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MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") provides a review of Transat A.T. Inc.'s operations, performance and financial position for the year ended October 31, 2018, compared with the year ended October 31, 2017, and should be read in conjunction with the audited consolidated financial statements and notes thereto. The information contained herein is dated as of December 12, 2018. You will find more information about us on Transat's website at www.transat.com and on SEDAR at www.sedar.com, including the Attest Reports for the year ended October 31, 2018 and the Annual Information Form.

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

1. CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

Forward-looking statements, by their nature, involve risks and uncertainties that could cause actual results to differ materially from those contemplated by these forward-looking statements. Results indicated in forward-looking statements may differ materially from actual results for a number of reasons, including without limitation, economic conditions, changes in demand due to the seasonal nature of the business, extreme weather conditions, climatic or geological disasters, war, political instability, real or perceived terrorism, outbreaks of epidemics or disease, consumer preferences and consumer habits, consumers' perceptions of the safety of destination services and aviation safety, demographic trends, disruptions to the air traffic control system, the cost of protective, safety and environmental measures, competition, the Corporation's ability to maintain and grow its reputation and brand, the availability of funding in the future, fluctuations in fuel prices and exchange rates and interest rates, the Corporation's dependence on key suppliers, the availability and fluctuation of costs related to our aircraft, information technology and telecommunications, changes in legislation, unfavourable regulatory developments or procedures, pending litigation and third party lawsuits, the ability to reduce operating costs, the Corporation's ability to attract and retain skilled resources, labour relations, collective bargaining and labour disputes, pension issues, maintaining insurance coverage at favourable levels and conditions and at an acceptable cost, and other risks detailed in the Risks and Uncertainties section of this MD&A.

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

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

- The outlook whereby our new hotel chain will strengthen Transat's profitability, particularly during winter.
- The outlook whereby the Corporation has the resources it needs to meet its 2019 objectives and to continue building on its long-term strategies.
- The outlook whereby the Corporation expects revenues and total travellers to increase compared with 2018.
- The outlook whereby the Corporation expects to generate positive cash flows from operating activities in 2019.

- The outlook whereby additions to property, plant and equipment and intangible assets could amount to approximately $40.0 million, excluding any land and hotel acquisitions related to the development of our hotel chain.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for winter 2019 on the sun destinations market, the impact of fluctuations in the Canadian dollar, combined with increased fuel costs, will result in a 3.4% increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable.

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

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

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

2. NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

(in thousands of Canadian dollars, except per share amounts)	**2018** **$**	2017 $	2016 $
Operating income (loss)	**(44,575)**	34,720	(30,335)
Lump-sum payments related to collective agreements	**—**	—	7,263
Special items	**2,262**	2,925	6,562
Depreciation and amortization	**59,125**	68,470	50,038
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(299)**	(4,090)	(7,752)
Adjusted operating income	**16,513**	102,025	25,776
Income (loss) before income tax expense	**1,418**	151,804	(97,374)
Lump-sum payments related to collective agreements	**—**	—	7,263
Special items	**2,262**	2,925	6,562
Change in fair value of fuel-related derivatives and other derivatives	**1,284**	(9,187)	(6,901)
Loss (gain) on business disposals	**(31,064)**	(86,616)	843
Foreign exchange gain on business disposal	**—**	(15,478)	—
Asset impairment	**—**	—	79,708
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(299)**	(4,090)	(7,752)
Adjusted pre-tax income (loss)	**(26,399)**	39,358	(17,651)
Net income (loss) attributable to shareholders	**3,819**	134,308	(41,748)
Net loss (income) from discontinued operations	**—**	—	(49,772)
Lump-sum payments related to collective agreements	**—**	—	7,263
Special items	**2,262**	2,925	6,562
Change in fair value of fuel-related derivatives and other derivatives	**1,284**	(9,187)	(6,901)
Loss (gain) on business disposals	**(31,064)**	(86,616)	843
Foreign exchange gain on business disposal	**—**	(15,478)	—
Asset impairment	**—**	—	79,708
Premiums related to fuel-related derivatives and other derivatives matured during the year	**(299)**	(4,090)	(7,752)
Tax impact	**(542)**	7,237	(3,745)
Adjusted net income (loss)	**(24,540)**	29,099	(15,542)
Adjusted net income (loss)	**(24,540)**	29,099	(15,542)
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,562**	37,040	36,899
Adjusted net income (loss) per share	**(0.65)**	0.79	(0.42)

	October 31, 2018 $	October 31, 2017 $	October 31, 2016 $
Aircraft rent	**124,454**	132,139	135,813
Multiple	**5**	5	5
Adjusted operating leases	**622,270**	660,695	679,065
Long-term debt	**—**	—	—
Adjusted operating leases	**622,270**	660,695	679,065
Total debt	**622,270**	660,695	679,065
Total debt	**622,270**	660,695	679,065
Cash and cash equivalents	**(593,654)**	(593,582)	(363,664)
Total net debt	**28,616**	67,113	315,401

3. FINANCIAL HIGHLIGHTS

				Change	
(in thousands of Canadian dollars, except per share amounts)	2018 $	2017 $	2016 $	2018 %	2017 %
Consolidated Statements of Income (Loss)					
Revenues	**2,992,582**	3,005,345	2,889,646	(0.4)	4.0
Operating income (loss)	**(44,575)**	34,720	(30,335)	(228.4)	214.5
Net income (loss) attributable to shareholders	**3,819**	134,308	(41,748)	(97.2)	421.7
Basic earnings (loss) per share	**0.10**	3.63	(1.13)	(97.2)	421.2
Diluted earnings (loss) per share	**0.10**	3.63	(1.13)	(97.2)	421.2
Adjusted operating income[(1)]	**16,513**	102,025	25,776	(83.8)	295.8
Adjusted net income (loss)[(1)]	**(24,540)**	29,099	(15,542)	(184.3)	287.2
Adjusted net income (loss) per share[(1)]	**(0.65)**	0.79	(0.42)	(182.3)	288.1
Consolidated Statements of Cash Flows					
Operating activities	**68,804**	161,487	43,561	(57.4)	270.7
Investing activities	**(93,644)**	97,901	5,093	(195.7)	1,822.3
Financing activities	**(430)**	(3,596)	(9,823)	88.0	63.4
Effect of exchange rate changes on cash and cash equivalents	**(982)**	450	(12,132)	(318.2)	103.7
Net change in cash and cash equivalents	**(26,252)**	256,242	26,699	(110.2)	859.7

	As at October 31, 2018 $	As at October 31, 2017 $	As at October 31, 2016 $	Change 2018 %	Change 2017 %
Consolidated Statements of Financial Position					
Cash and cash equivalents	**593,654**	593,582	363,664	0.0	63.2
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**338,919**	309,064	338,581	9.7	(8.7)
	932,573	902,646	702,245	3.3	28.5
Total assets	**1,559,860**	1,453,216	1,227,420	7.3	18.4
Debt (current and non-current)	**—**	—	—	—	—
Total debt[(1)]	**622,270**	660,695	679,065	(5.8)	(2.7)
Total net debt[(1)]	**28,616**	67,113	315,401	(57.4)	(78.7)

[(1)] See section 2 – Non-IFRS financial measures

4. OVERVIEW

THE HOLIDAY TRAVEL INDUSTRY

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

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

CORE BUSINESS, VISION AND STRATEGY

Core business

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

Vision

As a leader in holiday travel, Transat intends to pursue growth by inspiring trust in travellers and by offering them an experience that is exceptional, heart-warming and reliable. Our customers are our primary focus, and sustainable development of tourism is our passion. We intend to expand our range of operations and mission to include the hotel business.

