MANAGEMENT'S REPORT

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

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

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

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

Chairman of the Board,
President and Chief Executive Officer

Jean-Marc Eustache

Vice-President, Finance and Administration
and Chief Financial Officer

Denis Pétrin

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Transat A.T. Inc.,

We have audited the accompanying consolidated financial statements of Transat A.T. Inc., which comprise the consolidated statements of financial position as at October 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Transat A.T. Inc. as at October 31, 2018 and 2017 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young s.r.l./S.E.N.C.R.L.[1]

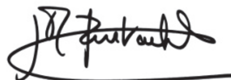
Montréal, Canada
December 12, 2018
[1] CPA auditor, CA, public accountancy permit No. A121006

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

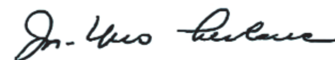
As at October 31 (in thousands of Canadian dollars)	Note	2018 $	2017 $
ASSETS			
Cash and cash equivalents		**593,654**	593,582
Cash and cash equivalents in trust or otherwise reserved	6	**287,735**	258,964
Trade and other receivables	7	**140,009**	121,618
Income taxes receivable		**11,405**	2,318
Inventories		**14,464**	12,790
Prepaid expenses		**63,789**	64,245
Derivative financial instruments	8	**20,413**	18,024
Current portion of deposits	9	**20,250**	18,487
Assets held for sale	5	**—**	47,472
Current assets		**1,151,719**	1,137,500
Cash and cash equivalents reserved	6	**51,184**	50,100
Deposits	9	**41,742**	33,642
Income taxes receivable	21	**15,100**	15,100
Deferred tax assets	21	**13,095**	16,286
Property, plant and equipment	10	**201,478**	134,672
Intangible assets	11	**42,689**	49,604
Derivative financial instruments	8	**84**	34
Investments	12	**16,084**	15,888
Other assets	13	**26,685**	390
Non-current assets		**408,141**	315,716
		1,559,860	1,453,216
LIABILITIES			
Trade and other payables	14, 20	**294,021**	245,013
Current portion of provision for overhaul of leased aircraft	15	**27,313**	22,699
Income taxes payable		**1,117**	8,102
Customer deposits and deferred revenues		**510,631**	433,897
Derivative financial instruments	8	**2,766**	8,123
Liabilities related to assets held for sale	5	**—**	33,109
Current liabilities		**835,848**	750,943
Provision for overhaul of leased aircraft	15	**29,915**	25,218
Other liabilities	17	**92,025**	96,813
Derivative financial instruments	8	**679**	155
Deferred tax liabilities	21	**2,019**	2,217
Non-current liabilities		**124,638**	124,403
EQUITY			
Share capital	18	**219,684**	215,444
Share-based payment reserve		**18,017**	17,817
Retained earnings		**361,098**	351,138
Unrealized gain on cash flow hedges		**9,732**	4,532
Cumulative exchange differences		**(9,157)**	(11,061)
		599,374	577,870
		1,559,860	1,453,216

Commitments and contingencies *[note 24]*
See accompanying notes to consolidated financial statements

On behalf of the Board,



Director



Director

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF INCOME

Years ended October 31 (in thousands of Canadian dollars, except per share amounts)	Note	2018 $	2017 $
Revenues		**2,992,582**	3,005,345
Operating expenses			
Costs of providing tourism services		**1,091,924**	1,268,832
Aircraft fuel		**498,512**	358,558
Salaries and employee benefits	19, 23	**386,898**	371,863
Aircraft maintenance		**237,918**	203,669
Airport and navigation fees		**149,699**	134,665
Aircraft rent		**124,454**	132,139
Commissions		**87,763**	88,635
Other airline costs		**263,272**	225,512
Other		**135,225**	126,500
Share of net loss (income) of an associate and a joint venture	5, 12	**105**	(11,143)
Depreciation and amortization	19	**59,125**	68,470
Special items	20	**2,262**	2,925
		3,037,157	2,970,625
Operating income (loss)		**(44,575)**	34,720
Financing costs		**2,061**	2,134
Financing income		**(17,935)**	(8,363)
Change in fair value of fuel-related derivatives and other derivatives		**1,284**	(9,187)
Gain on business disposals	5	**(31,064)**	(86,616)
Foreign exchange gain on business disposal	5	**—**	(15,478)
Foreign exchange (gain) loss on non-current monetary items		**(339)**	426
Income before income tax expense		**1,418**	151,804
Income taxes (recovery)	21		
Current		**(6,494)**	18,684
Deferred		**551**	(5,252)
		(5,943)	13,432
Net income for the year		**7,361**	138,372
Net income attributable to:			
Shareholders		**3,819**	134,308
Non-controlling interest		**3,542**	4,064
		7,361	138,372
Earnings per share	18		
Basic		**0.10**	3.63
Diluted		**0.10**	3.63

See accompanying notes to consolidated financial statements

TRANSAT A.T. INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended October 31 (in thousands of Canadian dollars)	Note	2018 $	2017 $
Net income for the year		**7,361**	138,372
Other comprehensive income (loss)			
Items that will be reclassified to net income			
Change in fair value of derivatives designated as cash flow hedges		**12,459**	12,537
Reclassification to net income		**(5,385)**	(9,352)
Deferred taxes	21	**(1,874)**	(864)
		5,200	2,321
Foreign exchange gain (loss) on translation of financial statements of foreign subsidiaries		**1,904**	(6,838)
Reclassification of foreign exchange gain on business disposal	5	**—**	(15,478)
		1,904	(22,316)
Items that will never be reclassified to net income			
Retirement benefits – Net actuarial gains	23	**2,219**	1,497
Deferred taxes	21	**(595)**	(401)
		1,624	1,096
Total other comprehensive income (loss)		**8,728**	(18,899)
Comprehensive income for the year		**16,089**	119,473
Attributable to:			
Shareholders		**11,870**	116,714
Non-controlling interest		**4,219**	2,759
		16,089	119,473

See accompanying notes to consolidated financial statements

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

				Accumulated other comprehensive income (loss)				
(in thousands of Canadian dollars)	Share capital $	Share-based payment reserve $	Retained earnings $	Unrealized gain on cash flow hedges $	Cumulative exchange differences $	Total $	Non-controlling interests $	Total equity $
Balance as at October 31, 2016	214,250	17,849	218,821	2,211	11,255	464,386	—	464,386
Net income for the year	—	—	134,308	—	—	134,308	4,064	138,372
Other comprehensive income (loss)	—	—	1,096	2,321	(21,011)	(17,594)	(1,305)	(18,899)
Comprehensive income (loss) for the year	—	—	135,404	2,321	(21,011)	116,714	2,759	119,473
Issued from treasury	1,094	—	—	—	—	1,094	—	1,094
Exercise of options	100	(31)	—	—	—	69	—	69
Vesting of PSUs	—	(312)	—	—	—	(312)	—	(312)
Share-based payment expense	—	311	—	—	—	311	—	311
Dividends	—	—	—	—	—	—	(4,447)	(4,447)
Fair value changes in non-controlling interest liabilities	—	—	(3,087)	—	—	(3,087)	3,087	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(2,704)	(2,704)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(1,305)	(1,305)	1,305	—
	1,194	(32)	(3,087)	—	(1,305)	(3,230)	(2,759)	(5,989)
Balance as at October 31, 2017	**215,444**	**17,817**	**351,138**	**4,532**	**(11,061)**	**577,870**	**—**	**577,870**
Net income for the year	—	—	3,819	—	—	3,819	3,542	7,361
Other comprehensive income	—	—	1,624	5,200	1,227	8,051	677	8,728
Comprehensive income for the year	—	—	5,443	5,200	1,227	11,870	4,219	16,089
Issued from treasury	1,555	—	—	—	—	1,555	—	1,555
Exercise of options	2,685	(812)	—	—	—	1,873	—	1,873
Vesting of PSUs	—	(1,198)	—	—	—	(1,198)	—	(1,198)
Share-based payment expense	—	2,210	—	—	—	2,210	—	2,210
Dividends	—	—	—	—	—	—	(3,302)	(3,302)
Fair value changes in non-controlling interest liabilities	—	—	4,517	—	—	4,517	(4,517)	—
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	4,277	4,277
Reclassification of non-controlling interest exchange difference	—	—	—	—	677	677	(677)	—
	4,240	200	4,517	—	677	9,634	(4,219)	5,415
Balance as at October 31, 2018	**219,684**	**18,017**	**361,098**	**9,732**	**(9,157)**	**599,374**	**—**	**599,374**

See accompanying notes to consolidated financial statements

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

Years ended October 31 (in thousands of Canadian dollars)	Note	2018 $	2017 $
OPERATING ACTIVITIES			
Net income for the year		**7,361**	138,372
Non-cash operating items:			
Depreciation and amortization	19	**59,125**	68,470
Change in fair value of fuel-related derivatives and other derivatives		**1,284**	(9,187)
Gain on business disposals	5	**(31,064)**	(86,616)
Foreign exchange gain on business disposal	5	**—**	(15,478)
Foreign exchange (gain) loss on non-current monetary items		**(339)**	426
Share of net loss (income) of an associate and a joint venture		**105**	(11,143)
Deferred taxes		**551**	(5,252)
Employee benefits		**2,799**	2,732
Share-based payment expense		**2,210**	311
		42,032	82,635
Net change in non-cash working capital balances related to operations		**10,467**	69,269
Net change in provision for overhaul of leased aircraft		**9,311**	7,056
Net change in other assets and liabilities related to operations		**6,994**	2,527
Cash flows related to operating activities		**68,804**	161,487
INVESTING ACTIVITIES			
Additions to property, plant and equipment and other intangible assets		**(119,053)**	(69,523)
Increase in cash and cash equivalent reserved		**(1,084)**	(3,650)
Consideration received on business disposals, net of cash disposed of	5	**26,493**	187,500
Consideration paid for business acquisitions		**—**	(20,321)
Dividend received from an associate	12	**—**	3,895
Cash flows related to investing activities		**(93,644)**	97,901
FINANCING ACTIVITIES			
Proceeds from issuance of shares		**3,428**	1,163
Repurchase of shares related to stock-based compensation		**(556)**	(312)
Dividends paid by a subsidiary to a non-controlling shareholder		**(3,302)**	(4,447)
Cash flows related to financing activities		**(430)**	(3,596)
Effect of exchange rate changes on cash and cash equivalents		**(982)**	450
Net change in cash and cash equivalents related to continuing operations		**(26,252)**	256,242
Cash and cash equivalents held for sale	5	**—**	(26,324)
Cash and cash equivalents held for sale, beginning of year		**26,324**	—
Cash and cash equivalents, beginning of year		**593,582**	363,664
Cash and cash equivalents, end of year		**593,654**	593,582
Supplementary information (as reported in operating activities)			
Net income taxes paid (recovered)		**10,670**	(11,883)
Interest paid		**334**	432

See accompanying notes to consolidated financial statements

October 31, 2018 and 2017

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

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. The Corporation's Class A Variable Voting Shares and Class B Voting Shares are traded on the Toronto Stock Exchange under a single ticker symbol, namely "TRZ".

