TRANSAT A.T. INC.
SECOND QUARTERLY REPORT
Period ended April 30, 2018

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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 quarter ended April 30, 2018, compared with the quarter ended April 30, 2017, and should be read in conjunction with the audited consolidated financial statements for the year ended October 31, 2017 and the accompanying notes and the 2017 Annual Report, including the MD&A and the section on risks and uncertainties. The purpose of this document is to provide a second-quarter update to the information contained in the MD&A section of our 2017 Annual Report. The risks and uncertainties set out in the MD&A of the 2017 Annual Report are herein incorporated by reference and remain substantially unchanged. The information contained herein is dated as of June 13, 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 quarter ended April 30, 2018 and the Annual Information Form for the year ended October 31, 2017.

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.

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 the MD&A included in our 2017 Annual Report.

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 the new hotel chain will strengthen Transat's profitability, particularly during winter.
- The outlook whereby the Corporation will be able to meet its obligations with cash on hand, cash flows from operations and drawdowns under existing credit facilities.
- The outlook whereby the Corporation expects that for summer 2018 on the transatlantic market, higher fuel costs, combined with currency variations, will result in an increase in operating costs of 7.2% if jet fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound.

- The outlook whereby the Corporation expects that for summer 2018 on the sun destinations market, the impact of increased fuel costs, combined with the dollar fluctuations, will result in an increase in operating expenses of 2.3% if jet fuel prices and the dollar level against the U.S. dollar remain stable.

- The outlook whereby the Corporation expects that its global results for the second six-month period will be lower than last year.

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

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, restructuring charges, impairment of goodwill, depreciation and amortization and other significant unusual items, we believe this MD&A helps users to better analyze our results, as well as our ability to generate cash flows from operations. Furthermore, the use of non-IFRS measures helps users by enabling better comparability of results from one period to another and better comparability with other businesses in our industry.

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

Adjusted operating income (loss)	Operating income (loss) before depreciation and amortization expense, restructuring charge and other significant unusual items, 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, 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, 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 (Cash and cash equivalents, net of total debt)	Total debt (described above) less cash and cash equivalents. Total net debt is used to assess the cash position relative to the Corporation's debt level. Management believes this measure is useful in assessing the Corporation's capacity to meet its current and future financial obligations.

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

(in thousands of Canadian dollars, except per share amounts)	Quarters ended April 30		Six-month periods ended April 30	
	2018 $	2017 $	2018 $	2017 $
Operating income (loss)	**(8,747)**	(15,061)	**(54,542)**	(65,732)
Depreciation and amortization	**15,310**	17,152	**30,079**	31,358
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	(583)	**—**	(1,197)
Adjusted operating income (loss)	**6,563**	1,508	**(24,463)**	(35,571)
Income (loss) before income tax expense	**11,602**	(11,616)	**(5,867)**	(56,727)
Change in fair value of fuel-related derivatives and other derivatives	**(14,800)**	930	**(10,581)**	(3,874)
Gain on business disposals	**(368)**	—	**(31,064)**	—
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	(583)	**—**	(1,197)
Adjusted pre-tax income (loss)	**(3,566)**	(11,269)	**(47,512)**	(61,798)
Net income (loss) attributable to shareholders	**6,683**	(8,354)	**95**	(40,427)
Change in fair value of fuel-related derivatives and other derivatives	**(14,800)**	930	**(10,581)**	(3,874)
Gain on business disposals	**(368)**	—	**(31,064)**	—
Premiums related to fuel-related derivatives and other derivatives matured during the period	**—**	(583)	**—**	(1,197)
Tax impact	**3,937**	(93)	**3,134**	1,359
Adjusted net income (loss)	**(4,548)**	(8,100)	**(38,416)**	(44,139)
Adjusted net income (loss)	**(4,548)**	(8,100)	**(38,416)**	(44,139)
Adjusted weighted average number of outstanding shares used in computing diluted earnings per share	**37,579**	36,937	**37,528**	36,909
Adjusted net income (loss) per share	**(0.12)**	(0.22)	**(1.02)**	(1.20)

	As at April 30, 2018 $	As at October 31, 2017 $
Aircraft rent for the past four quarters	**122,196**	132,139
Multiple	**5**	5
Adjusted operating leases	**610,980**	660,695
Long-term debt	**—**	—
Adjusted operating leases	**610,980**	660,695
Total debt	**610,980**	660,695
Total debt	**610,980**	660,695
Cash and cash equivalents	**(903,300)**	(593,582)
Total net debt (Cash and cash equivalents, net of total debt)	**(292,320)**	67,113

FINANCIAL HIGHLIGHTS

	Quarters ended April 30				Six-month periods ended April 30			
(in thousands of Canadian dollars, except per share amounts)	2018 $	2017 $	Difference $	Difference %	2018 $	2017 $	Difference $	Difference %
Consolidated Statements of Income (Loss)								
Revenues	**901,981**	884,310	17,671	2.0	**1,627,763**	1,573,642	54,121	3.4
Operating income (loss)	**(8,747)**	(15,061)	6,314	41.9	**(54,542)**	(65,732)	11,190	17.0
Net income (loss) attributable to shareholders	**6,683**	(8,354)	15,037	180.0	**95**	(40,427)	40,522	100.2
Basic earnings (loss) per share	**0.18**	(0.23)	0.41	178.3	**—**	(1.10)	1.10	100.0
Diluted earnings (loss) per share	**0.18**	(0.23)	0.41	178.3	**—**	(1.10)	1.10	100.0
Adjusted operating income (loss)(1)	**6,563**	1,508	5,055	335.2	**(24,463)**	(35,571)	11,108	31.2
Adjusted net income (loss)(1)	**(4,548)**	(8,100)	3,552	43.9	**(38,416)**	(44,139)	5,723	13.0
Adjusted net income (loss) per share(1)	**(0.12)**	(0.22)	0.10	45.5	**(1.02)**	(1.20)	0.18	15.0
Consolidated Statements of Cash Flows								
Operating activities	**173,933**	138,617	35,316	25.5	**281,707**	255,000	26,707	10.5
Investing activities	**(19,351)**	(28,942)	9,591	33.1	**149**	(53,228)	53,377	100.3
Financing activities	**(1,474)**	(1,314)	(160)	(12.2)	**(59)**	(1,671)	1,612	96.5
Effect of exchange rate changes on cash and cash equivalents	**850**	3,100	(2,250)	(72.6)	**1,597**	2,523	(926)	(36.7)
Net change in cash and cash equivalents	**153,958**	111,461	42,497	38.1	**283,394**	202,624	80,770	39.9

	As at April 30, 2018 $	As at October 31, 2017 $	Difference $	Difference %
Consolidated Statements of Financial Position				
Cash and cash equivalents	**903,300**	593,582	309,718	52.2
Cash and cash equivalents in trust or otherwise reserved (current and non-current)	**241,615**	309,064	(67,449)	(21.8)
	1,144,915	902,646	242,269	26.8
Total assets	**1,658,419**	1,453,216	205,203	14.1
Debt (current and non-current)	**—**	—	—	—
Total debt(1)	**610,980**	660,695	(49,715)	(7.5)
Total net debt (Cash and cash equivalents, net of total debt)(1)	**(292,320)**	67,113	(359,433)	(535.6)

[1] SEE NON-IFRS FINANCIAL MEASURES

OVERVIEW

CORE BUSINESS

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

VISION

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

STRATEGY

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

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

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

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

For 2018, Transat has set the following objectives at the beginning of the reporting period:

1. Launch a wholly-owned Transat hotel chain: set up the team, develop the concept and select the brand, and initiate the first acquisitions of hotels and/or land.
2. Improve efficiency, in particular by improving revenue management, pricing and aircraft utilization and by pursuing its cost reduction policy.
3. Improve distribution by continuing to grow direct sales, refining channel management and strengthening our presence in mobile technologies.
4. Enhance customer proximity, particularly through centralized records management and satisfaction metrics.
5. Strengthen our commitment to corporate responsibility, particularly by obtaining Travelife certification and refining our employee satisfaction metrics.