Strategy

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

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

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

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

For 2019, Transat has set the following objectives:

1. Develop our hotel division: start construction work on the first hotel in Mexico, acquire a second parcel of land or a hotel in operation and finish setting up the team
2. Strengthen our air network: increase network density by increasing frequencies on our main routes and consider potential feeder/defeeder alliances to increase route density
3. Increase our revenues, by improving ancillary revenue streams and by attaining a higher level of expertise and the implementation of new practices within the revenue management department
4. Transform our fleet: complete the changes planned for this year, including the introduction of the first A321neo LRs, finalize fleet planning over 3–5 years, while improving reliability, and integrating new pilot fatigue rules and the passenger bill of rights
5. Reduce and control costs
6. Optimize distribution, namely by increasing our involvement in direct distribution channels
7. Increase customer satisfaction, measured by our Net Promoter Score
8. Expand our digital footprint with customers and digitize and automate business processes
9. Unite our teams and maintain their engagement

REVIEW OF OBJECTIVES AND ACHIEVEMENTS FOR 2018

The main objectives and achievements for 2018 were as follows:

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

We started to establish our hotel division in February with the appointment of Jordi Solé as President of the division. We then conducted the necessary research and acquired (in September and November) two adjacent parcels of land to build a hotel resort in Mexico. We pursue our endeavours to acquire additional land or existing hotels. We are in the process of hiring several other senior managers to complete the division's team in the coming months.

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

We have made significant changes to our revenue management practices to maximize flight revenues and optimize pricing methodology. First, we have implemented a pricing strategy to stimulate demand. Second, we now manage our inventory to allocate our seats by booking class. These changes will allow us to compile a sufficiently robust history to achieve the optimal allocation of our seats across the classes, as well as the best positioning of our aircraft fleet, while reducing our operating costs.

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

We continued to improve our multichannel distribution, notably through expansion in direct sales (i.e., with no intermediary). Today, direct sales account for 50% of our seats sold on air-only flights and nearly 20% of our packages.

We also continued to strengthen our digital initiatives to interact with our customers at all points of contact. As a result, we have launched a new version of our mobile application which has an integrated booking tool (package, flight, à la carte hotel and car rental), and allows for the creation of personalized itineraries, online check-in and electronic boarding passes.

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

Centralized management of customer files has enabled us to provide a more personalized and efficient service. We can now better understand our customer needs and thus increase their satisfaction levels. Since the launch of the centralized customer file management system at the call centre in summer 2017, we have saved 45 seconds per call and boosted productivity by 5%. In addition, we have consolidated our air websites on a unified platform offered in 18 languages and cultures, both mobile and web-based, providing customers with personalized offers while simplifying their shopping and travel experience.

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

On October 18, 2018, Transat became the first major international tour operator to earn a Travelife certification for the full range of its activities. This recognition is the culmination a 12-year commitment and confirms Transat's leadership in sustainable development. To hold this world-leading certification for tourism companies, Transat must comply with more than 200 criteria covering its workplace practices, product range, business partners and customers. We will now work steadfastly to pursue the continuous-improvement processes required to maintain this certification and become a company that shows ever-increasing respect for the principles of sustainable development. And to do so, we rely on the hard work and shared commitment of our personnel and of our tourism partners.

We also continued the deployment of a tool to measure employee satisfaction in real-time, which is now implemented for nearly 1,600 employees, or substantially all our non-unionized employees, with a bimonthly response rate of over 80%. This allows us to ensure that we maintain a high commitment rate, while allowing managers to respond to employee concerns in a timely manner.

Key Performance Drivers

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

Adjusted operating income	Obtain an adjusted operating income margin higher than 3% of revenues.
Market share	Consolidate or increase market share in all regions in Canada and in Europe in our traditional markets and establish our first all-inclusive hotel banner in the Caribbean and Mexico.
Revenue growth	Grow revenues at the pace of the market, i.e. around 3% per year in our traditional markets, and operate 5,000 rooms within six years in the hotel business, either owned or managed.

Ability to Deliver on our Objectives

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

Our financial resources are as follows:

Cash	Our balances of cash and cash equivalents not held in trust or otherwise reserved totalled $593.7 million as at October 31, 2018. Our continued focus on expense reductions and operating income growth should maintain these balances at healthy levels and support the implementation of our hotel division.
Credit facilities	A revolving credit facility agreement totalling $50.0 million, among others, is also available for operating purposes.

Our non-financial resources include:

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

Transat has the resources it needs to meet its 2019 objectives and to continue building on its long-term strategies.

5. REVISITING OUR SEPTEMBER 13, 2018 OUTLOOK

	What we said	What we did
Fuel/foreign exchange effect – transatlantic market	7.3% increase in operating expenses for the fourth quarter of 2018.	For the fourth quarter of 2018, the unfavourable fuel/foreign exchange effect resulted in a $33.6 million (7.0%) increase in operating expenses in the transatlantic market, our main market for the period.
Overall results	For the fourth quarter of 2018, overall results lower than in 2017.	For the fourth quarter of 2018, adjusted net income[1] of $16.9 million was lower than in 2017, mainly due to an increase in operating expenses attributable to higher fuel prices.

[1] See section 2 – Non-IFRS financial measures

6. BUSINESS ACQUISITIONS AND DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price totalled $48.9 million, of which $46.7 million was received in cash, with the balance of $2.2 million receivable under certain contractual conditions prior to May 31, 2019. The disposed subsidiary's net assets amounted to $13.4 million on November 30, 2017. The Corporation recognized a gain on business disposal of $31.3 million, net of transaction costs of $0.5 million and of $3.7 million due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which $3.3 million 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.

For the year ended October 31, 2018, Jonview recorded a net loss of $0.9 million. For the year ended October 31, 2017, Jonview recorded a net income of $6.2 million, with a net loss of $3.8 million for the first six-month period and a net income of $10.0 million for the second six-month period.

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$150.5 million [$187.5 million], received in cash. The disposed interest had a carrying value of $97.3 million as at October 4, 2017. During the year ended October 31, 2017, the Corporation recognized a gain on business disposal of $86.6 million, net of transaction costs of $1.7 million, as well as a foreign exchange gain of $15.5 million realized on the reclassification of the cumulative exchange differences related to the investment.