The Corporation is an integrated company specializing in the organization, marketing and distribution of holiday travel in the tourism industry. As at October 31, 2018, 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 consolidated financial statements of Transat A.T. Inc. for the year ended October 31, 2018 were approved by the Corporation's Board of Directors on December 12, 2018.

Note 2 Significant accounting policies

Basis of preparation

These consolidated financial statements of the Corporation and its subsidiaries are 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 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.

These 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 which are measured at fair value.

Basis of consolidation

The consolidated financial statements include the financial statements of the Corporation and its subsidiaries.

SUBSIDIARIES

Subsidiaries are entities over which the Corporation has control. Control is achieved where the Corporation has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Corporation obtains control, and continue to be consolidated until the date when such control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries as follows:

- Cost is measured as the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, excluding transaction costs which are expensed as incurred;
- Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- The excess of acquisition cost over the fair value of the identifiable net assets acquired is recorded as goodwill;

- If the acquisition cost is less than the fair value of the net assets acquired, the fair value of the net assets is re-assessed and any remaining difference is recognized directly in the statement of income;

- Contingent consideration is measured at fair value on the acquisition date, with subsequent changes in the fair value recorded through the statement of income when the contingent consideration is a financial liability;

- Upon gaining control in a step acquisition, the existing ownership interest is re-measured to fair value through the statement of income; and

- For each business combination including the non-controlling interest, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Non-controlling interests, which represent the portion of net income and net assets in subsidiaries that are not 100% owned by the Corporation, are reported separately within equity in the consolidated statement of financial position. Non-controlling interests in respect of which shareholders hold an option entitling them to require the Corporation to buy back their shares are reclassified from equity to liabilities, deeming exercise of the option. The carrying amount of reclassified interests is also adjusted to match the estimated redemption value. Any changes in the estimated redemption value are recognized as equity transactions in retained earnings.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company and using consistent accounting policies. All balances, transactions and unrealized gains and losses resulting from intragroup transactions and all intragroup dividends are fully eliminated on consolidation.

INVESTMENTS IN AN ASSOCIATE AND A JOINT VENTURE

An associate is an entity over which the Corporation has significant influence, but no control. A joint venture is an entity in which the parties that have joint control over the entity have rights to the net assets of the entity. The Corporation's investments in an associate and a joint venture are accounted for using the equity method as follows:

- Investment is initially recognized at cost;

- Investment in an associate includes goodwill identified on acquisition, net of any accumulated impairment loss;

- The Corporation's share of post-acquisition net income (loss) is recognized in the statement of income and is also added to (netted against) the carrying amount of the investment; and

- Gains on transactions between the Corporation and its equity method investee and the joint venture are eliminated to the extent of the Corporation's interest in these entities and losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Foreign currency translation

TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the functional currency spot rate of exchange at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions as well as from the translation of monetary assets and liabilities not denominated in the functional currency of the subsidiary are recognized in the statement of income, except for qualifying cash flow hedges, which are deferred and presented as Unrealized gain (loss) on cash flow hedges in Accumulated other comprehensive income (loss) in the statement of changes in equity.

GROUP COMPANIES

Assets and liabilities of entities with functional currencies other than the Canadian dollar are translated at the period-end rates of exchange, and the results of their operations are translated at average rates of exchange for the period. The exchange differences arising from translation are recognized in Cumulative exchange differences in Accumulated other

comprehensive income (loss) in equity. On disposal of an interest, the exchange difference component relating to that particular interest is recognized in the consolidated statement of income.

Cash equivalents

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

Inventories

Inventories, consisting primarily of supplies and aircraft parts, are valued at the lower of cost, determined using the first-in, first-out method, and net realizable value. Net realizable value is the estimated selling price in the normal course of business less estimated costs to sell. Replacement cost may be indicative of net realizable value.

Property, plant and equipment

Property, plant and equipment are carried at cost less accumulated depreciation and provision for impairment, if any.

Depreciation on property, plant and equipment with finite lives is calculated on a straight-line basis, unless otherwise specified, and serves to write down the cost of the assets to their estimated residual value over their expected useful lives as follows:

Aircraft equipment, including spare engines and rotable spare parts	5–10 years or use
Office furniture and equipment	3–10 years
Leasehold improvements	Lease term or useful life
Administrative building	10–45 years

Land and property, plant and equipment under construction or development are not depreciated.

The fleet includes owned aircraft and improvements to aircraft under operating leases. A portion of the cost of owned aircraft is allocated to the "major maintenance activities" subclass, which relates to airframe, engine and landing gear overhaul costs, and the remaining cost is allocated to Aircraft. Aircraft and major maintenance activities are depreciated taking into account their expected estimated residual value. Aircraft are depreciated on a straight-line basis over seven- to ten-year periods, and major maintenance activities are depreciated according to the type of maintenance activity on a straight-line basis or based on the use of the corresponding aircraft until the next related major maintenance activity, or their expected useful lives. Subsequent major maintenance activity expenses are capitalized as major maintenance activities and are depreciated according to their type. Expenses related to other maintenance activities, including unexpected repairs, are recognized in net income as incurred. Improvements to aircraft under operating leases are depreciated on a straight-line basis over the shorter of the corresponding lease term and their useful life.

Estimated residual values and useful lives are reviewed annually and adjusted as appropriate.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable net assets acquired at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. For the purposes of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Corporation's cash-generating units ["CGUs"] that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible assets

Intangible assets are recorded at cost. The cost of intangible assets acquired in a business combination is recorded at fair value as at the acquisition date. Internally generated intangible assets include developed or modified application software. These costs are capitalized when the following criteria are met:

- It is technically feasible to complete the software product and make it available for use;
- Management intends to complete the software product and use it;

- The Corporation has ability to use the software product;
- It can be demonstrated how the software product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete the development and use the software product are available;
- The expenditures attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalization include both internal and external costs, but are limited to those that are directly related to the specific project.

Following initial recognition, intangible assets are carried at cost less any accumulated depreciation and impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized on a straight-line basis over their respective useful economic lives, as follows:

Software	3–10 years
Customer lists	7–10 years

Intangible assets with finite useful lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually and adjusted as appropriate.

Intangible assets with indefinite useful lives, consisting mainly of trademarks, are not amortized but are tested for impairment at least annually, either individually or at the CGU level. The indefinite useful life of those assets is reviewed annually, at a minimum, to determine whether events and circumstances continue to support an indefinite useful life assessment for the assets. If they do not, the change in useful life assessment from indefinite to finite is made on a prospective basis.

Operating lease and deferred lease inducements

Leases where substantially all the risks and rewards of ownership of the asset are not transferred to the Corporation are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the related lease term.

Deferred lease inducements consist of lease incentive amounts received from landlords and rent-free lease periods. These lease inducements are recognized through other liabilities and are amortized over the life of the initial lease term on a straight-line basis as a reduction of amortization expense.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets of the Corporation include cash and cash equivalents, cash and cash equivalents in trust or otherwise reserved, trade and other receivables other than amounts receivable due from government, deposits on leased aircraft and engines, and derivative financial instruments with a positive fair value. Financial liabilities of the Corporation include trade and other payables other than amounts due to government, long-term debt, derivative financial instruments with a negative fair value and the put option held by the non-controlling interest.

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: financial assets/liabilities at fair value through profit or loss, loans and receivables, or other financial liabilities. Derivative financial instruments, including embedded derivative financial instruments that are not closely related to the host contract, are classified as financial assets or liabilities at fair value through profit or loss unless they are designated within an effective hedging relationship. Classification is determined by management on initial recognition based on the purpose of their acquisition.

CLASSIFICATION OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities at fair value through profit or loss

Financial assets, financial liabilities and derivative financial instruments classified as financial assets or liabilities at fair value through profit or loss are measured at fair value at the period-end date. Gains and losses realized on disposal and unrealized gains and losses from changes in fair value are reflected in the consolidated statement of income as incurred.

Loans and receivables and other financial liabilities

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

DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

The Corporation uses derivative financial instruments to hedge against future foreign currency fluctuations in relation to its operating lease payments, receipts of revenues from certain tour operators and disbursements pertaining to certain operating expenses in foreign currencies. For hedge accounting purposes, the Corporation designates some of its foreign currency derivatives as hedging instruments.

The Corporation formally documents all relationships between the hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. This process includes linking all derivative financial instruments to forecasted cash flows or to a specific asset or liability. The Corporation also formally documents and assesses, both at the hedge's inception and on an ongoing basis, whether the hedging instruments are highly effective in offsetting the changes in the fair value or cash flows of the hedged items.

These derivative financial instruments are designated as cash flow hedges.

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

DERIVATIVE FINANCIAL INSTRUMENTS THAT DO NOT QUALIFY FOR HEDGE ACCOUNTING

In the normal course of business, the Corporation also uses fuel-related derivatives to manage its exposure to unstable fuel prices as well as certain foreign currency derivatives to offset the future risks of fluctuations in foreign currencies that have not been designated for hedge accounting. These derivatives are measured at fair value at the end of each period, and the unrealized gains or losses on remeasurement are recorded and presented under Change in fair value of fuel-related derivatives and other derivatives in the consolidated statement of income. When realized, at maturity of fuel-related derivative financial instruments, any gains or losses are reclassified to Aircraft fuel. When realized, at maturity of foreign currency derivatives that do not qualify for hedge accounting, any gains or losses are reclassified to the same consolidated statement of income account in which the hedged item is recognized.