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

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

REVISITING OUR MARCH 15, 2018 OUTLOOK

In its MD&A as at January 31, 2018, the Corporation indicated that, provided that the trends observed continue, the Corporation expected second quarter results to be comparable to 2017. The results for the second quarter of 2018 were better than last year, due to an increase in our profitability on the sun destinations market.

BUSINESS DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly-owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price was adjusted downward owing to a working capital adjustment of $0.6 million, paid to H.I.S. Co. Ltd. on March 29, 2018, and totals $48.9 million, of which $47.3 million was received in cash on November 30, 2017. 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 first quarter, 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 six-month period ended April 30, 2018. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

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, during the six-month period ended April 30, 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 also 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.

CONSOLIDATED OPERATIONS

	Quarters ended April 30				Six-month periods ended April 30			
	2018	2017	Difference	Difference	2018	2017	Difference	Difference
(in thousands of dollars)	$	$	$	%	$	$	$	%
Revenues	**901,981**	884,310	17,671	2.0	**1,627,763**	1,573,642	54,121	3.4
Operating expenses								
Costs of providing tourism services	**438,678**	462,931	(24,253)	(5.2)	**800,944**	834,937	(33,993)	(4.1)
Salaries and employee benefits	**96,638**	90,824	5,814	6.4	**190,428**	180,501	9,927	5.5
Aircraft fuel	**104,933**	84,105	20,828	24.8	**183,860**	147,811	36,049	24.4
Aircraft maintenance	**54,665**	51,783	2,882	5.6	**107,832**	94,583	13,249	14.0
Aircraft rent	**33,352**	37,361	(4,009)	(10.7)	**63,521**	73,464	(9,943)	(13.5)
Airport and navigation fees	**33,830**	32,456	1,374	4.2	**60,844**	56,560	4,284	7.6
Commissions	**38,656**	40,120	(1,464)	(3.6)	**67,007**	68,911	(1,904)	(2.8)
Other airline costs	**61,721**	55,762	5,959	10.7	**110,062**	98,516	11,546	11.7
Other	**33,058**	32,740	318	1.0	**68,078**	62,179	5,899	9.5
Share of net income of an associate and a joint venture	**(113)**	(5,863)	5,750	98.1	**(350)**	(9,446)	9,096	96.3
Depreciation and amortization	**15,310**	17,152	(1,842)	(10.7)	**30,079**	31,358	(1,279)	(4.1)
	910,728	899,371	11,357	1.3	**1,682,305**	1,639,374	42,931	2.6
Operating income (loss)	**(8,747)**	(15,061)	6,314	41.9	**(54,542)**	(65,732)	11,190	17.0
Financing costs	**619**	455	164	36.0	**1,080**	899	181	20.1
Financing income	**(4,841)**	(1,843)	(2,998)	(162.7)	**(8,582)**	(3,600)	(4,982)	(138.4)
Change in fair value of fuel-related derivatives and other derivatives	**(14,800)**	930	(15,730)	(1,691.4)	**(10,581)**	(3,874)	(6,707)	(173.1)
Gain on business disposals	**(368)**	—	(368)	100.0	**(31,064)**	—	(31,064)	100.0
Foreign exchange loss (gain) on non-current monetary items	**(959)**	(2,987)	2,028	67.9	**472**	(2,430)	2,902	119.4
Income (loss) before income tax expense	**11,602**	(11,616)	23,218	199.9	**(5,867)**	(56,727)	50,860	89.7
Income taxes (recovery)								
Current	**2,664**	(2,866)	5,530	193.0	**(2,287)**	(17,803)	15,516	87.2
Deferred	**451**	(2,595)	3,046	117.4	**(6,834)**	(1,715)	(5,119)	(298.5)
	3,115	(5,461)	8,576	157.0	**(9,121)**	(19,518)	10,397	53.3
Net income (loss) for the period	**8,487**	(6,155)	14,642	237.9	**3,254**	(37,209)	40,463	108.7
Net income (loss) attributable to:								
Shareholders	**6,683**	(8,354)	15,037	180.0	**95**	(40,427)	40,522	100.2
Non-controlling interests	**1,804**	2,199	(395)	(18.0)	**3,159**	3,218	(59)	(1.8)
	8,487	(6,155)	14,642	237.9	**3,254**	(37,209)	40,463	108.7

REVENUES

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

Compared with 2017, revenues were up $17.7 million (2.0%) for the quarter ended April 30, 2018 and $54.1 million (3.4%) for the six-month period. For the quarter, the increase was driven by a 4.8% rise in the number of travellers in the sun destinations market, our main market for the period, resulting from our decision to increase our product offering by 5.6% in that market. The increase was accentuated by a 16.2% addition to our product offering in the transatlantic market, resulting in a 10.7% rise in the number of travellers in that market. In addition, average selling prices were slightly higher in the transatlantic market and remained relatively unchanged in the sun destinations market. The increase in revenues was partially offset by the sale of our Jonview subsidiary and by the achievement of our development objective for flight-only sales compared to 2017.

For the six-month period, the increase was mainly driven by 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 product offering by 7.7% in that market. The increase was accentuated by an 18.1% addition to our product offering in the transatlantic market, resulting in a 14.8% rise in the number of travellers in that market. In addition, average selling prices have slightly increased across all of our markets. Higher revenues were partially offset by the sale of our Jonview subsidiary and by the achievement of our development objective for flight-only sales compared to 2017.

OPERATING EXPENSES

Total operating expenses were up $11.4 million (1.3%) for the quarter and $42.9 million (2.6%) for the six-month period, compared with 2017. These increases resulted primarily from a rise in the number of travellers, driven by our decision to increase our product offering by 5.6% for the quarter and by 7.7% for the six-month period in the sun destinations market, our main market for the period, which was partially offset 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. Compared with 2017, these costs were down $24.3 million (5.2%) for the quarter and $34.0 million (4.1%) for the six-month period. For the quarter and the six-month period, higher costs resulting from the increase in the number of travellers were more than offset by the strengthening of the dollar against the U.S. dollar and by the decrease in the number of person-nights sold in Canada following the sale of our Jonview subsidiary.

SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits were up $5.8 million (6.4%) for the quarter and $9.9 million (5.5%) for the six-month period, compared with 2017. These increases resulted primarily from annual salary reviews and the hiring of pilots and flight attendants due to higher capacity compared with 2017.

AIRCRAFT FUEL

Aircraft fuel expense was up $20.8 million (24.8%) for the quarter and $36.0 million (24.4%) for the six-month period. These increases were mainly attributable to a rise in fuel price indices in financial markets combined with higher capacity compared with 2017. The increases were offset by the strengthening of the dollar against the U.S. dollar.

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 increased by $2.9 million (5.6%) during the quarter and by $13.2 million (14.0%) during the six-month period. These increases were mainly attributable to more significant repairs than last year and to the expansion of our fleet compared with 2017, partially offset by the strengthening of the dollar against the U.S. dollar.