Under the terms of the agreement, on March 8, 2018, the selling price was adjusted downward by US$1.5 million [$1.9 million] to US$149.0 million [$185.6 million]. As a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation recognized a downward adjustment of $0.2 million to the gain on business disposal, bringing the total amount of the gain on disposal of Ocean Hotels to $86.4 million. Transat remains committed to becoming a full-fledged hotel operator and sold its minority interest in Ocean Hotels to accelerate the development of its own sun destination hotel chain.

DESARROLLO TRANSIMAR

On April 3, 2017, the Corporation invested in a hotel on Puerto Vallarta's Pacific coast, which operates under the name Rancho Banderas All Suites Resort, by acquiring a 50% interest in Desarrollo Transimar S.A. de C.V. ["Desarrollo Transimar"], its Mexican owner and operator, for a consideration of US$10.0 million [$13.4 million], of which US$9.5 million [$12.8 million] was paid in cash and US$0.5 million [$0.7 million] 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.

7. CONSOLIDATED OPERATIONS

	2018	2017	2016	Change	
(in thousands of dollars)	$	$	$	%	%
Continuing operations					
Revenues	**2,992,582**	3,005,345	2,889,646	(0.4)	4.0
Operating expenses					
Costs of providing tourism services	**1,091,924**	1,268,832	1,309,430	(13.9)	(3.1)
Aircraft fuel	**498,512**	358,558	329,784	39.0	8.7
Salaries and employee benefits	**386,898**	371,863	346,899	4.0	7.2
Aircraft maintenance	**237,918**	203,669	178,317	16.8	14.2
Airport and navigation fees	**149,699**	134,665	128,695	11.2	4.6
Aircraft rent	**124,454**	132,139	135,813	(5.8)	(2.7)
Commissions	**87,763**	88,635	92,018	(1.0)	(3.7)
Other airline costs	**263,272**	225,512	221,540	16.7	1.8
Other	**135,225**	126,500	119,964	6.9	5.4
Share of net loss (income) of an associate and a joint venture	**105**	(11,143)	(6,342)	(100.9)	75.7
Depreciation and amortization	**59,125**	68,470	50,038	(13.6)	36.8
Special items	**2,262**	2,925	13,825	(22.7)	(78.8)
	3,037,157	2,970,625	2,919,981	2.2	1.7
Operating income (loss)	**(44,575)**	34,720	(30,335)	(228.4)	214.5
Financing costs	**2,061**	2,134	1,669	(3.4)	27.9
Financing income	**(17,935)**	(8,363)	(6,996)	114.5	19.5
Change in fair value of fuel-related derivatives and other derivatives	**1,284**	(9,187)	(6,901)	(114.0)	33.1
Loss (gain) on business disposals	**(31,064)**	(86,616)	843	(64.1)	(10,374.7)
Foreign exchange gain on business disposal	**—**	(15,478)	—	(100.0)	N/A
Foreign exchange loss (gain) on non-current monetary items	**(339)**	426	(1,284)	(179.6)	(133.2)
Asset impairment	**—**	—	79,708	N/A	(100.0)
Income (loss) before income tax expense	**1,418**	151,804	(97,374)	(99.1)	255.9
Income taxes (recovery)					
Current	**(6,494)**	18,684	(17,188)	(134.8)	208.7
Deferred	**551**	(5,252)	6,345	110.5	(182.8)
	(5,943)	13,432	(10,843)	(144.2)	223.9
Net income (loss) from continuing operations	**7,361**	138,372	(86,531)	(94.7)	259.9
Discontinued operations					
Net income from discontinued operations	**—**	—	49,772	—	(100.0)
Net income (loss) for the year	**7,361**	138,372	(36,759)	(94.7)	476.4
Net income (loss) attributable to:					
Shareholders	**3,819**	134,308	(41,748)	(97.2)	421.7
Non-controlling interests	**3,542**	4,064	4,989	(12.8)	(18.5)
	7,361	138,372	(36,759)	(94.7)	476.4
Earnings (loss) per share from continuing operations					
Basic	**0.10**	3.63	(2.48)	(97.2)	246.4
Diluted	**0.10**	3.63	(2.48)	(97.2)	246.4
Earnings (loss) per share					
Basic	**0.10**	3.63	(1.13)	(97.2)	421.2
Diluted	**0.10**	3.63	(1.13)	(97.2)	421.2

REVENUES

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

For the year ended October 31, 2018, revenues were down $12.8 million (0.4%). This decrease resulted mainly from the sale of our Jonview subsidiary. For the year ended October 31, 2018, the Corporation recognized $0.8 million in revenues from Jonview, compared with $182.0 million in 2017. During the summer, the decrease in our revenues, due to the sale of Jonview, was partially offset by a 13.2% increase in the number of travellers in the transatlantic market, our main market during that season, as a result of our decision to increase our capacity by 13.8% in this market, despite slightly lower average selling prices. The decrease in revenues recorded during the year was also partially offset by the increase in revenues for the winter season, which saw a 5.4% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our capacity by 7.7% in that market. The increase in revenues for the winter season was also accentuated by an 18.1% addition to our capacity in the transatlantic market, resulting in a 14.8% rise in the number of travellers in that market. In addition, average selling prices slightly increased across all of our markets during the winter season.

For 2019, we expect revenues and total travellers to increase compared with 2018.

OPERATING EXPENSES

Total operating expenses increased by $66.5 million (2.2%) during the year compared with 2017. The increase was mainly attributable to our winter season, which saw a rise in the number of travellers in the sun destinations market, our main market for the period, partially offset by the strengthening of the dollar against the U.S. dollar. The increase also results from the summer season, during which there was a rise in fuel price indices, combined with an increase in the number of travellers across all of our markets. During the summer, the increase in operating expenses was partially offset by the decrease in the number of person-nights sold in Canada, following the sale of our Jonview subsidiary, and by the strengthening of the dollar against the U.S. dollar.

Costs of providing tourism services

Costs of providing tourism services are incurred by our tour operators. They include hotel room costs and the cost of booking blocks of seats or full flights with carriers other than Air Transat. The $176.9 million (13.9%) decrease resulted primarily from a reduction in the number of person-nights sold in Canada, following the sale of our Jonview subsidiary, and the strengthening of the dollar against the U.S. dollar.

Aircraft fuel

Aircraft fuel expense rose $140.0 million (39.0%) during the year, owing primarily to a rise in fuel price indices in financial markets, combined with higher capacity compared with 2017. The increase in aircraft fuel expense was partially offset by the strengthening of the dollar against the U.S. dollar.

Salaries and employee benefits

Salaries and employee benefits rose $15.0 million (4.0%) to $386.9 million for the year ended October 31, 2018. The increase resulted from annual salary reviews and the hiring of pilots and flight attendants due to higher capacity compared with 2017, offset by lower variable compensation compared with 2017.

Aircraft maintenance

Aircraft maintenance costs consist mainly of engine and airframe maintenance expenses incurred by Air Transat for leased aircraft. Compared with 2017, these expenses rose $34.2 million (16.8%) during the year, due to our increase in capacity compared with last year.