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

TRANSACTION COSTS

Transaction costs related to financial assets and financial liabilities classified as financial assets or liabilities at fair value through profit or loss are expensed as incurred. Transaction costs related to financial assets classified as loans and

receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest method.

FAIR VALUE

The fair value of financial instruments that are actively traded in organized financial markets is determined by reference to quoted prices in an active market at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis or other valuation models.

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

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

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

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

Impairment of financial assets classified as loans and receivables

The Corporation assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets classified as loans and receivables is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset [an incurred loss event] and that incurred loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Impairment losses are recognized through profit or loss.

Impairment of non-financial assets

The Corporation assesses at each reporting date whether there is any indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Corporation estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Value in use is calculated using estimated net cash flows, typically based on detailed projections over a five-year period with subsequent years extrapolated using a growth assumption. The estimated net cash flows are discounted to their present value using a discount rate before income taxes that reflects current market assessments of the time value of money and the risk specific to the asset or CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model may be used. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized through profit or loss.

The following criteria are also applied in assessing impairment of specific assets:

INTANGIBLE ASSETS

Intangible assets with indefinite useful lives are tested for impairment annually [as at April 30] either individually or at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

REVERSAL OF IMPAIRMENT LOSSES

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or have decreased. If such indication exists, the Corporation estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. The reversal is recognized in the statement of income. Impairment losses relating to goodwill cannot be reversed in future periods.

Provisions

Provisions are recognized when the Corporation has a present, legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the cost can be reliably estimated. Provisions are measured at their present value.

PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and adhere to the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The excess of the maintenance obligation over maintenance deposits made to lessors and unclaimed is included in liabilities under Provision for overhaul of leased aircraft. All maintenance work done on aircraft engines under contracts with billing based on flight hours is charged to operating expenses in the statement of income and expensed as incurred.

Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives. Certain non-Canadian employees also benefit from post-employment benefits. The net periodic pension expense for these plans is actuarially determined on an annual basis by independent actuaries using the projected unit credit method. The determination of benefit expense requires assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Actual results will differ from estimated results based on assumptions. The vested portion of past service cost arising from plan amendments is recognized immediately in the statement of income. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefits vest.

The liability recognized in the consolidated statement of financial position is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized past service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that have terms to maturity approximating the term of the related pension liability. All actuarial gains and losses that arise in calculating the present value of the defined benefit obligation and the fair value of plan assets are recognized immediately in Retained earnings and included in the statement of comprehensive income.

Contributions to defined contribution pension plans are expensed as incurred, which is as the related employee service is rendered.

In certain jurisdictions, termination benefits are payable when employment is terminated by the Corporation before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for the benefits. The Corporation recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

Revenue recognition

The Corporation recognizes revenue once the service is rendered and all the significant risks and rewards of the service have been transferred to the customer. As a result, revenue earned from passenger transportation is recognized when such transportation is provided. Revenue from tour operators and the related costs are recognized when passengers depart. Revenues from air transportation services are recognized when the corresponding service is rendered on the date of each flight. Commission revenue from travel agencies is recognized when travel is reserved. Amounts received from customers for services not yet rendered are included in current liabilities as Customer deposits and deferred revenues.

Revenue for which the Corporation provides multiple services such as air transportation, tour operator and travel agency services is recognized once the service is provided to the customer based on the Corporation's accounting policy for revenue recognition. The Corporation treats these different services as separate units of accounting as each service has a value to the customer on a stand-alone basis and the consideration paid for these services is allocated using the relative fair value of each deliverable.

Income taxes

The Corporation provides for income taxes using the liability method. Under this method, deferred tax assets and liabilities are calculated based on differences between the carrying value and tax basis of assets and liabilities and measured using substantively enacted tax rates and laws expected to be in effect when the differences reverse.

Deferred tax assets and liabilities are recognized directly through profit or loss, other comprehensive income (loss), or equity based on the classification of the item to which they relate.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforwards of unused tax credits and unused tax losses, to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforwards of unused tax credits and unused tax losses can be utilized.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Share-based payment plans

The Corporation operates a number of equity-settled and cash-settled share-based compensation plans under which it receives services from employees as consideration for equity instruments of the Corporation or cash-settled payments.

EQUITY-SETTLED TRANSACTIONS

For equity-settled share-based compensation [stock option plan and performance share unit plan], including share-based payment transactions with a net settlement feature to satisfy withholding tax obligations, the compensation expense is based on the grant date fair value of the share-based awards expected to vest over the period in which the performance and/or service conditions are fulfilled, with a corresponding increase in the share-based payment reserve. Compensation expense related to the stock option plan is calculated using the Black-Scholes model, whereas the performance share unit expense is measured based on the closing price of the shares of the Corporation on the Toronto Stock Exchange at the grant date adjusted to take into account the terms and conditions upon which the units were granted. For awards with graded vesting, the fair value of each tranche is recognized through profit or loss over its respective vesting period. Any consideration paid by employees on exercising these awards and the corresponding portion previously credited to the share-based payment reserve are credited to share capital.

CASH-SETTLED TRANSACTIONS

For cash-settled share-based compensation [deferred share unit plan and restricted share unit plan], the expense is determined based on the fair value of the liability at the end of the reporting period until the award is settled. The value of the compensation is measured based on the closing price of the shares of the Corporation on the Toronto Stock Exchange adjusted to take into account the terms and conditions upon which the units were granted, and is based on the units that are expected to vest. The expense is recognized over the period in which the performance or service conditions are satisfied. At the end of each reporting period, the Corporation re-assesses its estimates of the number of awards that are expected to vest and recognizes the impact of the revisions through profit or loss.

EMPLOYEE SHARE PURCHASE PLANS

The Corporation's contributions to the employee share purchase plans [stock ownership incentive and capital accumulation plan and permanent stock ownership incentive plan] consist of shares acquired in the marketplace by the Corporation. These contributions are measured at cost and are recognized over the period from the acquisition date to the date that the award vests to the participant. Any consideration paid by the participant to purchase shares under the share purchase plan is credited to share capital.

Earnings per share

Basic earnings per share is computed based on net income attributable to shareholders of the Corporation, divided by the weighted-average number of Class A Variable Voting Shares and Class B Voting Shares outstanding during the year.

Diluted earnings per share is calculated by adjusting net income attributable to shareholders of the Corporation for any changes in income or expense that would result from the exercise of dilutive elements. The weighted-average number Class A Variable Voting Shares and Class B Voting Shares outstanding is increased by the weighted-average number of additional Class A Variable Voting Shares and Class B Voting Shares that would have been outstanding assuming the exercise of all dilutive elements.

Note 3 Significant accounting estimates and judgments

The preparation of consolidated financial statements requires management to make estimates and judgments about the future. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, accounting estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

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

Depreciation and amortization and impairment of property, plant and equipment, goodwill and intangible assets

Impairment exists when the carrying amount of an asset or CGU, in the case of goodwill, exceeds its recoverable amount, which is the higher of fair value less costs to sell the asset or CGU and value in use. To identify CGUs, management has to take into account the contributions made by each subsidiary and the inter-relationships among them in light of the Corporation's vertical integration and the goal of providing a comprehensive offering of tourism services in the markets served by the Corporation. The fair value less costs to sell calculation is based on available data from arm's length transactions for similar assets or observable market prices less incremental costs to sell. The value in use calculation is based on a discounted cash flow model. Cash flows are derived from the budget or financial forecasts for the next five fiscal years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the performance of the asset of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the

growth rate used for extrapolation purposes. The key assumptions used to determine the recoverable amount for the various CGUs, including a sensitivity analysis, are discussed in note 11.

Property, plant and equipment are depreciated over their estimated useful lives taking into account their residual value. Aircraft, aircraft components and leasehold improvements account for a major subclass of property, plant and equipment. Depreciation expense depends on several assumptions including the period over which the aircraft will be used, the fleet renewal schedule and the estimate of the residual value of aircraft and aircraft components at the time of their anticipated disposal.

Changes in estimated useful life and residual value of aircraft could have a significant impact on depreciation expense. Property, plant and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Fair value of derivative financial instruments

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

Provision for overhaul of leased aircraft

The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, the U.S. dollar exchange rate and other facts and reasonable assumptions in the circumstances. Given that various assumptions are used in determining the provision for overhaul of leased aircraft, the calculation involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

Non-controlling interest

A non-controlling interest, in respect of which the non-controlling shareholder may require the Corporation to buy back the shares held, is reclassified as liabilities at the estimated redemption value, thus assuming the option is exercised. In the absence of a predetermined calculation formula, the estimated redemption value is established using fair value. The fair value calculation is based on a discounted cash flow model. The cash flows are derived from the budget and financial forecasts for the next five years and do not include restructuring activities that the Corporation is not yet committed to or significant future investments that will enhance the subsidiary's performance. The fair value is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Employee future benefits

The cost of defined benefit pension plans and other post-employment benefits and the present value of the associated obligations are determined using actuarial valuations. These actuarial valuations require the use of assumptions such as the discount rate to measure obligations, expected mortality and expected rate of future compensation. Given that various assumptions are used in determining the cost and obligations associated with employee future benefits, the actuarial valuation process involves some inherent measurement uncertainty. Actual results will differ from estimated results based on assumptions.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations, changes in tax legislation and the amount and timing of future taxable income. Given the Corporation's wide range of international business relationships, differences arising between actual results and the assumptions made, or future changes in such assumptions, could give rise to future adjustments in the amounts of income taxes previously reported. Such interpretive differences may arise in a variety of areas depending on the conditions specific to the respective tax jurisdiction of the Corporation's subsidiaries. The Corporation establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and interpretations of tax regulations by the taxable entity and the responsible tax authority.

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant judgment is required by management to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and the level of future taxable income together with future tax planning strategies.