AIRCRAFT RENT

Aircraft rent decreased by $4.0 million (10.7%) during the quarter and by $9.9 million (13.5%) during the six-month period as a result of 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.

AIRPORT AND NAVIGATION FEES

Airport and navigation fees consist mainly of fees charged by airports and air traffic control entities. Compared with 2017, these fees were up $1.4 million (4.2%) for the quarter and $4.3 million (7.6%) for the six-month period, driven by an increase in our capacity from 2017.

COMMISSIONS

Commissions include the fees paid by tour operators to travel agencies for serving as intermediaries between tour operators and consumers. Commission expense decreased by $1.5 million (3.6%) for the quarter and by $1.9 million (2.8%) for the six-month period, compared with 2017. As a percentage of revenues, commissions have decreased and accounted for 4.3% of revenues for the quarter, compared with 4.5% in 2017. For the six-month period, commissions have decreased and accounted for 4.1% of revenues, compared with 4.4% in 2017. These decreases resulted from the lower revenue base used to calculate commissions.

OTHER AIR COSTS

Other air costs consist mainly of handling, crew and catering costs. Other air costs were up $6.0 million (10.7%) for the quarter and $11.5 million (11.7%) for the six-month period, compared with 2017. These increases were primarily due to a higher capacity compared with 2017.

OTHER

Other expenses were up $0.3 million (1.0%) for the quarter and $5.9 million (9.5%) for the six-month period, compared with 2017. For the six-month period, the increase was primarily due to higher digital 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, a hotel joint venture acquired in 2017. For the corresponding quarter and six-month period of 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 income for the second quarter totalled $0.1 million, compared with $5.9 million for the corresponding quarter of 2017. For the six-month period, our share of net income totalled $0.4 million, compared with $9.4 million for 2017. These decreases resulted from 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 $1.8 million (10.7%) for the quarter and $1.3 million (4.1%) for the six-month period, compared with 2017. These decreases resulted primarily from a reduction in capitalized maintenance on Airbus A310s, which will be retired from the fleet over the next two years.

OPERATING RESULTS

Given the above, we recorded an operating loss of $8.7 million (1.0%) for the second quarter, compared with $15.1 million (1.7%) in 2017. For the six-month period, we recorded an operating loss of $54.5 million (3.4%), compared with $65.7 million (4.2%) in 2017. For the quarter and six-month period, the decrease in our operating loss was primarily due to an increase in the number of travellers, combined with slightly higher average selling prices across all of our markets, as well as the favourable foreign exchange effect which, together with an increase in fuel prices, resulted in a reduction of our operating expenses of $17.1 million for the quarter and $30.4 million for the six-month period. The decrease in our operating loss was partially offset by lower load factors across all of our markets.

For the quarter, the Corporation reported an adjusted operating income of $6.6 million (0.7%), compared with $1.5 million (0.2%) in 2017. For the six-month period, the Corporation reported an adjusted operating loss of $24.5 million (1.5%), compared with $35.6 million (2.3%) 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 increased by $0.2 million (36.0%) during the quarter and by $0.2 million (20.1%) for the six-month period, compared with 2017.

FINANCING INCOME

Financing income was up $3.0 million (162.7%) for the second quarter and $5.0 million (138.4%) for the six-month period, compared with 2017. The increases were attributable to the rise in cash and cash equivalents compared with 2017 and higher interest rates than in the corresponding periods of 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. During the quarter, the fair value of fuel-related derivatives and other derivatives increased by $14.8 million compared with a decrease of $0.9 million in 2017. For the six-month period, the fair value of fuel-related derivatives and other derivatives was up $10.6 million, compared with $3.9 million in 2017. For the quarter, the increase was attributable to a higher fair value of foreign exchange derivatives, combined with the maturing of foreign exchange derivatives. For the six-month period, the increase was due the maturing of foreign currency derivatives, combined with the rise in the fair value of fuel-related derivatives.

GAIN ON BUSINESS DISPOSALS

On November 30, 2017, the Corporation completed the sale of its wholly-owned subsidiary Jonview for a consideration of $48.9 million, of which $47.3 million was received in cash on that date. The Corporation recognized a gain on business disposal of $31.3 million. Following the sale of its 35% minority interest in Ocean Hotels on October 4, 2017, the Corporation recorded a downward adjustment to the gain on business disposal of $0.2 million during the six-month period ended April 30, 2018.

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

During the quarter, the Corporation recognized a $1.0 million foreign exchange gain on non-current monetary items compared with $3.0 million in 2017. For the six-month period, the Corporation recorded a foreign exchange loss of $0.5 million on non-current monetary items, compared with a foreign exchange gain of $2.4 million in 2017. For the quarter, the change was principally due to favourable exchange rates on foreign currency deposits, as a result of the weakening of the dollar against the U.S. dollar. For the six-month period, this change was principally due to unfavourable exchange rates on foreign currency deposits, as a result of the strengthening of the dollar against the U.S. dollar.

INCOME TAXES

Income tax expense for the second quarter totalled $3.1 million, compared with an income tax recovery of $5.5 million for the corresponding quarter of last year. Income tax recovery for the six-month period amounted to $9.1 million compared with $19.5 million in 2017. Excluding the gain on business disposals and the share of net income of an associate and a joint venture, the effective tax rate was 28.0% for the quarter and 24.5% for the six-month period, compared with 31.2% and 29.5%, respectively, for the corresponding periods of 2017. The change in tax rates for the quarter was due to the differences in statutory tax rates by country applicable to the foreign subsidiaries' results.

NET INCOME (LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Considering the items discussed in the Consolidated operations section, net income for the quarter ended April 30, 2018 was $8.5 million, compared with a net loss of $6.2 million in 2017. Net income attributable to shareholders amounted to $6.7 million or $0.18 per share (basic and diluted) compared with a net loss of $8.4 million or $0.23 per share (basic and diluted) for the corresponding quarter of last year. For the second quarter of 2018, the weighted average number of outstanding shares used to compute basic earnings per share was 37,411,000 (37,579,000 for diluted earnings per share), compared with 36,937,000 (basic and diluted) for the corresponding quarter of 2017.

For the six-month period ended April 30, 2018, net income was $3.3 million compared with a net loss of $37.2 million in 2017. Net income attributable to shareholders was $0.1 million or $0.00 per share (basic and diluted), compared with a net loss of $40.4 million or $1.10 per share (basic and diluted) for the corresponding period of the previous year. For the first six-month period of 2018, the weighted average number of outstanding shares used to compute basic earnings per share was 37,294,000 (37,528,000 for diluted earnings per share), compared with 36,909,000 (basic and diluted) for the corresponding period of 2017.

For the quarter and six-month period ended April 30, 2018, adjusted net loss was $4.5 million ($0.12 per share) and $38.4 million ($1.02 per share), respectively, compared with an adjusted net loss of $8.1 million ($0.22 per share) and $44.1 million ($1.20 per share), respectively, for the corresponding periods of 2017.

SELECTED QUARTERLY FINANCIAL INFORMATION

The Corporation's operations are seasonal in nature; consequently, interim operating results do not proportionately reflect the operating results for a full year. Revenues increased compared with the corresponding quarters. For the winter season (Q1 and Q2), following our decision to increase our product offering across all of our markets, the number of travellers and average selling prices were up. For the summer season, the number of travellers and average selling prices were up across all of our markets compared with the previous year.

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, the improvement in our operating income was driven by an increase in the number of travellers, combined with higher average selling prices and load factors across all of our markets. As a result, the following quarterly financial information may vary significantly from quarter to quarter.