Airport and navigation fees

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. During the year, these fees rose $15.0 million (11.2%) compared with 2017, driven by an increase in our capacity from 2017.

Aircraft rent

The $7.7 million (5.8%) decrease in aircraft rent for the year resulted from the renegotiation of lease agreements for Airbus A330s which are already part of our fleet and the strengthening of the dollar against the U.S. dollar, despite the fact that the number of leased aircraft has increased compared with last year.

Commissions

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commissions amounted to $87.8 million, down $0.9 million (1.0%) compared with 2017. As a percentage of revenues, commissions remained stable and accounted for 2.9% of revenues for the year.

Other air costs

Other air costs consist mainly of handling, crew and catering costs. Other air costs were up $37.8 million (16.7%) for the year, compared with 2017. This increase resulted from a higher capacity compared with 2017.

Other

Other expenses were up $8.7 million (6.9%) during the year, compared with 2017. The increase was primarily due to higher marketing costs.

Share of net income of an associate and a joint venture

In 2018, our share of net income of an associate and a joint venture represents our share of the net income of Desarrollo Transimar, our hotel joint venture acquired in 2017. In 2017, our share of net income of an associate and a joint venture mainly represented our share of the net income of Ocean Hotels, which was sold on October 4, 2017. Our share of net loss of a joint venture for the current year amounted to $0.1 million, compared with the share of net income of an associate and a joint venture of $11.1 million for 2017. This decrease in our share was due to the sale of our interest in Ocean Hotels.

Depreciation and amortization

Depreciation and amortization expense includes depreciation and amortization as well as impairment losses relating to property, plant and equipment, intangible assets and deferred lease incentives. Depreciation and amortization expense was down $9.3 million (13.6%) for 2018. This decrease resulted from a reduction in capitalized maintenance on Airbus A310s, which will be retired from the fleet over the next two years, and an extension of the amortization period of leasehold improvements as a result of the renegotiation of lease agreements for Airbus A330s that are already part of our fleet.

Special items

Special items include the restructuring charge, lump-sum payments related to collective agreements and other significant unusual items. During the year ended October 31, 2018, a restructuring charge of $2.3 million was recognized for termination benefits, compared with a restructuring charge of $2.9 million in 2017.

OPERATING RESULTS

Given the above, we recorded an operating loss of $44.6 million (1.5%) for the year, compared with an operating income of $34.7 million (1.2%) for the previous year. Operating results by season are summarized as follows:

				Change	
	2018	2017	2016	2018	2017
(in thousands of dollars)	$	$	$	%	%
Winter season					
Revenues	**1,627,763**	1,573,642	1,613,944	3.4	(2.5)
Operating expenses	**1,682,305**	1,639,374	1,668,187	2.6	(1.7)
Operating loss	**(54,542)**	(65,732)	(54,243)	17.0	(21.2)
Operating loss (%)	**(3.4)**	(4.2)	(3.4)	19.8	(24.3)
Summer season					
Revenues	**1,364,819**	1,431,703	1,275,702	(4.7)	12.2
Operating expenses	**1,354,852**	1,331,251	1,251,794	1.8	6.3
Operating income	**9,967**	100,452	23,908	(90.1)	320.2
Operating income (%)	**0.7**	7.0	1.9	(89.6)	274.4

We recognized an operating loss for the winter season amounting to $54.5 million (3.4%) compared with $65.7 million (4.2%) in 2017. The decrease in our operating loss was primarily due to a higher number of travellers, combined with a slight increase in average selling prices across all of our markets, as well as the favourable foreign exchange effect which, combined with higher fuel prices, resulted in a $30.4 million decrease in operating expenses. The decrease in our operating loss was offset by lower load factors across all of our markets.

During the summer, operating income totalled $10.0 million (0.7%) compared with $100.5 million (7.0%) for the previous year. The decrease in our operating results was attributable to the increase in fuel prices which, combined with the foreign exchange effect, resulted in a $75.6 million increase in our operating expenses. The decrease in our operating results was accentuated by the disposal of our wholly owned subsidiary Jonview and our minority interest in Ocean Hotels, which contributed $15.0 million to operating results in 2017.

For the winter season, the Corporation recorded an adjusted operating loss of $24.5 million (1.5%), compared with $35.6 million (2.3%) in 2017. For the summer season, the Corporation reported an adjusted operating income of $41.0 million (3.0%), compared with $137.6 million (9.6%) in 2017. Overall, the Corporation reported an adjusted operating income of $16.5 million (0.6%) for the year, compared with $102.0 million (3.4%) in 2017.

OTHER EXPENSES AND REVENUES

Financing costs

Financing costs include interest on long-term debt and other interest, standby fees, as well as financial expenses. Financing costs were down $0.1 million in 2018, compared with 2017.

Financing income

Financing income rose $9.6 million during the year compared with 2017, as a result of an increase in cash and cash equivalents and higher interest rates than in 2017.

Change in fair value of fuel-related derivatives and other derivatives

The change in fair value of fuel-related derivatives and other derivatives corresponds to the change in fair value, for the period, of the portfolio of derivative financial instruments held and used by the Corporation to manage its exposure to fluctuations in fuel prices and foreign exchange. For the year, the fair value of fuel-related derivatives and other derivatives was down $1.3 million, compared with an increase in fair value of $9.2 million in 2017. The decrease was primarily due to the maturing of fuel-related derivatives.

Loss (gain) on business disposals

On November 30, 2017, the Corporation completed the sale of its wholly owned subsidiary Jonview for a consideration of $48.9 million, of which $46.7 million has been collected. The Corporation recognized a gain on business disposal of $31.3 million.

On October 4, 2017, the Corporation completed the sale of its 35% minority interest in Ocean Hotels to H10 Hotels for a total cash consideration of US$150.5 million [$187.5 million], paid in cash on that date. The Corporation recognized a gain on business disposal of $86.6 million for the year ended October 31, 2017. During the year ended October 31, 2018, the Corporation recorded a $0.2 million downward adjustment to the gain on business disposal related to the sale of Ocean Hotels.

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

Foreign exchange gain on business disposal

In 2017, a $15.5 million foreign exchange gain on business disposal was recorded on the reclassification of the cumulative exchange differences related to the sale of our 35% minority interest in Ocean Hotels to H10 Hotels.

Foreign exchange loss (gain) on non-current monetary items

For the year, the Corporation recognized a $0.3 million foreign exchange gain on non-current monetary items, compared with a foreign exchange loss of $0.4 million in 2017. This gain was principally due to favourable exchange rates on foreign currency deposits.

Income Taxes

For the year ended October 31, 2018, income tax recovery amounted to $5.9 million compared with an income tax expense of $13.4 million for the previous year. Excluding the gain on business disposals and the share of net loss (income) of an associate and a joint venture, the effective tax rate was 21.3% for the year ended October 31, 2018 and 24.0% for the previous year. The change in tax rates between fiscal 2018 and 2017 resulted mainly from greater unfavourable permanent differences in 2018.