Note 4 Future changes in accounting policies

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

IFRS 9, *Financial Instruments*

In July 2014, the IASB completed its three-part project to replace IAS 39, *Financial Instruments: Recognition and Measurement*, by issuing IFRS 9, *Financial Instruments*. IFRS 9 addresses the classification and measurement of financial assets and financial liabilities, and introduces a forward-looking expected loss impairment model as well as a substantially reformed approach to hedge accounting. Application of IFRS 9 is effective for the Corporation's annual reporting period beginning on November 1, 2018 and is to be retrospective.

IFRS 9 uses a new approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the many different rules in IAS 39. The approach recommended by IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9. However, the portion of the changes in fair value related to the entity's own credit risk, in measuring a financial liability at fair value through profit or loss, will be presented in other comprehensive income (loss) rather than in the statement of income. The Corporation has determined that this change would not have a material impact on its financial statements.

IFRS 9 also introduces a new expected-loss impairment model that will require timely recognition of expected credit losses. Specifically, entities will be required to account for expected credit losses when financial instruments are first recognized and to recognize full lifetime expected credit losses on a timely basis. The Corporation has determined that this change would not have a material impact on its 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 will enable entities to better reflect their risk management activities in their financial statements. The IFRS 9 transition rules include an exemption allowing companies to continue to apply current hedge accounting under IAS 39 until the final hedge model is effective.

The Corporation will apply the new hedge accounting model and comply with the corresponding disclosure requirements for risk management activities as of November 1, 2018. The main impact resulting from the application of the new hedge accounting model is the recognition in other comprehensive income (loss) in the consolidated statement of comprehensive income of the time value of options designated as hedging instruments. The Corporation does not expect the adoption of IFRS 9 to have a material impact on its consolidated financial statements.

IFRS 15, *Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, a new standard that specifies the steps and timing of revenue recognition for issuers as well as requiring them to provide relevant and more comprehensive

disclosures. The core principle of IFRS 15 is that an entity should recognize revenue in a manner that depicts the transfer of promised goods or services to customers in an amount that reflects the expected consideration receivable in exchange for those goods or services. IFRS 15 supersedes IAS 11, *Construction Contracts*, and IAS 18, *Revenue*, as well as various interpretations regarding revenue. Application of IFRS 15 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2018. The standard will be applied retrospectively with an adjustment to the opening consolidated statement of financial position as at November 1, 2017.

The Corporation has completed the following preliminary assessment of the significant changes that will have an impact on its accounting policies:

- Revenue from the land portion of holiday packages and the related costs which are currently recognized when passengers depart will be recognized when the corresponding services are rendered over the course of the stay.
- Commission revenue from travel agencies which is currently recognized when travel is reserved will be recognized when passengers depart.
- Certain additional costs incurred to earn income from air transportation services, such as costs related to the worldwide distribution system, which are currently expensed when travel is reserved, will be capitalized when travel is reserved and expensed when revenue is recognized.
- Certain types of revenues, currently recognized on a gross basis, will be recognized on a net basis due to the new criteria introduced by IFRS 15. This reclassification will have no impact on operating results.

The Corporation continues to assess the impact of adopting this standard on its financial statements, in particular the effect of the above-mentioned changes in accounting policies on statement of financial position items, the transition method, as well as the amendments to disclosure requirements, and will complete its analysis during the next quarter.

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 financial statements. The Corporation will be required to recognize an asset related to the right of use and a liability at the present value of future lease payments. Amortization of the right-of-use asset and interest expense on the lease obligation will replace rent expense related to operating leases.

The application of IFRS 16 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2019. The Corporation continues to assess the impact of the adoption of this new standard on its financial statements and has not determined which transition method it will use.

Note 5 Business acquisitions and disposals

Jonview Canada Inc.

On December 21, 2016, following the exercise of a put option by the minority shareholder in the subsidiary Jonview Canada Inc. ["Jonview"], the Corporation completed the purchase of 19.93% of the shares of its subsidiary Jonview, which has an incoming tour operator business in Canada, thereby bringing its interest in the subsidiary to 100%. The cash consideration totalled $4,983, being the fair value of the put option at the time of the transaction. In addition, the non-controlling interest was derecognized with no impact on the consolidated statements of income (loss).

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview, 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 totals $48,896, of which $46,696 was received in cash, with the balance of $2,200 receivable under certain contractual conditions prior to May 31, 2019. The disposed subsidiary's net assets amounted to $13,430 on November 30, 2017. The Corporation recognized a gain on business disposal of $31,264, net of transaction costs of $486 and of $3,716 due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which $3,278 was paid in cash during the year, as an additional consideration to the repurchase price of the 19.93% interest held by the Fonds in December 2016.

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 and comprehensive income for the years ended October 31, 2018 and 2017. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

The assets and liabilities disposed of in connection with Jonview are as follows:

	2018 **$**
Cash and cash equivalents	(14,304)
Other current assets	(11,275)
Non-current assets	(2,945)
Current liabilities	14,904
Non-current liabilities	190
Net assets disposed of	**(13,430)**
Cash consideration received	46,696
Cash consideration paid to the Fonds de Solidarité des Travailleurs du Québec (FSTQ)	(3,278)
Cash-settled transaction costs	(486)
Cash and cash equivalents disposed of	(14,304)
Cash flows from the disposal of Jonview	**28,628**

Ocean Hotels

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for an amount of US$150,500 [$187,500], received in cash. The disposed interest had a carrying value of $97,252 as at October 4, 2017. During the year ended October 31, 2017, the Corporation recognized a gain on business disposal of $86,616, net of transaction costs of $1,697, as well as a foreign exchange gain of $15,478 realized on the reclassification of the cumulative exchange differences related to the investment.

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]. As a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a downward adjustment of $200 to the gain on business disposal, bringing the total amount of the gain on disposal of Ocean Hotels to $86,416.

Desarrollo Transimar

On April 3, 2017, the Corporation acquired a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo Transimar"], a Mexican company operating a hotel, for a consideration of US$10,000 [$13,425], of which US$9,500 [$12,754] was paid in cash and US$500 [$657] was included in trade and other payables as at October 31, 2018. This amount was paid on November 5, 2018. This interest in a joint venture is accounted for using the equity method *[see note 12]*.

Note 6 Cash and cash equivalents in trust or otherwise reserved

As at October 31, 2018, cash and cash equivalents in trust or otherwise reserved included $276,038 [$239,974 as at October 31, 2017] 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 $62,881, of which $51,184 was recorded as non-current assets [$69,090 as at October 31, 2017, of which $50,100 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 7 Trade and other receivables

	2018 $	2017 $
Trade receivables	**30,861**	33,516
Government receivables	**22,177**	21,603
Cash receivable from lessors	**67,027**	46,548
Other receivables	**19,944**	19,951
	140,009	121,618

Note 8 Financial instruments

Classification of financial instruments

The classification of financial instruments, other than derivative financial instruments designated as hedges, and their carrying amounts and fair values are detailed as follows:

	Carrying amount				
	Financial assets/liabilities at fair value through profit or loss $	Loans and receivables $	Other financial liabilities $	Total $	Fair value $
As at October 31, 2018					
Financial assets					
Cash and cash equivalents	593,654	—	—	593,654	593,654
Cash and cash equivalents in trust or otherwise reserved	338,919	—	—	338,919	338,919
Trade and other receivables	—	117,832	—	117,832	117,832
Deposits on leased aircraft and engines	—	34,874	—	34,874	34,874
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	6,873	—	—	6,873	6,873
-Other foreign currency derivatives	11,233	—	—	11,233	11,233
	950,679	152,706	—	1,103,385	1,103,385
Financial liabilities					
Trade and other payables	—	—	242,907	242,907	242,907
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	844	—	—	844	844
-Other foreign currency derivatives	1,996	—	—	1,996	1,996
Non-controlling interest	—	—	22,800	22,800	22,800
	2,840	—	265,707	268,547	268,547

	Carrying amount				
	Financial assets/liabilities at fair value through profit or loss $	**Loans and receivables $**	**Other financial liabilities $**	**Total $**	**Fair value $**
As at October 31, 2017					
Financial assets					
Cash and cash equivalents	593,582	—	—	593,582	593,582
Cash and cash equivalents in trust or otherwise reserved	309,064	—	—	309,064	309,064
Trade and other receivables	—	100,015	—	100,015	100,015
Deposits on leased aircraft and engines	—	28,033	—	28,033	28,033
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	8,471	—	—	8,471	8,471
-Other foreign currency derivatives	2,054	—	—	2,054	2,054
	913,171	128,048	—	1,041,219	1,041,219
Financial liabilities					
Trade and other payables	—	—	226,170	226,170	226,170
Derivative financial instruments					
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	212	—	—	212	212
-Other foreign currency derivatives	2,656	—	—	2,656	2,656
Non-controlling interest	—	—	26,400	26,400	26,400
	2,868	—	252,570	255,438	255,438

Determination of fair value of financial instruments

The fair value of financial instruments is the amount for which the instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. The following methods and assumptions were used to measure fair value:

The fair value of cash and cash equivalents, in trust or otherwise reserved or not, trade and other receivables, and accounts payable and accrued liabilities approximates their carrying amount due to the short-term maturity of these financial instruments.

The fair value of forward purchase contracts and other derivative financial instruments related to fuel or currencies is measured using a generally accepted valuation method, i.e., by discounting the difference between the value of the contract at expiration determined according to contract price or rate and the value of the contract at expiration determined according to contract price or rate that the financial institution would have used had it renegotiated the same contract under the same conditions at the current date. The Corporation also factors in the financial institution's credit risk when determining contract value.

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

The fair value of the non-controlling interest in respect of which a shareholder holds an option entitling him to require the Corporation to buy back his shares corresponds to its redemption price. The redemption price is based either on a formula that factors in financial and non-financial indicators or on the fair value of shares held, which is determined using a discounted cash flow model.