Selected unaudited quarterly financial information								
(in thousands of dollars, except per share data)	**Q3-2016** $	**Q4-2016** $	**Q1-2017** $	**Q2-2017** $	**Q3-2017** $	**Q4-2017** $	**Q1-2018** $	**Q2-2018** $
Revenues	663,591	612,111	689,332	884,310	733,152	698,551	725,782	901,981
Aircraft rent	31,946	32,843	36,103	37,361	32,390	26,285	30,169	33,352
Operating income (loss)	(2,990)	26,898	(50,671)	(15,061)	40,952	59,500	(45,795)	(8,747)
Net income (loss)	10,548	36,313	(31,054)	(6,155)	27,168	148,413	(5,233)	8,487
Net income (loss) attributable to shareholders	9,439	34,920	(32,073)	(8,354)	26,588	148,147	(6,588)	6,683
Basic earnings (loss) per share	0.26	0.95	(0.87)	(0.23)	0.72	4.00	(0.18)	0.18
Diluted earnings (loss) per share	0.26	0.95	(0.87)	(0.23)	0.72	3.97	(0.18)	0.18
Net income (loss) from continuing operations attributable to shareholders	7,704	(20,497)	(32,073)	(8,354)	26,588	148,147	(6,588)	6,683
Basic earnings (loss) per share from continuing operations	0.21	(0.56)	(0.87)	(0.23)	0.72	4.00	(0.18)	0.18
Diluted earnings (loss) per share from continuing operations	0.21	(0.56)	(0.87)	(0.23)	0.72	3.97	(0.18)	0.18
Adjusted operating income (loss)(1)	15,964	46,497	(37,079)	1,508	59,055	78,541	(31,026)	6,563
Adjusted net income (loss)(1)	2,523	24,183	(36,039)	(8,100)	26,857	46,381	(33,868)	(4,548)
Adjusted net income (loss) per share(1)	0.07	0.66	(0.98)	(0.22)	0.73	1.24	(0.91)	(0.12)

[1] SEE NON-IFRS FINANCIAL MEASURES

FINANCIAL POSITION, LIQUIDITY AND CAPITAL RESOURCES

As at April 30, 2018, cash and cash equivalents totalled $903.3 million compared with $593.6 million as at October 31, 2017. Cash and cash equivalents in trust or otherwise reserved amounted to $241.6 million at the end of the second quarter of 2018, compared with $309.1 million as at October 31, 2017. The Corporation's statement of financial position reflected $380.4 million in working capital, for a ratio of 1.40, compared with $386.6 million and a ratio of 1.51 as at October 31, 2017.

Total assets increased by $205.2 million (14.1%), from $1,453.2 million as at October 31, 2017 to $1,658.4 million as at April 30, 2018. This increase is explained in the financial position table provided below. Equity increased by $5.8 million, from $577.9 million as at October 31, 2017 to $583.7 million as at April 30, 2018. This increase was mainly attributable to a $4.0 million foreign exchange gain on the translation of the financial statements of foreign subsidiaries.

CASH FLOWS

	Quarters ended April 30			Six-month periods ended April 30		
	2018	2017	Difference	2018	2017	Difference
(in thousands of dollars)	$	$	$	$	$	$
Cash flows related to operating activities	**173,933**	138,617	35,316	**281,707**	255,000	26,707
Cash flows related to investing activities	**(19,351)**	(28,942)	9,591	**149**	(53,228)	53,377
Cash flows related to financing activities	**(1,474)**	(1,314)	(160)	**(59)**	(1,671)	1,612
Effect of exchange rate changes on cash	**850**	3,100	(2,250)	**1,597**	2,523	(926)
Net change in cash and cash equivalents	**153,958**	111,461	42,497	**283,394**	202,624	80,770

OPERATING ACTIVITIES

Operating activities generated cash flows of $173.9 million during the second quarter, compared with $138.6 million in 2017. The $35.3 million increase resulted primarily from a $14.7 million increase in the net change in other assets and liabilities related to operations, combined with an increase of $13.9 million in the net change in non-cash working capital balances related to operations and an $8.0 million improvement in our profitability.

For the six-month period, cash flows from operating activities increased by $26.7 million from $255.0 million in 2017 to $281.7 million in 2018. The increase was attributable to a $14.2 million rise in the net change in other assets and liabilities related to operations, combined with a $9.1 million increase in our profitability.

INVESTING ACTIVITIES

Cash flows used in investing activities amounted to $19.4 million for the second quarter compared with $28.9 million in 2017, representing a decrease of $9.6 million. The decrease was mainly attributable to a $12.8 million consideration paid for the acquisition of 50% of the shares of our joint venture Desarrollo during the second quarter of 2017. Moreover, our non-current cash and cash equivalents reserved balance increased by $1.1 million, compared to an increase of $3.7 million in 2017. The additions to property, plant and equipment and intangible assets were $3.0 million lower for the quarter compared with the same period of 2017. Lastly, the Corporation paid an amount of $2.6 million as a selling price adjustment in connection with the sale of its interests in Ocean Hotels and Jonview.

For the six-month period, cash flows generated by investing activities amounted to $0.1 million compared with cash flows used of $53.2 million in 2017, representing an increase of $53.4 million. The increase was primarily due to the $28.6 million consideration received, net of cash disposed of, for the disposal of the Jonview subsidiary. Moreover, during the corresponding six-month period of 2017, the Corporation acquired Desarrollo and paid a $5.0 million consideration for the acquisition of all the shares of the Jonview subsidiary. Lastly, the additions to property, plant and equipment and intangible assets were $6.6 million lower than in 2017, owing to significant acquisitions related to maintenance and aircraft equipment last year.

FINANCING ACTIVITIES

Cash flows used in financing activities totalled $1.5 million for the second quarter of 2018, up $0.2 million from $1.3 million for the same quarter of 2017. Cash flows used in financing activities for the six-month period amounted to $0.1 million compared with $1.7 million in 2017. The $1.6 million decrease in cash flows used was primarily attributable to the exercise of options totalling $1.8 million in 2018 compared with nil options exercised in 2017.