Net Income

Considering the items discussed in the Consolidated operations section, net income for the year ended October 31, 2018 amounted to $7.4 million, compared with $138.4 million in 2017.

For the year ended October 31, 2018, adjusted net loss amounted to $24.5 million ($0.65 per share) compared with adjusted net income of $29.1 million ($0.79 per share) in 2017.

Net Income (Loss) Attributable to Shareholders

Net income attributable to shareholders amounted to $3.8 million or $0.10 per share, basic and diluted, compared with $134.3 million or $3.63 per share, basic and diluted, for the previous year. The weighted average number of outstanding shares used to compute basic per share amounts was 37,394,000 for 2018 and 36,995,000 for 2017 (37,562,000 and 37,040,000, respectively, for diluted per share amounts).

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Compared with the corresponding quarters of the previous year, quarterly revenues were higher in the winter season and lower in the summer season. For the winter season (Q1 and Q2), following our decision to increase our capacity across all of our markets, the number of travellers and average selling prices were up. For the 2018 summer season (Q3 and Q4), the decrease in revenues was due to the sale of our subsidiary Jonview, partially offset by an increase in business volume in the transatlantic market, our main market for the period.

In terms of operating results, for the winter season (Q1 and Q2), the decrease in our operating loss was primarily due to a higher number of travellers, combined with an increase in average selling prices across all of our markets, as well as the favourable foreign exchange effect on our costs. For the summer season (Q3 and Q4), the deterioration in our operating results was mainly attributable to higher fuel prices, combined with the foreign exchange effect. The decrease in our operating results during the summer was accentuated by the disposal of our wholly owned subsidiary Jonview and our minority interest in Ocean Hotels. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	Q1-2017 $	Q2-2017 $	Q3-2017 $	Q4-2017 $	**Q1-2018** **$**	**Q2-2018** **$**	**Q3-2018** **$**	**Q4-2018** **$**
Revenues	689,332	884,310	733,152	698,551	**725,782**	**901,981**	**696,551**	**668,268**
Aircraft rent	36,103	37,361	32,390	26,285	**30,169**	**33,352**	**32,090**	**28,843**
Operating income (loss)	(50,671)	(15,061)	40,952	59,500	**(45,795)**	**(8,747)**	**(7,994)**	**17,961**
Net income (loss)	(31,054)	(6,155)	27,168	148,413	**(5,233)**	**8,487**	**(3,685)**	**7,792**
Net income (loss) attributable to shareholders	(32,073)	(8,354)	26,588	148,147	**(6,588)**	**6,683**	**(4,038)**	**7,762**
Basic earnings (loss) per share	(0.87)	(0.23)	0.72	4.00	**(0.18)**	**0.18**	**(0.11)**	**0.21**
Diluted earnings (loss) per share	(0.87)	(0.23)	0.72	3.97	**(0.18)**	**0.18**	**(0.11)**	**0.21**
Adjusted operating income (loss)[1]	(37,079)	1,508	59,055	78,541	**(31,026)**	**6,563**	**5,091**	**35,885**
Adjusted net income (loss)[1]	(36,039)	(8,100)	26,857	46,381	**(33,868)**	**(4,548)**	**(3,026)**	**16,902**
Adjusted net income (loss) per share[1]	(0.98)	(0.22)	0.73	1.24	**(0.91)**	**(0.12)**	**(0.08)**	**0.45**

[1] See section 2 – Non-IFRS financial measures

FOURTH-QUARTER HIGHLIGHTS

For the fourth quarter, the Corporation generated $668.3 million in revenues, down $30.3 million (4.3%) from $698.6 million for the corresponding period of 2017. This decrease is due to the sale of our Jonview subsidiary. The decrease in revenues was partially offset by a 14.8% rise in the number of travellers in the transatlantic market, our main market for the period, despite a 1.5% decrease in average selling prices. In this market, the Corporation increased capacity by 13.6% compared with 2017, while overall capacity was up nearly 9%. Our operations generated operating income of $18.0 million, compared with $59.5 million in 2017. The deterioration in our operating income resulted primarily from higher fuel prices which, combined with the foreign exchange effect, resulted in a $35.3 million increase in our operating expenses. The decrease in our operating income was partially offset by increased capacity and load factors in the transatlantic market.

Net income amounted to $7.8 million in the fourth quarter, compared with $148.4 million in 2017. Net income attributable to shareholders was $7.8 million ($0.21 per share, basic and diluted), compared with $148.1 million ($4.00 per share, basic and $3.97 per share, diluted) in 2017.

For the fourth quarter, adjusted net income amounted to $16.9 million ($0.45 per share) compared with $46.4 million ($1.24 per share) in 2017.

8. FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at October 31, 2018, cash and cash equivalents totalled $593.7 million compared with $593.6 million as at October 31, 2017. Cash and cash equivalents in trust or otherwise reserved amounted to $338.9 million as at the end of 2018, compared with $309.1 million in 2017. The Corporation's statement of financial position reflected $315.9 million in working capital, for a ratio of 1.38, compared with $386.6 million and a ratio of 1.51 as at October 31, 2017.

Total assets increased by $106.6 million (7.3%), from $1,453.2 million as at October 31, 2017 to $1,559.9 million as at October 31, 2018. This increase was mainly attributable to higher cash and cash equivalents in trust or otherwise reserved, deferred rent and cash security deposits receivable from lessors due to aircraft maintenance. Equity increased by $21.5 million from $577.9 million as at October 31, 2017 to $599.4 million as at October 31, 2018. This increase resulted primarily from net income attributable to shareholders of $3,8 million, combined with share capital issuances, a $5.2 million unrealized gain on cash flow hedges and a $1.9 million foreign exchange gain on translation of the financial statements of foreign subsidiaries.

Cash Flows

				Change	
	2018	2017	2016	2018	2017
(in thousands of dollars)	$	$	$	%	%
Cash flows related to operating activities	**68,804**	161,487	43,561	(57.4)	270.7
Cash flows related to investing activities	**(93,644)**	97,901	5,093	(195.7)	1,822.3
Cash flows related to financing activities	**(430)**	(3,596)	(9,823)	88.0	63.4
Effect of exchange rate changes on cash	**(982)**	450	(12,132)	(318.2)	103.7
Net change in cash and cash equivalents related to continuing operations	**(26,252)**	256,242	26,699	(110.2)	859.7
Net cash flows related to discontinued operations	**—**	—	542	—	(100.0)

Operating activities

Operating activities generated $68.8 million in cash flows, compared with $161.5 million in 2017. The decrease resulted from a $58.8 million decrease in the net change in non-cash working capital balances related to operations and a $40.6 million decrease in the net income before operating items not involving an outlay (receipt) of cash.

We expect to continue to generate positive cash flows from our operating activities in 2019.