The following table details the fair value hierarchy of financial instruments by level:

	Quoted prices in active markets (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2018				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	**—**	**6,873**	**—**	**6,873**
-Foreign exchange forward contracts and other foreign currency derivatives	**—**	**13,624**	**—**	**13,624**
	—	**20,497**	**—**	**20,497**
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	**—**	**844**	**—**	**844**
-Foreign exchange forward contracts and other foreign currency derivatives	**—**	**2,601**	**—**	**2,601**
Non-controlling interest	**—**	**—**	**22,800**	**22,800**
	—	**3,445**	**22,800**	**26,245**

	Quoted prices in active markets (Level 1) $	Other observable inputs (Level 2) $	Unobservable inputs (Level 3) $	Total $
As at October 31, 2017				
Financial assets				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	8,471	—	8,471
-Foreign exchange forward contracts and other foreign currency derivatives	—	9,587	—	9,587
	—	18,058	—	18,058
Financial liabilities				
Derivative financial instruments				
-Fuel purchasing forward contracts and other fuel-related derivative financial instruments	—	212	—	212
-Foreign exchange forward contracts and other foreign currency derivatives	—	8,066	—	8,066
Non-controlling interest	—	—	26,400	26,400
	—	8,278	26,400	34,678

The change in the non-controlling interest is as follows:

	2018 $	2017 $
Balance, beginning of year	**26,400**	29,984
Net income	**3,542**	4,064
Other comprehensive income (loss)	**677**	(1,305)
Dividends	**(3,302)**	(4,447)
Acquisitions and disposals of subsidiaries	**—**	(4,983)
Change in fair value of non-controlling interest	**(4,517)**	3,087
	22,800	26,400

Management of risks arising from financial instruments

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the consolidated statement of financial position totalled $30,861 as at October 31, 2018 [$33,516 as at October 31, 2017]. Trade accounts receivable consist of a large number of customers, including travel agencies. Trade accounts receivable generally result from the sale of vacation packages to individuals through travel agencies and the sale of seats to tour operators dispersed over a wide geographic area. No customer represented more than 10% of total accounts receivable as at October 31, 2018 and 2017. As at October 31, 2018, approximately 6% [approximately 4% as at October 31, 2017] of accounts receivable were over 90 days past due, whereas approximately 80% [approximately 84% as at October 31, 2017] were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade receivables. Therefore, the allowance for doubtful accounts at the end of each period and the change recorded for each period is insignificant.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. These deposits totalled $27,118 as at October 31, 2018 [$24,096 as at October 31, 2017] and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $34,874 as at October 31, 2018 [$28,033 as at October 31, 2017] and are returned as leases expire. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. Cash security deposits with lessors are generally returned to the Corporation upon receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2018, the cash security deposits with lessors that have been claimed totalled $67,027 [$46,548 as at October 31, 2017] and are included in Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

For financial institutions including the various counterparties, the maximum credit risk as at October 31, 2018 relates to cash and cash equivalents, including cash and cash equivalents in trust or otherwise reserved, and derivative financial instruments accounted for in assets. These assets are held or traded with a limited number of financial institutions and other counterparties. The Corporation is exposed to the risk that the financial institutions and other counterparties with which it holds securities or enters into agreements could be unable to honour their obligations. The Corporation minimizes risk by entering into agreements only with large financial institutions and other large counterparties with appropriate credit ratings. The Corporation's policy is to invest solely in products that are rated R1-Mid or better (by Dominion Bond Rating Service ["DBRS"]), A1 (by Standard & Poor's) or P1 (by Moody's) and rated by at least two rating firms. Exposure to these risks is closely monitored and maintained within the limits set out in the Corporation's various policies. The Corporation revises these policies on a regular basis.

The Corporation does not believe it was exposed to a significant concentration of credit risk as at October 31, 2018.

Liquidity risk

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

The maturities of the Corporation's financial liabilities as at October 31, 2018 are summarized in the following table:

	Maturing in under 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Contractual cash flows Total	Carrying amount Total
	$	$	$	$	$
Accounts payable and accrued liabilities	**242,907**	**—**	**—**	**242,907**	**242,907**
Non-controlling interest	**22,800**	**—**	**—**	**22,800**	**22,800**
Derivative financial instruments	**2,778**	**679**	**—**	**3,457**	**3,445**
Total	**268,485**	**679**	**—**	**269,164**	**269,152**

Market risk

FOREIGN EXCHANGE RISK

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 68% of the Corporation's costs are incurred in a currency other than the measurement currency of the reporting unit incurring the costs, whereas approximately 19% of revenues are earned in a currency other than the measurement currency of the reporting unit making the sale. In accordance with its foreign currency risk management policy and to safeguard the value of anticipated commitments and transactions, the Corporation enters into foreign exchange forward contracts and other types of derivative financial instruments, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

Net assets (liabilities)	**U.S. dollar**	**Euro**	**Pound sterling**	**Canadian dollar**	**Other currencies**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
2018						
Financial statement measurement currency of the group's companies						
Euro	**6**	**—**	**—**	**—**	**—**	**6**
Pound sterling	**(94)**	**201**	**—**	**(1,759)**	**—**	**(1,652)**
Canadian dollar	**37,295**	**(9,413)**	**10,222**	**—**	**367**	**38,471**
Other currencies	**(911)**	**27**	**—**	**13**	**597**	**(274)**
Total	**36,296**	**(9,185)**	**10,222**	**(1,746)**	**964**	**36,551**

Net assets (liabilities)	**U.S. dollar**	**Euro**	**Pound sterling**	**Canadian dollar**	**Other Currencies**	**Total**
	$	**$**	**$**	**$**	**$**	**$**
2017						
Financial statement measurement currency of the group's companies						
Euro	6,130	—	—	—	—	6,130
Pound sterling	30	214	—	4,085	—	4,329
Canadian dollar	17,609	12,068	15,543	—	(933)	44,287
Other currencies	(515)	37	—	24	1,271	817
Total	23,254	12,319	15,543	4,109	338	55,563

For the year ended October 31, 2018, a 1% rise or fall in the Canadian dollar against the other currencies, assuming that all other variables had remained the same, would have resulted in an $854 increase or decrease [$983 in 2017], respectively, in the Corporation's net income for the year, whereas other comprehensive income (loss) would have decreased or increased by $4,146 [$2,996 in 2017], respectively. For sensitivity analysis purposes, the impact of any single currency on the Corporation's income would not be material.

As at October 31, 2018, 58% of estimated requirements for fiscal 2019 were covered by foreign exchange derivatives [60% of estimated requirements for fiscal 2018 were covered as at October 31, 2017].

RISK OF FLUCTUATIONS IN FUEL PRICES

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

For the year ended October 31, 2018, a 10% increase or decrease in fuel prices, assuming that all other variables had remained the same, would have resulted in a $4,283 decrease or increase [$5,987 in 2017], respectively, in the Corporation's net income for the year.

As at October 31, 2018, 44% of estimated requirements for fiscal 2019 were covered by fuel-related derivative financial instruments [31% of estimated requirements for fiscal 2018 were covered as at October 31, 2017].

INTEREST RATE RISK

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

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

For the year ended October 31, 2018, a 25 basis point increase or decrease in interest rates, assuming that all other variables had remained the same, would have resulted in a $2,392 increase or decrease [$1,781 in 2017], respectively, in the Corporation's net income.

CAPITAL RISK MANAGEMENT

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

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

The Corporation monitors its capitalization using the adjusted debt/equity ratio. This ratio is calculated by dividing net debt by equity. Net debt is equal to the aggregate of long-term debt and obligations under adjusted operating leases, less cash and cash equivalents [not held in trust or otherwise reserved]. The amount of adjusted operating leases is equal to the annualized aircraft rental expense multiplied by 5.0, a factor used in the industry. Although commonly used, this measure does not reflect the fair value of operating leases as it does not take into account the remaining contractual payments, the discount rates implicit in the leases or current rates for similar obligations with similar terms and risks.

The Corporation's strategy is to maintain its adjusted debt/equity ratio below 1. The calculation of the adjusted debt/equity ratio is summarized as follows:

	2018 $	2017 $
Net debt		
Long-term debt	**—**	—
Adjusted operating leases	**622,270**	660,695
Cash and cash equivalents	**(593,654)**	(593,582)
	28,616	67,113
Equity	**599,374**	577,870
Adjusted debt/equity ratio	**4.8%**	11.6%

The Corporation's credit facilities are subject to certain covenants including a debt/equity ratio and a fixed-charge coverage ratio. These ratios are monitored by management and submitted to the Corporation's Board of Directors on a quarterly basis. As at October 31, 2018, the Corporation was in compliance with these ratios. Except for the credit facility covenants, the Corporation is not subject to any third-party capital requirements.

Note 9 Deposits

	2018 $	2017 $
Deposits on leased aircraft and engines	**34,874**	28,033
Deposits with suppliers	**27,118**	24,096
	61,992	52,129
Less current portion	**20,250**	18,487
	41,742	33,642

Note 10 Property, plant and equipment

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2017	**343,567**	**106,800**	**57,799**	**33,222**	**541,388**
Additions	**29,954**	**11,879**	**6,941**	**62,563**	**111,337**
Write-offs	**(34,428)**	**—**	**(11,529)**	**(72)**	**(46,029)**
Exchange difference	**—**	**—**	**(109)**	**410**	**301**
Balance as at October 31, 2018	**339,093**	**118,679**	**53,102**	**96,123**	**606,997**
Accumulated depreciation					
Balance as at October 31, 2017	**253,297**	**83,106**	**44,523**	**25,790**	**406,716**
Depreciation	**32,479**	**5,132**	**5,265**	**1,883**	**44,759**
Write-offs	**(34,428)**	**—**	**(11,529)**	**(72)**	**(46,029)**
Exchange difference	**—**	**—**	**76**	**(3)**	**73**
Balance as at October 31, 2018	**251,348**	**88,238**	**38,335**	**27,598**	**405,519**
Net book value as at October 31, 2018	**87,745**	**30,441**	**14,767**	**68,525**	**201,478**