CONSOLIDATED FINANCIAL POSITION

	April 30, 2018 $	October 31, 2017 $	Difference $	Main reasons for significant differences
Assets				
Cash and cash equivalents	**903,300**	593,582	309,718	See Cash flows section
Cash and cash equivalents in trust or otherwise reserved	**241,615**	309,064	(67,449)	Seasonal nature of operations
Trade and other receivables	**150,759**	121,618	29,141	Increase in receivables from lessors for aircraft maintenance and in sales taxes receivable
Income taxes receivable	**21,863**	17,418	4,445	Increase in income taxes recoverable given deductible losses
Inventories	**11,464**	12,790	(1,326)	Seasonal nature of operations
Prepaid expenses	**43,857**	64,245	(20,388)	Decrease in prepayments to hotel operators due to seasonal nature of operations
Deposits	**44,407**	52,129	(7,722)	Decrease in deposits paid to hotel operators due to seasonal nature of operations
Assets held for sale	**—**	47,472	(47,472)	Sale of Jonview in November 2017
Deferred tax assets	**22,471**	16,286	6,185	Increase in deferred non-capital losses
Property, plant and equipment	**131,735**	134,672	(2,937)	Amortization for the period, partially offset by additions
Intangible assets	**47,643**	49,604	(1,961)	Amortization for the period, partially offset by additions
Derivative financial instruments	**22,737**	18,058	4,679	Favourable change in fuel prices compared with forward contracts entered into
Investment	**16,146**	15,888	258	No significant difference
Other assets	**422**	390	32	No significant difference
Liabilities				
Trade and other payables	**325,633**	245,013	80,620	Increase in business volume and seasonal nature of operations
Provision for overhaul of leased aircraft	**54,177**	47,917	6,260	Increase in the number of aircraft
Income taxes payable	**1,163**	8,102	(6,939)	Settlement of balances due
Derivative financial instruments	**2,909**	8,278	(5,369)	Maturing of foreign exchange derivatives during the period
Liabilities related to assets held for sale	**—**	33,109	(33,109)	Sale of Jonview in November 2017
Customer deposits and deferred revenues	**588,948**	433,897	155,051	Seasonal nature of operations and increase in business volume
Other liabilities	**100,616**	96,813	3,803	Increase in deferred lease incentives related to aircraft
Deferred tax liabilities	**1,305**	2,217	(912)	Increase in deferred non-capital losses
Equity				
Share capital	**218,837**	215,444	3,393	Exercise of options and shares issued from treasury
Share-based payment reserve	**16,982**	17,817	(835)	Vesting of PSUs and exercise of options, partiallly offset by share-based payment expense
Retained earnings	**351,233**	351,138	95	Net income (loss)
Unrealized gain (loss) on cash flow hedges	**3,692**	4,532	(840)	Net loss on financial instruments designated as cash flow hedges
Cumulative exchange differences	**(7,076)**	(11,061)	3,985	Foreign exchange gain on translation of financial statements of foreign subsidiaries

FINANCING

As at June 13, 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 criteria and ratios. As at April 30, 2018, all the financial ratios and criteria were met and the credit facility was undrawn.

OFF-BALANCE SHEET ARRANGEMENTS

In the normal course of business, Transat enters into arrangements and incurs obligations that will impact the Corporation's future operations and cash flows, some of which are reported as liabilities in the interim condensed 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 April 30, 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
- Operating leases

Off-balance sheet arrangements that can be estimated, excluding agreements with suppliers and other obligations, amounted to approximately $1,796.5 million as at April 30, 2018 ($1,745.2 million as at October 31, 2017) and are detailed as follows:

OFF-BALANCE SHEET ARRANGEMENTS (in thousands of dollars)	As at April 30, 2018 $	As at October 31, 2017 $
Guarantees		
Irrevocable letters of credit	**30,128**	27,137
Collateral security contracts	**409**	701
Operating leases		
Obligations under operating leases	**1,766,001**	1,717,383
	1,796,538	1,745,221

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

The Corporation has a $75.0 million annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at April 30, 2018, $58.9 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 April 30, 2018, $29.7 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 £7.8 million [$13.8 million], which has been fully drawn down.

As at April 30, 2018, off-balance sheet arrangements, excluding agreements with suppliers and other obligations, had increased by $51.3 million compared with October 31, 2017. This increase resulted primarily from the agreements entered into during the first quarter to lease two Airbus A321ceos and two Airbus A330s. The increase was partially offset by the repayments made and by the strengthening of the dollar against the U.S. dollar.

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

DEBT LEVELS

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

The Corporation's total debt amounted to $611.0 million as at April 30, 2018, down $49.7 million from October 31, 2017, owing primarily to the renegotiation of lease agreements for Airbus A330s.

Total net debt decreased by $359.4 million from $67.1 million as at October 31, 2017 to cash and cash equivalents net of total debt of $292.3 million as at April 30, 2018. The decrease in total net debt resulted from higher cash and cash equivalent balances than in 2017, combined with a reduction in total debt.

OUTSTANDING SHARES

As at April 30, 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 June 8, 2018, there were 37,471,663 total voting shares outstanding.

STOCK OPTIONS

As at June 8, 2018, there were a total of 1,877,861 stock options outstanding, 1,445,952 of which were exercisable.

OTHER

FLEET

Air Transat's fleet currently consists of twenty Airbus A330s (332, 345 or 375 seats), including two commissioned in the summer of 2017 and four commissioned during 2018, seven Airbus A310s (250 seats), five Boeing 737-800s (189 seats) and two Airbus A321ceos (199 seats) which will be commissioned in the third quarter of 2018. During the second quarter of 2018, two Boeing 737-800s (189 seats) were withdrawn from the fleet.

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).

FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

IFRS 9 also introduces a new expected-loss impairment model that will require 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.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The IFRS 9 transition rules include an exemption allowing companies to continue to apply current hedge accounting under IAS 39 until the final hedge model is effective.

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

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. The application of IFRS 15 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2018.

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 accounted for as assets 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 expects to complete its analysis in the coming quarters.

IFRS 16, *LEASES*

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

CONTROLS AND PROCEDURES

In accordance with National Instrument 52-109 of the Canadian Securities Authorities, the Corporation has filed certificates signed by the President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer that, among other things, deem adequate as at April 30, 2018 the design of:

- Disclosure controls and procedures, which provide reasonable assurance that material financial information has been duly disclosed by the Corporation and its subsidiaries and that this information is recorded, processed, summarized and reported within the time periods specified in legislation;
- Internal control over financial reporting ("ICFR"), which, in accordance with COSO 2013 controls, provides reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of financial statements in accordance with IFRS.

The President and Chief Executive Officer and the Vice-President, Finance and Administration and Chief Financial Officer of the Corporation have also evaluated whether there were changes to its ICFR during the quarter ended April 30, 2018 that have materially affected, or are reasonably likely to materially affect, the ICFR. No such significant changes were identified through their evaluation.

OUTLOOK

Summer 2018 – The transatlantic market outbound from Canada and Europe accounts for a substantial portion of Transat's business during the summer season. For the period from May to October 2018, the Corporation's capacity is higher by 15%. To date, 64% of the capacity has been sold, load factors are similar to those of summer 2017, and selling prices of bookings taken are lower by 1.0% than those recorded at the same date in 2017. Higher fuel costs, combined with currency variations, will result in an increase in operating costs of 7.2% if jet fuel prices remain stable and the dollar remains at its current level against the U.S. dollar, the euro and the pound. On March 15, 2018, the rise in jet fuel costs resulted in a 1.3% increase in operating expenses. Since the beginning of April, the price of jet fuel increased by 11%.

On the sun destinations market outbound from Canada, for which summer is low season, Transat's capacity is higher by 5% than the previous year. To date, 53% of that capacity has been sold and load factors are ahead by 1%, when compared to 2017. The impact of increased fuel costs, combined with the dollar fluctuations, will result in an increase in operating expenses of 2.3% if jet fuel prices and the dollar level against the U.S. dollar remain stable. Unit margins are currently slightly lower than they were on the same date last year.

If current trends hold, and considering the recent significant increase in jet fuel costs, Transat expects that its global results for the second six-month period will be lower than last year.