Investing activities

Cash flows used in investing activities amounted to $93.6 million for the current fiscal year, compared with cash inflows of $97.9 million in 2017. In 2018, following the sale of our Jonview subsidiary, we received a consideration of $28.6 million, net of cash disposed of. Additions to property, plant and equipment and intangible assets increased by $49.5 million in 2018 compared with last year, following the acquisition of land in 2018, for an amount of $59.9 million. In 2017, additions related to aircraft maintenance were higher than in 2018. In 2017, following the sale of our 35% minority interest in Ocean Hotels, we received a consideration of $187.5 million. We also invested $15.3 million to acquire 50% of the shares of Desarrollo Transimar and paid $5.0 million to acquire all of the shares of our subsidiary Jonview Canada Inc. in 2017.

In 2019, additions to property, plant and equipment and intangible assets could amount to approximately $40.0 million, excluding any land and hotel acquisitions related to the development of our hotel chain.

Financing activities

Cash flows used in financing activities amounted to $0.4 million compared with $3.6 million in 2017. Cash flow usage was lower than in 2017 mainly due to options exercised totalling $1.9 million in 2018, compared with $0.1 million in 2017, combined with a decrease of $1.1 million in the dividend paid by a subsidiary to a non-controlling shareholder.

Consolidated Financial Position

	October 31, 2018 $	October 31, 2017 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**593,654**	593,582	72	See the *Cash flows* section
Cash and cash equivalents in trust or otherwise reserved	**338,919**	309,064	29,855	Increase in business volume
Trade and other receivables	**140,009**	121,618	18,391	Increase in receivables from lessors due to aircraft maintenance
Income taxes receivable	**26,505**	17,418	9,087	Increase in income taxes recoverable given deductible losses
Inventories	**14,464**	12,790	1,674	Increase in fuel inventory
Prepaid expenses	**63,789**	64,245	(456)	No significant difference
Deposits	**61,992**	52,129	9,863	Increase in deposits related to ordered aircraft
Assets held for sale	**—**	47,472	(47,472)	Sale of Jonview subsidiary in November 2017
Deferred tax assets	**13,095**	16,286	(3,191)	Decrease in deferred taxes related to derivative financial instruments
Property, plant and equipment	**201,478**	134,672	66,806	Land acquisition in Mexico
Intangible assets	**42,689**	49,604	(6,915)	Amortization for the year, partially offset by additions
Derivative financial instruments	**20,497**	18,058	2,439	Favourable change in the dollar against the US dollar related to contracted derivatives
Investments	**16,084**	15,888	196	No significant difference
Other assets	**26,685**	390	26,295	Increase in deferred rent
Liabilities				
Trade and other payables	**294,021**	245,013	49,008	Increase in current portion of non-controlling interest, business volume and salaries payable
Provision for overhaul of leased aircraft	**57,228**	47,917	9,311	Increase in number of leased aircraft
Income taxes payable	**1,117**	8,102	(6,985)	Settlement of balances due
Derivative financial instruments	**3,445**	8,278	(4,833)	Maturity of foreign exchange derivatives during the year
Liabilities related to assets held for sale	**—**	33,109	(33,109)	Sale of Jonview subsidiary in November 2017
Customer deposits and deferred revenues	**510,631**	433,897	76,734	Increase in business volume
Other liabilities	**92,025**	96,813	(4,788)	Decrease in non-current portion of non-controlling interest, partially offset by the increase in deferred aircraft lease incentives
Deferred tax liabilities	**2,019**	2,217	(198)	No significant difference
Equity				
Share capital	**219,684**	215,444	4,240	Options exercised and shares issued from treasury
Share-based payment reserve	**18,017**	17,817	200	No significant difference
Retained earnings	**361,098**	351,138	9,960	Net income for the year
Unrealized gain on cash flow hedges	**9,732**	4,532	5,200	Net gain on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(9,157)**	(11,061)	1,904	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at December 12, 2018, the Corporation had several types of financing, consisting primarily of a revolving term credit facility and lines of credit for issuing letters of credit.

On May 11, 2018, the Corporation renewed its $50 million revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2022, the Corporation may increase the credit limit to $100 million, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial ratios and conditions. As at October 31, 2018, all financial ratios and conditions were met and the credit facility was undrawn.

Off-balance sheet arrangements

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and cash flows, some of which are reported as liabilities in the consolidated financial statements and others are disclosed in the notes to the financial statements. The Corporation did not report any obligations in the statement of financial position as at October 31, 2018 and October 31, 2017.

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

- Guarantees (see notes 16 and 25 to the audited consolidated financial statements)
- Operating leases (see note 24 to the audited consolidated financial statements)
- Purchase obligations (see note 24 to the audited consolidated financial statements)

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $2,506.9 million as at October 31, 2018 ($1,745.2 million as at October 31, 2017) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS	**2018**	**2017**
(in thousands of dollars)	**$**	**$**
Guarantees		
Irrevocable letters of credit	**31,221**	27,137
Collateral security contracts	**419**	701
Operating leases		
Obligations under operating leases	**2,475,276**	1,717,383
	2,506,916	1,745,221
Agreements with suppliers	**79,848**	94,640
	2,586,764	1,839,861

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

The Corporation has a $75.0 million annually renewable revolving credit facility for issuing letters of credit in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at October 31, 2018, $56.2 million had been drawn down under the facility, of which $51.2 million was to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

On February 27, 2018, the Corporation renewed its collateral security facility. Under this agreement, which is now renewable in 2020, the Corporation may issue collateral security contracts with a maximum three-year term and for a total amount of $50.0 million. This facility allows the Corporation, among other things, to issue collateral security contracts to some suppliers to whom letters of credit were previously issued and for which the Corporation had to pledge cash for the total amount of the outstanding letters of credit. As at October 31, 2018, $31.2 million was drawn down under this credit facility for issuing letters of credit to some of our service providers.

For its U.K. operations, the Corporation has a bank line of credit for issuing letters of credit secured by deposits of £3.9 million ($6.6 million), which has been fully drawn down.

As at October 31, 2018, off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $761.7 million compared with October 31, 2017. This increase resulted primarily from the agreements signed to lease thirteen aircraft, including five Airbus A321neo LR, four Airbus A321neos, two Airbus A321ceos and two Airbus A330s, and also from the weakening of the dollar against the U.S. dollar, partially offset by repayments made during the year. The Airbus A321neo LR will gradually integrate our fleet starting in spring 2019 as our A310s are retired and will also replace certain wide-body Airbus A330s with leases expiring through 2022.

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

CONTRACTUAL OBLIGATIONS BY YEAR	**2019**	**2020**	**2021**	**2022**	**2023**	**2024 and beyond**	**Total**
Years ending October 31	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Contractual obligations							
Long-term debt	—	—	—	—	—	—	—
Leases (aircraft)	173,272	203,104	232,874	228,308	218,379	1,280,214	2,336,151
Leases (other)	26,390	22,049	19,101	13,610	9,331	48,644	139,125
Agreements with suppliers and other obligations	63,739	4,718	5,155	5,228	5,200	36,196	120,236
	263,401	**229,871**	**257,130**	**247,146**	**232,910**	**1,365,054**	**2,595,512**

Debt levels

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

The Corporation's total debt decreased by $38.4 million to $622.3 million compared with 2017, owing primarily to the renegotiation of lease agreements for Airbus A330s.

