution costs	—	—	(304)	73,689	**73,385**
Commission	38,656	—	—	(38,656)	**—**
Other	33,058	—	—	(8,035)	**25,023**
Total operating expenses	910,728	—	(40,394)	—	**870,334**
Operating income (loss)	(8,747)	—	5,567	—	**(3,180)**
Change in fair value of fuel-related derivatives and other derivatives	(14,800)	3,865	—	—	**(10,935)**
Deferred income taxes	451	(1,028)	1,475	—	**898**
Net income (loss) for the period	8,487	(2,837)	4,092	—	**9,742**
Net income (loss) attribuable to shareholders	6,683	(2,837)	4,092	—	**7,938**
Earnings (loss) per share					
Basic	0.18	(0.08)	0.11	—	**0.21**
Diluted	0.18	(0.08)	0.11	—	**0.21**

	Six-month period ended April 30, 2018				
	Before adjustments	IFRS 9	IFRS 15	Presentation	After adjustments
Consolidated statement of income (loss)	$	$	$	$	$
Revenues	1,627,763	—	(112,220)	—	**1,515,543**
Costs of providing tourism services	800,944	—	(117,550)	(45,327)	**638,067**
Sales and distribution costs	—	—	(2,504)	129,141	**126,637**
Commission	67,007	—	—	(67,007)	**—**
Other	68,078	—	—	(16,807)	**51,271**
Total operating expenses	1,682,305	—	(120,054)	—	**1,562,251**
Operating income (loss)	(54,542)	—	7,834	—	**(46,708)**
Change in fair value of fuel-related derivatives and other derivatives	(10,581)	1,509	—	—	**(9,072)**
Deferred income taxes	(6,834)	(401)	2,078	—	**(5,157)**
Net income (loss) for the period	3,254	(1,108)	5,756	—	**7,902**
Net income (loss) attribuable to shareholders	95	(1,108)	5,756	—	**4,743**
Earnings (loss) per share					
Basic	—	(0.03)	0.16	—	**0.13**
Diluted	—	(0.03)	0.16	—	**0.13**

	Year ended October 31, 2018					
	Before adjustments	Restatement	IFRS 9	IFRS 15	Presentation	After adjustments
Consolidated statement of income (loss)	**$**	**$**	**$**	**$**	**$**	**$**
Revenues	2,992,582	—	—	(143,627)	—	**2,848,955**
Costs of providing tourism services	1,091,924	—	—	(155,544)	(73,275)	**863,105**
Sales and distribution costs	—	—	—	11,235	198,686	**209,921**
Commission	87,763	—	—	—	(87,763)	**—**
Other	135,225	—	—	—	(37,648)	**97,577**
Special items	2,262	6,700	—	—	—	**8,962**
Total operating expenses	3,037,157	6,700	—	(144,309)	—	**2,899,548**
Operating income (loss)	(44,575)	(6,700)	—	682	—	**(50,593)**
Change in fair value of fuel-related derivatives and other derivatives	1,284	—	(9,644)	—	—	**(8,360)**
Deferred income taxes	551	(1,755)	2,566	183	—	**1,545**
Net income (loss) for the period	7,361	(4,945)	7,078	499	—	**9,993**
Net income (loss) attributable to shareholders	3,819	(4,945)	7,078	499	—	**6,451**
Earnings (loss) per share						
Basic	0.10	(0.13)	0.19	0.01	—	**0.17**
Diluted	0.10	(0.13)	0.19	0.01	—	**0.17**

	Quarter ended April 30, 2019			Six-month period ended April 30, 2019		
	Before adjustments	Restatement	After adjustments	Before adjustments	Restatement	After adjustments
Consolidated statement of income (loss)	**$**	**$**	**$**	**$**	**$**	**$**
Special items	6,700	(6,700)	**—**	6,700	(6,700)	**—**
Total operating expenses	917,215	(6,700)	**910,515**	1,617,336	(6,700)	**1,610,636**
Operating income (loss)	(19,802)	6,700	**(13,102)**	(72,357)	6,700	**(65,657)**
Deferred income taxes	(3,799)	1,755	**(2,044)**	(17,963)	1,755	**(16,208)**
Net income (loss) for the period	3,851	4,945	**8,796**	(44,808)	4,945	**(39,863)**
Net income (loss) attributable to shareholders	2,269	4,945	**7,214**	(47,377)	4,945	**(42,432)**
Earnings (loss) per share						
Basic	0.06	0.13	**0.19**	(1.26)	0.13	**(1.13)**
Diluted	0.06	0.13	**0.19**	(1.26)	0.13	**(1.13)**

Note 4 FUTURE CHANGES IN ACCOUNTING POLICIES

A standard issued but not yet effective is described below. The Corporation has not early adopted this standard.