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

(in thousands of Canadian dollars)	As at April 30, 2018 $	As at October 31, 2017 $
ASSETS		
Cash and cash equivalents	**903,300**	593,582
Cash and cash equivalents in trust or otherwise reserved *[note 5]*	**190,431**	258,964
Trade and other receivables	**150,759**	121,618
Income taxes receivable	**6,763**	2,318
Inventories	**11,464**	12,790
Prepaid expenses	**43,857**	64,245
Derivative financial instruments	**22,462**	18,024
Current portion of deposits	**8,957**	18,487
Assets held for sale *[note 4]*	**—**	47,472
Current assets	**1,337,993**	1,137,500
Cash and cash equivalents reserved *[note 5]*	**51,184**	50,100
Deposits	**35,450**	33,642
Income taxes receivable	**15,100**	15,100
Deferred tax assets	**22,471**	16,286
Property, plant and equipment	**131,735**	134,672
Intangible assets	**47,643**	49,604
Derivative financial instruments	**275**	34
Investment *[note 7]*	**16,146**	15,888
Other assets	**422**	390
Non-current assets	**320,426**	315,716
	1,658,419	1,453,216
LIABILITIES		
Trade and other payables	**325,633**	245,013
Current portion of provision for overhaul of leased aircraft	**38,936**	22,699
Income taxes payable	**1,163**	8,102
Customer deposits and deferred revenues	**588,948**	433,897
Derivative financial instruments	**2,909**	8,123
Liabilities related to assets held for sale *[note 4]*	**—**	33,109
Current liabilities	**957,589**	750,943
Provision for overhaul of leased aircraft *[note 8]*	**15,241**	25,218
Other liabilities *[note 10]*	**100,616**	96,813
Derivative financial instruments	**—**	155
Deferred tax liabilities	**1,305**	2,217
Non-current liabilities	**117,162**	124,403
EQUITY		
Share capital *[note 11]*	**218,837**	215,444
Share-based payment reserve	**16,982**	17,817
Retained earnings	**351,233**	351,138
Unrealized gain on cash flow hedges	**3,692**	4,532
Cumulative exchange differences	**(7,076)**	(11,061)
	583,668	577,870
	1,658,419	1,453,216

See accompanying notes to interim condensed consolidated financial statements

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

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

	Quarters ended April 30		Six-month periods ended April 30	
	2018	2017	2018	2017
(in thousands of Canadian dollars, except per share amounts)	$	$	$	$
Revenues	**901,981**	884,310	**1,627,763**	1,573,642
Operating expenses				
Costs of providing tourism services	**438,678**	462,931	**800,944**	834,937
Salaries and employee benefits	**96,638**	90,824	**190,428**	180,501
Aircraft fuel	**104,933**	84,105	**183,860**	147,811
Aircraft maintenance	**54,665**	51,783	**107,832**	94,583
Aircraft rent	**33,352**	37,361	**63,521**	73,464
Airport and navigation fees	**33,830**	32,456	**60,844**	56,560
Commissions	**38,656**	40,120	**67,007**	68,911
Other airline costs	**61,721**	55,762	**110,062**	98,516
Other	**33,058**	32,740	**68,078**	62,179
Share of net income of an associate and a joint venture	**(113)**	(5,863)	**(350)**	(9,446)
Depreciation and amortization	**15,310**	17,152	**30,079**	31,358
	910,728	899,371	**1,682,305**	1,639,374
Operating income (loss)	**(8,747)**	(15,061)	**(54,542)**	(65,732)
Financing costs	**619**	455	**1,080**	899
Financing income	**(4,841)**	(1,843)	**(8,582)**	(3,600)
Change in fair value of fuel-related derivatives and other derivatives	**(14,800)**	930	**(10,581)**	(3,874)
Gain on business disposals *[note 4]*	**(368)**	—	**(31,064)**	—
Foreign exchange (gain) loss on non-current monetary items	**(959)**	(2,987)	**472**	(2,430)
Income (loss) before income tax expense	**11,602**	(11,616)	**(5,867)**	(56,727)
Income taxes (recovery)				
Current	**2,664**	(2,866)	**(2,287)**	(17,803)
Deferred	**451**	(2,595)	**(6,834)**	(1,715)
	3,115	(5,461)	**(9,121)**	(19,518)
Net income (loss) for the period	**8,487**	(6,155)	**3,254**	(37,209)
Net income (loss) attributable to:				
Shareholders	**6,683**	(8,354)	**95**	(40,427)
Non-controlling interests	**1,804**	2,199	**3,159**	3,218
	8,487	(6,155)	**3,254**	(37,209)
Earnings (loss) per share *[note 11]*				
Basic	**0.18**	(0.23)	**—**	(1.10)
Diluted	**0.18**	(0.23)	**—**	(1.10)

See accompanying notes to interim condensed consolidated financial statements

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

	Quarters ended April 30		Six-month periods ended April 30	
	2018	2017	2018	2017
(in thousands of Canadian dollars)	$	$	$	$
Net income (loss) for the period	**8,487**	(6,155)	**3,254**	(37,209)
Other comprehensive income (loss)				
Items that will be reclassified to net income (loss)				
Change in fair value of derivatives designated as cash flow hedges	**25,814**	9,039	**7,584**	3,593
Reclassification to net income (loss)	**(9,842)**	2,367	**(8,714)**	2,128
Deferred taxes	**(4,252)**	(3,118)	**290**	(1,589)
	11,720	8,288	**(840)**	4,132
Foreign exchange gain on translation of financial statements of foreign subsidiaries	**236**	4,665	**3,985**	2,047
Total other comprehensive income	**11,956**	12,953	**3,145**	6,179
Comprehensive income (loss) for the period	**20,443**	6,798	**6,399**	(31,030)
Comprehensive income (loss) for the period attributable to:				
Shareholders	**18,883**	2,966	**3,484**	(34,968)
Non-controlling interests	**1,560**	3,832	**2,915**	3,938
	20,443	6,798	**6,399**	(31,030)

See accompanying notes to interim condensed consolidated financial statements

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

				Accumulated other comprehensive income (loss)				
	Share capital	Share-based payment reserve	Retained earnings	Unrealized gain (loss) on cash flow hedges	Cumulative exchange differences	Total	Non-controlling interests	Total equity
(in thousands of Canadian dollars)	$	$	$	$	$	$	$	$
Balance as at October 31, 2016	214,250	17,849	218,821	2,211	11,255	464,386	—	464,386
Net income (loss) for the period	—	—	(40,427)	—	—	(40,427)	3,218	(37,209)
Other comprehensive income	—	—	—	4,132	1,327	5,459	720	6,179
Comprehensive income (loss) for the period	—	—	(40,427)	4,132	1,327	(34,968)	3,938	(31,030)
Issued from treasury	552	—	—	—	—	552	—	552
Share-based payment expense	—	307	—	—	—	307	—	307
Dividends	—	—	—	—	—	—	(2,223)	(2,223)
Fair value changes in non-controlling interest liabilities	—	—	(900)	—	—	(900)	—	(900)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(995)	(995)
Reclassification of non-controlling interest exchange difference	—	—	—	—	720	720	(720)	—
	552	307	(900)	—	720	679	(3,938)	(3,259)
Balance as at April 30, 2017	214,802	18,156	177,494	6,343	13,302	430,097	—	430,097
Net income for the period	—	—	174,735	—	—	174,735	846	175,581
Other comprehensive income (loss)	—	—	1,096	(1,811)	(22,338)	(23,053)	(2,025)	(25,078)
Comprehensive income (loss) for the period	—	—	175,831	(1,811)	(22,338)	151,682	(1,179)	150,503
Issued from treasury	542	—	—	—	—	542	—	542
Exercise of options	100	(31)	—	—	—	69	—	69
Vesting of PSUs	—	(312)	—	—	—	(312)	—	(312)
Share-based payment expense	—	4	—	—	—	4	—	4
Dividends	—	—	—	—	—	—	(2,224)	(2,224)
Fair value changes in non-controlling interest liabilities	—	—	(2,187)	—	—	(2,187)	3,087	900
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(1,709)	(1,709)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(2,025)	(2,025)	2,025	—
	642	(339)	(2,187)	—	(2,025)	(3,909)	1,179	(2,730)
Balance as at October 31, 2017	215,444	17,817	351,138	4,532	(11,061)	577,870	—	577,870
Net income for the period	—	—	95	—	—	95	3,159	3,254
Other comprehensive income (loss)	—	—	—	(840)	4,229	3,389	(244)	3,145
Comprehensive income (loss) for the period	—	—	95	(840)	4,229	3,484	2,915	6,399
Issued from treasury	766	—	—	—	—	766	—	766
Exercise of options	2,627	(794)	—	—	—	1,833	—	1,833
Vesting of PSUs	—	(1,155)	—	—	—	(1,155)	—	(1,155)
Share-based payment expense	—	1,114	—	—	—	1,114	—	1,114
Dividends	—	—	—	—	—	—	(2,119)	(2,119)
Reclassification of non-controlling interest liabilities	—	—	—	—	—	—	(1,040)	(1,040)
Reclassification of non-controlling interest exchange difference	—	—	—	—	(244)	(244)	244	—
	3,393	(835)	—	—	(244)	2,314	(2,915)	(601)
Balance as at April 30, 2018	**218,837**	**16,982**	**351,233**	**3,692**	**(7,076)**	**583,668**	**—**	**583,668**