Total net debt decreased by $38.5 million, from $67.1 million as at October 31, 2017 to $28.6 million as at October 31, 2018. The decrease in total net debt resulted from a decline in total debt.

Outstanding shares

As at October 31, 2018, the Corporation had three authorized classes of shares: an unlimited number of Class A Variable Voting Shares, an unlimited number of Class B Voting Shares and an unlimited number of preferred shares. The preferred shares are non-voting and issuable in series, with each series including the number of shares, designation, rights, privileges, restrictions and conditions as determined by the Board of Directors.

As at December 7, 2018, there were 37,583,687 total voting shares outstanding.

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

Stock options

As at December 7, 2018, there were a total of 1,786,588 stock options outstanding, 1,412,111 of which were exercisable.

9. OTHER

Fleet

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), including four commissioned during 2018, seven Airbus A310s (250 seats), five Boeing 737-800s (189 seats) and two Airbus A321ceos (199 seats) which were commissioned in the third quarter of 2018.

During winter 2018, the Corporation also had seasonal rentals for twelve Boeing 737-800s (189 seats), four Boeing 737-700s (149 seats) and two Airbus A320s (199 seats).

During the years ended October 31, 2018 and 2017, the Corporation entered into agreements to lease fifteen Airbus A321neo LRs and two Airbus A321neos, to be commissioned gradually starting in spring 2019.

Subsequent Event

On November 28, 2018, the Corporation acquired land in Puerto Morelos for an amount of US$13.0 million [$17.3 million] of which US$9.0 million [12.0 million] was paid in cash on that date. The balance of US$4.0 million [$5.3 million] is payable under certain contractual conditions.

10. ACCOUNTING

Critical Accounting Estimates

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

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

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

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

GOODWILL

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

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

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

INTANGIBLE ASSETS

The Corporation performed an impairment test as at April 30, 2018 to determine whether the carrying amount of trademarks was higher than their recoverable amount.

The recoverable amount is determined based on value in use, using 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 10.3% 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.

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS WITH FINITE LIVES

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

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

No event or change in situation arising during the year ended October 31, 2018 could have required an impairment of property, plant and equipment and intangible assets with finite lives.

Fair value of derivative financial instruments

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

Provision for overhaul of leased aircraft

Under aircraft and engine operating leases, the Corporation is required to maintain the aircraft and engines in serviceable condition and to follow the maintenance plan. The Corporation accounts for its leased aircraft and engine maintenance obligation based on utilization until the next maintenance activity. The obligation is adjusted to reflect any change in the related maintenance expenses anticipated. Depending on the type of maintenance, utilization is determined based on the cycles, logged flight time or time between overhauls. The estimates used to determine the provision for overhaul of leased aircraft are based on historical experience, historical costs and repairs, information from external suppliers, forecasted aircraft utilization, planned renewal of the aircraft fleet, leased aircraft return conditions, and other facts and reasonable assumptions in the circumstances. Generally speaking, the main assumptions used to calculate this provision would have to be reduced by 2% to 4% to result in additional expenses that could have a material impact on our results, financial position and cash flows.

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. Generally speaking, the main assumptions used to calculate this provision would have to be adversely changed by over 15% to generate additional expenses that could have a material impact on our comprehensive income, financial position and cash flows.

Employee future benefits

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

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

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

Taxes

From time to time, the Corporation is subject to audits by tax authorities that give rise to questions regarding the tax treatment of certain transactions. Certain of these matters could entail significant costs that will remain uncertain until one or more events occur or fail to occur. Although the outcome of such matters is not predictable with assurance, the tax claims and risks for which there is a probable unfavourable outcome are recognized by the Corporation using the best possible estimates of the amount of the loss. The tax deductibility of losses reported by the Corporation in previous fiscal years with regard to investments in ABCP was challenged by tax authorities and notices of assessment in this regard were received during the year ended October 31, 2015. No provisions are made in connection with this issue, which could result in expenses of approximately $16.2 million, as the Corporation intends to defend itself vigorously with respect thereto and firmly believes it has sufficient facts and arguments to obtain a favourable final outcome. However, this resulted in outflows of $15.1 million during the year ended October 31, 2016. As there was no change in circumstances during fiscal 2018, this amount is recognized as income taxes receivable as at October 31, 2018.

FINANCIAL INSTRUMENTS

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

Foreign exchange risk management

The Corporation is exposed to foreign exchange risk, primarily as a result of its many arrangements with foreign-based suppliers, aircraft and engine leases, fuel purchases, long-term debt and revenues in foreign currencies, and fluctuations in exchange rates mainly with respect to the U.S. dollar, the euro and the pound sterling against the Canadian dollar and the euro, as the case may be. Approximately 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, expiring in generally less than 18 months, for the purchase and/or sale of foreign currencies based on anticipated foreign exchange rate trends.

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

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

Management of fuel price risk

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

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

Credit and counterparty risk

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

Trade accounts receivable included under Trade and other receivables in the statement of financial position totalled $30.9 million as at October 31, 2018. 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, approximately 6% of accounts receivable were over 90 days past due, whereas approximately 80% were current, that is, under 30 days. Historically, the Corporation has not incurred any significant losses in respect of its trade accounts receivable.

Pursuant to certain agreements entered into with its service providers consisting primarily of hotel operators, the Corporation pays deposits to capitalize on special benefits, including pricing, exclusive access and room allotments. As at October 31, 2018, these deposits totalled $27.1 million and are generally offset by purchases of person-nights at these hotels. Risk arises from the fact that these hotels might not be able to honour their obligations to provide the agreed number of person-nights. The Corporation strives to minimize its exposure by limiting deposits to recognized and reputable hotel operators in its active markets. These deposits are spread across a large number of hotels and, historically, the Corporation has not been required to write off a considerable amount for its deposits with suppliers.

Under the terms of its aircraft and engine leases, the Corporation pays deposits when aircraft and engines are commissioned, particularly as collateral for remaining lease payments. These deposits totalled $34.9 million as at October 31, 2018 and will be returned on lease expiry. The Corporation is also required to pay cash security deposits to lessors over the lease term to guarantee the serviceable condition of aircraft. These cash security deposits with lessors are generally returned to the Corporation following receipt of documented proof that the related maintenance has been performed by the Corporation. As at October 31, 2018, the cash security deposits with lessors that had been claimed totalled $67.0 million and were included under Trade and other receivables. Historically, the Corporation has not written off any significant amount of deposits and claims for cash security deposits with aircraft and engine lessors.

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

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

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.

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.