IFRS 16, *LEASES*

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

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

For leased aircraft, the right-of-use assets will be broken down and eligible maintenance work will be incorporated into the cost of the asset and depreciated over the shorter of the lease term or expected useful life. As a result, the maintenance expense of leased aircraft is expected to decrease and the depreciation expense is expected to increase following the adoption of IFRS 16.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation intends to apply the retrospective method with restatement for each prior reporting period presented. The Corporation intends to apply the practical expedient relating to the accounting for short-term leases and to reassess its previous conclusions to determine whether its contracts contain leases at the date of initial application, as it does not expect to use the practical expedient described in IFRS 16 paragraph C3. The Corporation continues to assess the impact of the adoption of this new standard on its consolidated financial statements.

IFRIC 23, *UNCERTAINTY OVER INCOME TAX TREATMENTS*

In June 2017, the IASB issued IFRIC 23, *Uncertainty over Income Tax Treatments*, which clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Taxes*, when there is uncertainty over income tax treatments. IFRIC 23 sets out the circumstances in which uncertain tax treatments should be treated separately or together, and the assumptions to consider in the assessment of an uncertain tax treatment to determine whether it is probable that a taxation authority will accept the treatment. The application of IFRIC 23 will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation is currently assessing the impact of the adoption of this new IFRIC interpretation on its consolidated financial statements.

Note 5 BUSINESS DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price totalled $48,896, of which $1,100 was received in cash during the quarter ended January 31, 2019, bringing the total amount received in cash to $47,796, with the balance of $1,100 receivable under certain contractual conditions prior to May 31, 2019. The Corporation received from H.I.S. Co. Ltd. a notice claiming an amount of $639 for uncollected trade receivables as at May 31, 2019. The Corporation contests this claim. During the six-month period ended April 30, 2018, the Corporation recognized a gain on business disposal of $31,264.

Since Jonview's operations do not represent a principal and separate line of business for the Corporation, its results are included in the Corporation's net income from continuing operations reported in the consolidated statements of income (loss) and comprehensive income (loss) for the six-month period ended April 30, 2018.

OCEAN HOTELS

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels. Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1,500 [$1,935] to US$149,000 [$185,565]. During the six-month period ended April 30, 2018, as a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a downward adjustment of $200 unfavourable adjustment to the gain on business disposal.

Note 6 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at April 30, 2019, cash and cash equivalents in trust or otherwise reserved included $165,943 [$276,038 as at October 31, 2018] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $62,571, $51,224 of which was recorded as non-current assets [$62,881 as at October 31, 2018, $51,184 of which was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 INVESTMENT

The change in our 50% investment in a joint venture, Desarrollo Transimar, is detailed as follows:

	$
Balance as at October 31, 2018	**16,084**
Share of net loss	**(73)**
Translation adjustment	**349**
Balance as at April 30, 2019	**16,360**

The investment was translated at the USD/CAD rate of 1.3428 as at April 30, 2019 [1.3130 as at October 31, 2018].

Note 8 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

The provision for overhaul of leased aircraft relates to the maintenance obligation for leased aircraft and spare parts used by the Corporation's airline under operating leases. The change in the provision for overhaul of leased aircraft for the quarter ended April 30 is detailed as follows:

	$
Balance as at October 31, 2018	**57,228**
Additional provisions	**9,322**
Utilization of provisions	**(13,217)**
Balance as at January 31, 2019	**53,333**
Additional provisions	**8,123**
Utilization of provisions	**(5,211)**
Balance as at April 30, 2019	**56,245**
Current provisions	**24,590**
Non-current provisions	**31,655**
Balance as at April 30, 2019	**56,245**

Note 9 LONG-TERM DEBT

The Corporation has a $50,000 revolving credit facility agreement for operating purposes. Under the agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year on 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 ratios and conditions. As at April 30, 2019, all financial ratios and conditions were met and the credit facility was undrawn.

The Corporation also has a $75,000 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 April 30, 2019, $55,822 had been drawn down under the facility [$56,151 as at October 31, 2018], $51,224 of which was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

Note 10 OTHER LIABILITIES

	As at April 30, 2019 Restated *[note 3]* $	As at October 31, 2018 Restated *[note 3]* $
Employee benefits	**41,376**	40,388
Deferred lease incentives	**55,402**	51,637
Non-controlling interests	**46,000**	48,700
	142,778	140,725
Less: Non-controlling interests included in Trade and other payables	**(46,000)**	(48,700)
	96,778	92,025

Note 11 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

An unlimited number of participating Class A Variable Voting Shares ["Class A Shares"] which may be owned or controlled only by non-Canadians as defined by the *Canada Transportation Act* ["CTA"].