	Fleet $	Aircraft equipment $	Office furniture and equipment $	Land, building and leasehold improvements $	Total $
Cost					
Balance as at October 31, 2016	339,449	97,777	48,886	33,470	519,582
Additions	37,164	9,023	10,604	1,627	58,418
Write-offs	(33,046)	—	(1,583)	(1,263)	(35,892)
Assets held for sale	—	—	(92)	(608)	(700)
Exchange difference	—	—	(16)	(4)	(20)
Balance as at October 31, 2017	343,567	106,800	57,799	33,222	541,388
Accumulated depreciation					
Balance as at October 31, 2016	245,894	75,858	37,308	25,563	384,623
Depreciation	40,449	7,248	8,955	2,007	58,659
Write-offs	(33,046)	—	(1,583)	(1,263)	(35,892)
Assets held for sale	—	—	(78)	(526)	(604)
Exchange difference	—	—	(79)	9	(70)
Balance as at October 31, 2017	253,297	83,106	44,523	25,790	406,716
Net book value as at October 31, 2017	90,270	23,694	13,276	7,432	134,672

Note 11 Intangible assets

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2017	**148,028**	**20,406**	**12,219**	**180,653**
Additions	**7,587**	**—**	**129**	**7,716**
Write-offs and impairment	**(1,781)**	**—**	**—**	**(1,781)**
Exchange difference	**(125)**	**(72)**	**226**	**29**
Balance as at October 31, 2018	**153,709**	**20,334**	**12,574**	**186,617**
Accumulated amortization and impairment				
Balance as at October 31, 2017	**103,021**	**15,809**	**12,219**	**131,049**
Amortization	**14,445**	**—**	**44**	**14,489**
Write-offs and impairment	**(1,781)**	**—**	**—**	**(1,781)**
Exchange difference	**10**	**—**	**161**	**171**
Balance as at October 31, 2018	**115,695**	**15,809**	**12,424**	**143,928**
Net book value as at October 31, 2018	**38,014**	**4,525**	**150**	**42,689**

	Software $	Trademarks $	Customer lists $	Total $
Cost				
Balance as at October 31, 2016	140,815	20,250	12,219	173,284
Additions	11,105	—	—	11,105
Write-offs and impairment	(801)	—	—	(801)
Assets held for sale	(3,235)	—	—	(3,235)
Exchange difference	144	156	—	300
Balance as at October 31, 2017	148,028	20,406	12,219	180,653
Accumulated amortization and impairment				
Balance as at October 31, 2016	94,929	15,809	12,219	122,957
Amortization	9,368	—	—	9,368
Write-offs and impairment	(801)	—	—	(801)
Assets held for sale	(491)	—	—	(491)
Exchange difference	16	—	—	16
Balance as at October 31, 2017	103,021	15,809	12,219	131,049
Net book value as at October 31, 2017	45,007	4,597	—	49,604

Impairment test in 2018

The Corporation performed its annual impairment test as at April 30, 2018 to determine whether the carrying amount of trademarks was higher than their recoverable amount. Following this impairment test, the Corporation did not identify any impairment of its trademarks, which totalled $4,525 as at October 31, 2018.

The recoverable amount of trademarks is determined based on value in use, using the royalty capitalization method. The Corporation prepares cash flow forecasts based on pre-established royalty rates, which represent what a third party would pay to use the trademark. The cash flow forecasts, which correspond to after-tax royalties, are then discounted.

As at April 30, 2018, after-tax discount rates used for impairment testing for trademarks ranged from 10.0% to 18.0% [between 10.0% and 18.0% as at April 30, 2017].

On April 30, 2018, a 1% increase in the after-tax discount rate used for impairment testing, assuming that all other variables had remained the same, would not have resulted in any impairment charge.

On April 30, 2018, a 10% decrease in the cash flows used for the impairment testing, assuming that all other variables had remained the same, would not have resulted in any impairment charge.

As at October 31, 2018, there was no indication that the conclusions of the test might have changed since April 30, 2018.

Note 12 Investment

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in CIBV, which operates Ocean Hotels, to H10 Hotels *[see note 5]*. Until that date, the Corporation held a 35% interest in CIBV, which owns and operates hotels in Mexico, the Dominican Republic and Cuba. CIBV's fiscal year-end is December 31, and the Corporation recognized its investment using the equity method and results for the 12-month period ended September 30 of each year.

On April 3, 2017, the Corporation acquired a 50% interest in Desarrollo Transimar, a Mexican company operating a hotel *[see note 5]*. This interest in a joint venture is accounted for using the equity method.

The change in the investments in CIBV and Desarrollo Transimar is detailed as follows:

	2018			2017
	Desarrollo Transimar	**CIBV**	**Desarrollo Transimar**	**Total**
	$	**$**	**$**	**$**
Balance, beginning of year	**15,888**	97,668	—	97,668
Acquisition	**—**	—	13,425	13,425
Capital contribution	**—**	—	2,584	2,584
Share of net (loss) income	**(105)**	10,956	187	11,143
Dividend received	**—**	(3,895)	—	(3,895)
Translation adjustment	**301**	(7,477)	(308)	(7,785)
Disposal	**—**	(97,252)	—	(97,252)
	16,084	—	15,888	15,888

The investment was translated at the USD/CAD rate of 1.3130 as at October 31, 2018 [1.2898 as at October 31, 2017].

The following table shows the condensed financial information regarding Desarrollo Transimar as at October 31, 2018:

	2018	2017
	$	**$**
Statement of financial position:		
Current assets	**13,341**	6,234
Non-current assets	**52,761**	26,800
Current liabilities	**1,272**	752
Non-current liabilities	**32,662**	507
Net assets	**32,168**	31,775
Carrying amount of investment	**16,084**	15,888
Statement of comprehensive income:		
Revenues	**4,558**	2,429
Net (loss) income and comprehensive (loss) income	**(210)**	373
Share of net (loss) income	**(105)**	187

Note 13 Other assets

	2018 $	2017 $
Deferred rent	**26,499**	244
Sundry	**186**	146
	26,685	390

The increase in deferred rent as at October 31, 2018 is due to the renegotiation of lease agreements for Airbus A330s which are already part of the Corporation's fleet.

Note 14 Trade and other payables

	2018 $	2017 $
Trade payables	**145,582**	132,816
Accrued expenses	**33,824**	37,348
Salaries and employee benefits payable	**63,501**	56,006
Government remittances	**28,314**	18,843
Non-controlling interest *[note 8]*	**22,800**	–
	294,021	245,013

Note 15 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 year ended October 31, 2018 is detailed as follows:

	$
Balance as at October 31, 2017	**47,917**
Additional provisions	**33,033**
Utilization of provisions	**(22,384)**
Unused amounts reversed	**(1,338)**
Balance as at October 31, 2018	**57,228**
Current provisions	**27,313**
Non-current provisions	**29,915**
Balance as at October 31, 2018	**57,228**

Note 16 Long-term debt

On May 11, 2018, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new 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 October 31, 2018, 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 October 31, 2018, $56,151 had been drawn down under the facility [$54,847 as at October 31, 2017], of which $51,184 is 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 17 Other liabilities

	2018 $	2017 $
Employee benefits *[note 23]*	**40,388**	40,764
Deferred lease inducements	**51,637**	29,649
Non-controlling interest *[note 8]*	**22,800**	26,400
	114,825	96,813
Less non-controlling interest included in Trade and other payables *[note 14]*	**(22,800)**	—
	92,025	96,813

Non-controlling interest

The minority shareholder of the subsidiary Trafictours Canada Inc. could require that the Corporation purchase its Trafictours Canada Inc. shares at a price equal to a pre-determined formula, subject to adjustment according to the circumstances, payable in cash. The fair value of this option is taken into account in the carrying amount of the non-controlling interest.

Note 18 Equity

Authorized share capital

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

Issued and outstanding share capital

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

	Number of shares	$
Balance as at October 31, 2016	36,859,165	214,250
Issued from treasury	195,240	1,094
Exercise of options	9,221	100
Balance as at October 31, 2017	37,063,626	215,444
Issued from treasury	**188,785**	**1,555**
Exercise of options	**292,924**	**2,685**
Balance as at October 31, 2018	**37,545,335**	**219,684**

As at October 31, 2018, the number of Class A Shares and Class B Shares was 2,931,020 and 34,614,315, respectively [3,457,571 and 33,606,055, respectively, as at October 31, 2017].

Subscription rights plan

At the Annual General Meeting ["AGM"] held on March 16, 2017, the shareholders approved the update and renewal of the shareholders' subscription rights plan [the "rights plan"]. The rights plan entitles holders of Class A Shares and Class B Shares to acquire, under certain conditions, additional shares at a price equal to 50% of their market value at the time the rights are exercised. The rights plan is designed to give the Board of Directors time to consider alternatives, thus allowing shareholders to receive full and fair value for their shares. Besides the cosmetic changes relating to dates, the new rights plan contains amendments such as the extension in the time limit for a permitted bid from 60 days to 105 days and the change in the definition of a competing permitted bid. The rights plan will terminate on the day after the 2020 AGM, unless terminated prior to said AGM.

Stock option plan

Under the stock option plan, the Corporation may grant up to a maximum of 829,196 additional Class A Shares or Class B Shares to eligible persons at a share price equal to the weighted average price of the shares during the five trading days prior to the option grant date. The option exercise period and the performance criteria are determined on each grant. The options granted between January 14, 2009 and October 31, 2015 are exercisable in three tranches of 33.33% as of mid-December of each year following the grant, provided the performance criteria determined on each grant are met. For options granted starting November 1, 2015, vesting will no longer depend on meeting performance criteria. The options granted before October 31, 2013 are exercisable over a ten-year period, whereas those granted after that date are exercisable over a seven-year period, respectively. Provided the performance criteria set on grant date are met, the exercise of any non-vested tranche of options during the first three years following the grant date due to the performance criteria not being met may be extended three years.