See accompanying notes to interim condensed consolidated financial statements

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

(in thousands of Canadian dollars)	Quarters ended April 30 2018 $	Quarters ended April 30 2017 $	Six-month periods ended April 30 2018 $	Six-month periods ended April 30 2017 $
OPERATING ACTIVITIES				
Net income (loss) for the period	**8,487**	(6,155)	**3,254**	(37,209)
Operating items not involving an outlay (receipt) of cash:				
Depreciation and amortization	**15,310**	17,152	**30,079**	31,358
Change in fair value of fuel-related derivatives and other derivatives	**(14,800)**	930	**(10,581)**	(3,874)
Gain on business disposals	**(368)**	—	**(31,064)**	—
Foreign exchange (gain) loss on non-current monetary items	**(959)**	(2,987)	**472**	(2,430)
Share of net income of an associate and a joint venture	**(113)**	(5,863)	**(350)**	(9,446)
Deferred taxes	**451**	(2,595)	**(6,834)**	(1,715)
Employee benefits	**700**	689	**1,400**	1,378
Share-based payment expense	**607**	103	**1,114**	307
	9,315	1,274	**(12,510)**	(21,631)
Net change in non-cash working capital balances related to operations	**148,523**	134,622	**276,735**	273,742
Net change in provision for overhaul of leased aircraft	**2,865**	4,150	**6,260**	5,854
Net change in other assets and liabilities related to operations	**13,230**	(1,429)	**11,222**	(2,965)
Cash flows related to operating activities	**173,933**	138,617	**281,707**	255,000
INVESTING ACTIVITIES				
Additions to property, plant and equipment and other intangible assets	**(15,499)**	(12,538)	**(25,260)**	(31,841)
Increase in cash and cash equivalent reserved	**(1,084)**	(3,650)	**(1,084)**	(3,650)
Consideration paid for a business acquisition	**—**	(12,754)	**—**	(17,737)
Consideration received (paid) on business disposals, net of cash disposed	**(2,768)**	—	**26,493**	—
Cash flows related to investing activities	**(19,351)**	(28,942)	**149**	(53,228)
FINANCING ACTIVITIES				
Proceeds from issuance of shares	**454**	279	**2,599**	552
Repurchase of shares	**—**	—	**(539)**	—
Dividends paid by a subsidiary to a non-controlling shareholder	**(1,928)**	(1,593)	**(2,119)**	(2,223)
Cash flows related to financing activities	**(1,474)**	(1,314)	**(59)**	(1,671)
Effect of exchange rate changes on cash and cash equivalents	**850**	3,100	**1,597**	2,523
Net change in cash and cash equivalents	**153,958**	111,461	**283,394**	202,624
Cash and cash equivalents held for sale, beginning of period	**—**	—	**26,324**	—
Cash and cash equivalents, beginning of period	**749,342**	454,827	**593,582**	363,664
Cash and cash equivalents, end of period	**903,300**	566,288	**903,300**	566,288
Supplementary information (as reported in operating activities)				
Net income taxes paid (recovered)	**2,502**	1,074	**9,981**	1,896
Interest paid	**53**	123	**170**	252

See accompanying notes to interim condensed consolidated financial statements

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

Note 1 CORPORATE INFORMATION

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

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

The interim condensed consolidated financial statements of Transat A.T. Inc. for the quarter ended April 30, 2018 were approved by the Corporation's Board of Directors on June 13, 2018.

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

Note 2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

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

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

The same accounting policies and methods of computation are followed in these interim condensed consolidated financial statements as compared with the most recent annual consolidated financial statements. The interim condensed consolidated financial statements should be read in conjunction with the audited annual consolidated financial statements and notes included in the Corporation's Annual Report for the year ended October 31, 2017.

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

Note 3 FUTURE CHANGES IN ACCOUNTING POLICIES

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

IFRS 9, *FINANCIAL INSTRUMENTS*

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

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

IFRS 9 also introduces a new expected loss impairment model that will require 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.

Lastly, IFRS 9 introduces a new hedge accounting model, together with corresponding disclosures about risk management activities. The new hedge accounting model represents a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in their financial statements. The IFRS 9 transition rules include an exemption allowing companies to continue to apply current hedge accounting under IAS 39 until the final hedge model is effective.

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

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. The application of IFRS 15 is mandatory and will be effective for the Corporation's annual reporting period beginning on November 1, 2018.

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 accounted for as assets 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 expects to complete its analysis in the coming quarters.

IFRS 16, *LEASES*

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

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

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

Note 4 BUSINESS DISPOSALS

JONVIEW CANADA INC.

On November 30, 2017, the Corporation completed the sale of its wholly-owned subsidiary Jonview Canada Inc. ["Jonview"], which has an incoming tour operator business in Canada, to Japanese multinational H.I.S. Co. Ltd., which specializes in travel distribution, following approval of the transaction by the Competition Bureau of Canada and compliance with other customary conditions. Under the terms of the agreement, the selling price was adjusted downward owing to a working capital adjustment of $633, paid to H.I.S. Co. Ltd. on March 29, 2018, and totals $48,896, of which $47,329 was received in cash on November 30, 2017. The disposed subsidiary's net assets amounted to $13,430 on November 30, 2017. The Corporation recognized a gain on business disposal of $31,264, net of transaction costs of $486 and of $3,716 due to the Fonds de Solidarité des Travailleurs du Québec ["Fonds"], of which $3,278 was paid in cash during the first quarter, 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 six-month period ended April 30, 2018. As at October 31, 2017, the assets and liabilities of Jonview were reported as held for sale in the consolidated statements of financial position.

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

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

OCEAN HOTELS

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

Under the terms of the agreement, during the six-month period ended April 30, 2018, the selling price was adjusted downward by US$1,500 [$1,935] to US$149,000 [$185,565]. As a result of additional transaction costs incurred in connection with the closing of the transaction, the Corporation also recognized a downward adjustment of $200 to the gain on business disposal, bringing the total amount of the gain on disposal of Ocean Hotels to $86,416.