Following the entry into force, on May 8, 2019, of the plan of arrangement approved by the Corporation's shareholders and the Superior Court of Québec, the Class A Shares carry one vote per share at any meeting of shareholders subject to an automatic reduction of the voting rights attached thereto in the event that [i] any non-Canadian, individually or with persons of the same group, holds more than 25% of the votes cast, [ii] any non-Canadian authorized to provide an air service in any jurisdiction (in aggregate) holds more than 25% of the votes cast, or [iii] the votes that would be cast by holders of Class A Shares would be more than 49%. If any of the above-mentioned applicable limitations are exceeded, the votes that should be attributed to holders of Class A Shares will be attributed as follows:

- first, if applicable, there will be a reduction in the voting rights of any non-Canadian individual (including a non-Canadian authorized to provide an air service) whose votes total more than 25% of the votes cast, so that such non-Canadian holder may never hold more than 25% (or such other percentage as may be prescribed by an act or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast at a meeting;
- next, if applicable, and once the pro rata distribution as described above is made, a further pro rata reduction will be made in the voting rights of all holders of Class A non-Canadian Shares authorized to provide an air service, so that such non-Canadian holders may never hold votes totalling more than 25% (or such other percentage as may be prescribed by law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting;
- last, if applicable, and once the two pro rata allocations described above have been made, a proportional reduction will be made in the voting rights of all holders of Class A Shares, so that all non-Canadian holders of Class A Shares may never hold votes totalling more than 49% (or such other percentage as may be prescribed by law or regulation of Canada and approved or adopted by the directors of the Corporation) of the total votes cast, all classes combined, at a meeting.

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	$
Balance as at October 31, 2017	37,063,626	215,444
Issued from treasury	85,729	766
Exercise of options	287,485	2,627
Balance as at April 30, 2018	37,436,840	218,837
Issued from treasury	103,056	789
Exercise of options	5,439	58
Balance as at October 31, 2018	37,545,335	219,684
Issued from treasury	142,163	741
Balance as at April 30, 2019	**37,687,498**	**220,425**

As at April 30, 2019, the number of Class A Shares and Class B Shares stood at 2,311,227 and 35,376,271, respectively [2,931,020 and 34,614,315, respectively, as at October 31, 2018].

STOCK OPTION PLAN

	Number of options	Weighted average price ($)
Balance as at October 31, 2018	1,786,588	10.13
Cancelled	(2,041)	12.49
Balance as at April 30, 2019	**1,784,547**	**10.13**
Options exercisable as at April 30, 2019	**1,464,693**	**10.06**

EARNINGS PER SHARE

Basic and diluted earnings per share were calculated as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2019	2018	2019	2018
	Restated *[note 3]*	Restated *[note 3]*	Restated *[note 3]*	Restated *[note 3]*
(in thousands of dollars, except per share data)	$	$	$	$
NUMERATOR				
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	**7,214**	7,938	**(42,432)**	4,743
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**37,644**	37,411	**37,608**	37,294
Effect of dilutive securities				
Stock options	**—**	168	**—**	234
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,644**	37,579	**37,608**	37,528
Earnings (loss) per share				
Basic	**0.19**	0.21	**(1.13)**	0.13
Diluted	**0.19**	0.21	**(1.13)**	0.13

For the purposes of calculating diluted earnings per share for the quarter ended April 30, 2019, 1,784,547 outstanding stock options [989,792 in 2018] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price. Given the net loss recognized for the six-month period ended April 30, 2019, all 1,784,547 outstanding stock options [989,792 in 2018], were excluded from the calculation of diluted loss per share due to their anti-dilutive effect.

Note 12 GUARANTEES

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

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

Notes 6, 8, 16, 23 and 24 to the restated consolidated financial statements for the year ended October 31, 2018 provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at April 30, 2019, the total amount of these guarantees unsecured by deposits amounted to $428. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2019, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

In addition, the Corporation has a guarantee facility that is renewable in 2020. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50,000. As at April 30, 2019, an amount of $25,990 had been drawn down under the facility.

Note 13 SEGMENTED DISCLOSURE

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

Note 14 SUBSEQUENT EVENTS

On August 23, 2019, a significant majority of the Corporation's shareholders voted in favour of the special resolution approving the previously announced plan of arrangement pursuant to which Air Canada will acquire all of the issued and outstanding Class A variable voting shares and Class B voting shares of Transat for a cash consideration of $18.00 per share.

On August 29, 2019, the Corporation announced that the Superior Court of Quebec issued a final order approving the plan of arrangement with Air Canada. The arrangement remains subject to certain closing conditions, including regulatory approvals described in Transat's management information circular dated July 19, 2019, as well as other customary closing conditions. In addition, a public interest assessment regarding the arrangement is being undertaken by Transport Canada with input from the Commissioner of Competition. If the required regulatory approvals are obtained and conditions are met, it is now expected that the transaction will be completed by the second quarter of the 2020 calendar year.

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