The following tables summarize all outstanding options:

	2018		2017	
	Number of options	Weighted average price $	Number of options	Weighted average price $
Beginning of year	**2,246,032**	**10.57**	2,611,891	11.94
Granted	**157,735**	**10.94**	135,406	8.97
Exercised	**(292,924)**	**6.40**	(9,221)	7.48
Cancelled	**(160,801)**	**13.43**	(332,178)	11.23
Expired	**(163,454)**	**20.46**	(159,866)	30.43
End of year	**1,786,588**	**10.13**	2,246,032	10.57
Options exercisable, end of year	**1,412,111**	**10.03**	1,911,981	10.71

	Outstanding options			Options exercisable	
Range of exercise price $	Number of options outstanding as at October 31, 2018	Weighted average remaining life	Weighted average price $	Number of options exercisable as at October 31, 2018	Weighted average price $
6.01 to 7.48	**594,651**	**3.6**	**6.87**	**594,651**	**6.87**
8.73 to 11.22	**626,269**	**3.4**	**10.08**	**330,352**	**10.16**
12.25 to 12.49	**463,618**	**1.8**	**12.37**	**385,058**	**12.35**
19.24	**102,050**	**2.2**	**19.24**	**102,050**	**19.24**
	1,786,588	**3.0**	**10.13**	**1,412,111**	**10.03**

COMPENSATION EXPENSE RELATED TO STOCK OPTION PLAN

During the year ended October 31, 2018, the Corporation granted 157,735 stock options [135,406 in 2017] to certain key executives and employees. The average fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model. The assumptions used and the weighted average fair value of the options on the date of grant are as follows:

	2018	2017
Risk-free interest rate	**1.80%**	1.43%
Expected life	**4 years**	4 years
Expected volatility	**39.0%**	42.0%
Dividend yield	**0.0%**	0.0%
Weighted average fair value at date of grant	**$3,59**	$3,09

During the year ended October 31, 2018, the Corporation recorded a compensation expense of $496 [$115 in 2017] for its stock option plan.

Performance share unit plan

Performance share units ["PSUs"] are awarded in connection with the performance share unit plan for senior executives. Under this plan, each eligible senior executive receives a portion of his or her compensation in the form of PSUs. PSUs consist of a number equal to a percentage of the participant's basic salary, divided by the fair market value of Class B Shares as at the award date. Once vested, PSUs give the participant the right to receive an equal number of shares or a cash payment, at the Corporation's discretion. Starting in 2017, PSUs awarded vest 100% in mid-January three years following the award, provided the performance criteria determined on the award are met. PSUs awarded prior to 2017 vest in three tranches of 16.67% in mid-January of each year for three years following the award, provided the performance criteria determined on each award are met. The remaining 50% of PSUs awarded vest in mid-January three years following their award, provided the plan member is still an employee of the Corporation.

During the year ended October 31, 2018, the Corporation granted 236,492 PSUs [258,298 in 2017] to its key executives and employees. As at October 31, 2018, the number of PSUs awarded amounted to 469,895. During the year ended October 31, 2018, the Corporation recognized a compensation expense of $1,714 [$196 in 2017] for its performance share unit plan.

Share purchase plan

A share purchase plan is available to eligible employees of the Corporation and its subsidiaries. At the annual meeting held on March 15, 2018, the shareholders approved the implementation of a new reserve of 600,000 shares issuable in addition to the balance remaining under the plan. Under the plan, as at October 31, 2018, the Corporation was authorized to issue up to 525,652 shares. The plan allows each eligible employee to purchase shares up to an overall limit of 10% of his or her annual salary in effect at the time of plan enrolment. The purchase price of the shares under the plan is equal to the weighted average price of the shares during the five trading days prior to the issue of the shares, less 10%.

During the year, the Corporation issued 188,785 shares [195,240 Class B Shares in 2017] for a total of $1,555 [$1,094 in 2017] under the share purchase plan.

Stock ownership incentive and capital accumulation plan

Subject to participation in the share purchase plan offered to all eligible employees of the Corporation, the Corporation awards annually to each eligible officer a number of shares, the aggregate purchase price of which is equal to an amount of 30% or 60% of the maximum percentage of salary contributed, which may not exceed 5%. Shares so awarded by the Corporation will vest to the eligible employee, subject to the retention during the first six months of the vesting period of all the shares purchased under the Corporation's share purchase plan.

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

During the year ended October 31, 2018, the Corporation recognized a compensation expense of $188 [$179 in 2017] for its stock ownership incentive and capital accumulation plan.

Permanent stock ownership incentive plan

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

During the year ended October 31, 2018, the Corporation recognized a compensation expense of $238 [$266 in 2017] for its permanent stock ownership incentive plan.

Deferred share unit plan

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

As at October 31, 2018, the number of DSUs awarded amounted to 274,345 [231,227 as at October 31, 2017]. During the year ended October 31, 2018, the Corporation recorded a compensation expense reversal of $496 [compensation expense of $1,228 in 2017] for its deferred share unit plan.

Restricted share unit plan

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

As at October 31, 2018, the number of RSUs awarded amounted to 925,929 [1,075,534 as at October 31, 2017]. During the year ended October 31, 2018, the Corporation recorded a nil compensation expense [nil compensation expense in 2017] for its restricted share unit plan.

Earnings per share

Basic and diluted earnings per share were calculated as follows:

[In thousands, except per share amounts]	2018 $	2017 $
NUMERATOR		
Net income attributable to shareholders	**3,819**	134,308
DENOMINATOR		
Adjusted weighted average number of outstanding shares	**37,394**	36,995
Effect of dilutive securities		
Stock options	**168**	45
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,562**	37,040
Earnings per share		
Basic	**0.10**	3.63
Diluted	**0.10**	3.63

For the purposes of calculating diluted earnings per share for the year ended October 31, 2018, 911,734 outstanding stock options [1,772,084 in 2017] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

Note 19 Additional disclosure on expenses

Salaries and employee benefits

	2018 $	2017 $
Salaries and other employee benefits	**381,889**	368,820
Long-term employee benefits *[note 23]*	**2,799**	2,732
Share-based payment expense	**2,210**	311
	386,898	371,863

Depreciation and amortization

	2018 $	2017 $
Property, plant and equipment	**44,759**	58,659
Intangible assets subject to amortization	**14,489**	9,368
Other assets	**118**	683
Deferred lease inducements	**(241)**	(240)
	59,125	68,470

Note 20 Special items

Special items mainly include termination benefits. During the year ended October 31, 2018, the Corporation recorded a restructuring charge of $2,262 [$2,925 for the year ended October 31, 2017], comprising mainly termination benefits, of which an amount of $1,772 was unpaid as at October 31, 2018 and included under accounts payable and accrued liabilities.

Note 21 Income taxes

The major components of the income tax expense for the years ended October 31 are:

Consolidated statements of income	2018	2017
	$	$
Current		
Current income taxes	**(7,505)**	15,378
Adjustment to taxes payable for prior years	**1,011**	3,306
	(6,494)	18,684
Deferred		
Relating to temporary differences	**1,083**	(2,366)
Adjustment to deferred taxes for prior years	**(532)**	(2,886)
	551	(5,252)
Income tax expense (recovery)	**(5,943)**	13,432

The reconciliation of income taxes, computed at the Canadian statutory rates, to income tax expense was as follows for the years ended October 31:

	2018		2017	
	%	$	%	$
Income taxes at the statutory rate	**26.7**	**379**	26.8	40,709
Increase (decrease) resulting from:				
Effect of differences in Canadian and foreign tax rates	**(229.0)**	**(3,247)**	(2.4)	(3,629)
Non-deductible (non-taxable) items	**(321.8)**	**(4,563)**	(16.4)	(24,670)
Recognition of previously unrecorded tax benefits	**(11.0)**	**(156)**	—	(46)
Derecognition of a future income tax asset	**61.6**	**874**	0.3	402
Adjustments for prior years	**33.8**	**479**	0.3	420
Effect of tax rate changes	**(0.8)**	**(12)**	0.1	114
Other	**21.4**	**303**	0.1	132
	(419.1)	**(5,943)**	8.8	13,432

The applicable statutory income tax rate was 26.7% for the year ended October 31, 2018 [26.8% for the year ended October 31, 2017]. The 0.1% rate decrease is due to the reduction in the applicable Québec tax rate which was lowered from 11.8% to 11.7%. The Corporation's applicable statutory income tax rate is the applicable combined Canadian (federal and Québec) tax rate.

Deferred taxes reflect the net tax impact of temporary differences between the value of assets and liabilities for accounting and tax purposes. The main components and changes in temporary differences in deferred tax assets and liabilities for fiscal years 2018 and 2017 were as follows:

	2018				
	Balance, beginning of year	**Recognized in net income**	**Recognized in other comprehensive income**	**Exchange differences**	**Balance, end of year**
	$	**$**	**$**	**$**	**$**
Deferred tax losses	**1,467**	**(1,224)**	**—**	**—**	**243**
Excess of tax value over net carrying value of:					
Property, plant and equipment and software	**(12,646)**	**525**	**—**	**18**	**(12,103)**
Intangible assets, excluding software	**837**	**9**	**—**	**9**	**855**
Derivative financial instruments	**(2,750)**	**271**	**(1,874)**	**—**	**(4,353)**
Other financial assets and other assets	**1,289**	**(148)**	**—**	**—**	**1,141**
Provisions	**13,151**	**3,030**	**—**	**—**	**16,181**
Employee benefits	**10,802**	**496**	**(595)**	**—**	**10,703**
Other financial liabilities and other liabilities	**1,919**	**(3,510)**	**—**	**—**	**(1,591)**
Deferred tax	**14,069**	**(551)**	**(2,469)**	**27**	**11,076**

	2017					
	Balance, beginning of year	**Recognized in net income**	**Recognized in other comprehensive income**	**Recognized in assets held for sale**	**Exchange differences**	**Balance, end of year**
	$	**$**	**$**	**$**	**$**	**$**
Deferred tax losses	112	1,360	—	—	(5)	1,467
Excess of tax value over net carrying value of:						
Property, plant and equipment and software	(13,537)	770	—	144	(23)	(12,646)
Intangible assets, excluding software	922	(82)	—	—	(3)	837
Derivative financial instruments	1,804	(3,690)	(864)	—	—	(2,750)
Other financial assets and other assets	953	336	—	—	—	1,289
Provisions	8,288	4,863	—	—	—	13,151
Employee benefits	10,868	335	(401)	—	—	10,802
Other financial liabilities and other liabilities	657	1,360	—	(34)	(64)	1,919
Deferred tax	10,067	5,252	(1,265)	110	(95)	14,069

The net deferred tax assets are detailed below:

	2018	**2017**
	$	**$**
Deferred tax assets	**13,095**	16,286
Deferred tax liabilities	**(2,019)**	(2,217)
Net deferred tax assets	**11,076**	14,069

Non-capital losses recorded in various jurisdictions expire as follows:

Year of expiry	Unrecognized $	Recognized $
2019 - 2023	**5,262**	**—**
2024 - 2028	**857**	**—**
2029 - 2033	**124**	**—**
2034 - 2039	**805**	**—**
With no expiry	**1,506**	**918**
	8,554	**918**

As at October 31, 2018, non-capital losses carried forward and other unrecognized tax deductions available to reduce future taxable income of certain subsidiaries in Mexico total MXP 91,014 [$5,895] [MXP 89,217 [$6,013] as at October 31, 2017]. These losses and deductions expire in 2019 and thereafter. Unrecognized capital losses as at October 31, 2018 total $4,317 ($5,565 as at October 31, 2017).