Note 5 CASH AND CASH EQUIVALENTS IN TRUST OR OTHERWISE RESERVED

As at April 30, 2018, cash and cash equivalents in trust or otherwise reserved included $168,647 [$239,974 as at October 31, 2017] in funds received from customers, primarily Canadians, for services not yet rendered or for which the restriction period had not ended, in accordance with Canadian regulators and the Corporation's business agreements with certain credit card processors. Cash and cash equivalents in trust or otherwise reserved also included $72,968, of which $51,184 was recorded as non-current assets [$69,090 as at October 31, 2017, of which $50,100 was recorded as non-current assets], which was pledged as collateral security against letters of credit.

Note 6 IMPAIRMENT TEST

In compliance with the accounting policies adopted by the Corporation, annual impairment testing for intangible assets with indefinite lives is required on April 30 and when circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of each asset, cash-generating unit ("CGU") or group of CGUs. Where the recoverable amount of the asset, CGU or group of CGUs is less than its carrying amount, an impairment loss is recognized.

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. Following this impairment test, the Corporation did not identify any impairment of its trademarks, which total $4,702 as at April 30, 2018.

The recoverable amount is determined based on value in use, using a discounted cash flow model. The Corporation prepares cash flow forecasts based on the most recently approved annual budgets and three-year plans of the relevant business. Cash flow forecasts reflect the risk associated with each asset, as well as the most recent economic indicators. Cash flow forecasts beyond three years are extrapolated based on nil growth rates. The cash flow forecasts used also reflect the effects of implementing the Corporation's integrated distribution and brand strategy aiming to further expand the Transat brand, therefore decreasing the use of certain trademarks held by the Corporation.

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

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

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

Note 7 INVESTMENT

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

	$
Balance as at October 31, 2017	15,888
Share of net income	350
Translation adjustment	(92)
Balance as at April 30, 2018	**16,146**

The investment was translated at the USD/CAD rate of 1.2819 as at April 30, 2018 [1.2898 as at October 31, 2017].

Note 8 PROVISION FOR OVERHAUL OF LEASED AIRCRAFT

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

	$
Balance as at October 31, 2017	**47,917**
Additional provisions	7,307
Utilization of provisions	(3,912)
Balance as at January 31, 2018	**51,312**
Additional provisions	8,058
Utilization of provisions	(3,855)
Unused amounts released	(1,338)
Balance as at April 30, 2018	**54,177**
Current provisions	38,936
Non-current provisions	15,241
Balance as at April 30, 2018	**54,177**

Note 9 LONG-TERM DEBT

On May 11, 2018, the Corporation renewed its $50,000 revolving credit facility agreement for operating purposes. Under the new agreement, which expires in 2022, the Corporation may increase the credit limit to $100,000, subject to lender approval. The agreement may be extended for a year on each anniversary date subject to lender approval and the balance becomes immediately payable in the event of a change in control. Under the terms of the agreement, funds may be drawn down by way of bankers' acceptances or bank loans, denominated in Canadian dollars, U.S. dollars, euros or pounds sterling. The agreement is secured by a first movable hypothec on the universality of assets, present and future, of the Corporation's Canadian subsidiaries, subject to certain exceptions, and is further secured by the pledging of certain marketable securities of its main European subsidiaries. The credit facility bears interest at the bankers' acceptance rate, the financial institution's prime rate or LIBOR, plus a premium. The terms of the agreements require the Corporation to comply with certain financial criteria and ratios. As at April 30, 2018, all the financial ratios and criteria were met and the credit facility was undrawn.

The Corporation also has a $75,000 annually renewable revolving credit facility in respect of which the Corporation must pledge cash totalling 100% of the amount of the issued letters of credit as collateral security. As at April 30, 2018, $58,869 had been drawn down under the facility [$54,847 as at October 31, 2017], of which $51,184 is to secure obligations under senior executive defined benefit pension agreements; this irrevocable letter of credit is held by a third-party trustee. In the event of a change of control, the irrevocable letter of credit issued to secure obligations under senior executive defined benefit pension agreements will be drawn down.

Note 10 OTHER LIABILITIES

	As at April 30, 2018	As at October 31, 2017
	$	$
Employee benefits	**41,698**	40,764
Deferred lease incentives	**31,722**	29,649
Non-controlling interests	**27,196**	26,400
	100,616	96,813

Note 11 EQUITY

AUTHORIZED SHARE CAPITAL

CLASS A VARIABLE VOTING SHARES

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

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

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

CLASS B VOTING SHARES

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

PREFERRED SHARES

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

ISSUED AND OUTSTANDING SHARE CAPITAL

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

	Number of shares	$
Balance as at October 31, 2016	36,859,165	214,250
Issued from treasury	110,555	552
Balance as at April 30, 2017	36,969,720	214,802
Issued from treasury	84,685	542
Exercise of options	9,221	100
Balance as at October 31, 2017	37,063,626	215,444
Issued from treasury	85,729	766
Exercise of options	287,485	2,627
Balance as at April 30, 2018	**37,436,840**	**218,837**

As at April 30, 2018, the number of Class A Shares and Class B Shares was 3,403,831 and 34,033,009, respectively [3,457,571 and 33,606,055 as at October 31, 2017].

STOCK OPTION PLAN

	Number of options	Weighted average price ($)
Balance as at October 31, 2017	2,246,032	10.57
Granted	157,735	10.94
Exercised	(287,485)	6.38
Cancelled	(92,639)	13.99
Expired	(145,782)	21.36
Balance as at April 30, 2018	**1,877,861**	**10.24**
Options exercisable as at April 30, 2018	**1,445,952**	**10.21**

EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share were calculated as follows:

	Quarters ended April 30		Six-month periods ended April 30	
	2018	2017	**2018**	2017
(in thousands of dollars, except per share data)	$	$	$	$
NUMERATOR				
Net income (loss) attributable to shareholders of the Corporation used in computing basic and diluted earnings (loss) per share	**6,683**	(8,354)	**95**	(40,427)
DENOMINATOR				
Adjusted weighted average number of outstanding shares	**37,411**	36,937	**37,294**	36,909
Effect of dilutive securities				
Stock options	**168**	—	**234**	—
Adjusted weighted average number of outstanding shares used in computing diluted earnings (loss) per share	**37,579**	36,937	**37,528**	36,909
Earnings (loss) per share				
Basic	**0.18**	(0.23)	**—**	(1.10)
Diluted	**0.18**	(0.23)	**—**	(1.10)

For the purposes of calculating diluted earnings (loss) per share for the quarter and the six-month period ended April 30, 2018, 989,792 outstanding stock options [2,293,970 in 2017] were excluded from the calculation, as their exercise price exceeded the Corporation's average market share price.

Note 12 GUARANTEES

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

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

Notes 8, 10, 18, 25 and 26 to the financial statements for the year ended October 31, 2017 provide information about some of these agreements. The following constitutes additional disclosure.

OPERATING LEASES

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

COLLATERAL SECURITY CONTRACTS

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

The Corporation has entered into collateral security contracts whereby it guarantees a prescribed amount to its customers, at the request of regulatory agencies, for the performance of the obligations included in mandates by its customers during the term of the licences granted to the Corporation for its travel agent and wholesaler operations in the Province of Québec. These agreements typically cover a one-year period and are renewable annually. As at April 30, 2018, the total amount of these guarantees unsecured by deposits totalled $409. Historically, the Corporation has not made any significant payments under such agreements. As at April 30, 2018, no amounts had been accrued with respect to the above-mentioned agreements.

IRREVOCABLE CREDIT FACILITY UNSECURED BY DEPOSITS

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 $50,000. As at April 30, 2018, $29,699 had been drawn under the facility.

Note 13 SEGMENTED DISCLOSURE

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

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