11. RISKS AND UNCERTAINTIES

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

RISK GOVERNANCE

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

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

For each risk, an owner has been designated as accountable for designing and implementing measures to mitigate the consequences of risks for which he or she is responsible, and/or limit the likelihood of these risks materializing. This owner is the first line of defence from a risk management standpoint. The Corporation's support services, namely the Finance, Legal Affairs, IT Security and Human Resources functions, constitute a second line of defence through their involvement in the design and operation of the complementary risk mitigating actions. Lastly, the Internal Audit department is the third line of defence to provide independent assurance on the effectiveness and efficiency of controls over these mitigating actions.

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

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

KEY RISKS

An overview of each of the 10 key risk categories is provided below, along with a description of the main measures to reduce the occurrence and mitigate, where possible, the potential impact of these risks on the Corporation's business objectives. Although insurance coverage is sometimes purchased for some of these risks, and mitigating actions are in place, there can be no assurance that these actions will effectively reduce risks that could have an adverse impact on the Corporation's financial position, reputation and/or ability to achieve its strategic and operational objectives.

ECONOMIC AND GENERAL RISKS

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

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

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

COMPETITION RISKS

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

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

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

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

REPUTATION RISK

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

FINANCIAL RISKS

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

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

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

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

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

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

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

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

Key Supplies and Supplier Risks

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

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

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

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

AVIATION RISKS

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

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

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

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

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

TECHNOLOGICAL RISKS

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

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

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

Regulatory Risks

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

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

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

Human Resource Risks

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

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

As at October 31, 2018, the Corporation had approximately 5,000 employees, almost 50% of whom are unionized personnel covered by six collective agreements. As at October 31, 2018, only one of the six collective agreements had not been renewed. Negotiations to renew this collective agreement could give rise to work stoppages or slowdowns or higher labour costs that could unfavourably impact our operations and operating income.

Insurance Coverage Risks

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

In this latter regard, additional insurance is carried and maintained for War Risk/Bodily Injury/Property Damage to third parties excluding passengers covering the excess of US$250 million up to the limit of US$1 billion any single event and in the aggregate.

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

Although we have never faced a liability claim for which we did not have adequate insurance coverage, there can be no assurance that our coverage will be sufficient to cover larger claims or that the insurer concerned will be solvent at the time of any covered loss. In addition, there can be no assurance that we will be able to obtain coverage at acceptable levels and cost in the future. These uncertainties could adversely affect our business and operating results.

12. CONTROLS AND PROCEDURES

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

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

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

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

EVALUATION OF DC&P AND ICFR

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

Based on this evaluation and using the criteria set by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control – Integrated Framework ("COSO-Framework 2013") and in connection with the preparation of its year-end financial statements, the two certifying officers concluded that the design of DC&P and ICFR were effective as at October 31, 2018.

Lastly, no significant changes in ICFR occurred during the fourth quarter ended October 31, 2018 that materially affected the Corporation's ICFR.

13. OUTLOOK

Winter 2019 – In the sun destinations market, the Corporation's main market for the period, Transat's capacity is higher by 2% than the previous year. To date, 52% of that capacity has been sold, bookings are ahead by 5.6%, and load factors are 3.8% higher compared with 2018. The impact of fluctuations in the Canadian dollar, combined with increased fuel costs, will result in a 3.4% increase in operating expenses if the dollar against the U.S. dollar and aircraft fuel prices remain stable. Margins are currently at similar levels compared with the same date last year.

In the transatlantic market, where it is low season, load factors are tracking 9% higher than last winter. Prices are currently down 3.3% from the same date last year.

However, the Corporation considers that it is still too early to give any guidance regarding final results for the winter season.

MANAGEMENT'S REPORT

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

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

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

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

Chairman of the Board,
President and Chief Executive Officer

Jean-Marc Eustache

Vice-President, Finance and Administration
and Chief Financial Officer

Denis Pétrin

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

	2018	2017	2016	2015	2014
Consolidated statements of income (loss)					
Continuing operations					
Revenues	**2,992,582**	3,005,345	2,889,646	2,897,950	2,996,106
Operating expenses	**2,975,770**	2,899,230	2,856,118	2,797,342	2,909,737
Depreciation and amortization	**59,125**	68,470	50,038	45,817	43,581
Special items	**2,262**	2,925	13,825	—	6,387
Operating income (loss)	**(44,575)**	34,720	(30,335)	54,791	36,401
Financing costs	**2,061**	2,134	1,669	1,775	1,541
Financing income	**(17,935)**	(8,363)	(6,996)	(7,576)	(7,872)
Change in fair value of derivative financial instruments used for aircraft fuel purchases	**1,284**	(9,187)	(6,901)	1,391	21,978
Foreign exchange gain	**(339)**	(15,052)	(1,284)	(2,531)	(1,123)
Impairment of assets	**—**	—	79,708	—	369
Loss (gain) on business disposals	**(31,064)**	(86,616)	843	—	—
Income (loss) before income tax expense	**1,418**	151,804	(97,374)	61,732	21,508
Income taxes (recovery)	**(5,943)**	13,432	(10,843)	12,413	1,724
Net income (loss) from continuing operations	**7,361**	138,372	(86,531)	49,319	19,784
Discontinued operations					
Net income (loss) from discontinued operations	**—**	—	49,772	(2,355)	6,282
Net income (loss) for the year	**7,361**	138,372	(36,759)	46,964	26,066
Non-controlling interest in subsidiaries' results	**3,542**	4,064	4,989	4,399	3,191
Net income (loss) for the year attributable to shareholders	**3,819**	134,308	(41,748)	42,565	22,875
Basic earnings (loss) per share	**0.10**	3.63	(1.13)	1.11	0.59
Diluted earnings (loss) per share	**0.10**	3.63	(1.13)	1.10	0.59
Cash flows related to:					
Operating activities	**68,804**	161,487	43,561	108,992	90,009
Investing activities	**(93,644)**	97,901	5,093	(53,854)	(52,683)
Financing activities	**(430)**	(3,596)	(9,823)	(12,672)	191
Effect of exchange rate changes on cash and cash equivalents	**(982)**	450	(12,132)	3,402	(2,262)
Net change in cash and cash equivalents related to continuing operations	**(26,252)**	256,242	26,699	45,868	35,255
Cash and cash equivalents, end of year	**593,654**	593,582	363,664	336,423	308,887
Total assets	**1,559,860**	1,453,216	1,277,420	1,513,764	1,375,030
Long-term debt (including current portion)	**—**	—	—	—	—
Equity	**599,374**	577,870	464,386	537,252	482,946
Debt ratio(1)	**0.62**	0.60	0.64	0.65	0.65
Book value per share(2)	**15.96**	15.59	12.60	14.29	12.47
Shareholding statistics (in thousands)					
Outstanding shares, end of year	**37,545**	37,064	36,859	37,591	38,742
Weighted average number of shares outstanding:					
Undiluted	**37,394**	36,995	36,899	38,442	38,644
Diluted	**37,562**	37,040	36,899	38,558	39,046

(1) Total liabilities divided by total assets.
(2) Total equity divided by the number of outstanding shares.