The Corporation recognized no deferred tax liability on retained earnings of its foreign subsidiaries and its associate company as these earnings are considered to be indefinitely reinvested. However, if these earnings are distributed in the form of dividends or otherwise, the Corporation may be subject to corporate income tax or withholding tax in Canada and/or abroad. As of October 31, 2018, there are no taxable temporary differences for which a deferred income tax liability was recorded.

Note 22 Related party transactions and balances

The consolidated financial statements include the accounts of the Corporation and those of its subsidiaries. The main subsidiaries and joint venture of the Corporation are listed below:

	Country of incorporation		Interest (%)
		2018	2017
Air Transat A.T. inc.	Canada	**100.0**	100.0
Transat Tours Canada inc.	Canada	**100.0**	100.0
Transat Distribution Canada inc.	Canada	**100.0**	100.0
Jonview Canada Inc. *[note 5]*	Canada	**—**	100.0
Transat Holidays USA Inc.	United States	**100.0**	100.0
11061987 Florida Inc.	United States	**100.0**	—
The Airline Seat Company Ltd.	United Kingdom	**100.0**	100.0
Air Consultants France S.A.S.	France	**100.0**	100.0
Air Consultant Europe B.V.	Netherlands	**100.0**	100.0
Caribbean Transportation Inc.	Barbados	**70.0**	70.0
CTI Logistics Inc.	Barbados	**70.0**	70.0
Sun Excursion Caribbean Inc.	Barbados	**70.0**	70.0
Propiedades Profesionales Dominicanas Carhel S.R.L.	Dominican Republic	**70.0**	70.0
Servicios y Transportes Punta Cana S.R.L.	Dominican Republic	**70.0**	70.0
TTDR Travel Company S.A.S.	Dominican Republic	**70.0**	70.0
Turissimo Carribe Excusiones Dominican Republic C por A	Dominican Republic	**70.0**	70.0
Turissimo Jamaica Ltd.	Jamaica	**70.0**	70.0
Laminama S.A. de C.V.	Mexico	**100.0**	—
Trafictours de Mexico S.A. de C.V.	Mexico	**70.0**	70.0
Promotora Turística Regional S.A. de C.V.	Mexico	**100.0**	100.0
Desarrollo Transimar S.A. de C.V.	Mexico	**50.0**	50.0

Compensation of key senior executives

The annual compensation and related compensation costs of directors and key senior executives, namely the President and Chief Executive Officer and the Senior Vice Presidents of the Corporation were as follows:

	2018 $	2017 $
Salaries and other employee benefits	**5,566**	4,302
Long-term employee benefits	**1,331**	1,252
Share-based payment expense	**1,753**	276

Note 23 Employee future benefits

The Corporation offers defined benefit pension arrangements to certain senior executives and defined contribution plans to certain employees.

Defined benefit arrangements and post-employment benefits

The defined benefit pension plans offered to certain senior executives provide for payment of benefits based on the number of years of eligible service provided and the average eligible earnings for the five years in which the participant's eligible earnings were the highest. These arrangements are not funded; however, to secure its obligations related to defined benefit pension arrangements, the Corporation has issued a $51,184 letter of credit to the trustee *[see note 6]*. The Corporation uses an actuarial estimate to measure its obligations as at October 31 each year.

The following table provides a reconciliation of changes in the defined benefit obligation as at October 31, 2018 and 2017:

	2018 $	2017 $
Present value of obligations, beginning of year	**40,764**	40,400
Current service cost	**1,342**	1,388
Financial costs	**1,457**	1,344
Benefits paid	**(956)**	(871)
Experience losses (gains)	**238**	(224)
Actuarial gain on obligation	**(2,457)**	(1,273)
Present value of obligations, end of year	**40,388**	40,764

The following table provides the components of retirement benefit expense for the years ended October 31:

	2018 $	2017 $
Current service cost	**1,342**	1,388
Interest cost	**1,457**	1,344
Total cost of retirement benefits	**2,799**	2,732

The following table indicates projected payments under defined benefit pension plan arrangements as at October 31, 2018:

	$
Under one year	**960**
One to five years	**10,553**
Between five and 10 years	**14,100**
Between 10 and 15 years	**12,669**
Between 15 and 20 years	**10,875**
	49,157

The weighted average duration of the defined benefit obligation related to pension arrangements was 12.2 years as at October 31, 2018.

The significant actuarial assumptions used to determine the Corporation's retirement benefit obligation and expense were as follows:

	2018 **%**	**2017** **%**
Retirement benefit obligation		
Discount rate	**4.00**	3.50
Rate of increase in eligible earnings	**2.75**	2.75
Retirement benefit expense		
Discount rate	**3.50**	3.25
Rate of increase in eligible earnings	**2.75**	2.75

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

Increase (decrease)	**Retirement benefit expense for the year ended October 31, 2018** **$**	**Retirement benefit obligations as at October 31, 2018** **$**
Discount rate	**(3)**	**(1,153)**
Rate of increase in eligible earnings	**14**	**61**

The funded status of the benefits and the amounts recorded in the statement of financial position under other liabilities were as follows:

	2018 **$**	**2017** **$**
Plan assets at fair value	**—**	—
Accrued benefit obligation	**40,388**	40,764
Retirement benefit deficit	**40,388**	40,764

Changes in the cumulative amount of net actuarial losses recognized in other comprehensive income (loss) and presented as a separate component of retained earnings were as follows:

Gains (losses)	$
October 31, 2016	(9,904)
Actuarial gains	1,497
Income taxes	(401)
October 31, 2017	(8,808)
Actuarial gains	**2,219**
Income taxes	**(595)**
October 31, 2018	**(7,184)**

Defined contribution pension plans

The Corporation offers defined contribution pension plans to certain employees with contributions based on a percentage of salary.

Contributions to defined contribution pension plans, which are recognized at cost, amounted to $13,559 for the year ended October 31, 2018 [$11,673 for the year ended October 31, 2017].

Note 24 Commitments and contingencies

Operating leases

The Corporation leases aircraft, buildings, automotive equipment, communications systems and office premises relating to travel sales. The minimum lease payments under non-cancellable operating leases are as follows:

	2018	**2017**
	$	**$**
Under one year	**199,662**	165,293
One to five years	**946,756**	661,856
Over five years	**1,328,858**	890,234
	2,475,276	1,717,383

The lease expense totals $143,805 for the year ended October 31, 2018 [$151,652 for the year ended October 31, 2017].

Other commitments

The Corporation also has purchase obligations under various contracts entered into in the normal course of business. The purchase obligations are as follows:

	2018 $	2017 $
Under one year	**62,779**	94,640
One to five years	**9,748**	—
Over five years	**7,321**	—
	79,848	94,640

Litigation

In the normal course of business, the Corporation is exposed to various claims and legal proceedings. These disputes often involve numerous uncertainties and the outcome of the individual cases is unpredictable. According to management, these claims and proceedings are adequately provided for or covered by insurance policies and their settlement should not have a significant negative impact on the Corporation's financial position, subject to the paragraph hereunder. The Corporation has directors' and officers' liability insurance as well as professional liability insurance and the amount of coverage under said insurance policies is usually sufficient to pay the amounts the Corporation may be required to disburse in connection with these lawsuits. In all these lawsuits, the Corporation has and will continue to vigorously defend its position.

The Corporation is currently involved in a particular litigation in which Plaintiffs allege misappropriation of confidential information and solicitation of employees. Although the Amended Complaint fails to disclose a specific amount of monetary damages, Plaintiffs' principal, during his deposition, asserted that the damages sought were at least US$30,000 [$39,400]. The Corporation is of the view that these proceedings are not well-founded and lack merit. As such, it will continue to vigorously defend this lawsuit. The Corporation is also of the view that Plaintiffs have not provided sufficient evidence to substantiate the whole of their claim or the quantum of damages being sought. Therefore, at this stage, it is not possible to determine with any degree of certainty the extent of any financial liability that may arise should the Corporation be unsuccessful in its defence of this lawsuit. No amounts have been accrued with respect to this lawsuit as of October 31, 2018.

Other

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the fiscal treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities. No provisions are made in connection with this issue, which could result in expenses of approximately $16,200, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, the Corporation already paid $15,100 to the tax authorities in respect of this matter during the fiscal year ended October 31, 2015 and objected to the notices of assessment received. This amount is recognized as income taxes receivable as at October 31, 2018 and 2017.

Note 25 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 financial statements provide information about some of these agreements. The following constitutes additional disclosure.

Operating leases

The Corporation's subsidiaries have general indemnity clauses in many of their airport and other real estate leases whereby they, as lessee, indemnify the lessor against liabilities related to the use of the leased property. These leases 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 October 31, 2018, the total amount of these guarantees unsecured by deposits was $419. Historically, the Corporation has not made any significant payments under such agreements. As at October 31, 2018, no amounts had been accrued with respect to the above-mentioned agreements.

Irrevocable credit facility unsecured by deposits

The Corporation has a $50,000 guarantee facility renewable annually. Under this agreement, the Corporation may issue collateral security contracts with a maximum three-year term. As at October 31, 2018, $31,221 had been drawn under the facility [$27,137 in 2017].

Note 26 Segmented disclosure

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

Note 27 Subsequent event

On November 28, 2018, the Corporation acquired land in Puerto Morelos for an amount of US$13,000 [$17,293] of which US$9,000 [11,972] was paid in cash on that date. The balance of US$4,000 [$5,321] is payable under certain contractual conditions.